



**2011
Annual Report**

**Goulburn Murray Credit Union
Co-operative Limited**

ABN: 87 087 651 509

A different kind of banking

Board of Directors



John Lyle
CHAIRMAN



John Guilmartin
DEPUTY CHAIRMAN



Frank Mandaradoni
AUDIT CHAIRMAN



Fiona Merrylees



Robert Morris



Geoffrey Cobbleidick



Frederick West



René Deen
GENERAL MANAGER/
SECRETARY

Chairman's Report

Fellow members, it is again with pleasure that I present the Chairman's report on behalf of the Board of Directors.

The annual accounts once again reflect a strong financial performance for the year under review. The following results have been achieved in key areas of our operation;

- An increase in assets of \$36.6 million (19.3%)
- An increase in loans and advances to members of \$28.99 million (18.4%)
- An operating profit after tax of \$2.57 million (2009/10 \$1.79 million)

The trends above continue the significant growth the credit union achieved in the previous financial year, and indicate that in difficult financial times, your credit union has been able to perform at levels well above industry averages.

Much of the growth has been funded internally, and has resulted in liquid funds being utilised efficiently. This growth has also in part been funded by some short term wholesale borrowings, which is an essential component of our liquidity and funding plan. We continue to see solid growth in deposits, however with the reduction in the level of government guarantee over bank and credit union deposits from \$1 million to \$250,000 we do expect to see some adverse movement in deposit levels, which in turn may see the credit union further utilise the wholesale funding market.

Interest rates have remained relatively steady over the past months, with the result that we have been able to maintain a relatively strong interest rate margin, and consequently a strong level of profit. Profits are essential in maintaining and building capital reserves.

Currently our capital adequacy ratio stands at 24%, well above our internal assessment of capital required to meet all perceived risks in operating the credit union. The Board intends to continue to hold capital well in excess of our internal assessment, and to achieve this we must continue to generate strong profit results. Reserves reflect our ability to manage tough times – your credit union is well placed to meet the challenges of the future.

While profit generation is important, so is ensuring our members receive, and pay competitive interest rates, and are not disadvantaged by high fee levels. Your Board and Management continually monitor these areas to ensure that membership of the credit union is beneficial.

Products offered to members are continually under review as are products offered through alliances with third party suppliers. Our aim is to ensure members can conduct a full financial relationship with the credit union, and not need to rely on any other financial institution. We believe the suite of products we offer can achieve this, and we look forward to increasing member support.

With growth comes increased business complexity. Your Board continues to recognise strong corporate governance is essential in safeguarding the assets of our members, as is the need for effective strategic planning, and continual review of progress in achieving organisational goals.

Risk management is an essential component of governance, and recently your Board and Senior Management team attended a workshop which demonstrated new and effective risk management tools and techniques. We intend to introduce a number of new risk management practices as a result, and this will further strengthen risk management procedures.

Our senior management team and staff have again delivered an excellent financial performance and result. Not only has this been achieved, but another year of excellent customer service to our members has been provided. The Board receives much feedback from members and we receive many glowing reports of how well members have been looked after. Thank you for your efforts – the result is a credit to you all.

The credit union is owned by our members, and is for the benefit of our members. Member support is an essential ingredient in the success of the Goulburn Murray Credit Union – we look forward to your continuing support as it will enable the organisation to grow and prosper.

A handwritten signature in dark green ink, appearing to read 'John Lyle'.

John Lyle
Chairman

Directors' report

The Directors present their report together with the financial statements of Goulburn Murray Credit Union Co-operative Limited (the "Credit Union") for the year ended 30 June 2011 and the auditor's report thereon.

Directors

The names and details of the Directors of the Credit Union in office at any time during or since the end of the financial year are:

John B Lyle *B Bus FCA*

Chairman
Occupation: Consultant
Director since: 1992

John W Guilmartin

Deputy Chairman
Occupation: Finance Manager
Director since: 1994

Frank Mandaradoni *CPA*

Chairman – Audit Committee
Occupation: Accountant
Director since: 1996

Robert Morris *CPA*

Occupation: Accountant
Director since: 2007

Geoffrey Cobbledick *F CPA M.Ed Dip Bus*

Occupation: Business Manager
Director since: 2008

Frederick J West

Occupation: Self-employed
Director since: 1980

Fiona Merrylees *BA.LL.B*

Occupation: Solicitor
Director since: 2005

All Directors are considered to be independent, non-executive Directors.

Directors' meetings

The number of meetings of Directors (including meetings of committees) held during the year and the number of meetings attended by each Director were as follows:

Director	Board of Directors' Meetings		Audit		Nominations		Salary & Structure	
	A	B	A	B	A	B	A	B
J Lyle	13	11	12	9	2	2	1	1
J Guilmartin	13	11	12	10	2	2	-	-
F Mandaradoni	13	13	12	12	2	2	-	-
R Morris	13	12	12	9	2	2	-	-
F West	13	11	2	2	-	-	1	1
F Merrylees	13	12	12	11	-	-	1	1
G Cobbledick	13	13	12	10	2	2	1	1

A – reflects the number of meetings the Director was eligible to attend during the year

B – number of meetings attended

Directors' report (continued)

Company secretary

Mr René Deen, the Credit Union's General Manager, was appointed to the position of Company Secretary on 1 June 2002 and continues to act in this capacity as at and post the end of the financial year.

Principal activities

The principal activity of the Credit Union is to raise funds from the Credit Union's members for the purpose of making loans to members. No significant change in the nature of the activity has occurred during the year.

Operating & Financial Review

The profit for the financial year before income tax was \$3,656,642 (2010: \$2,392,717). Income tax was \$1,084,884 (2010: \$613,541). Profit after tax for 2011 was \$2,571,758 (2010: \$1,779,176).

Review of operations

Net loans for the year have increased by \$28,996,582 to \$186,270,786.
Member deposits increased during the year by \$24,866,124 to \$185,764,602.
Members' equity during the year has increased by \$2,571,758 to \$27,528,818.

State of affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the Credit Union during the financial year under review.

Dividends

The Credit Union does not have permanent share capital and has therefore not paid or declared any dividends for the financial year.

Events subsequent to balance date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect significantly the operations of the Credit Union, the results of those operations, or the state of affairs of the Credit Union in subsequent financial years.

Environmental regulation

The Credit Union's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the Board believes that the Credit Union has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Credit Union.

Directors' report (continued)

Directors' benefits

During or since the end of the financial year, no Director of the Credit Union has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of remuneration paid or payable to the Directors as shown in the general purpose financial statements) by reason of a contract entered into by the Credit Union with:

- a Director,
- a firm of which a Director is a member, or
- an entity in which a Director has a substantial financial interest.

Likely developments

Information about likely developments in the operations of the Credit Union and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Credit Union.

Indemnification and insurance of Officers and auditors

The Credit Union has not given any indemnities to Directors, Officers or Auditors.

The Credit Union has arranged Directors' and Officers' Liability insurance coverage, against legal costs imposed on Directors and Officers, in a manner that complies with the Corporations Act.

Statement of Compliance

A Statement of Compliance with International Financial Reporting Standards ('IFRS') has been included in Note 1(a) to the financial statements.

Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 6 and forms part of the directors' report for the year ended 30 June 2011.

Dated at Shepparton this 21st day of September 2011.

Signed in accordance with a resolution of the Directors.



J B Lyle – Chairman



J W Guilmartin – Deputy Chairman

Lead auditor's independence declaration under Section 307C of the Corporations Act 2001

To: the Directors of Goulburn Murray Credit Union Co-operative Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 there have been:

- no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in green ink that reads "WHK".

WHK Audit & Risk Assessment

A handwritten signature in green ink that reads "Bradley D Bohun".

Bradley D Bohun

Partner

Dated at Albury this 21st day of September 2011

better advice for a better life

Statement of Comprehensive Income

For the year ended 30 June 2011

	Note	2011 \$	2010 \$
Interest revenue	2	14,571,377	10,954,183
Interest expense	2	(6,549,122)	(4,451,502)
Net interest income		8,022,255	6,502,681
Non-interest revenue	3	2,691,752	2,686,648
General and administration	3	(5,819,327)	(5,542,128)
Impairment charge	11	(62,388)	(99,458)
Occupancy expenses		(329,135)	(358,357)
Depreciation and amortisation expense	3	(261,222)	(264,551)
Fees and commission expense		(585,293)	(532,118)
Profit before tax		3,656,642	2,392,717
Income tax expense	5	(1,084,884)	(613,541)
Profit after tax		2,571,758	1,779,176
Other comprehensive income			
Net gain/(loss) on revaluation of property, plant and equipment		-	(89,065)
Net gain/(loss) on revaluation of investment property		-	101,254
Other comprehensive income for the year, net of tax		-	12,189
Total comprehensive income for the year		2,571,758	1,791,365

The statement of comprehensive income is to be read in conjunction with the accompanying notes set out on pages 11 to 56.

Statement of Changes in Equity

Year ended 30 June 2010	Retained Profits \$	Member Share Redemption Reserve \$	Lending Risk Reserve \$	Asset Revaluation Reserve \$	Total \$
Opening balance at 1 July 2010	21,735,323	54,538	468,579	907,255	23,165,695
Profit after tax	1,779,176	-	-	-	1,779,176
Other comprehensive income for the period	-	-	-	12,189	12,189
Total recognised income and expense for the period	1,779,176	-	-	12,189	1,791,365
Transfer to/(from) lending risk reserve	2,847	-	(2,847)	-	-
Transfer to member share redemption reserve	(3,430)	3,430	-	-	-
Closing balance at 30 June 2010	23,513,916	57,968	465,732	919,444	24,957,060
Year ended 30 June 2011					
Profit after tax	2,571,758	-	-	-	2,571,758
Other comprehensive income for the period	-	-	-	-	-
Total recognised income and expense for the period	2,571,758	-	-	-	2,571,758
Transfer to/(from) lending risk reserve	(79,388)	-	79,388	-	-
Transfer to member share redemption reserve	(9,669)	9,669	-	-	-
Closing balance at 30 June 2011	25,996,617	67,637	545,120	919,444	27,528,818

The statement of changes in equity is to be read in conjunction with the accompanying notes set out on pages 11 to 56.

Statement of Financial Position

As at 30 June 2011

	Note	2011 \$	2010 \$
ASSETS			
Cash and cash equivalents	7	33,521,290	25,767,202
Loans to other financial institutions	8	190,000	180,000
Receivables	9	102,527	57,391
Loans and advances	10	186,270,786	157,274,204
Other financial assets	12	455,737	494,951
Investment property	15	514,800	520,000
Property, plant and equipment	14	4,479,579	4,604,085
Deferred tax asset	6	178,250	167,528
Intangible assets	13	137,645	152,552
Other	16	209,421	240,504
TOTAL ASSETS		226,060,035	189,458,417
LIABILITIES			
Deposits	17	185,764,602	160,898,478
Short term borrowings	1(u)	8,000,000	-
Payables	18	3,780,280	3,159,946
Employee benefits	19	442,296	385,556
Current tax payable	6	525,311	39,098
Deferred tax liability	6	18,728	18,279
TOTAL LIABILITIES		198,531,217	164,501,357
NET ASSETS		27,528,818	24,957,060
EQUITY			
Reserves		1,532,201	1,443,144
Retained profits		25,996,617	23,513,916
TOTAL EQUITY		27,528,818	24,957,060

The statement of financial position is to be read in conjunction with the accompanying notes set out on pages 11 to 56.

Statement of Cash Flows

For the year ended 30 June 2011

	Note	2011 \$	2010 \$
Cash flows from operating activities			
Interest received		14,526,242	11,142,874
Interest paid		(5,932,056)	(4,249,024)
Cash paid to suppliers and employees		(6,667,384)	(5,572,713)
Receipts from other services		2,722,835	2,709,698
Income tax paid		(598,670)	(884,488)
Net movement in loans		(29,058,970)	(26,067,932)
Net movement in deposits and short-term borrowings		32,866,124	3,240,489
Net cash from operating activities	20	7,858,121	(19,681,096)
Cash flows from investing activities			
Proceeds from sale of other financial assets		39,214	-
Acquisition of other financial assets		-	(37,478)
Net movement in loans to other financial institutions		(10,000)	5,901,310
Payments for property, plant and equipment		(169,851)	(1,120,141)
Payments for intangible assets		(42,030)	(105,573)
Proceeds from sale of property, plant and equipment		78,634	59,533
Net cash from investing activities		(104,033)	4,697,651
Net Increase/(decrease) in cash and cash equivalents		7,754,088	(14,983,445)
Cash and cash equivalents at 1 July		25,767,202	40,750,647
Cash and cash equivalents at 30 June	7	33,521,290	25,767,202

The statement of cash flows is to be read in conjunction with the accompanying notes set out on pages 11 to 56.

Notes to the Financial Statements

For the year ended 30 June 2011

1. SIGNIFICANT ACCOUNTING POLICIES

Goulburn Murray Credit Union Co-operative Limited (the "Credit Union") is a company domiciled in Australia.

The financial statements were authorised for issuance by the Directors on 21 September 2011.

(a) Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards, adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001.

International Financial Reporting Standards ("IFRS") form the basis of Australian Accounting Standards adopted by the AASB, being Australian equivalents to IFRS ("AIFRS"). The financial statements of the Credit Union comply with IFRSs and interpretations adopted by the International Accounting Standards Board.

(b) Basis of preparation

The financial statements are presented in Australian dollars.

The financial statements have been prepared on the basis of historical costs except that the following assets and liabilities (if applicable) are stated at their fair value: land and buildings, derivative financial instruments, financial instruments classified as available-for-sale and investment property.

Determination of fair values

A number of the Credit Union's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property, plant and equipment and investment property

The fair value of land and buildings and investment property are based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Credit Union's land and buildings and investment property.

Notes to the Financial Statements

For the year ended 30 June 2011

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation (continued)

The preparation of financial statements are in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Australian Accounting Standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1 (q).

The accounting policies set out below have been applied consistently to all periods presented in the financial statements by the Credit Union.

(c) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash balances with less than three months to maturity and includes cash and balances with Cuscal Limited and other Authorised Deposit-taking Institutions (including banks) including the minimum reserve requirements that the Credit Union is obligated to place for liquidity purposes.

(d) Income tax

Income tax on the statement of comprehensive income for the periods presented comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Notes to the Financial Statements

For the year ended 30 June 2011

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Income tax (continued)

A deferred tax asset is recognised only to the extent it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

(e) Loans and advances

Loans and advances are stated at their amortised cost less impairment losses (see note 1(f)).

All loans and advances are reviewed and graded according to the anticipated level of credit risk. The classification adopted is described below:

Non-accrual loans - are loans and advances where the recovery of all interest and principal is considered to be reasonably doubtful, and hence impairment losses are recognised.

Restructured loans - arise when the borrower is granted a concession due to continuing difficulties in meeting the original terms, and the revised terms are not comparable to new facilities. Loans with revised terms are included in non-accrual loans when impairment provisions are required.

Assets acquired through the enforcement of security - are assets acquired in full or partial settlement of a loan or similar facility through the enforcement of security arrangements.

Past-due loans - are loans where payments of principal and/or interest are at least 90 days in arrears. Full recovery of both principal and interest is expected. If a provision for impairment is required, the loan is included in non-accrual loans.

(f) Impairment

The carrying amounts of the Credit Union's assets, other than deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised as an expense in the statement of comprehensive income unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the statement of comprehensive income.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

When a decline in the fair value of an available for sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

Notes to the Financial Statements

For the year ended 30 June 2011

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Impairment (continued)

Calculation of recoverable amount

The recoverable amount of the Credit Union's investments in held to maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of a held to maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

If the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in the statement of comprehensive income.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at fair value or at cost less accumulated depreciation (see below) and impairment losses (see accounting policy 1(f)).

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property.

When the construction or development of a self-constructed investment property is completed and will be carried at fair value, any difference between the fair value of the property at the date and its previous carrying amount is recognised in profit and loss.

Where parts of an item property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Notes to the Financial Statements

For the year ended 30 June 2011

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment & intangible assets (continued)

Leased assets

Leases in terms of which the Credit Union assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (see accounting policy 1(f)). The property held under finance leases and leased out under operating lease is classified as investment property and stated at the fair value model. Lease payments are accounted for as described in accounting policy 1(k). Property held under operating leases that would otherwise meet the definition of investment property may be classified as investment property on a property-by-property basis.

Subsequent assets

The Credit Union recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Credit Union and the cost of the item can be measured reliably. All other costs are recognised in the statement of comprehensive income as an expense as incurred.

Depreciation

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives in the current and comparative periods are as follows:

- Buildings 40 years
- Furniture & fittings 5 to 15 years
- Leasehold improvements The lease term
- Motor vehicles 5 to 15 years
- Office equipment 3 to 15 years

The residual value, if not insignificant, is reassessed annually.

(h) Intangible assets

Items of computer software which are not integral to the computer hardware owned by the Credit Union are classified as intangible assets.

Computer software is amortised over the expected useful life of the software. The estimated useful lives in the current and comparative periods are as follows:

- Computer software 4 years

Notes to the Financial Statements

For the year ended 30 June 2011

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Investment properties

Investment properties are those which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at fair value. Fair value is assessed annually.

Rental income from investment property is accounted for as described in accounting policy (m).

When an item of property, plant and equipment is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity if it is a gain. Upon disposal of the item the gain is transferred to retained earnings. Any loss arising in this manner is recognised immediately in the statement of comprehensive income.

If an investment property becomes owner-occupied, it is reclassified as property, fixtures and fittings and its fair value at the date of reclassification becomes its cost for accounting purposes for subsequent recording.

(j) Business combinations

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment.

Notes to the Financial Statements

For the year ended 30 June 2011

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

Contingent rentals are recognised as an expense in the financial year they are incurred.

(l) Trade and other payables

Trade and other payables are stated at their amortised cost.

Trade payables are non-interest bearing and are normally settled on 30 day terms.

(m) Revenue recognition

Revenue is recognised to the extent that the economic benefits will flow to the Credit Union and the revenue can be reliably measured. The following specific criteria must also be met before revenue is recognised:

Loan interest

Loan interest is calculated on the daily balance outstanding and is charged in arrears to a member's account on the last day of each month.

Non accrual loan interest

While still legally recoverable, interest is not brought to account as income where 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 the Board of Directors. 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.

Fees and commissions

Fees and commissions are recognised as revenues on an accrual basis.

Interest

Interest income is recognised as it accrues, using the effective interest method.

Dividend income

Dividend income is taken into revenue as received.

Notes to the Financial Statements

For the year ended 30 June 2011

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Revenue recognition (continued)

Income from property

Income from investment property is recognised in the statement of comprehensive income on a straight line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total income from property.

(n) Employee entitlements

Long term service benefits

The Credit Union's net obligation in respect of long term service benefits is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance date which have maturity dates approximating to the terms of the Credit Union's obligations.

Short term benefits

Liabilities for employee benefits for wages, salaries and annual leave represent present obligations resulting from employees services provided to reporting date, calculated at undiscounted amounts based on remuneration wages and salary rates that the Credit Union expects to pay as at reporting date including related on-costs, such as, workers compensation insurance, payroll tax and superannuation.

(o) Goods and services tax

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

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cashflows are included on the statement of cash flows on a gross basis. The GST components of cashflows from investing and financing activities that are recoverable from, or payable to, the ATO are classified as operating cash flow.

(p) Provisions

A provision is recognised in the statement of financial position when the Credit Union has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Notes to the Financial Statements

For the year ended 30 June 2011

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Accounting estimates and judgements

Management has been involved in the development, selection and disclosure of the Credit Union's critical accounting policies and estimates and the application of these policies and estimates. In particular, information about areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Notes 10 and 11 – Impairment of loans and advances.

(r) Off balance sheet lending

The Credit Union has facilitated the funding of Integris Securitisation Services Pty Ltd (Perpetual Trustees) securitised loans totalling \$291,588 (2010: \$434,082) whereby the Credit Union has acted as an agent to promote and complete loans on their behalf, for on sale to an investment trust. The Credit Union receives a management fee in relation to each separate loan funded via this method. The Credit Union bears no risk exposure in respect of these loans.

(s) Reserves

Lending risk reserve

AIFRS precludes the Credit Union from holding a general provision for doubtful debts in its Statement of Financial Position. Under AIFRS the balance of the general provision must now be carried in a suitably styled reserve account in equity as an allocation from retained profits.

The Credit Union has transferred the amount \$79,388 to a lending risk reserve account as at 30 June 2011. This reserve is calculated at the rate of between 0.5% and 1.25% of risk weighted assets.

Member share redemption reserve

The Credit Union has, in accordance with Compliance Note 2001.84, complied with Section 254k of the Corporations Act 2001 via the creation of a Member Share Redemption Reserve. At the conclusion of each quarter during the financial year, the Credit Union establishes the number of members that resigned during the quarter and transfers the equivalent monetary amount to a Member Share Redemption Reserve from retained profits.

The balance 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 be made out of profits. Since the value of the shares has 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.

The Member Share Redemption Reserve has been separately disclosed.

Asset revaluation reserve

The asset revaluation reserve relates to the revaluation of land and buildings.

Notes to the Financial Statements

For the year ended 30 June 2011

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Member deposits

Basis for determination

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

Interest payable

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

(u) Short term borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. These borrowings are in the form of two term deposits from Questor Financial Services Limited, which the Credit Union has accessed through Cuscal Limited.

Both term deposits are fixed rate (6.27% and 5.80%), and classified as current liabilities with maturity dates within 12 months of balance date. The Credit Union utilises these borrowings to manage its cash flow and liquidity requirements.

(v) New standards and interpretations not yet adopted

The following standards and amendments were for early adoption at 30 June 2011, but have not been applied by the credit union in preparing these financial statements.

- AASB 9 *Financial Instruments* [December 2010] (applicable for annual reporting periods commencing on or after 1 January 2013). The standard is applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as recognition and de-recognition requirements for financial instruments. The Credit Union has yet to determine any potential impact on the financial statements. The key changes made to accounting requirements include:
 - simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
 - simplifying the requirements for embedded derivatives;
 - removing tainting rules associated with held-to-maturity assets;
 - removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
 - allowing irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;

Notes to the Financial Statements

For the year ended 30 June 2011

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) New standards and interpretations not yet adopted (continued)

- requiring financial assets to be reclassified where there is a change in the entity's business model as that are initially classified based on (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flow; and
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

Notes to the Financial Statements

For the year ended 30 June 2011

2. INTEREST REVENUE AND INTEREST EXPENSE

	2011 \$	2010 \$
Interest revenue		
Deposits with other financial institutions	1,375,450	1,137,445
Loans and advances	13,195,927	9,816,738
	<hr/>	<hr/>
	14,571,377	10,954,183
Interest expense		
Member deposits	6,503,403	4,434,926
Short-term borrowings	45,719	16,576
	<hr/>	<hr/>
	6,549,122	4,451,502

Notes to the Financial Statements

For the year ended 30 June 2011

3. OPERATING REVENUE/EXPENSES

	2011 \$	2010 \$
Depreciation and amortisation expense		
Depreciation of property, plant and equipment:		
Plant and equipment	156,135	146,085
Buildings	42,950	41,125
Investment properties	-	6,375
Amortisation of intangible assets	56,937	70,966
Impairment of investment properties	5,200	-
Total depreciation and amortisation expense	261,222	264,551
General and administration expense		
Personnel costs:		
- Wages and salaries	3,131,974	2,990,612
- Employee entitlements	47,785	11,542
- Superannuation contributions	322,355	301,992
EDP costs	592,588	523,951
Marketing and promotion	474,919	463,478
General administration	886,597	907,662
Other	363,109	342,891
Total general and administration expense	5,819,327	5,542,128
Non interest revenue		
Loan fees	243,106	253,206
Electronic transaction fees	1,011,272	887,648
Other fees	796,787	835,394
Commissions	458,140	365,063
Bad debts recovered	16,907	27,602
Rent	58,883	31,143
Dividends	87,587	175,697
Other	19,070	110,895
Total non interest revenue	2,691,752	2,686,648

Notes to the Financial Statements

For the year ended 30 June 2011

4. AUDITOR'S REMUNERATION

	2011 \$	2010 \$
Amounts received or due and receivable by the auditors of the Credit Union for:		
Audit of the Financial Statements of the Credit Union	55,121	52,514
Other services in relation to the Credit Union	15,692	14,878
	70,813	67,392

5. INCOME TAX

Profit before tax	3,656,642	2,392,717
Prima facie income tax expense calculated at 30% on net profit	1,096,993	717,815
Increase/(Decrease) in income tax due to:		
Non deductible expenses	766	541
Imputation credits	(26,136)	(50,304)
Under/(over) provision for income tax in prior year	-	(28,036)
Other items	13,261	(26,475)
Income tax expense	1,084,884	613,541
Current tax expense		
Current year	1,095,157	677,302
Adjustments for prior year	-	(28,036)
Deferred tax expense	(10,273)	(35,725)
Income tax expense	1,084,884	613,541

Notes to the Financial Statements

For the year ended 30 June 2011

6. RECOGNISED DEFERRED TAX ASSETS & LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2011 \$	2010 \$	2011 \$	2010 \$	2011 \$	2010 \$
Loans & advances	14,426	14,581	-	-	14,426	14,581
Prepayments	-	-	849	2,075	(849)	(2,075)
Property, Plant and Equipment	-	-	17,879	16,204	(17,879)	(16,204)
Accrued Expenses	28,122	31,583	-	-	28,122	31,583
Employee Benefits	135,702	121,364	-	-	135,702	121,364
	<u>178,250</u>	<u>167,528</u>	<u>18,728</u>	<u>18,279</u>	<u>159,522</u>	<u>149,249</u>

The current tax payable for the Credit Union of \$525,311 (2010: \$39,098) represents the amount of income tax payable in respect of current and prior periods.

7. CASH AND CASH EQUIVALENTS

	2011 \$	2010 \$
Cash on hand and at bank	2,908,175	5,334,222
Interest earning deposits	30,613,115	20,432,980
	<u>33,521,290</u>	<u>25,767,202</u>
<i>Maturity analysis</i>		
At call	6,708,175	9,334,222
Not longer than 3 months	26,813,115	16,432,980
	<u>33,521,290</u>	<u>25,767,202</u>
<i>Credit rating of cash & cash equivalents</i>		
CUSCAL – rated A+	25,714,158	13,073,166
Banks – rated AA and above	70,000	80,000
Banks – rated below AA	5,933,436	10,886,522
Cash on hand	1,803,697	1,727,514
	<u>33,521,290</u>	<u>25,767,202</u>

Notes to the Financial Statements

For the year ended 30 June 2011

8. LOANS TO OTHER FINANCIAL INSTITUTIONS

	2011 \$	2010 \$
Interest earning deposits	190,000	180,000
<i>Maturity analysis</i>		
At call	-	-
Not longer than 3 months	-	-
Longer than 3 months and not longer than 12 months	190,000	180,000
	<u>190,000</u>	<u>180,000</u>
<i>Credit rating of loans to other financial institutions</i>		
Banks – rated AA and above	190,000	180,000
	<u>190,000</u>	<u>180,000</u>

9. RECEIVABLES

Interest receivable	102,527	57,391
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10. LOANS AND ADVANCES

Overdrafts	4,147,988	4,000,975
Term loans	182,170,886	153,321,833
Gross loans and advances	186,318,874	157,322,808
Provision for impairment	(48,088)	(48,604)
Net loans and advances	<u>186,270,786</u>	<u>157,274,204</u>
<i>Maturity analysis</i>		
Overdrafts	4,147,988	4,000,975
Not longer than 3 months	2,146,464	1,999,759
Longer than 3 and not longer than 12 months	5,833,016	5,392,118
Longer than 1 and not longer than 5 years	26,057,703	23,856,402
Longer than 5 years	148,133,703	122,073,554
	<u>186,318,874</u>	<u>157,322,808</u>

Notes to the Financial Statements

For the year ended 30 June 2011

10. LOANS AND ADVANCES (continued)

	2011 \$	2010 \$
Security held against loans		
Secured by mortgage over residential property	169,693,394	141,818,973
Secured by mortgage over other property	5,241,927	4,394,544
<i>Total loans secured by real estate</i>	<u>174,935,321</u>	<u>146,213,517</u>
Secured by funds	2,203,484	1,908,065
Partly secured by goods mortgage	7,963,691	7,849,367
Wholly unsecured	1,216,378	1,351,860
	<u>186,318,874</u>	<u>157,322,808</u>

It is not practicable to value all collateral as at the balance date due to the variety of assets and their condition. A breakdown of the quality of the residential mortgage security on a portfolio basis is as follows:

Loan to value ratio of 80% or less	135,160,672	120,082,821
Loan to value ratio of more than 80% but mortgage insured	23,290,365	14,280,756
Loan to value ratio of more than 80% not mortgage insured	11,242,357	7,455,396
	<u>169,693,394</u>	<u>141,818,973</u>

Concentration of risk

Significant individual exposures

The loan portfolio of the Credit Union does not include any loans or advances which represents 10% or more of capital.

Geographical concentrations

The Credit Union has an exposure to groupings of individual loans which concentrate risk and create exposure to the geographical areas of Shire of Campaspe, Shire of Moira, Shire of Strathbogie, Shire of Mitchell, Benalla Rural City and The Greater Shepparton City.

- Victoria	180,366,080	152,681,313
- New South Wales	4,328,450	3,897,576
- Other	1,624,344	743,919
	<u>186,318,874</u>	<u>157,322,808</u>

Notes to the Financial Statements

For the year ended 30 June 2011

11. IMPAIRMENT OF LOANS AND ADVANCES

	2011	2010
	\$	\$
Total provision comprises of		
Collective provisions	48,088	48,604
Additional specific provisions	-	-
Total provision	<u>48,088</u>	<u>48,604</u>
Movement in the provision for impairment		
Balance at beginning of year	48,604	30,827
Expensed during the year	55,156	79,271
Bad debts written off provision	(55,672)	(61,494)
Balance at end of year	<u>48,088</u>	<u>48,604</u>
Impairment charge comprises of		
Collective provision	55,156	79,271
Bad debts recognised directly to Statement of Comprehensive Income	7,232	20,187
Total bad debts expense	<u>62,388</u>	<u>99,458</u>
Ageing analysis of loans and advances past due		
Loans and advances past due and not impaired		
Up to 30 days	4,353,020	7,620,320
More than 30 days, but less than 90 days	91,575	1,039,838
More than 90 days, but less than 180 days	-	-
More than 180 days, but less than 270 days	-	-
More than 270 days, but less than 365 days	-	-
More than 365 days	-	-
Over limit facilities less than 14 days	13,638	26,974
	<u>4,458,235</u>	<u>8,687,132</u>
Loans and advances past due and impaired		
Up to 30 days	-	-
More than 30 days, but less than 90 days	-	-
More than 90 days, but less than 180 days	23,084	13,600
More than 180 days, but less than 270 days	6,495	20,519
More than 270 days, but less than 365 days	3,803	5,576
More than 365 days	7,435	10,129
Over limit facilities more than 14 days	44,527	32,556
	<u>85,344</u>	<u>82,380</u>

Notes to the Financial Statements

For the year ended 30 June 2011

11. IMPAIRMENT OF LOANS AND ADVANCES (continued)

	2011 \$	2010 \$
<i>Security analysis of loans and advances past due</i>		
Loans and advances past due and not impaired		
Secured by mortgage over real estate	3,878,877	7,724,565
Secured by funds	-	-
Partly secured by goods mortgage	499,970	815,645
Wholly unsecured	79,388	146,922
	<u>4,458,235</u>	<u>8,687,132</u>
Loans and advances past due and impaired		
Secured by mortgage over real estate	-	-
Secured by funds	-	-
Partly secured by goods mortgage	31,200	29,860
Wholly unsecured	54,144	52,520
	<u>85,344</u>	<u>82,380</u>

Loans renegotiated

Some loans that were previously past due or impaired, have been renegotiated by the Credit Union and are no longer regarded as impaired.

Loans renegotiated during the financial year	1,260,117	3,015,725
Specific provision for impairment	-	(10,087)
Balance at the end of the financial year	<u>1,260,117</u>	<u>3,005,638</u>

Assets acquired through enforcement of security

There were no assets acquired by the Credit Union via enforcement of security during the year (2010: nil).

Notes to the Financial Statements

For the year ended 30 June 2011

12. OTHER FINANCIAL ASSETS

	2011 \$	2010 \$
Shares in special service providers (a)	455,737	494,951

(a) Shares in special service providers

The shareholding in special service providers relates to a shareholding in Cuscal Limited and Transaction Solutions Pty Limited ("TAS"). The shareholdings are measured at cost as their fair value could not be measured reliably.

Cuscal Limited was created to supply services to the member credit unions and does not have an independent business focus. These shares, accounting for \$421,473 (2010: \$421,473) of the balance, are held to enable the Credit Union to receive essential banking services. The shares are not able to be traded and are not redeemable.

The Financial Statements of Cuscal Limited record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of the providers, any fair value determination on these shares is likely to be greater than their cost value. 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 remaining \$34,264 shares (2010: \$73,478) are held in TAS. As disclosed in Note 23, TAS provides the Credit Union with electronic data processing services.

The Credit Union is not intending, nor able to dispose of these shares, without a majority of shareholder approval.

Notes to the Financial Statements

For the year ended 30 June 2011

13. INTANGIBLE ASSETS

	2011	2010
	\$	\$
At cost	475,449	433,420
Accumulated amortisation	(337,804)	(280,868)
	<u>137,645</u>	<u>152,552</u>

Reconciliations

Reconciliations of the carrying amounts for each class of intangible assets are set out below:

Computer software & licences

Balance at beginning of the year	152,552	117,945
Acquisitions	42,030	105,573
Disposals	-	-
Less amortisation	(56,937)	(70,966)
Balance at end of the year	<u>137,645</u>	<u>152,552</u>

14. PROPERTY, PLANT AND EQUIPMENT

Freehold land - at fair value	1,845,000	<u>1,845,000</u>
Buildings on freehold land – at fair value	1,718,000	1,718,000
Accumulated depreciation	(42,950)	-
Total buildings on freehold land	<u>1,675,050</u>	<u>1,718,000</u>
Plant and equipment- at cost	2,653,745	2,609,459
Accumulated depreciation	(1,694,216)	(1,568,374)
Total plant and equipment	<u>959,529</u>	<u>1,041,085</u>
Carrying amount of total property, plant & equipment	<u>4,479,579</u>	<u>4,604,085</u>

Notes to the Financial Statements

For the year ended 30 June 2011

14. PROPERTY, PLANT & EQUIPMENT (continued)

(a) Reconciliations

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below::

	Land	Buildings	Plant and equipment	Capital work in progress	Total
	\$	\$	\$	\$	\$
Balance at 1 July 2009	1,580,000	1,560,007	729,118	7,753	3,876,878
Additions	-	583,601	536,540	-	1,120,141
Revaluations	265,000	(392,236)	-	-	(127,236)
Internal transfers	-	7,753	-	(7,753)	-
Disposals	-	-	(78,488)	-	(78,488)
Depreciation	-	(41,125)	(146,085)	-	(187,210)
Balance at 30 June 2010	1,845,000	1,718,000	1,041,085	-	4,604,085
Balance at 1 July 2010	1,845,000	1,718,000	1,041,085	-	4,604,085
Additions	-	-	169,851	-	169,851
Revaluations	-	-	-	-	-
Internal transfers	-	-	-	-	-
Disposals	-	-	(95,272)	-	(95,272)
Depreciation	-	(42,950)	(156,135)	-	(199,085)
Balance at 30 June 2011	1,845,000	1,675,050	959,529	-	4,479,579

Notes to the Financial Statements

For the year ended 30 June 2011

14. PROPERTY, PLANT & EQUIPMENT (continued)

(b) Valuations

Land and buildings owned by the Credit Union were independently valued during the 2010 financial year based on current market values.

The land and buildings at Shepparton, Benalla, Seymour, Kyabram and Numurkah were valued by Joe Cummins AAPI, Certified Practising Valuer of HMC Valuers for a market value of \$3,563,000.

The Directors believe that the valuations obtained are a reasonable approximation of fair value and have been recognised on this basis as at 30 June 2010. The potential effect of any capital gains tax has not been taken into account in the determination of the revalued carrying amounts of those assets.

15. INVESTMENT PROPERTY

	2011 \$	2010 \$
At fair value	520,000	520,000
Accumulated impairment	(5,200)	-
Balance at end of the year	514,800	520,000

Investment property comprises a number of commercial properties at Shepparton and Kyabram that are leased or available for lease to third parties. Each of the leases contains an initial non-cancellable period. Subsequent renewals are negotiated with the lessee. No contingent rents are charged. See Note 28 for further information.

The investment properties were valued during the 2010 year by Joe Cummins AAPI, Certified Practising Valuer of HMC Valuers with the fair value of \$520,000.

Notes to the Financial Statements

For the year ended 30 June 2011

16. OTHER ASSETS

	2011 \$	2010 \$
Prepayments	105,397	160,535
Sundry debtors	104,024	79,969
	209,421	240,504

17. DEPOSITS

On call deposits	80,626,502	76,857,402
Term deposits	105,138,100	84,041,076
	185,764,602	160,898,478

Maturity analysis

On call	80,626,502	76,857,402
Not longer than 3 months	51,339,980	37,669,104
Longer than 3 and not longer than 12 months	51,507,055	43,170,403
Longer than 1 and not longer than 5 years	2,291,065	3,201,569
	185,764,602	160,898,478

Concentration of deposits

The Credit Union operates in the bond areas set out in the Credit Union's rules. This area generally covers the Shire of Campaspe, Shire of Moira, Shire of Strathbogie, Shire of Mitchell, Benalla Rural City and the Greater Shepparton City.

Victoria	179,964,122	156,384,221
Other States	5,800,480	4,514,257
	185,764,602	160,898,478

The Credit Union's deposit portfolio does not include any deposits which represent 10% or more of total liabilities (2010: Nil).

18. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Trade creditors	372,973	475,528
Accrued interest payable	2,339,374	1,722,308
Accrued expenses	1,067,933	962,110
	3,780,280	3,159,946

Notes to the Financial Statements

For the year ended 30 June 2011

19. EMPLOYEE BENEFITS

	2011	2010
	\$	\$
Current		
Prepaid salaries and wages	(10,045)	(19,000)
Liability for long service leave	140,868	124,520
Liability for annual leave	283,799	259,304
Non-current		
Liability for long service leave	27,674	20,732
	<u>442,296</u>	<u>385,556</u>

20. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

(a) Cash flow from operating activities

Profit after income tax	2,571,758	1,779,176
<i>Non cash flows in operating surplus/(deficit):</i>		
Charge for bad and doubtful debts	62,388	99,458
Depreciation of property, plant & equipment	199,085	187,210
Depreciation/Impairment of investment property	5,200	6,375
Amortisation on intangible assets	56,937	70,966
Loss on sale of asset	16,636	18,956
Provision for employee entitlements and equipment	56,740	(25,247)
<i>Changes in assets and liabilities:</i>		
(Increase)/Decrease in accrued receivables	(45,136)	188,691
(Increase)/Decrease in deferred tax asset	(10,722)	(15,503)
(Increase)/Decrease in other assets	31,083	23,050
Increase/(Decrease) in payables and accruals	620,336	484,293
Increase/(Decrease) in income tax payable	486,213	349,140
Increase/(Decrease) in deferred tax liability	449	(20,218)
Net cash from revenue activities	<u>4,050,967</u>	<u>3,146,347</u>
Add/(deduct) non revenue operations:		
Increase in loan balance	(29,058,970)	(26,067,932)
Increase in deposits and short term borrowings	32,866,124	3,240,489
	<u>7,858,121</u>	<u>(19,681,096)</u>

Notes to the Financial Statements

For the year ended 30 June 2011

20 RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES (continued)

(b) Cash flows presented on a net basis

Cash flows arising from the following activities are presented on a net basis in the statement of cash flows:

- (i) member deposits to and withdrawals from deposit accounts;
- (ii) borrowings and repayments on loans, advances and other receivables;
- (iii) investment securities including shares in special service providers and unlisted shares.

(c) Bank overdraft facility

The Credit Union has an overdraft facility available to the extent of \$5,000,000 (2010: \$5,000,000). This facility is provided by Cuscal Limited and is subject to funds being available from Cuscal Limited at the time of drawdown. This facility is secured by a fixed and floating charge over the assets and undertakings of the Credit Union and incurs interest at 7.75% (2010: 7.5%). As at 30 June 2011 the utilised portion of the facility was \$Nil (2010: \$Nil).

21 SUPERANNUATION

Contributions to the employees' superannuation fund are expensed as incurred.

All employees and Directors of the Credit Union are able to nominate which superannuation fund to which the Credit Union contributes the compulsory superannuation guarantee levy.

The Credit Union contributes a minimum rate of 9% of the employee's salary.

The Credit Union is not obliged to contribute to these funds other than to meet its liability under the Superannuation Guarantee legislation. The Credit Union is under no legal obligation to make up any shortfall in the funds' assets.

As the funds are accumulation funds no actuarial assessment of the funds has been undertaken.

22 CONTINGENT LIABILITIES AND CREDIT COMMITMENTS

In the normal course of business the Credit Union enters into various types of contracts that give rise to contingent or future obligations. These contracts generally relate to the financing needs of members. The Credit Union uses the same credit policies and assessment criteria in making commitments and conditional obligations for off-balance sheet risks as it does for on-balance sheet loan assets. For financial guarantees the Credit Union's interest has been fully secured by either a fixed savings authority over frozen fixed deposits or by a mortgage over real estate.

Credit commitments and contingent liabilities existing as at 30 June 2011 are inclusive of Goods and Services Tax.

Notes to the Financial Statements

For the year ended 30 June 2011

22. CONTINGENT LIABILITIES AND CREDIT COMMITMENTS (continued)

	2011	2010
	\$	\$
Credit related commitments		
Approved but undrawn loans and credit limits	6,891,569	7,573,340
 Security analysis of credit-related commitments		
Secured by mortgage over real estate	5,235,522	5,694,167
Secured by funds	272,587	360,890
Partly secured by goods mortgage	175,670	205,748
Wholly unsecured	1,207,790	1,312,535
	<u>6,891,569</u>	<u>7,573,340</u>
 Financial guarantees		
Guarantees	107,866	154,542
 Security analysis of financial guarantees		
Secured by mortgage over real estate	49,624	49,624
Secured by funds	58,242	104,918
Partly secured by goods mortgage	-	-
Wholly unsecured	-	-
	<u>107,866</u>	<u>154,542</u>
 Other commitments		
Operating commitments	-	-
Capital commitments	-	-

The Credit Union has a number of service agreements with external parties for the supply of services into the future.

Notes to the Financial Statements

For the year ended 30 June 2011

22 CONTINGENT LIABILITIES AND CREDIT COMMITMENTS (continued)

Credit Union Financial Support System Limited

With effect from 1 July 1999, Goulburn Murray Credit Union Co-operative Limited is a party to the Credit Union Financial Support System (CUFSS). CUFSS is a voluntary scheme that all credit unions who are affiliated with Cuscal Limited have agreed to participate in.

CUFSS is a company limited by guarantee with each credit union's guarantee being \$100.

As a member of CUFSS, the Credit Union:

- May be required to advance funds of up to 3% (excluding permanent loans) of total assets to another credit union requiring financial support;
- May be required to advance permanent loans of up to 0.2% of total assets per financial year to another credit union requiring financial support; and
- Agrees, in conjunction with other members, to fund the operating costs of CUFSS.

The Credit Union has given a floating charge over all the assets and undertakings of the Credit Union to Credit Union Financial Services (Australia) Limited in return for emergency liquidity support from CUFSS, the settlement with banks for member cheques, VISA cards, Redicards, and to secure the Credit Union's overdraft facility and standby facility.

23 ECONOMIC DEPENDENCY

Geographic dependency

The members of the Credit Union are predominately people who reside within, are employed within, or who shop regularly within the Shire of Campaspe, Shire of Moira, Shire of Strathbogie, Shire of Mitchell, Benalla Rural City and The Greater Shepparton City.

Service dependency

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

- Cuscal Limited for the rights to VISA cards and Redicards, for the settlement with the banks for member cheques, VISA cards, Redicards and access to the direct entry system.
- First Data Resources Australia Limited for the transfer of electronic funds.
- Transaction Solutions Pty Ltd for electronic data processing.
- Ultradata Australia Pty Ltd that provides and maintains the application software utilised by the Credit Union.

Notes to the Financial Statements

For the year ended 30 June 2011

24. KEY MANAGEMENT PERSONNEL

The following were key management personnel of the Credit Union at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Non-executive directors

John Lyle	Chairman
John Guilmartin	Deputy Chairman
Frank Mandaradoni	
Frederick West	
Fiona Merrylees	
Geoffrey Cobbledick	
Robert Morris	

Executives

René Deen	General Manager
Peter Thomas	Operations Manager
Rebecca Hearn	Finance Manager
Brett Elgar	Compliance Manager
Ken Kilsby	Loans Manager
Paul Cross	IT Manager

Transactions with key management personnel

In addition to their salaries, the Credit Union also provides banking services and products to key management personnel as outlined below.

Key management personnel compensation

The key management personnel compensation included in "personnel expenses" (see note 3) are as follows:

	2011 \$	2010 \$
Short-term employee benefits	727,596	696,219
Other long term benefits	3,678	9,746
Post employment benefits	62,184	61,190
	793,458	767,155

The above excludes out of pocket reimbursements. All remuneration to Directors was approved by members at the previous Annual General Meeting of the Credit Union.

Notes to the Financial Statements

For the year ended 30 June 2011

24. KEY MANAGEMENT PERSONNEL (continued)

Loans to key management personnel and other related parties

Details regarding the aggregate of loans made, guaranteed or secured by the Credit Union to key management personnel and their related parties are as follows:

	2011 \$	2010 \$
Loans to key management personnel	1,101,097	871,212
Loans to other related parties	-	-
	1,101,097	871,212

All loans to Directors and key management personnel by the Credit Union have been made in the normal course of business and on the normal commercial terms and conditions. A concessional loan rate facility is available to qualifying staff.

Revolving credit facilities totalling \$70,300 (2010: \$71,100) were made available to Directors and key management personnel during the year. The aggregate amount receivable at 30 June 2011 was \$66,465 (2010: \$68,019).

Loans and redraws totalling \$375,297 (2010: \$74,085) were made to key management personnel, Mr J Guilmartin, Mr F Mandaradoni, Mr R Deen, Mrs F Merrylees and Mrs R Hearn, during the year. (2010: Mr J Guilmartin, Mr F Mandaradoni, Mrs R Hearn and Mr R Deen).

During the year Messrs Lyle, Guilmartin, Mandaradoni, Deen, Thomas, Mrs Hearn and Mrs Merrylees (2010: Messrs Lyle, Guilmartin, Mandaradoni, Deen, Thomas, Mrs Hearn and Mrs Merrylees) repaid \$218,080 (2010: \$336,452) of the balances outstanding on their loans.

For all loans to non-executive directors and their related parties, interest is payable at prevailing market rates. Interest rates on loans to executive staff may be discounted by a maximum of 0.5% for housing loans and 2% for other loans. The principal amounts are repayable at any time. Interest is charged monthly. All housing loans are secured by registered first mortgage over the borrowers residences.

Interest received on the loans to key management personnel totalled \$74,112 and on loans to other related parties totalled \$Nil (2010: \$52,218 and \$Nil). No amounts have been written down or recorded as allowances, as all balances outstanding are considered fully collectable.

There were no other amounts receivable at 30 June 2011 (2010: \$Nil) nor were any other loans advanced during the period.

Notes to the Financial Statements

For the year ended 30 June 2011

24. KEY MANAGEMENT PERSONNEL (continued)

Deposits from key management personnel and other related parties

	2011 \$	2010 \$
Total value Term and Saving Deposits from key management personnel	445,426	<u>870,743</u>
Total interest paid on deposits to key management personnel	<u>27,637</u>	<u>28,593</u>

The Credit Union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted on the same terms and conditions which applied to members for each type of deposit.

Other key management personnel transactions with the Credit Union

From time to time the key management personnel of the Credit Union and their related parties may conduct banking related transactions with the Credit Union. These transactions are on the same terms and conditions as those entered into by other members, with the exception of transactions which incur a fee.

No members of key management persons of the Credit Union, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

Notes to the Financial Statements

For the year ended 30 June 2011

25. RISK MANAGEMENT OBJECTIVES AND POLICIES

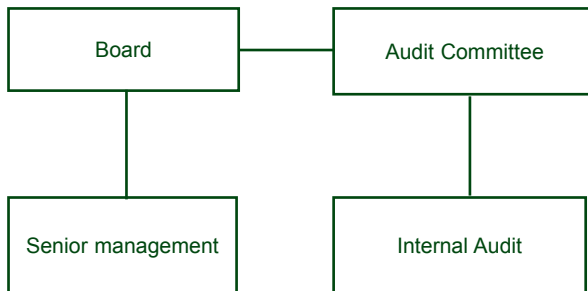
Introduction

The Board of Directors has overall responsibility for the establishment and oversight of the Credit Union's risk management framework. The Board has established the Audit Committee, which is responsible for developing and monitoring risk management policies. The committee reports regularly to the Board of Directors on its activities.

Risk management policies are established to identify and analyse the risks faced by the Credit Union, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Credit Union's activities. The Credit Union through its training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the Credit Union's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Credit Union. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The following diagram gives an overview of the structure.



The diagram shows the risk management structure. The main elements of risk governance are as follows.

Key risk management policies encompassed within the overall risk management framework include those addressing:-

- Interest rate risk
- Liquidity management
- Credit risk management
- Operations risk management including data risk management.

Notes to the Financial Statements

For the year ended 30 June 2011

25. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Introduction (continued)

The Credit Union has undertaken the following strategies to minimise the risks arising from financial instruments:

Market risk

The objective of the Credit Union's market risk management is to monitor and understand the organisation's market risk exposures so that appropriate action can be taken on a timely basis in order to optimise risk and return for the benefit of members.

Market risk is the risk that changes in interest rates, or other prices and volatilities will have an adverse effect on the Credit Union's financial condition or results. The Credit Union does not trade in the financial instruments it holds on its books. The Credit Union is primarily exposed to interest rate risk arising from changes in market interest rates.

Interest rate risk

Interest rate risk is the risk of variability of the fair value or future cash flows arising from financial instruments due to the changes in interest rates.

The Credit Union is exposed to interest rate risk in its banking book due to mismatches between the repricing dates of its assets and liabilities.

In the banking book the most common risk the Credit Union faces arises from its net open position on its portfolio of fixed rate assets and liabilities. This exposes the Credit Union to the risk of adverse interest rate changes.

The level of mismatch on the banking book is set out in Note 26 below. The table set out in Note 26 displays the period that each asset and liability will reprice as at the balance date. This risk is not considered significant to warrant the use of derivatives to mitigate this risk.

The Credit Union manages its interest rate risk by the regular monitoring of its net open position. The Credit Union has created an Interest rate committee to undertake this monitoring. Executives meet periodically to review both the Credit Union's rate and those of its competitors. From this group adjustments are made as considered necessary.

Responsibility for interest rate pricing is delegated to senior management and communicated to the Board as part of standard periodic reporting. The executive group monitor margins and positions and respond to assessed exposures through either sourcing facilities or through targeted product marketing and promotions to rectify the imbalance to within acceptable levels.

The Credit Union has a relatively small proportion of long term fixed rate facilities within its total loan book. To manage these facilities the Credit Union prefers to source offsetting fixed rate funding in order to have certainty regarding the margin to be realised.

The Credit Union is in the process of obtaining more sophisticated interest rate monitoring tools through Cuscal to allow it to analyse its position and address the periodic regulatory reporting to APRA. Based on the calculations as at 30 June 2011, the net profit impact for a 1% movement in interest rates would be \$770,330 (2010: \$372,306).

Notes to the Financial Statements

For the year ended 30 June 2011

25. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

There has been no change in the way the Credit Union manages and measures market risk in the reporting period.

Liquidity risk

Liquidity risk is the risk that the Credit Union may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g. borrowing repayments or member withdrawal demands. Both APRA and the Board of Directors have a policy that the Credit Union maintains adequate cash reserves and committed credit facilities to meet the member withdrawal demands when requested.

The Credit Union manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer term forecasted cash flows,
- Monitoring the maturity profiles of financial assets and liabilities,
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities, and
- Monitoring the prudential liquidity ratio daily.

The Credit Union has a longstanding arrangement with the credit union industry liquidity support scheme, Credit Union Financial Support Services (CUFSS) which can access industry funds to provide support for the Credit Union should it be necessary at short notice.

The Credit Union is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA prudential standards. The Credit Union policy is to apply 12% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this level management and the Board are to address the matter and ensure that liquid funds are obtained from new deposits, or borrowing facilities available. Note 20 describes the borrowing facilities as at the balance date. These facilities are in addition to the support from CUFSS.

The maturity profile of the financial assets and financial liabilities, based on the contractual repayment terms are set out in the notes.

As at 30 June 2011, the Credit Union held 15.10% of total adjusted liabilities as liquid assets (2010: 12.80%). The average during the financial year was 15.32% (2010: 18.12%), with the minimum reaching 12.57% during the year (2010: 12.80%).

The ratio of liquid funds over the past 5 year is as follows :

2011	2010	2009	2008	2007
15.10%	12.80%	25.97%	14.70%	18.82%

Credit risk

Credit risk is the risk that members, financial institutions and other counterparties are unable to meet their obligations to the Credit Union which may result in financial losses. Credit risk arises principally from the Credit Union's loan book and investment assets.

Notes to the Financial Statements

For the year ended 30 June 2011

25. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk – loans and advances

All loans and facilities are within Australia. The geographic distribution is not analysed into specific areas within Australia as the exposure classes are not considered material. Concentrations are described in Note 10.

The method of managing credit risk is by way of strict adherence to the credit assessment policies before the loan is approved and close monitoring of defaults in the repayment of loans thereafter on a weekly basis. The credit policy has been endorsed by the Board to ensure that loans are only made to members that are creditworthy and have the capacity of meeting loan repayment commitments.

Past due and impaired

A financial asset is past due when the counterparty has failed to make a payment when contractually due. Past due does not mean a counterparty will never pay, but it can trigger various actions such as a renegotiation, enforcement of covenants, or legal proceedings. Once the past due exceeds 90 days the loan is regarded as impaired, unless other factors indicate the impairment should be recognised sooner.

Daily reports monitor the loan repayments to identify delays in repayments and ensure recovery action is undertaken after 9 days. For loans where repayments are doubtful, external consultants are engaged to conduct recovery action once the loan is over 90 days in arrears. The exposures to losses arise predominately in personal loans and facilities not secured by registered mortgagors over real estate.

If such evidence exists, the estimated recoverable amount of that asset is determined in any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the Statement of Comprehensive Income. In estimating these cash flows, management makes judgement about a counterparty's financial situation and the net realisable value of any underlying collateral.

Provisions are maintained in the statement of financial position at a level that management deems sufficient to absorb probable incurred losses in the Credit Union's loan portfolio from homogenous portfolios of assets and individually identified loans.

A provision for incurred losses is established on all past due loans after a specified period of repayment default where it is probable that some of the capital will not be repaid or recovered.

The provisions for impaired and past due exposures relate to the loans to members. Past due value is the 'on balance sheet' loan balances which are past due by 90 days or more.

Details are set out in Note 10.

Notes to the Financial Statements

For the year ended 30 June 2011

25. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk – Loans and Advances (continued)

Bad Debts

Amounts are written off when collection of the loan or advance is considered to be remote. All write offs are on a case by case basis, taking account of the exposure at the date of the write off.

On secured loans, the write off takes place on ultimate realisation of collateral value, or from claims on any lenders mortgage insurance.

A reconciliation in the movement of both past due and impaired exposure provisions is provided in Note 11.

Collateral securing loans

A sizeable portfolio of the loan book is secured on residential property in Australia. Therefore, the Credit Union is exposed to risks in a reduction of the Loan to Value (LTV) cover should the property market be subject to a decline.

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken.

Board policy is to maintain a large percentage of the Credit Union's loans in well secured residential mortgages. Note 10 describes the nature and extent of the security held against the loan held as at the balance date.

Concentration risk – Individuals

Concentration risk is a measurement of the Credit Union's exposure to an individual counterparty (or group of related parties). If prudential limits are exceeded as a proportion of the Credit Union's regularity capital (10 per cent) a large exposure is considered to exist. No capital is required to be held against these but APRA must be informed. APRA may impose additional capital requirements if it considers the aggregate exposure to all loans over the 10% capital bench mark, to be higher than acceptable.

The aggregate value of large exposure loans are set out in Note 10. (The Credit Union holds no significant concentrations of exposures to members.) Concentration exposures to counterparts are closely monitored with reviews on a sample basis being prepared for exposures over 2.5 per cent of the capital base by both Internal Audit and the Audit Committee.

The Credit Union's policy on exposures of this size is to insist on compliance with all lending policies and procedures and a possible review of the loans application by a more senior officer within the organisation.

Concentration risk - Industry

There is no concentration of credit risk with respect to loans and receivables as the Credit Union has a large number of customers dispersed in various areas of employment.

Notes to the Financial Statements

For the year ended 30 June 2011

25. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquid investments

There is a concentration of credit risk with respect to investment receivables with the placement of investments in Cuscal. The credit policy is that investments are only made to institutions that are credit worthy.

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investment body and the limits to concentration on any one credit union. Also the relative size of the Credit Union as compared to the industry is relatively low such that the risk of loss is reduced.

Under the liquidity support scheme at least 3.2% of the assets must be invested with Cuscal, to allow the scheme to have adequate resources to meet its obligations if needed.

The Credit Union has a liquidity management arrangement with Cuscal Treasury who adhere to the matrix outlined in the Credit Union's liquidity policy and any specified investment guidelines. These parameters define what can be invested outside Cuscal. The majority of our investments are held with Cuscal.

External credit assessment for Institution investments

The Credit Union uses the ratings of Standards and Poors or other reputable ratings agencies to assess the credit quality of all investment exposure, where applicable, using the credit quality assessment scale in APRA prudential guidance AGN 112. The credit quality assessment scale within this standard has been complied with.

The exposure values associated with each credit quality step are detailed in Note 7.

Operational risk

Operational risk is the risk of loss to the Credit Union resulting from deficiencies in processes, personal technology and infrastructure, and from external factors other than credit, market and liquidity risks. Operational risks in the Credit Union relate mainly from those risks arising from a number of sources including legal compliance, business continuity, data infrastructure, outsourced services failures, fraud, and employee errors.

The Credit Union's objective is to manage operational risk so as to balance the evidence of financial losses through implementation of controls, whilst avoiding procedures which inhibit innovation and creativity. These risks are managed through the implementation of policies and systems to monitor the likelihood of the events and minimize the impact. Systems of internal control are enhanced through:

- the segregation of duties between employee duties and functions, including approval of processing duties;
- documentation of the policies and procedures, employee job descriptions and responsibilities, to reduce the incidence of errors and inappropriate behaviour;
- implementation of the whistleblowing policies to promote a compliant culture and an awareness of the duty to report exceptions by staff;

Notes to the Financial Statements

For the year ended 30 June 2011

25. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Operational risk (continued)

- education of members to review their account, statement and report exceptions to the Credit Union promptly;
- effective dispute resolution procedures to respond to member complaints;
- effective insurance arrangements to reduce the impact of losses; and
- contingency plans for dealing with loss of functionality of systems or premises or staff.

Fraud

Fraud can arise from member card PIN'S, and internet passwords being compromised where not protected adequately by the member. It can also arise from other system failures. The Credit Union has systems in place which are considered to be robust enough to prevent any material fraud. However, in common with all retail banks, fraud is potentially a real cost to the Credit Union. Fraud losses have arisen from card skimming, internet password theft, and false loan applications.

IT systems

The worst case scenario would be the failure of the Credit Union's core banking and IT network suppliers to meet customer obligations and service requirements. The Credit Union has outsourced the IT systems management to an Independent Data Processing Centre (IDPC) which is owned by a collection of Credit Unions. The organisation has the experience to manage any short term problems and has a contingency plan to manage any related power or systems failures. Other network suppliers are engaged on behalf of the Credit Union by the industry body Cuscal to service the settlement with other financial institutions for direct entry, ATM and Visa cards and BPay etc.

A full disaster recovery plan is in place to cover medium to long term problems which is considered to mitigate the risk to an extent such that there is no need to any further capital to be allocated.

Capital Management

The capital levels are prescribed by Australian Prudential Regulation Authority (APRA). Under the APRA prudential standards capital is determined in three components:

- Credit risk
- Market risk (trading book)
- Operations risk

The market risk component is not required as the Credit Union is not engaged in a trading book for financial instruments.

The Credit Union reports to APRA under Basel II capital requirements effective from 1 January 2008. The Credit Union uses the standardised approach for credit risk and operational risk. Prior to 1 January 2008, the Credit Union reported to APRA under the prudential requirements at that time.

The Credit Union's capital contains Tier 1 and Tier 2 capital, in accordance with ARPA requirements. Tier 1 capital consists of retained earnings and realised reserves. Deductions from Tier 1 capital are made for intangibles, certain capitalised expenses, deferred tax assets and 50 per cent of investments in other ADI's. Tier 2 capital includes the reserve for credit losses. Deductions from Tier 2 capital include 50 per cent of investments in other ADI's.

Notes to the Financial Statements

For the year ended 30 June 2011

25. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital adequacy ratio calculation

	2011 \$	2010 \$
Tier 1		
Retained profits	25,996,617	23,513,916
General reserve	67,637	57,968
Less prescribed deductions	<u>(507,904)</u>	<u>(530,935)</u>
Net Tier 1 capital	25,556,350	23,040,949
Tier 2		
Lending risk reserve	545,120	465,733
Asset revaluation reserves on property (discounted to 45%)	413,750	413,750
Less prescribed deductions	<u>(210,737)</u>	<u>(229,133)</u>
Net Tier 2 capital	748,133	650,349
Total Capital	<u>26,304,483</u>	<u>23,691,299</u>

The Credit Union is required to maintain a minimum capital level of 8% or an APRA advised Prudential Capital Ratio (PCR), whichever is higher, as compared to the risk weighted assets at any given time.

The risk weights attached to each asset are based on the weights prescribed by APRA in its guidance AGN 112-1. The risk weighted assets processes were modified by APRA as from 1 January 2008 as part of the Basel II Prudential framework enhancements. Comparative data is not available on the revised methods – the risk weighted assets for 2008 and prior reflect the previous methodology.

The capital adequacy ratio as at the end of financial year over the past 5 years is as follows:

2011	2010	2009	2008	2007
24.13%	25.43%	23.47%	25.46%	23.02%

The level of capital ratio can be affected by growth in asset relative to growth in reserves and by changes in the mix of assets.

To manage the Credit Union's capital the Credit Union reviews, the ratio monthly and monitors major movements in the asset levels. Policies have been implemented to require reporting to the Board if the capital ratio falls below 12% and additionally to the regulator if the capital ratio falls below 12%. Further a 5 year capital budget projection of the capital levels is maintained annually to address how strategic decisions or trends may impact on the capital level.

Notes to the Financial Statements

For the year ended 30 June 2011

25. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Pillar 2 Capital on Operational Risk

The capital component was introduced as from 1 January 2009 and coincided with changes in the asset risk weightings for specified loans and liquid investments. Previously no operational change was prescribed.

The Credit Union uses the Standardised approach which is considered to be most suitable for its business given the small number of distinct transaction streams. The Operation Risk Capital Requirement is calculated by mapping the Credit Union's three year average net interest income and net non interest income to the Credit Union's various business lines.

Based on this approach, the credit union's operational risk requirement at 30 June 2011 is as follows:

Operational risk capital	\$11,384,639 (2010: \$9,950,635)
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It is considered that the Standardised approach accurately reflects the Credit Union's operational risk other than the specific items set out below.

Internal capital adequacy management

The Credit Union manages its internal capital levels for both current and future activities through the Board and Audit Committee. The outputs of the individual committees are reviewed by the Board in its capacity as the primary governing body. The capital required for any change in the Credit Union's forecasts for asset growth, or unforeseen circumstances, are assessed by the Board. The finance department then update the forecast capital resources models produced and the impact upon the overall capital position of the Credit Union is reassessed.

Notes to the Financial Statements

For the year ended 30 June 2011

26. FINANCIAL INSTRUMENTS

(a) Terms, conditions and accounting policies

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

Recognised Financial Instruments	Note	Accounting Policies	Terms and Conditions
(i) Financial assets			
Loans and advances	10	Loan interest is calculated on the daily balance outstanding and is charged in arrears to a customer's account on the last day of each month	All housing loans are secured by registered mortgages. Other loans are assessed on an individual basis.
Receivables	9	Amounts receivable from other entities are carried at nominal amounts due.	
Cash and cash equivalents	7	Interest earning deposits are stated at the lower of cost and net realisable value. Interest is recognised when earned.	Interest earning deposits have an average maturity of 113 days (2010: 137 days) and effective interest rates of 4.00% to 6.00% (3.65% to 6.00% in 2010).*
Unlisted shares	12	Unlisted shares are carried at the lower of cost or recoverable amount. Dividend income is recognised when the dividends are received.	
Other financial assets	12	Other investments are carried at the lower of cost or recoverable amount.	

* Restrictions apply to the repayment of deposits held by CUSCAL and for other regulatory purposes

(ii) Financial liabilities

Payables	18	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Credit Union.	Trade liabilities are normally settled on 30-day terms.
Deposits and short-term borrowings	17	Deposits and borrowings are recorded at the principal amount.	Details of maturity terms are set out in Note 17. Interest is calculated on the daily balance outstanding.
Bank overdraft	20	The bank overdraft is carried at the principal amount. Interest is charged as an expense as it accrues.	Interest is charged at the bank's benchmark rate. Details of the security over the bank overdraft is set out in Note 20.

Notes to the Financial Statements

For the year ended 30 June 2011

26. FINANCIAL INSTRUMENTS (continued)

(b) Interest rate risk

Financial instruments	Floating interest rate		Fixed interest rate maturing in:				Non-interest bearing			Total carrying amount as per the Statement of Financial Position			Weighted average effective interest rate	
	2011 \$'000	2010 \$'000	1 year or less		Over 1 to 5 years		2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 %	2010 %
			2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000								
Financial assets:														
Cash and cash equivalents *	4,904	7,607	27,003	16,613	-	-	1,804	1,727	33,711	25,947	5,00	4,95		
Receivables	-	-	-	-	-	-	102	57	102	57	N/A	N/A		
Other investments	-	-	-	-	-	-	455	494	455	494	N/A	N/A		
Loans and advances	180,468	153,347	1,167	1,747	4,636	2,180	-	-	186,271	157,274	7.84	6.72		
Total financial assets	185,369	160,953	28,170	18,359	4,636	2,180	2,361	2,278	220,539	183,770				
Financial liabilities:														
Deposits	80,627	76,858	102,847	80,839	2,291	3,201	-	-	185,765	160,898	4.05	3.09		
Short-term borrowings	-	-	8,000	-	-	-	-	-	8,000	-	6.09	N/A		
Payables	-	-	-	-	-	-	3,780	3,159	3,780	3,159	N/A	N/A		
Total financial liabilities	80,627	76,858	110,847	80,839	2,291	3,201	3,780	3,159	197,544	164,057				

N/A - not applicable for non-interest bearing financial instruments.

* For the purpose of this note, cash and cash equivalents includes loans to other financial institutions

Notes to the Financial Statements

For the year ended 30 June 2011

26. FINANCIAL INSTRUMENTS (continued)

(c) Maturity profile of financial assets and liabilities

Monetary assets and liabilities have differing maturity profiles depending on the contractual terms, and in the case of loans the repayment amount and frequency. The table below shows the period in which different monetary assets and liabilities will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal and future interest will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained, and is subject to change in the event repayment conditions are varied. Financial assets and liabilities are at the undiscounted values (including future interest expected to be earned or paid). Accordingly, these values will not agree to the carrying amounts of the Statement of Financial Position.

Financial instruments	Within 3 months		From 3 to 12 months		From 1 to 5 years		More than 5 years		No maturity		Total cash flows		Total carrying amount as per the Statement of Financial Position	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Financial assets:														
Cash and cash equivalents	27,072	16,589	200	187	-	-	-	-	6,708	9,334	33,980	26,110	33,711	25,767
Receivables	-	-	-	-	-	-	-	-	-	-	-	-	102	57
Loans and advances	5,687	4,908	16,049	13,740	74,181	62,645	275,609	221,509	-	-	371,526	302,802	186,271	157,274
Other investments	-	-	-	-	-	-	-	-	455	494	455	494	455	494
Total financial assets	26,707	21,497	16,249	13,927	74,181	62,645	275,609	221,509	7,163	9,824	405,961	329,402	220,539	183,592
Financial liabilities:														
Deposits	53,257	38,951	52,690	45,137	2,794	3,354	-	-	80,754	76,980	189,765	164,422	185,765	160,898
Short-Term Borrowings	3,028	-	5,314	-	-	-	-	-	-	-	8,342	-	8,000	-
Payables	-	-	-	-	-	-	-	-	1,440	1,437	1,440	1,437	3,780	3,159
Total financial liabilities	56,555	38,951	58,004	45,137	2,794	3,354	-	-	82,194	78,147	199,547	165,859	197,544	164,057

Notes to the Financial Statements

For the year ended 30 June 2011

26. FINANCIAL INSTRUMENTS (continued)

(d) Net fair values

The financial instruments within the statement of financial position are recognised and carried at cost or amortised cost. As outlined below in all instances the carrying amount approximates fair value.

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

Recognised financial instruments

Cash and cash equivalents

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

Current securities and investments

Trading securities are carried at amortised cost which approximates net market/net fair value.

Other receivables

The carrying amount approximates fair value as they are short term in nature.

Loan and advances

The fair values of loans receivable excluding impaired loans are estimated using a method not materially different from discounted cash flow analysis, based on current incremental lending rates for similar types of lending arrangements. The net fair value of impaired loans was calculated by using a method not materially different from discounting expected cash flows using a rate which includes a premium for the uncertainty of the flows. The carrying amount of loans at 30 June 2011 approximates net fair value.

Members deposits

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

Trade and other payables

The carrying amount approximates fair value as they are short term in nature.

Notes to the Financial Statements

For the year ended 30 June 2011

26. FINANCIAL INSTRUMENTS (continued)

(e) Categories of financial instruments

The following information classifies the financial instruments into measurement classes.

	2011 \$	2010 \$
Financial Assets		
<i>Financial assets carried at amortised cost</i>		
Cash and cash equivalents	33,521,290	25,767,202
Receivables	102,527	57,391
Receivables from financial institutions	190,000	180,000
Loans to members	189,270,786	157,274,204
Total loans and receivables	<u>223,084,604</u>	<u>183,773,748</u>
<i>Available for sale investments – carried at cost</i>		
Other financial assets	455,737	494,951
Total available for sale investments	<u>455,737</u>	<u>494,951</u>
TOTAL FINANCIAL ASSETS	<u>223,540,340</u>	<u>184,268,699</u>
Financial liabilities		
Payables	3,780,280	3,159,945
Short-term borrowings	8,000,000	-
Deposits from members	185,764,602	160,898,478
Total carried at amortised cost	<u>197,544,882</u>	<u>164,058,423</u>
TOTAL FINANCIAL LIABILITIES	<u>197,544,882</u>	<u>164,058,423</u>

Notes to the Financial Statements

For the year ended 30 June 2011

27. OPERATING LEASE COMMITMENTS

The Credit Union leases premises at Echuca, Euroa, Violet Town, Kilmore and Mooroopna.

Non-Cancellable operating lease commitments on these premises are as follows:

	2011 \$	2010 \$
Not later than one year	102,114	85,791
Later than one year and not later than five years	113,959	111,816
Later than five years	-	-
	216,073	197,607

Expenditure commitments are stated inclusive of Goods and Services Tax.

28. OPERATING LEASE RECEIVABLES

The Credit Union receives rental income from various tenants who lease a portion of the land and buildings owned by the Credit Union at Shepparton and Kyabram.

Non-Cancellable operating lease commitments on these premises are as follows:

	2011 \$	2010 \$
Not later than one year	48,489	28,659
Later than one year and not later than five years	66,431	60,628
Later than five years	-	-
	114,920	89,287

29. SUBSEQUENT EVENTS

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect significantly the operations, or the state of affairs of the Credit Union in subsequent financial years.

Directors' declaration

The Directors of the Credit Union declare that:-

1. the financial statements and notes, set out on pages 7 to 56, are in accordance with the *Corporations Act 2001*, including:
 - (a) giving a true and fair view of the financial position of the Credit Union as at 30 June 2011 and of its performance for the year ended on that date; and
 - (b) complying with the Accounting Standards and Corporations Regulations; and
2. the financial statements also comply with the International Financial Reporting Standards as disclosed in note 1; and
3. 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 was made in accordance with a resolution of the Board of Directors:



J B Lyle – Chairman



J W Guilmartin – Deputy Chairman

Dated at Shepparton on this 21st day of September 2011.

Independent auditor's report to the members of Goulburn Murray Credit Union Co-operative Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Goulburn Murray Credit Union Co-operative Limited (the Company), which comprises the statement of financial position as at 30 June 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 29 and the directors' declaration set out on pages 7 to 57.

Director's responsibility for the Financial Statements

The directors of the Company are responsible for the preparation of the financial statements that give a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Company, comprising the financial statements and notes, comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements 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 statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial statements that give a true and fair view 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 controls. 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 statements.

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

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Auditor's opinion

In our opinion:

- (a) the financial statements of Goulburn Murray Credit Union Co-operative Limited are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting and the *Corporations Regulations 2001*.
- (b) the financial statements also comply with *International Financial Reporting Standards* as disclosed in Note 1.



WHK Audit & Risk Assessment



Bradley D Bohun
Partner
Albury
21st September 2011

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Notes

ADMINISTRATION	René Deen Peter Thomas Rebecca Hearn Brett Elgar Paul Cross Ken Kilsby Dallas Moore David Drummond Mike Mangiameli Jennifer Dunne Jessica Clarke Lisa Edwards Bronwyn Fyfe Jennifer Cogger John Gilbert	General Manager/Secretary Operations Manager Finance Manager Compliance Manager IT Manager Loans Manager Manager, Shepparton Branch Manager, Seymour Branch Manager, Echuca Branch Manager, Kyabram Branch Manager, Mooroopna Branch Manager, Numurkah Branch Manager, Kilmore Branch Manager, Benalla Branch Manager, Euroa Branch
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AUDITORS	WHK, Albury AFS & Associates Pty. Ltd, Bendigo	External Internal
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SOLICITORS	Felthams Lawyers Daniels Bengtsson Pty. Limited	
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BANKERS	CUSCAL Central Banking Scheme National Australia Bank	
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REGISTERED OFFICE	91 - 95 Fryers Street Shepparton	
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