



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

# **2007 ANNUAL FINANCIAL REPORT**

Registered Office:

**Level 2 KMS Building  
8-24 Kippax Street  
SURRY HILLS NSW 2010  
ABN : 78 087 650 600**

## **Notice of 43rd Annual General Meeting**

The 43<sup>rd</sup> Annual General Meeting of R.T.A. Staff Credit Union Limited (ABN 78 087 650 600 – AFSL 240718) will be held in the Chapman Room at the Crowne Plaza Parramatta, 30 Phillip Street Parramatta, on Friday 30<sup>th</sup> November 2007, commencing at 5.30pm.

### **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	Director
Meredyth-Ann Williams	Director

### **Administration**

John Kavalieros	General Manager / Secretary
Ashley Overton	Finance and Administration Manager
Kathy Loutas	Assistant Finance Manager
Joanne Badenoch	Loans Supervisor
Cheryl Negro	Branch Administrator
Helen Portelli	Business Development Officer
Jenna Ridgeway	Member Service Officer – Loans
Diane Tripp	Member Service Officer – Loans
Catherine Burgess	Member Service Officer – Branch

### **External Auditors**

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

### **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 2007**

**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 futures 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 Corporations Act, and is subject to the direct supervision by APRA. This organisation promotes Credit Unions and provides assistance with banking, electronic funds transfer and other services.

Refer Note 29 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-03	Jun-04	Jun-05	Jun-06	Jun-07
<b>Members ( No.)</b>	4652	4633	4727	4832	<b>3822**</b>
<b>Deposits \$</b>	32,362,863	31,925,879	30,893,970	33,455,548	<b>35,000,708</b>
<b>Average Member Deposits \$</b>	6,957	6,891	6,536	6,924	<b>9,158</b>
<b>Loans \$</b>	27,768,010	28,663,629	31,146,064	32,649,038	<b>34,568,381</b>
<b>Average Loan balances \$</b>	5,969	6,187	6,589	6,757	<b>9,045</b>
<b>Loans funded in the year \$M</b>	8.9	9.1	10.5	9.4	<b>10.6</b>
<b>Bad debts written off against profit \$</b>	-	-	-	-	-
<b>Capital Adequacy ratio %</b>	28.18%	29.90%	31.00%	24.35%	<b>26.93%</b>
<b>Total Reserves \$</b>	5,762,157	6,141,607	6,536,277	7,200,728	<b>7,596,234</b>
<b>Total Assets \$</b>	38,573,514	38,532,462	37,823,523	41,066,834	<b>43,257,570</b>
<b>Reserves to Assets %</b>	14.94%	15.94%	17.28%	17.53%	<b>17.56%</b>
<b>Return/Average Assets %</b>	0.86%	0.95%	1.03%	0.94%	<b>0.94%</b>
<b>Staff / Member ratio</b>	1:582	1:579	1:591	1:966	<b>1:546</b>
<b>Staff / Assets ratio</b>	1:\$4.82m	1:\$4.82M	1:\$4.72M	1:\$8.21M*	<b>1:\$6.18m</b>

**PRODUCTS**

Loan	Deposit and Access
FastRoad Home loan	At Call Savings
1 Year Fixed Home loan	Fixed Term Deposits
Other Housing loans or Investment loans	Bpay
Red Hot Car Loan	Bank@Post
Other Car loans	Visa Debit Card
Personal Loans	Payroll Deposits and Direct Credits
Line of Credit and Overdrafts	Direct Debits
<b>Other Services</b>	
NetTeller – Internet banking	Financial Planning Services and Stockbroking
Telephone banking	Travellers Cheques and Cash Passport
SMS Banking	ATM and EFTPOS access

\*based on 5 FTE staff 30/6/06 \*\*dormant account purge in 2007

## **CHAIRMANS REPORT**

I am pleased, on behalf of the Board of Directors of the R.T.A. Staff Credit Union, to present our 43<sup>rd</sup> Annual Report for the financial year ended 30 June 2007.

### **The Year In Review**

During the 2006-2007 year, the Credit Union's focus was on customer service, improvements to access and meeting regulatory and compliance requirements. In an effort to strengthen the Credit Union, a major task of clearing dormant accounts was undertaken. This has resulted in a reduction in the number of Members, but a larger number of active Members. All non active Members were contacted where possible and given the opportunity of reactivating their accounts and I am pleased to say that many did. A cleaner Membership register means that the staff can concentrate their efforts on serving active Members better. Again, the staff, management and your Directors have continued to meet the challenges of the year with key performance measures remaining very positive.

This year saw the resignation from the board of Warwick Fairweather, due to the pressure of work, after 3 years service. I would like to thank Warwick for his commitment, contribution and service as a Director of your Credit Union.

### **Highlights 2006-2007**

- Loan funding of over \$10.6 million compared with \$9.4 million in the previous year, resulting in loans growth of 6.05% (2006 – 4.83%)
- Members equity (reserves) increased by \$395,506 (2006 - \$374,761)
- Membership growth (after allowing for the reduction through dormancy) of 167 (2006 – 94)
- Bad and Doubtful Debts also remained low and well below industry standards

Operating profit for the year before tax was \$545,680 (2006 - \$523,226). The after tax profit of \$395,506 (2006 - \$374,761) represents a return of 0.94% on average assets (2006 – 0.94%). This result is again well above the average for the industry. Given the increases in services to Members and other initiatives undertaken during the year, this result underlines the dedication of staff in delivering the great service and products you deserve as a Member, while maintaining solid financial performance. Once again I thank staff and management of your Credit Union for their professional attitude and Member focus throughout the year.

### **The Year Ahead**

The year ahead will raise some challenges as we prepare to change to a new computer system and comply with new regulations for the industry. However, you can be assured that your Credit Union will continue to supply you with the same friendly and efficient service to which you have become accustomed.

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. T. Hancock**  
Chairman

**DIRECTORS' REPORT**

Your Directors present their report on the Credit Union for the financial year ended 30 June 2007.

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	11 Years	Chairman & Audit Committee Member
Robert G. Morgan	Director	Cert L&E Srv, Cert TEPC	18 Years	
Vincent E. Taranto	Deputy Chairman	BSc, DipTCP	9 Years	Deputy Chairman
Warwick A. Fairweather	Director	Cert.AD	3 Years	
Max W. De Boos	Director	DipAE, MBA	6 Years	Audit Committee Member
Meredyth-Ann Williams	Director	DipTeach, B.A (Psych), Hons (Psych)	2 Years	
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 is :-

<b>Name</b>	<b>Qualifications</b>	<b>Experience</b>
John Kavalieros	DipFS, AIM, FAMI	11 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	11	5	5
Robert G. Morgan	12	9		
Vincent E. Taranto	12	12		
Warwick A. Fairweather	7	5		
Max W. De Boos	12	9	5	4
Meredyth-Ann Williams	12	9		
Anthony J. Dann	12	9	5	5

**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 \$395,506 (2006 - \$374,761).

**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.

**R.T.A. STAFF CREDIT UNION LIMITED**

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**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

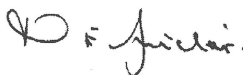
Signed and dated this 26<sup>th</sup> day of September, 2007

**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 26 September 2007.

## **INDEPENDENT AUDIT REPORT**

To the Members of R.T.A. Staff Credit Union Limited

We have audited the accompanying financial report of R.T.A. Staff Credit Union Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in 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.

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

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.

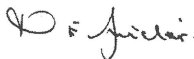
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of R.T.A. Staff Credit Union Limited on 24 September 2007, would be in the same terms if provided to the directors as at the date of this auditor's report.

### *Auditor's Opinion*

In our opinion the financial report of R.T.A. Staff Credit Union Limited is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's financial position as at 30 June 2007 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (c) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.



**BDO Kendalls**  
Chartered Accountants  
2 Market St, Sydney NSW

**Neville Sinclair**  
Partner  
28 September 2007



**DIRECTORS' DECLARATION**

The Directors of R.T.A. 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 2007 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 26<sup>th</sup> day of September, 2007.

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

	Notes	2007 \$	2006 \$
<b>Revenue</b>			
Interest Revenue	2.a	3,186,397	2,941,472
Interest Expense	2.c	<u>1,258,484</u>	<u>1,093,522</u>
Net Interest Income		1,927,913	1,847,950
 Non Interest Revenue	 2.b	 <u>220,729</u>	 <u>263,180</u>
Total Operating Income		<u>2,148,642</u>	<u>2,111,130</u>
 <b>Expenses from ordinary activities</b>			
Bad and doubtful debt expense	2.d	(13,790)	38,470
Fee and commission		52,281	66,504
General administration			
- Employee Costs		632,649	610,029
- Depreciation and Amortisation		64,991	53,783
- Information technology		293,941	315,380
- Office occupancy		79,026	80,259
- Other administration		<u>162,017</u>	<u>148,077</u>
Total administration		<u>1,232,624</u>	<u>1,207,528</u>
 Other operating expenses		 331,847	 275,402
Total expenses		1,602,962	1,587,904
 <b>OPERATING PROFIT before Income Tax</b>		 <u>545,680</u>	 <u>523,226</u>
 INCOME TAX EXPENSE	 3	 150,174	 148,465
 <b>OPERATING PROFIT after income tax</b>		 <u>395,506</u>	 <u>374,761</u>

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**STATEMENT OF CHANGES IN MEMBER EQUITY  
FOR THE YEAR ENDED 30 JUNE 2007**

	Capital	Retained Profits	Reserve for Credit Losses	Other Reserves	Total
	\$	\$	\$	\$	\$
Total at 1 July 2005	8,620	6,341,262	476,085	28,824	6,854,791
Net Profit for the year	-	374,761	-	-	374,761
Transfers from Reserves	1,280	(1,280)	-	-	-
Transfers to Reserves		15,018	(15,018)		-
Movement in Available for Sale assets [Baycorp shares]	-		-	(28,824)	(28,824)
Total at 30 June 2006	9,900	6,729,761	461,067	-	7,200,728
Net Profit for the Period	-	395,506	-	-	395,506
Transfers to Reserves	12,970	(12,970)	-	-	-
Transfers from Reserves	-	-	-	-	-
Movement in Available for Sale assets [Baycorp shares]	-	-	-	-	-
Total as at 30 June 2007	22,870	7,112,297	461,067	-	7,596,234

**BALANCE SHEET  
AS AT 30 JUNE 2007**

	<b>Note</b>	<b>2007 \$</b>	<b>2006 \$</b>
<b>ASSETS</b>			
Cash	4	1,095,193	1,448,876
Receivables due from other financial institutions	5	7,000,000	6,500,000
Receivables	6	191,023	183,023
Loans and advances	7 & 8	34,568,381	32,567,802
Other investments	9	166,276	166,286
Plant and equipment	10	118,456	101,103
Taxation assets	11	104,516	99,744
Intangible assets	12	13,725	-
<b>TOTAL ASSETS</b>		<b>43,257,570</b>	<b>41,066,834</b>
<b>LIABILITIES</b>			
Deposits and borrowings	13	35,038,046	33,455,548
Payables	14	494,568	324,379
Taxation liabilities	15	(12,795)	(20,201)
Provisions	16	141,517	106,380
<b>TOTAL LIABILITIES</b>		<b>35,661,336</b>	<b>33,866,106</b>
<b>NET ASSETS</b>		<b>7,596,234</b>	<b>7,200,728</b>
<b>MEMBERS EQUITY</b>			
Capital	17	22,870	9,900
Reserves	18	461,067	461,067
Retained profits	19	7,112,297	6729,761
<b>TOTAL MEMBERS EQUITY</b>		<b>7,596,234</b>	<b>7,200,728</b>

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

	Note	2007 \$	2006 \$
<b>OPERATING ACTIVITIES</b>			
<b><u>Revenue Inflows</u></b>			
Interest Received		3,152,832	2,932,797
Fees and Commissions		155,173	155,539
Dividends Received		20,785	21,546
Other Income		56,998	39,115
<b><u>Less: Revenue Outflows</u></b>			
Interest Paid		(1,097,298)	(1,071,702)
Suppliers and Employees		(1,524,489)	(1,509,516)
Income Taxes Paid		(145,939)	(166,340)
<b>Net Cash From Revenue Activities</b>	32(b)	<u>618,062</u>	<u>401,439</u>
<b>Inflows from Other Operating Activities</b>			
Increase in Member Deposits (Net movement)		1,582,527	2,547,381
Net decrease in receivables from other Fls		-	-
		<u>1,582,527</u>	<u>2,547,381</u>
<b>Outflows from Other Operating Activities</b>			
Decrease in Member Deposits (Net movement)			
Increase in Member loans		(1,974,576)	(1,502,974)
Increase in Receivables from other Fls		(500,000)	(1,800,000)
		<u>(2,474,576)</u>	<u>(3,302,974)</u>
<b>Net Cash from all Operating Activities</b>		<u>(273,987)</u>	<u>(354,154)</u>
<b>INVESTING ACTIVITIES</b>			
<b><u>Inflows</u></b>			
Proceeds of investment redemption		10	88,548
Proceeds on sale of property, plant and equipment		16,364	-
Net Cash Received on Transfer of Engagements		-	-
<b><u>Less: Outflows</u></b>			
Purchases of fixed assets		(82,345)	(91,690)
Purchase of Intangible Assets		(13,725)	-
<b>Net Cash From Investing Activities</b>		<u>(79,696)</u>	<u>(3,142)</u>
<b>FINANCING ACTIVITIES</b>			
<b>Net Cash From Financing Activities</b>		<u>-</u>	<u>-</u>
<b>Total Net Cash Increase/(Decrease)</b>		<u>(353,683)</u>	<u>(357,296)</u>
Cash at the beginning of the year		1,448,876	1,806,172
Cash at the end of the year	32(a)	<u>1,095,193</u>	<u>1,448,876</u>

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

1. STATEMENT OF ACCOUNTING POLICIES

This financial report is prepared for R.T.A. Staff Credit Union Limited as a single entity, for the year ended the 30<sup>th</sup> June 2007. The report was authorised for issue on 25<sup>th</sup> September 2007 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), Interpretations of the Australian Accounting Standards Board, and the Corporations Act 2001. In accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

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 with the exception of real property and Available for Sale Assets which are stated at fair value. The accounting policies are consistent with the prior year unless otherwise stated.

b. Loan 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 2007**

**(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 a reduction 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 2007**

**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 a 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 2007**

**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 2007**

**n. Goods and Services Tax**

As a Financial Institution the Credit Union is Input Taxed on all income except for 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, 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.

**p. Significant Accounting Judgements**

Management have made judgements when applying the Credit Unions accounting policies with respect to the classification of assets as available for sale. The detail of the critical accounting estimates and assumptions are set out in note 8 for the impairment provisions for loans.

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

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

	2007		
Category of interest bearing assets	Interest Revenue \$	Average Balance \$	Average Interest Rate %
Deposits with other financial institutions	453,677	6,750,000	6.72%
Loans and advances	2,732,720	33,566,777	8.14%
Total interest revenue	3,186,397	40,316,777	7.90%

	2006		
Category of interest bearing assets	Interest Revenue \$	Average Balance \$	Average Interest Rate %
Deposits with other financial institutions	487,523	9,050,000	5.39%
Loans and advances	2,453,949	31,822,984	7.71%
Total interest revenue	2,941,472	40,872,984	7.20%

<b>Note</b>	<b>2007</b>	<b>2006</b>
	\$	\$

**b. Non-interest revenue**

<b>Fee and commission revenue</b>		
- Loan fee income	4,835	8,006
- Other fee income	63,963	81,608
- Insurance commissions	23,467	15,630
- Other commissions	34,318	50,296
	126,583	155,540
Bad debts recovered	21,241	6,176
Dividend revenue	20,785	21,546
Other revenue		
- Proceeds on sale of investments	-	46,980
- Proceeds on sale of property, plant & equipment	16,364	-
- Miscellaneous revenue	35,756	32,938
Total non-interest revenue	220,729	263,180

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

**c. Borrowing Expenses (Interest Expense)**

**Analysis of interest expense**

	<b>2007</b>		
<b>Category of interest bearing liabilities</b>	<b>Interest Expense \$</b>	<b>Average Balance \$</b>	<b>Average Interest Rate %</b>
Member deposits	1,257,553	34,246,797	3.67%
Overdraft	931	10,407	8.95%
Total borrowing expenses	<u>1,258,484</u>	<u>34,257,204</u>	<u>3.67%</u>

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

<b>Note</b>	<b>2007 \$</b>	<b>2006 \$</b>
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**d. Bad and doubtful debts expense**

Increase in provision	(13,790)	38,470
Bad debts written-off directly against profit	-	-
	<u>(13,790)</u>	<u>38,470</u>

**e. Other prescribed expense disclosures**

Auditor's remuneration (GST exclusive)

- Audit fees	40,061	32,140
- Other services	8,250	5,200
	<u>48,311</u>	<u>37,340</u>

Bad and doubtful debts expense, net of recoveries and movement of provisions

11,623	32,294
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Property lease

79,026	80,259
--------	--------

Proceeds on investments

-	18,156
---	--------

Proceeds on property, plant & equipment

16,364	-
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Depreciation of:

- Plant and equipment

64,265	53,178
--------	--------

- Leasehold improvements

726	605
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<u>64,991</u>	<u>53,783</u>
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Net movement in provision for employee entitlement

35,137	14,828
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Supervision levy

2,086	2,040
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2007**

	Note	2007 \$	2006 \$
<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%		163,703	156,976
Add: tax effect of expenses not deductible			
- Other non-deductible expenses		7,256	3,723
Less: tax effect of:			
- Other		-	(3,000)
Subtotal		170,959	157,699
Less:			
- Franking Rebate		20,785	9,234
Income tax expense attributable to operating profit		150,174	148,465
b. The income tax expense comprises amounts set aside as: -			
Provision for income tax attributable to current year		153,345	151,348
Less:			
Decrease (Increase) in the deferred tax asset		(3,171)	2,883
Income tax expense attributable to operating profit		150,174	148,465
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:		1,849,086	1,673,384

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

	Note	2007 \$	2006 \$
<b>4. CASH</b>			
Cash on hand		71,507	37,237
Deposits at call		1,023,686	1,411,639
		<u>1,095,193</u>	<u>1,448,876</u>
<b>5. RECEIVABLES FROM OTHER FINANCIAL INSTITUTIONS</b>			
Deposits with CUSCAL - term		7,000,000	6,500,000
Deposits with other societies		-	-
		<u>7,000,000</u>	<u>6,500,000</u>
<b>6. ACCRUED RECEIVABLES</b>			
Interest receivable on deposits with other financial institutions		111,997	107,612
Prepayments		42,321	34,527
Sundry debtors		36,705	40,884
		<u>191,023</u>	<u>183,023</u>
<b>7. LOANS AND ADVANCES</b>			
<b>a. Amount due comprises:</b>			
Overdrafts and revolving credit facilities		560,644	555,402
Term loans		34,062,970	32,093,636
		<u>34,623,614</u>	<u>32,649,038</u>
Less:			
Unamortised loan origination fees		(24,233)	(24,823)
		<u>34,599,381</u>	<u>32,624,215</u>
Less:			
Provision for Impaired Loans (Note 8)		(31,000)	(56,413)
		<u>34,568,381</u>	<u>32,567,802</u>
<b>b. Security dissection:</b>			
Secured by mortgage		27,436,682	25,897,202
Partly secured by goods mortgage		5,386,119	4,840,828
Wholly unsecured		1,800,813	1,911,008
		<u>34,623,614</u>	<u>32,649,038</u>

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

	Note	2007 \$	2006 \$
<b>c. Concentration of Loans</b>			
(i) Individual loans which exceed 10% of Member funds in aggregate		-	-
A significant proportion of Member loans at balance date were funded to individuals employed in the Roads and Traffic Authority of New South Wales.			
(ii) Loans to Natural persons:			
Residential loans		22,133,158	17,901,765
Personal loans		12,490,456	14,701,608
Commercial loans		-	45,665
		<u>34,623,614</u>	<u>32,649,038</u>
<b>8. PROVISION ON IMPAIRED LOANS</b>			
<b>a. Total provision comprises:</b>			
Specific provision		31,000	56,413
		<u>31,000</u>	<u>56,413</u>
<b>b. Movement in the Specific Provision</b>			
Balance at the beginning of year		56,413	46,824
Add:			
Transfers from profit and loss account		(13,790)	38,470
Less:			
Bad debts written-off provision		11,623	28,881
Balance at end of year		<u>31,000</u>	<u>56,413</u>

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

	Note	2007 \$	2006 \$
<b>c. The specific loans provision consists of:</b>			
(i) provision required under the APRA Prudential Standards		12,501	35,046
(ii) Additional specific provision		18,499	21,367
		31,000	56,413

**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	2007 \$	2006 \$
<b>Impaired Loans and Other Disclosures</b>			
<b>Non-accrual loans – Balances</b>			
- with no provision		7,362	178,493
- with a provision		21,933	-
		29,295	178,493
Less: Specific provision		(31,000)	56,413
		(1,705)	122,080
Restructured loans		-	35,046
Past due loans		-	-



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

	Note	2007 \$	2006 \$
<b>Assets acquired via enforcement of security</b>			
- Real estate		-	-
- Other		-	-
		<u>-</u>	<u>-</u>
<b>Other Disclosures on Impaired Loans</b>			
Interest and other revenue earned on impaired loans		<u>1,227</u>	<u>639</u>
Interest and other revenue foregone on impaired loans		<u>1,145</u>	<u>1,494</u>

**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
Less than 90 days	0
90 days to 181 days	40
182 days to 270 days	60
271 days to 365 days	80
Over 365 days	100

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

	Note	\$ 2007	\$ 2006
<b>9. OTHER INVESTMENTS</b>			
<b>a. Shares</b>			
Cuscal Limited		166,276	166,286
		<u>166,276</u>	<u>166,286</u>

**Disclosures on Shares**
**(a) Cuscal Limited**

The shareholding in Cuscal Limited is measured at cost as its fair value could not be measured reliably. As at balance date, Cuscal shares are not readily tradeable and have no reliable basis for valuation. Cuscal was created to supply services to 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.

The financial reports of Cuscal record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of Cuscal, any fair value determination on these 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. The Credit Union is not intending, nor able to dispose of these shares, without a majority of shareholder approval.

	Note	\$ 2007	\$ 2006
<b>10. PLANT AND EQUIPMENT</b>			
Plant and equipment - at cost		424,027	428,351
Less: Provision for depreciation		<u>307,143</u>	<u>329,546</u>
		116,884	98,805
Capitalised leasehold improvements – at cost		278,981	278,981
Less: Provision for amortisation		<u>277,409</u>	<u>276,683</u>
		1,572	2,298
Total plant and equipment		<u>118,456</u>	<u>101,103</u>

**Movement in the assets balances during the year were:**

Opening balance	101,103	63,194
Add: Purchases in the year	82,344	88,789
Add: Purchases in the year - leasehold	-	2,298
Less:		
Disposal of assets at written down value	-	-
Depreciation charge	64,991	53,178
Balance at the end of the year	<u>118,456</u>	<u>101,103</u>

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

	<b>Note</b>	<b>2007 \$</b>	<b>2006 \$</b>
<b>11. TAXATION ASSETS</b>			
Deferred Tax Asset		102,218	99,047
GST Recoverable		<u>2,298</u>	<u>697</u>
		<u>104,516</u>	<u>99,744</u>
 <b>Deferred Tax Asset comprises</b>			
Accrued expenses not deductible		9,029	5,070
Fixed Assets		34,163	37,692
Provisions for Impairment on Loans		9,300	16,924
Provisions for Staff entitlements		42,455	31,914
Effective interest rate		7,271	7,447
		<u>102,218</u>	<u>99,047</u>
 <b>12. INTANGIBLE ASSETS</b>			
Computer Software		13,725	-
Less: Provision for amortisation of software		-	-
		<u>13,725</u>	<u>-</u>
 <b>Movement in the assets balances during the year were:</b>			
Opening balance		-	-
Add: Purchases in the year		13,725	-
Add: Purchases in the year - leasehold		-	-
Less:			
Disposal of assets at written down value		-	-
Amortisation charge		-	-
 Balance at the end of the year		<u>13,725</u>	<u>-</u>

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

	<b>Notes</b>	<b>2007 \$</b>	<b>2006 \$</b>
<b>13. DEPOSITS</b>			
Member Deposits:			
- at call		13,947,733	15,529,704
- term		21,052,663	17,878,124
Total deposits		<u>35,000,396</u>	<u>33,407,828</u>
Withdrawable Shares		37,650	47,720
Total		<u>35,038,046</u>	<u>33,455,548</u>

**Concentration of Member Deposits**

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

<u>-</u>	<u>-</u>
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A significant proportion of Member deposits at balance date were received from individuals employed in the Roads and Traffic Authority of New South Wales.

**Members' Withdrawable Shares**

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.

**Movement in Share Capital**

Shares issued in the year	<u>297</u>	<u>236</u>
Shares redeemed in the year	<u>1,304</u>	<u>128</u>

A review of inactive Member accounts was carried out during the year. As a result of this review 1174 inactive Member accounts were declared dormant and the Member withdrawable share redeemed, in accordance with the Constitution and the *Banking Act 1959*.

**14. CREDITOR ACCRUALS & SETTLEMENT ACCOUNTS**

Creditors and accruals	72,359	59,206
Sundry creditors	118,622	122,772
Interest payable on Deposits	<u>303,587</u>	<u>142,401</u>
	<u>494,568</u>	<u>324,379</u>

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

15. TAXATION LIABILITIES

Provision for income tax	(12,795)	(20,201)
Provisions for deferred income tax	-	-
Accrual for GST payable	-	-
Accrual for other tax liabilities	-	-
	<u>(12,795)</u>	<u>(20,201)</u>

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

	<b>Note</b>	<b>2007 \$</b>	<b>2006 \$</b>
<b>16. PROVISIONS</b>			
Provision for employee annual leave		76,042	49,023
Provision for employee long service leave		65,475	57,357
Other Provisions		-	-
		<u>141,517</u>	<u>106,380</u>
 <b>Total number of employees at year end</b>		<u>7</u>	<u>5</u>
 <b>17. CAPITAL ACCOUNT</b>			
Capital Account		<u>22,870</u>	<u>9,900</u>
Balance at the beginning of the year		9,900	8,620
Add: Transfer from retained profits on share redemptions	17.a	12,970	1,280
		-	-
Balance at the end of year		<u>22,870</u>	<u>9,900</u>
 <b>a. Share Redemption</b>			
<p>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.</p>			
 <b>18. RESERVES</b>			
General Reserve		-	-
Asset Revaluation Reserve		-	-
Reserve for Credit Losses		461,067	461,067
Capital Profits Reserve		-	-
		<u>461,067</u>	<u>461,067</u>
 <b>Reserve for Credit Losses</b>			
<p>This reserve records amount previously set aside as a General provision and is maintained to comply with the Prudential Standards set down by APRA</p>			
Balance at 30 June 2006		461,067	476,085
Add: balance transferred from General Provision for Impaired Loans as an adjustment to opening balance		-	(15,018)
Balance at 30 June 2007		<u>461,067</u>	<u>461,067</u>

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

**19. RETAINED PROFITS**

Retained profits at the beginning of the financial year	6,729,761	6,341,262
Add: Operating profit for the year	395,506	374,761
Add Transfer from Reserve for Credit Losses in year	-	15,018
Less: Transfer of reserves to capital account on redemption of Members' shares	(12,970)	(1,280)
Retained profits at the end of the financial year	<u>7,112,297</u>	<u>6,729,761</u>

**20. RISK MANAGEMENT STRATEGIES**

**Risk Management Policies and 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 any large exposures to interest rate movements and to rectify any material 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 22.

**Credit risk – loans**

The risk of loss from 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) describes the nature of the security held against the loans as at the balance date. On taking security valuations are not greater than 3 years old.

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

**Risk Management Policies Objectives (cont.)**

The Credit Union has a concentration in retail lending for Members who comprise employees and contractors of the Roads and Traffic Authority of NSW, their friends and families. 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 this employer the loans continue and the Member facilitates the repayment of the loans from other employment.

**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 board policy is to maintain at least 90% of the investments in Cuscal Limited, a company set up to support the member Credit Unions and which has a Standard & Poors AA- rating.

**Credit risk – Equity Investments**

All investments in 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.

**Liquidity Risk**

The Credit Union has set out in Note 21 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 the 16% level the management and board address the matter and ensure that the liquid funds are obtained from new deposits, or the borrowing facilities available. Note 26 details the borrowing facilities as at the balance date.



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

**21. 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
<b>2007</b>	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000
<b><u>ASSETS</u></b>								
Cash	1,095	-	-	-	-	-	-	1,095
Receivables from Other Financial Institutions	-	-	5,000	2,000	-	-	-	7,000
Receivables	-	-	-	-	-	-	-	-
Loans & Advances	-	561	740	2,258	15,830	15,235	-	34,624
Investments	-	-	-	-	-	-	-	-
<b>Total Financial Assets</b>	<b>1,095</b>	<b>561</b>	<b>5,740</b>	<b>4,258</b>	<b>15,830</b>	<b>15,235</b>	<b>-</b>	<b>42,719</b>
<b><u>LIABILITIES</u></b>								
Deposits	13,985	-	10,652	9,220	1,181	-	-	35,038
Payables to Other Financial Institutions	-	-	-	-	-	-	-	-
Tax Liabilities	-	-	-	-	-	-	-	-
Provisions	-	-	-	-	-	-	-	-
<b>Total Liabilities</b>	<b>13,985</b>	<b>-</b>	<b>10,652</b>	<b>9,220</b>	<b>1,181</b>	<b>-</b>	<b>-</b>	<b>35,038</b>

	Within 1 month	Overdraft	1-3 months	3-12 months	1-5 years	After 5 years	No Maturity	Total
<b>2006</b>	\$,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>

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 2007**

**22. 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.

2007	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>ASSETS</b>								
Cash	3.45%	1,095	-	-	-	-	-	1,095
Receivables from Other Financial Institutions	5.96%	-	-	5,000	2,000	-	-	7,000
Loans & Advances	7.82%	-	25,967	2,631	6,026	-	-	34,624
Investments	-	-	-	-	-	-	-	-
<b>Total Financial Assets</b>		<b>1,095</b>	<b>25,967</b>	<b>7,631</b>	<b>8,026</b>	<b>-</b>	<b>-</b>	<b>42,719</b>
<b>LIABILITIES</b>								
Deposits	3.76%	13,985	2,858	7,794	9,220	1,181	-	35,038
Payables to Other Financial Institutions	-	-	-	-	-	-	-	-
Tax Liabilities	-	-	-	-	-	-	-	-
Provisions	-	-	-	-	-	-	-	-
<b>Total Liabilities</b>		<b>13,985</b>	<b>2,858</b>	<b>7,794</b>	<b>9,220</b>	<b>1,181</b>	<b>-</b>	<b>35,038</b>
2006	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>ASSETS</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>LIABILITIES</b>								
Deposits	2.88%	-	15,577	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>15,577</b>	<b>2,122</b>	<b>5,193</b>	<b>9,471</b>	<b>1,090</b>	<b>33,455</b>

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

**23. 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 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	2007 Book Value	Variance	Fair Value	2006 Book Value	Variance
	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000
<b>ASSETS</b>						
Cash	1,095	1,095	-	1,449	1,449	-
Receivables from Other Financial Institutions	7,000	7,000	-	6,500	6,500	-
Receivables	-	-	-	-	-	-
Loans & Advances	34,568	34,568	-	32,566	32,568	(2)
Prepayments	-	-	-	-	-	-
Investments	-	-	-	-	-	-
<b>Total Financial Assets</b>	<b>42,663</b>	<b>42,663</b>	<b>-</b>	<b>40,515</b>	<b>40,517</b>	<b>(2)</b>
<b>LIABILITIES</b>						
Deposits	35,085	35,038	(47)	33,440	33,456	(16)
Payables to Other Financial Institutions	-	-	-	-	-	-
Payables	-	-	-	-	-	-
Tax Liabilities	-	-	-	-	-	-
Provisions	-	-	-	-	-	-
<b>Total Liabilities</b>	<b>35,085</b>	<b>35,038</b>	<b>(47)</b>	<b>33,440</b>	<b>33,456</b>	<b>(16)</b>

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  
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**23. 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 2007. 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.

	2007 \$	2006 \$
<b>24. FINANCIAL COMMITMENTS</b>		
<b>a. Future Capital Commitments</b>		
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:		
Within 1 year	12,152	2,527
1 to 2 years	12,468	5,054
2 to 5 years	-	737
Over 5 years	-	-
	<u>24,620</u>	<u>8,318</u>

**NOTES TO THE FINANCIAL STATEMENTS  
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	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
<b>b. Future Lease and Rental Commitments</b>		
Operating lease payments under existing lease arrangements for building accommodation, payable over the following periods:		
Within 1 year	86,878	82,141
1 to 2 years	21,981	86,249
2 to 5 years	-	21,981
Over 5 years	-	-
	<u>108,859</u>	<u>190,371</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).

<b>c. Computer Bureau Charges</b>		
Within 1 year	10,800	11,220
1 to 2 years	5,400	-
2 to 5 years	-	-
Over 5 years	-	-
	<u>16,200</u>	<u>11,220</u>

**25. FINANCIAL COMMITMENTS**

<b>a. Outstanding Loan Commitments</b>		
The loans approved but not funded as at 30 June 2007.	<u>2,038,803</u>	<u>2,085,931</u>
<b>b. Undrawn Loan Facilities</b>		
Loan facilities available to Members for overdrafts and line of credit loans are as follows:		
Total value of facilities approved	1,278,825	1,224,075
Less: Amounts advanced	<u>318,288</u>	<u>555,402</u>
Net undrawn value	<u>960,537</u>	<u>668,673</u>

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

**26. STANDBY BORROWING FACILITIES**

The Credit Union has a borrowing facility with Cuscal Limited of:

	<b>2007</b>		
	<b>Gross</b>	<b>Current Borrowing</b>	<b>Net Available</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Loan facility	500,000	-	500,000
Overdraft facility	700,000	-	700,000
Total standby borrowing facilities	1,200,000	-	1,200,000

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

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.

**27. 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  
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**28. RELATED PARTY DISCLOSURES**

*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:

	<b>2007 Directors</b>	<b>2007 Other KMP</b>	<b>2006 Directors</b>	<b>2006 Other KMP</b>
	\$	\$	\$	\$
(a) Short-term employee benefits;	-	248,111	-	201,537
(b) Post-employment benefits - Superannuation contributions	-	-	-	-
(c) Other long-term benefits – net increases in Long Service Leave provision	-	8,119	-	7,760
(d) Termination benefits;	-	-	-	-
(e) Share-based payment.	-	-	-	-
<b>Total</b>	<b>-</b>	<b>256,230</b>	<b>-</b>	<b>209,297</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  
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	2007 \$	2006 \$
<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	<u>487,639</u>	<u>517,315</u>
(ii) The total value of revolving credit facilities to Directors and other KMP, as at Balance date amounted to	-	20,000
Less amounts drawn down and included in (i)	-	-
Net balance available	<u>-</u>	<u>20,000</u>
(iii) During the year the aggregate value of loans disbursed to Directors and KMP amounted to:		
Revolving credit facilities	-	1,800
Personal loans	-	-
Term Loans	-	-
(iv) During the year the aggregate value of Revolving Credit Facility limits Granted or Increased to Directors and other KMP amounted to:	<u>-</u>	<u>-</u>

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 applied 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 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.

	2007 \$	2006 \$
Interest and other revenue earned on Loans and revolving credit facilities to KMP	<u>38,911</u>	<u>42,188</u>
Total value Term and Savings Deposits from KMP – balance	<u>155,512</u>	<u>165,296</u>
Total Interest paid on deposits to KMP	<u>2,872</u>	<u>4,208</u>



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

**29. ECONOMIC DEPENDENCY**

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

**a. Cuscal Limited**

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 Credit Union 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. The System Works Pty Ltd**

This Company provides computer bureau facilities to the Credit Union. 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 to assist in its compliance with the relevant Prudential Standards.

**30. SEGMENTAL REPORTING**

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

**31. 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 plans (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 2007**

	2007 \$	2006 \$
<b>32. 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	71,507	37,237
Deposits at call	1,023,686	1,411,639
Total Cash	<u>1,095,193</u>	<u>1,448,876</u>
<b>b. Reconciliation of Cash from Operations to Accounting Profit</b>		
The net cash increase/(decrease) from operating activities is reconciled to the operating profit after tax.		
Operating profit after income tax	395,506	374,761
Add:		
Increases in Amortised fees on Loans	(590)	3,750
Increase in Provision for Loans	(25,413)	9,589
Gain on sale of fixed assets	(16,364)	-
Depreciation	64,991	53,783
Provisions for staff leave	35,137	14,828
Provision for income tax	-	-
Accrued Taxes	-	-
Accrued expenses	13,153	8,182
Decrease in GST receivable	-	-
Decrease in future income tax benefits	-	-
Increase in interest payable	161,187	21,820
Decrease in prepayments	-	-
Less:		
Decrease in Provision for Loans	-	-
Provision for staff leave	-	-
Provision for income tax	7,406	(14,997)
Other provisions	-	-
Accrued taxes	-	-
Decrease in deferred tax asset	(3,171)	(2,878)
Increase in deferred expenditure	-	-
Decrease in prepayments	(7,794)	(7,953)
Decrease in GST receivable	(1,601)	(40)
Decrease in interest receivable	(4,385)	(12,425)
Decrease in interest payable	-	-
Gain On sale of investment shares	-	(46,981)
Net cash from operating activities	<u>618,062</u>	<u>401,439</u>

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

**33. CORPORATE INFORMATION**

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

Registered office:

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

Principal place of business:

Level 2 KMS Building  
8-24 Kippax St  
SURRY 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.

**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 Corporations Act 2001 criteria. 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 the 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. Remuneration of Directors is set by the Members at the Annual General Meeting.

**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 was established to oversee the financial reporting and risk management framework. Its role includes:

- Monitoring audit reports received from Internal and external auditors, and management's responses thereto;
- Liaising with the auditors (internal and external) 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 matters of operational risk management and APRA reporting obligations
- Monitoring the Credit Union's compliance with applicable laws

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

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

**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, including those in development include:-

- Capital adequacy management
- Liquidity management
- Credit risk management
- Fit and Proper
- Corporate Governance
- Operations risk management
- Business Continuity
- 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 inquiries on compliance matters. The officer also monitors the FSR License obligations and responds to all Member complaints and disputes should they arise.

**External Audit**

Audit is performed by BDO Kendalls as part of the BDO International group - a major international accounting body. The firm of Kendalls has been auditing Credit Unions for 31 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 reviews performed by security audits on the Data Processing centres for adequacy of the back up, disaster recovery and Internet security systems.

**Outsourcing**

The Credit Union has a contract in place with *DBP Consulting*, for the provision of internal audit services to the Credit Union. The contract runs until 30 June 2008.

The Credit Union has a contract in place with *The System Works*, for the provision of I.T. bureau services to the Credit Union. The contract runs until 31 December 2008.

Material outsourced contracts are governed by the Credit Union's outsourcing policy, which requires the Credit Union to adequately assess the ability of a potential service provider to perform an outsourced function, and also requires the Credit Union to regularly assess a provider's performance and report the findings to the Board and APRA.

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

**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, 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; maintains training for all staff who deal with Members, and provides an effective and independent complaints handling process.
- Department of Fair Trading, for compliance with the requirements of the Consumer Credit Code.

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 auditors report to both bodies annually on compliance with respective requirements. Additionally the external auditors report to both ASIC on FSR compliance and APRA on Prudential policy compliance.

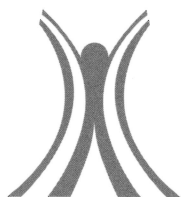
**OH & S**

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

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 risk.



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