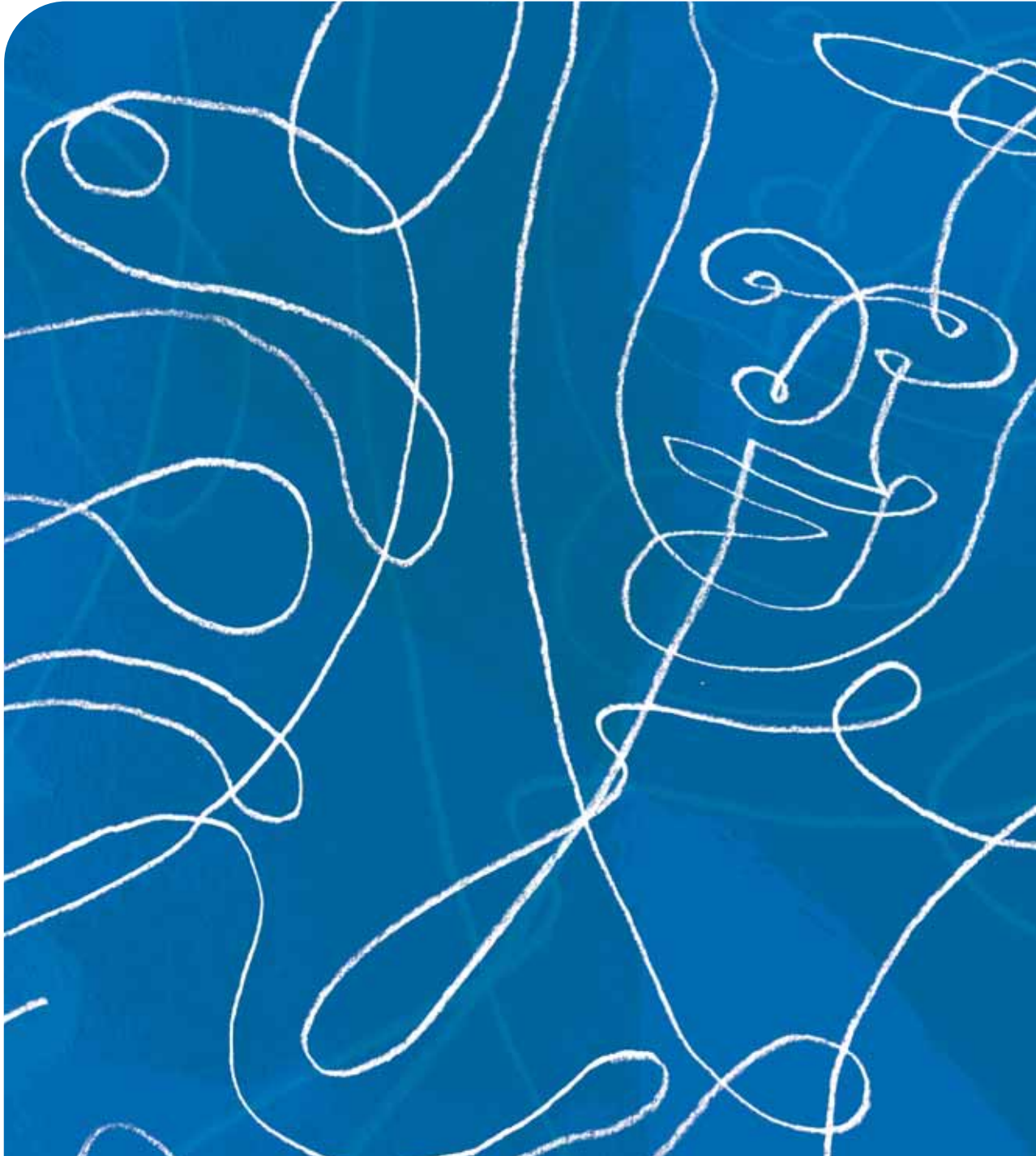


30 june 2004
financial report



board of directors

back row (left to right):

Phylip Doughty (Chief Executive Officer)

Des Russell

Peter Ford

John Baistow (Chairman)

front row (left to right):

Helen Clarke

Graham Reid

Barbara Fulton

Peter Taylor

Peter Crocker



welcome to the forty-seventh
annual report from mecu

The Directors present their report together with the financial report of Members and Education Credit Union Limited ("the Credit Union") and the consolidated financial report of the consolidated entity, being the Credit Union and its controlled entities, for the year ended 30 June 2004 and the auditor's report thereon.

The Directors of the Credit Union at the date of this report are:

Name & qualifications	Experience and special responsibilities
<p>J W Baistow B.A., Dip.Bus.Stud., SFCDA, Dip.CD., MAICD, Grad. Dip. Mgt. (Tech) MBA (Tech Management)</p>	<p>J W Baistow is Director of Executive Recruitment at CSIRO and has been a credit union Director for 14 years.</p> <p>Ex officio member of Finance Committee, Audit and Risk Management Committee, Financial Planning Committee and Sustainable Development Committee. Member of the Nominations Committee.</p> <p>Appointed Chair November 1999.</p>
<p>H M Clarke DipSocSci, DipEd, MAICD</p>	<p>H M Clarke is manager of the Community & Stakeholder Relations Unit with the Victorian Department of Education and Training and has been a credit union Director for 12 years. Member of Finance Committee and Sustainable Development Committee.</p>
<p>P J Crocker DipME, TTTC, MAICD</p>	<p>P J Crocker is an Education Consultant and is a former President of a teachers' union. He has been a credit union Director for 20 years.</p> <p>Member of Finance Committee. Appointed Deputy Chair January 2003.</p>
<p>P E Doughty BBus (Acct.), FCPA, FTIA, FAICD.</p>	<p>P E Doughty is the Chief Executive Officer and Managing Director of Members and Education Credit Union. Former Chief Executive Officer of Education Credit Union for 19 years.</p> <p>Ex officio member of Finance Committee, Audit and Risk Management Committee, Financial Planning Committee and Sustainable Development Committee.</p>
<p>P J Ford BA, DipEd, MAICD</p>	<p>P J Ford is a Company Director and was formerly General Manager, Southern Region for Credit Union Services Corporation (Australia) Limited. He has been a credit union Director for 10 years.</p> <p>Member of Audit and Risk Management Committee, Financial Planning Committee and Sustainable Development Committee.</p>
<p>B A Fulton FAICUD, DipFS</p>	<p>B A Fulton is an Executive Manager with Gippsland Water and has been a credit union Director for 8 years. Former Director, West Gippsland Catchment Management Authority. Former Director, Federation Health.</p> <p>Chair of Sustainable Development Committee. Member of Audit and Risk Management Committee and Financial Planning Committee.</p>
<p>G M Reid B.Ec., CFTP(Snr), MAICD</p>	<p>G M Reid is the Treasurer of Yallourn Energy and has been a credit union Director for 8 years.</p> <p>Chair of the Assets and Liabilities function of the Finance Committee. Chair of the Board of Directors of Outlook Financial Planning Pty Ltd and Chair of Financial Planning Committee.</p>
<p>D J Russell BCom, DipEd, MAICD</p>	<p>D J Russell is a retired Principal of a Secondary College and has been a credit union Director for 31 years.</p> <p>Chair of Finance Committee, member of Sustainable Development Committee and Audit and Risk Management Committee.</p>
<p>P J Taylor B.Ec., CPA, ACIS, MIIA.(Aust), RCA, MAICD</p>	<p>P J Taylor is an Audit Consultant and a Registered Company Auditor and has been a credit union Director for 13 years.</p> <p>Chair of the Audit and Risk Management Committee. Member of Finance Committee, Sustainable Development Committee and Financial Planning Committee.</p>

Directors' meetings

Director	Board Meetings		Audit and Risk Management Committee Meetings		Finance Committee Meetings		Financial Planning Committee Meetings		Sustainable Development Committee Meetings	
	A	B	A	B	A	B	A	B	A	B
J W Baistow	12	12	3	4	10	12	2	4	2	4
H M Clarke	12	12			11	12			4	4
P J Crocker	12	12	1	1	8	8				
P E Doughty	10	12	4	4	10	12	3	4	4	4
P J Ford	12	12	4	4			4	4	4	4
B A Fulton	9	12	3	4			3	4	4	4
G M Reid	11	12			9	12	4	4		
D J Russell	11	12	3	3	10	12			3	4
P J Taylor	11	12	4	4	10	12	3	3	2	2

A – Number of meetings attended.

B – Number of meetings held during the time that the Director held office during the year.

Principal activities

The principal activities of the Credit Union during the year remained unchanged and were the raising of funds as authorised by the Prudential Standards administered by APRA and the Banking Act 1959, and the application of those funds in providing financial accommodation to members.

Operating results

During the year the Credit Union earned a consolidated net profit of \$10,091,349 (\$45,100,044 – 2003) after income tax expense of \$4,245,114 (\$1,926,622 – 2003).

Dividends

The Directors do not recommend a dividend and no dividends were declared or payable during the year.

Review of operations

During the year, the Credit Union operated within the requirements of the Prudential Standards administered by APRA. A review of operations revealed that the Credit Union operated in a viable manner with growth in reserves of 9.5% (80% – 2003), gross loans and advances of 6.85% (39% – 2003) and deposits of 10.77 (48% – 2003). 2003 comparative figures include the transfer of business from Education Credit Union Co-operative Limited on 1 January 2003. The first six months of the year ended 30 June 2003 only include transactions for the former Members Australia Credit Union Limited. The following six months commencing 1 January 2003 include consolidated transactions for the merged entity Members and Education Credit Union Limited.

Significant changes in the state of affairs

There was no significant change in the state of affairs of the Credit Union during the course of the year.

Events subsequent to balance date

There has not been any matter or circumstance that has arisen since the end of the financial year, that has significantly affected or may significantly affect subsequent financial years concerning:

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

Likely developments and expected results

The Directors are not aware of any likely developments in financial years subsequent to 30 June 2004, which may significantly affect the operation and expected results of the Credit Union.

Contracts in which Directors have an interest

During or since the end of the financial year no Directors have received or become entitled to any benefits (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the accounts) from a contract between the Credit Union and themselves, their firm or a company in which they have a substantial interest.

Financial accommodation to Directors and associates

The provision of financial accommodation to Directors and associates of Directors does not contravene the Prudential Standards administered by APRA and is shown in the Credit Union's accounts in accordance with applicable accounting standards.

Indemnification of officers' and auditors

The Credit Union has paid insurance premiums in respect of Directors' and officers' liability and legal expenses' contracts. The Credit Union has not indemnified the current auditors, KPMG.

The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and officers' liability and legal expenses' insurance contracts, as such disclosure is prohibited under the terms of the contract.

Rounding

The amounts contained in this report and in the financial statements have been rounded off to the nearest thousand dollars, unless otherwise stated, under the option available to the Credit Union under ASIC Class Order 98/100 dated 10 July 1998. The Credit Union is an entity to which the Class Order applies.

For and on behalf of the Directors in accordance with a resolution of the Directors:



John Baistow, Director
Signed at Melbourne on 26 August 2004



Peter Crocker, Director
Signed at Melbourne on 26 August 2004

	Note	Consolidated Entity 2004 \$'000s	Consolidated Entity 2003 \$'000s	The Credit Union 2004 \$'000s	The Credit Union 2003 \$'000s
Operating revenue					
Interest revenue	3(a)	66,553	51,128	66,503	51,086
Interest expense	3(d)	(29,703)	(20,763)	(29,703)	(20,763)
Net interest revenue		36,850	30,365	36,800	30,323
Non interest revenue	3(b)	14,103	12,262	12,064	10,026
Transfer of business from credit unions	3(c)	–	40,682	–	38,840
Total operating revenue		50,953	83,309	48,864	79,189
Operating expenses					
Bad and doubtful debts expense	3(e)	(544)	(204)	(544)	(204)
Other expenses	3(f)	(36,073)	(36,078)	(33,861)	(34,161)
Total operating expenses		(36,617)	(36,282)	(34,405)	(34,365)
Profit from ordinary activities before related income tax expense					
		14,336	47,027	14,459	44,824
Income tax expense related to ordinary activities	4	(4,245)	(1,927)	(4,202)	(1,781)
Profit from ordinary activities after related income tax expense attributable to members of Members and Education Credit Union Limited					
		10,091	45,100	10,257	43,043
Non-owner transaction changes in equity					
Increase in asset revaluation reserve					
Fair value adjustment	17	39	1,379	338	509

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 8 to 29.

	Note	Consolidated Entity 2004 \$'000s	Consolidated Entity 2003 \$'000s	The Credit Union 2004 \$'000s	The Credit Union 2003 \$'000s
Assets					
Cash and liquid assets	5	6,766	16,251	6,766	15,610
Receivables due from other financial institutions	6	163,500	119,552	163,500	119,377
Receivables	7	15,200	19,728	15,236	19,461
Investment securities	8	116,491	104,731	115,791	104,031
Net loans and advances	9,10	769,498	720,158	769,498	720,158
Other investments	11	6,593	6,682	10,261	10,350
Property plant & equipment	12	12,132	12,943	6,836	7,050
Other assets	13	2,514	2,461	2,422	2,390
Total assets		1,092,694	1,002,506	1,090,310	998,427
Liabilities					
Deposits and borrowings	14	949,599	857,302	949,936	857,386
Payables to other financial institutions	15	3,488	790	3,584	294
Creditors and other liabilities	16	24,912	39,849	24,696	39,248
Total liabilities		977,999	897,941	978,216	896,928
Net assets		114,695	104,565	112,094	101,499
Members' funds					
Reserves	17	114,508	104,212	112,094	101,499
Retained profits	17	187	353	–	–
Total members' funds		114,695	104,565	112,094	101,499

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 8 to 29.

	Note	Consolidated Entity 2004 \$'000s	Consolidated Entity 2003 \$'000s	The Credit Union 2004 \$'000s	The Credit Union 2003 \$'000s
Cash flows from operating activities					
Inflows					
Interest received from member loans		52,461	42,275	52,461	42,275
Interest received from investments		14,565	8,927	14,714	8,682
Fees and commission received		13,785	11,670	10,957	9,459
Dividend received		129	–	329	450
Bad debts recovered		105	58	105	58
Other income		159	273	432	255
Total inflows		81,204	63,203	78,998	61,179
Outflows					
Interest paid to members		29,677	20,745	29,677	20,745
Interest paid to other corporations		26	18	26	18
Payments to suppliers and employees		29,984	45,222	28,312	43,558
Income tax paid		1,905	2,891	1,805	2,632
Total outflows		61,592	68,876	59,820	66,953
Net cash provided by operating activities	24 (c)	19,612	(5,673)	19,178	(5,774)
Cash flows from investing activities					
Movement in investments		(55,620)	(38,100)	(55,795)	(38,464)
Proceeds from disposal on non-current assets		800	175	792	157
Net increase in member loans		(49,556)	(26,238)	(49,556)	(26,238)
Physical assets purchased		(1,996)	(2,010)	(1,596)	(1,371)
Net cash received on transfer of business		–	2,324	–	1,993
Total outflows from investing activities		(106,372)	(63,849)	(106,155)	(63,923)
Cash flows from financing activities					
Net increase in member deposits		74,577	71,247	74,844	71,291
Net movement in borrowings		2,698	790	3,289	294
Total inflows		77,275	72,037	78,133	71,585
Net (decrease)/increase in cash held		(9,485)	2,515	(8,844)	1,888
Cash at the beginning of the year		16,251	13,736	15,610	13,722
Cash at the end of the year	24 (a)	6,766	16,251	6,766	15,610

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 8 to 29.

In the notes that follow, the abbreviations used have these meanings:

APRA – Australian Prudential Regulation Authority
CUSCAL – Credit Union Services Corporation (Australia) Limited

1. Summary of significant accounting policies

In order to assist in an understanding of the financial statements, the following summary explains the significant accounting policies, which have been adopted in the preparation of this financial report.

(a) Basis of preparation

The financial report has been prepared in accordance with the historical cost convention, except property, which is measured at re-valued amounts.

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

These accounting policies have been consistently applied by each entity in the consolidated entity and are consistent with those of the previous year.

(b) Consolidated financial statements

The consolidated financial statements of the economic entity comprise the accounts of Members and Education Credit Union Limited and its subsidiary companies Outlook Financial Planning Pty Ltd, Ed Credit Services Pty Ltd, ECS Unit Trust and Ed Credit Insurance Services Pty Ltd.

The balances, and effects of transactions, between the parent and the controlled entities included in the consolidated financial statements have been eliminated.

(c) Revenue recognition – Note 3

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the consolidated entity and the revenue can be reliably measured. Revenue is reported net of the amount of goods and services tax (GST). The following specific recognition criteria must also be met before revenue is recognised:

Interest income

Interest income is recognised as it accrues.

Fee and commission income

Fee and commission income is recognised as it accrues.

Asset sales

The gross proceeds of asset sales not originally purchased for the intention of resale are included as revenue at the date an unconditional contract of sale is signed. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

Dividends

Revenue from dividends from the controlled entity is recognised by the parent entity when they are declared by the controlled entity. Revenue from dividends from other investments is recognised when received.

(d) Goods and Services Tax (GST)

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

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(e) Creditors and other liabilities – Note 16

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Payables to related parties are carried at the principal amount.

Interest, when charged by the lender, is recognised as an expense on an accrual basis.

(f) Taxation – Note 4

The consolidated entity adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain. The tax effects of capital losses are not recorded unless realisation is virtually certain.

The consolidated entity's future income tax benefits and provision for deferred income tax accounts have been calculated at the Australian company tax rate of 30%, effective from 1 July 2001.

(g) Property, plant and equipment – Note 12

The carrying amounts of property, plant and equipment and artworks valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the reporting period in which it occurs.

In assessing recoverable amounts of property, plant and equipment and artworks, the relevant cash flows have not been discounted to their present value.

With the exception of land and artworks, all fixed assets are depreciated on a straight-line basis over their expected useful life.

Category	Depreciation period
Freehold Buildings	40 years
Leasehold Improvements	the lease term
Plant and Equipment	3 to 5 years

(h) Loans and advances – Note 9

Loans and advances are recognised at the lower of recoverable amount or book value, after assessing required provisions for impairment. Impairment of a loan is recognised when there is reasonable doubt that not all the principal and interest will be collected in accordance with the terms of the loan agreement. Impairment is assessed by specific identification in relation to individual loans and by estimation of expected losses in relation to loan portfolios where specific identification is impracticable.

Loan interest is calculated on the daily balance outstanding and is charged in arrears to a members account monthly. All housing loans are secured by registered mortgages. Security for remaining loans is assessed on an individual basis.

(i) Bad and doubtful debts – Note 10

(i) The provision for impaired loans is calculated in accordance with the requirements of the Prudential Standards, which require that Directors ensure all problem loans are reviewed regularly, and subject to minimum provisions and that the provisions are appropriate. The Directors of the Credit Union have determined that the provision for impaired loans be set, as a minimum, at the level prescribed by the Standards.

The general provision for doubtful debts is determined and set by the Directors, and is maintained for doubtful debts which are inherent in the loan portfolio but have not been specifically identified and provided for.

(ii) Bad debts are written off as an expense in the Statements of Financial Performance after all commercially reasonable attempts to recover the debt have been made. Bad debts are written off when identified and recognised as expenses in the Statements of Financial Performance.

Non-accrual loans – are loans and advances where the recovery of all interest and principal is considered to be doubtful, and hence provisions for impairment 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.

(j) Other investments – Note 11

Unlisted shares are carried at cost unless this is in excess of recoverable amount, in which case they are written down to that amount. Dividends are brought to account as they are received.

(k) Employee entitlements – Note 23

Liabilities for employee benefits for wages, salaries, annual leave and sick leave expected to be settled within 12 months of the year-end represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related costs.

Other employee entitlements payable later than one period from balance date have been measured at the present value of the estimated future cash outflows to be made for those entitlements. Related on-costs have also been included in the liability.

Contributions are made by the Company to an employee superannuation fund and are charged as expenses when incurred.

(l) Derivatives

The Credit Union has utilised derivative financial instruments (interest rate swaps), to reduce the exposure to market risks arising from changes in interest rates. Gains and losses on derivatives used as hedges are accounted for on the same basis as the underlying physical exposures they are hedging. Interest income and interest expense are recognised on an accruals basis.

The Credit Union does not enter into derivative contracts for the purpose of trading. Accordingly, changes in the net fair value of derivatives are not recognised as revenue or expense.

(m) Comparative figures

Where required by Accounting Standards, comparative figures have been adjusted to conform with changes in presentation for the current financial year. Where an Accounting Standard requires new information for the first time, as permitted by the Accounting Standards, comparative information has not been provided where impractical.

(n) Leases – Note 20

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 over the term of the lease.

(o) Financial instruments – Note 30

The accounting policies and methods adopted by the Credit Union in relation to financial instruments are disclosed in Note 30(a).

(p) Transfer of business – Note 3(c)

The 2003 Statement of Financial Position includes assets and liabilities of Education Credit Union Co-operative Limited (ECU) transferred to the Credit Union on 1 January 2003. The Statement of Financial Performance reflects all transactions from the date of transfer. Under the Transfer of Business provisions under the Corporations Act 2001, the Credit Union assumed all responsibility for all liabilities of the transferee credit union. On transfer, all assets and liabilities of ECU were amalgamated with Members Australia Credit Union assets and liabilities (excluding reserves) without adjustment as the Directors believe these were recorded at fair value. The fair value of the net assets acquired was compared to the fair value of the shares issued to members of ECU. As the fair value of the shares was less than the net assets the resulting non-reciprocal balance of the transfer of assets on acquisition was taken to the Statement of Financial Performance as a gain on the transfer of business. This was in accordance with the Accounting Standards under the Corporations Act 2001.

As set out in the Statement of Financial Performance for the non-reciprocal balance of the transfer of net assets of ECU resulted in a gain of \$38,839,691 for the Credit Union and a gain of \$40,682,446 for the consolidated entity. The consolidated entity included the non-reciprocal transfer of net assets of ECS Unit Trust which resulted in a gain of \$1,842,755.

2. International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP). The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the consolidated entity's financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS.

The consolidated entity has not quantified the effects of the differences discussed below. Accordingly, there can be no assurances that the consolidated financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

Regulatory bodies that promulgate Australian GAAP and IFRS have significant ongoing projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to the consolidated entity's financial reports in the future. The potential impacts on the consolidated entity's financial performance and financial position of the adoption of IFRS, including system upgrades and other implementation costs which may be incurred, have not been quantified as at the transition date of 1 July 2004 due to the short timeframe between finalisation of the IFRS standards and the date of preparing this report. The impact on future years will depend on the particular circumstances prevailing in those years.

In order to manage the transition to IFRS the consolidated entity has established a steering committee sponsored by the Audit & Risk Management Committee. A review was undertaken by Ernst & Young in February 2004 to assess possible impacts of the transition to IFRS. The key potential implications of the conversion to IFRS on the consolidated entity are as follows:

- Financial instruments must be recognised in the statement of financial position and all derivatives and financial assets must be carried at fair value. The Credit Union currently doesn't have hedges however from time to time will enter into hedge transactions. Currently for accounting purposes these are off balance sheet however will come on balance sheet and will be subject to strict hedging criteria. The impact is likely to be increased earnings volatility as well as additional asset and liability recognition.
- Income taxes will be calculated based on the "balance sheet" approach replacing the "statement of financial position approach", which will result in more deferred tax assets and liabilities. As tax effects follow the underlying transaction, some tax effects will be recognised in equity.
- The Credit Union currently does not recognise an asset or liability for the net position associated with defined benefit plans which employees are members. Under IFRS surpluses and deficits in the defined benefit superannuation plans sponsored by the consolidated entity will be recognised in the statement of financial position and the statement of financial performance. The Credit Union currently only has a few employees in defined benefit superannuation plans and the surplus/deficit in the fund is used on a consolidated basis rather than for individual members. It is not anticipated to have a significant impact but may result in earnings volatility.
- Revaluation increments and decrements relating to re-valued property, plant and equipment will be recognised on an individual asset basis, not a class of assets basis. The effect on the Credit Union's financial position and statement of financial performance is likely to be increased volatility in earnings.
- Impairments of assets at amortised cost or fair value will depend on their categorisation. IFRS adopts an approach known as "incurred losses" for loan loss provisioning. Provisions are raised for losses already incurred for impaired loans. The estimated losses on these impaired loans are then discounted to the present value. It is unlikely there would be any increase in volatility upon the introduction of IFRS as the only potential change is discounting of future cash flows in the determination of the provision. It is likely there will be a reduction in the general provision. Impairment testing will need to be performed on financial assets at each reporting date and may result in increased earnings volatility.
- De-recognition of securitised assets will generally be more difficult to achieve under IFRS than under current Australian GAAP as IFRS introduces new requirements for the recognition and de-recognition of assets. The Credit Union currently maintains securitised assets off balance sheet which may be required to come back on balance sheet resulting in an increase in the loans and advances and total assets of the Group.
- The recognition of certain revenues associated with lending may be changed from recognising on receipt to recognition over the life of the loan (i.e. recognised either as an adjustment to yield or over a period of service). This may impact on the opening retained earnings as at 1 July 2004, as certain fees previously recognised in the statement of financial performance may be recognised in the statement of financial position and a corresponding adjustment made to retained earnings. The impact is not expected to be material but may result in a change in the classification of income.
- Changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosure of prior year effects.

	Consolidated Entity 2004 \$'000s	Consolidated Entity 2003 \$'000s	The Credit Union 2004 \$'000s	The Credit Union 2003 \$'000s
3. Profit from ordinary activities before income tax expense				
(a) Revenue from ordinary activities				
Interest revenue:				
Deposits with other financial institutions	8,903	5,251	8,883	5,214
Investment securities	5,174	3,633	5,144	3,628
Financial instruments	5	9	5	9
Loans and advances	52,471	42,235	52,471	42,235
	66,553	51,128	66,503	51,086
(b) Non interest income:				
From operating activities:				
Fee income	6,752	5,296	6,172	5,059
Commissions	6,825	6,614	4,895	4,630
Bad debts recovered	105	58	105	58
Dividends	129	–	329	–
From outside operating activities:				
Proceeds from sale of property, plant & equipment	800	175	792	157
Less costs	(667)	(156)	(661)	(135)
Net gain on sale of property, plant & equipment	133	19	131	22
Other	159	275	432	257
	14,103	12,262	12,064	10,026
(c) Transfer of business from credit unions				
Acquisition of Education Credit Union Limited	–	40,682	–	38,840
	–	40,682	–	38,840
(d) Expenses from ordinary activities				
Interest expense:				
Borrowings from other financial institutions	26	18	26	18
Member deposits	29,677	20,745	29,677	20,745
	29,703	20,763	29,703	20,763
(e) Bad and doubtful debts				
Bad debts written off	488	509	488	509
Doubtful debts expense	56	(305)	56	(305)
	544	204	544	204

	Consolidated Entity 2004 \$'000s	Consolidated Entity 2003 \$'000s	The Credit Union 2004 \$'000s	The Credit Union 2003 \$'000s
(f) Other expenses				
Salaries and associated costs	13,122	15,316	11,890	14,201
Member product and service delivery costs	9,856	8,298	9,845	8,298
General administration costs	3,020	2,642	2,789	2,556
APRA levies	106	80	106	80
Depreciation expense	-	-	-	-
- plant and equipment	1,806	2,411	1,210	2,108
- buildings	228	94	133	56
Amortisation expense	-	-	-	-
- leasehold improvements	145	153	144	153
Information technology and associated costs	2,969	2,805	2,926	2,772
Occupancy and associated costs	2,927	2,341	3,088	2,199
Other	1,894	1,938	1,730	1,738
	36,073	36,078	33,861	34,161
4. Income tax expense				
(a) The prima facie tax payable on operating profit including transfer of business from ECU is reconciled to the income tax expense in the accounts as follows:				
Profit from ordinary activities including transfer of business from ECU in 2003	14,336	47,027	14,459	44,824
Prima facie tax payable at 30% (2003: 30%)	4,301	14,108	4,338	13,447
Increase in income tax expense due to:				
Less tax effect on transfer of business from Credit Unions written back as non-assessable income	-	(12,205)	-	(11,652)
Non allowable amortisation of shares	27	-	27	-
Non allowable merger costs	-	3	-	3
Other Non-allowable items	28	46	7	9
Decrease in income tax expense due to:				
Rebateable dividend	(39)	-	(99)	-
Non-assessable profit on disposal of property	(32)	-	(32)	-
(b) Income tax expense on operating profit before individually significant income tax items:	4,285	1,952	4,241	1,807
Under/(over) provision of tax prior year	(40)	(25)	(39)	(26)
Income tax expense attributable to operating profit	4,245	1,927	4,202	1,781
The income tax expense comprises amounts set aside as:				
Provision for income tax attributable to the current year:				
- Income tax payable	4,286	1,824	4,235	1,705
- Over provision for income tax in prior year	(40)	(25)	(39)	(26)
Provision for income tax attributable to future years:				
- Future income tax benefit	16	145	22	117
- Provision for deferred income tax	(17)	(17)	(16)	(15)
	4,245	1,927	4,202	1,781

	Consolidated Entity 2004 \$'000s	Consolidated Entity 2003 \$'000s	The Credit Union 2004 \$'000s	The Credit Union 2003 \$'000s
(c) Franking Credits	11,385	9,589	10,976	9,195
Franking credits held by the Credit Union after adjusting for franking credits that will arise from the payment of income tax at the end of the financial year. Since the Credit Union rules prevent a dividend being declared, these credits are not presently available for distribution to members.				
5. Cash and liquid assets				
Cash on hand	3,766	4,870	3,766	4,869
Cash at bank – CUSCAL	–	11,381	–	10,741
Deposit at call – CUSCAL	3,000	–	3,000	–
Total cash and liquid assets	6,766	16,251	6,766	15,610
6. Receivables due from other financial institutions				
Term deposits – CUSCAL	96,000	84,675	96,000	84,500
Term deposits – Credit Unions	5,500	6,000	5,500	6,000
Term deposits – Banks	62,000	28,877	62,000	28,877
Total receivables due from other financial institutions	163,500	119,552	163,500	119,377
Maturity analysis				
Not longer than 3 months	120,500	69,575	120,500	69,400
Longer than 3 months and less than 12 months	43,000	33,977	43,000	33,977
Longer than 1 year and less than 5 years	–	16,000	–	16,000
	163,500	119,552	163,500	119,377
7. Receivables				
Accrued income	2,169	3,051	2,265	2,828
Sundry debtors – net	13,031	16,677	12,971	16,633
Total receivables	15,200	19,728	15,236	19,461
8. Investment securities				
Bank bills of exchange	–	17,859	–	17,859
Negotiable certificates of deposit	81,350	85,035	80,750	84,435
Asset Backed Securities	28,295	–	28,295	–
Floating rate notes	200	200	200	200
Other	6,646	1,637	6,546	1,537
Total investment securities	116,491	104,731	115,791	104,031
Maturity analysis				
Not longer than 3 months	75,550	87,731	74,950	87,031
Longer than 3 months and less than 12 months	6,009	16,000	6,009	16,000
Longer than 1 year and less than 5 years	5,000	1,000	5,000	1,000
Longer than 5 years	29,932	–	29,832	–
	116,491	104,731	115,791	104,031

	Consolidated Entity 2004 \$'000s	Consolidated Entity 2003 \$'000s	The Credit Union 2004 \$'000s	The Credit Union 2003 \$'000s
9. Net loans and advances				
(a) Amount due comprises:				
Overdrafts and revolving credit	50,722	49,020	50,722	49,020
Term loans	720,520	672,712	720,520	672,712
Directors and related parties	896	850	896	850
Total loans and advances	772,138	722,582	772,138	722,582
Less specific provision for impairment	(1,452)	(1,540)	(1,452)	(1,540)
	770,686	721,042	770,686	721,042
Less general provision for impairment	(1,188)	(884)	(1,188)	(884)
Net loans and advances	769,498	720,158	769,498	720,158
(b) Maturity analysis				
Overdrafts	50,711	48,982	50,711	48,982
Not longer than 3 months	15,517	16,051	15,517	16,051
Longer than 3 months and less than 12 months	45,442	51,479	45,442	51,479
Longer than 1 year and less than 5 years	185,107	203,243	185,107	203,243
Longer than 5 years	473,909	401,287	473,909	401,287
	770,686	721,042	770,686	721,042
(c) Concentration of loans				
At 30 June 2004, the loans portfolio does not include any loan which represents 10% or more of capital. Details of classes of loans which represent, in aggregate, 10% or more of capital are as follows:				
Geographic areas				
- Victoria (excluding Gippsland region)	421,301	404,946	421,301	404,946
- Gippsland region	142,412	134,707	142,412	134,707
- Australian Capital Territory	87,314	73,974	87,314	73,974
- New South Wales	65,223	60,537	65,223	60,537
- Queensland	36,762	28,797	36,762	28,797
	753,012	702,961	753,012	702,961
- Other/or where there is no identifiable concentration	19,126	19,621	19,126	19,621
	772,138	722,582	772,138	722,582
(d) Employee industry groups				
- Government schools and tertiary institutions	86,484	84,515	86,484	84,515
- CSIRO	76,741	73,654	76,741	73,654
- Electricity generation and supply	38,661	38,754	38,661	38,754
	201,886	196,923	201,886	196,923
- Other/or where there is no identifiable concentration	570,252	525,659	570,252	525,659
	772,138	722,582	772,138	722,582

	Consolidated Entity 2004 \$'000s	Consolidated Entity 2003 \$'000s	The Credit Union 2004 \$'000s	The Credit Union 2003 \$'000s
10. Provision for impaired loans				
(a) Total provision comprises				
Specific provision	1,452	1,540	1,452	1,540
General provision	1,188	884	1,188	884
	2,640	2,424	2,640	2,424
(b) Specific provision				
Balance at beginning of year	1,540	1,265	1,540	1,265
Provisions transferred	–	293	–	293
Transfer to/(from) statement of financial performance	(88)	(18)	(88)	(18)
	1,452	1,540	1,452	1,540
Specific provision comprises				
Provision required under APRA prudential standards	1,337	1,410	1,337	1,410
Additional specific provision	115	130	115	130
	1,452	1,540	1,452	1,540
(c) General provision				
Balance at beginning of year	884	935	884	935
Provisions transferred	160	236	160	236
Transfer to/(from) statement of financial performance	144	(287)	144	(287)
	1,188	884	1,188	884
(d) Charge to the statement of financial performance for bad and doubtful debts comprises:				
Specific provision	(88)	(18)	(88)	(18)
General provision	144	(287)	144	(287)
	56	(305)	56	(305)
Bad debts written off	488	509	488	509
(e) Non accrual loans				
Balances with specific provisions for impairment	1,918	2,002	1,918	2,002
Specific provision for impairment	(1,431)	(1,527)	(1,431)	(1,527)
	487	475	487	475
(f) Restructured loans	2,862	1,536	2,862	1,536
(g) Other disclosures for impaired loans				
- Assets acquired via enforcement of security	1	94	1	94
- Interest and other revenue earned on impaired loans	171	83	171	83
- Interest and other revenue foregone on impaired loans	87	51	87	51

	Consolidated Entity 2004 \$'000s	Consolidated Entity 2003 \$'000s	The Credit Union 2004 \$'000s	The Credit Union 2003 \$'000s
11. Other investments				
Unlisted shares and units at cost:				
Subordinated debt/equity in CUSCAL	6,380	6,380	6,380	6,380
Shares in Data Action Pty Ltd	213	213	213	213
Units in ECS Unit Trust	–	–	3,618	3,618
Shares in Outlook Financial Planning	–	–	50	50
Shares in Q.T. Travel Pty Ltd	–	89	–	89
Total other investments	6,593	6,682	10,261	10,350
12. Property, plant and equipment				
(a) Land – at independent valuation	3,605	3,605	1,005	1,305
(b) Buildings – at independent valuation	5,193	5,082	3,432	2,632
Less accumulated depreciation	(26)	(7)	(20)	(7)
	5,167	5,075	3,412	2,625
<i>Freehold land and buildings owned by Members and Education Credit Union Limited in Moe and Morwell (Victoria) were revalued as at 4 June 2004 in accordance with an independent valuation. The independent revaluations were carried out by P H Crane & Associates Pty Ltd (Certified Practising Valuers). The revaluations were based on the assessment of the current market value of land and buildings.</i>				
<i>Freehold land and buildings owned by Members and Education Credit Union Limited in Kew and Burwood were revalued as at 7 June 2004 in accordance with an independent valuation. The independent revaluations were carried out by Colliers International Consultancy and Valuation Pty Ltd (Registered Valuers). The revaluations were based on the assessment of the current market value of land and buildings.</i>				
<i>The freehold land and building in Matraville (New South Wales) was sold on 19 November 2003 for \$720,000.</i>				
(c) Leasehold improvements – at cost	1,776	1,773	1,586	1,583
Less accumulated depreciation	(1,509)	(1,364)	(1,320)	(1,176)
	267	409	266	407
(d) Plant and equipment – at cost	11,379	10,435	9,379	8,756
Less accumulated depreciation	(8,398)	(6,799)	(7,338)	(6,261)
	2,981	3,636	2,041	2,495
(e) Capital works in progress – at cost	–	106	–	106
	–	106	–	106
(f) Artworks	112	112	112	112
	112	112	112	112
Total property, plant and equipment	12,132	12,943	6,836	7,050

	Consolidated Entity 2004 \$'000s	Consolidated Entity 2003 \$'000s	The Credit Union 2004 \$'000s	The Credit Union 2003 \$'000s
(g) Movement in asset balances during the year				
Land				
Carrying amount at beginning of year	3,605	805	1,305	805
Acquisition through credit unions acquired	–	1,419	–	320
Disposals	(440)	–	(440)	–
Revaluation increment/(decrement)	440	1,381	140	180
Carrying amount at end of year	3,605	3,605	1,005	1,305
Buildings				
Carrying amount at beginning of year	5,075	1,121	2,625	1,121
Additions	757	–	758	–
Transfer from capital works in progress	106	–	106	–
Acquisition through credit unions acquired	–	4,050	–	1,231
Depreciation charge	(228)	(94)	(133)	(56)
Disposals	(142)	–	(142)	–
Revaluation increment/(decrement)	(401)	(2)	198	329
Carrying amount at end of year	5,167	5,075	3,412	2,625
Leasehold improvements				
Carrying amount at beginning of year	409	323	407	322
Additions	3	239	3	238
Disposals	–	–	–	–
Amortisation charge	(145)	(153)	(144)	(153)
Carrying amount at end of year	267	409	266	407
Plant and Equipment				
Carrying amount at beginning of year	3,636	2,376	2,495	2,198
Acquisition through credit unions acquired	–	1,557	–	908
Transfer from capital works in progress	–	605	–	605
Additions	1,236	1,665	835	1,027
Disposals	(85)	(156)	(79)	(135)
Depreciation charge	(1,806)	(2,411)	(1,210)	(2,108)
Carrying amount at end of year	2,981	3,636	2,041	2,495
Capital Works in Progress				
Carrying amount at beginning of year	106	605	106	605
Transfers to Plant & Equipment and Buildings	(106)	(605)	(106)	(605)
Additions	–	106	–	106
Carrying amount at end of year	–	106	–	106
Artworks				
Carrying amount at beginning of year	112	–	112	–
Acquisition through credit unions acquired	–	112	–	112
Carrying amount at end of year	112	112	112	112
Total carrying amount at end of year	12,132	12,943	6,836	7,050

	Consolidated Entity 2004 \$'000s	Consolidated Entity 2003 \$'000s	The Credit Union 2004 \$'000s	The Credit Union 2003 \$'000s
13. Other assets				
Future income tax benefit	2,021	2,080	1,967	2,030
Prepayments	493	381	455	360
Total other assets	2,514	2,461	2,422	2,390
14. Deposits and borrowings				
(a) Balance of Member deposits comprises:				
Withdrawable shares	533	560	533	560
Call deposits	648,026	604,485	648,363	604,569
Term deposits	301,040	252,257	301,040	252,257
Total deposits and borrowings	949,599	857,302	949,936	857,386
(b) Maturity analysis				
At call	648,323	605,012	648,660	605,096
Not longer than 3 months	146,185	121,180	146,185	121,180
Longer than 3 months and less than 12 months	145,615	112,735	145,615	112,735
Longer than 1 year and less than 5 years	8,943	17,815	8,943	17,815
Withdrawable shares at call	533	560	533	560
	949,599	857,302	949,936	857,386
(c) Concentrations of deposits				
At 30 June 2004, there were no members who individually or collectively have deposits which represent 10% or more of total liabilities				
Details of classes of deposits which represent, in aggregate, 10% or more of liabilities are as follows:				
Geographic areas				
- Victoria (excluding Gippsland region)	570,610	511,808	570,947	511,892
- Gippsland region	185,376	165,383	185,376	165,383
	755,986	677,191	756,323	677,275
- Other/or where there is no identifiable concentration	193,613	180,111	193,613	180,111
	949,599	857,302	949,936	857,386
(d) Employee industry groups				
- Government schools and tertiary institutions	99,225	92,723	99,225	92,723
- Other/or where there is no identifiable concentration	850,374	764,579	850,711	764,663
	949,599	857,302	949,936	857,386

	Consolidated Entity 2004 \$'000s	Consolidated Entity 2003 \$'000s	The Credit Union 2004 \$'000s	The Credit Union 2003 \$'000s
15. Payables to other financial institutions				
Overdrafts with other financial institutions	3,488	790	3,584	294
Total payables to other financial institutions	3,488	790	3,584	294
16. Creditors and other liabilities				
Trade creditors and accruals	6,384	6,262	6,272	5,796
Provision for employee entitlements	2,015	1,938	1,869	1,828
Provision for income tax	2,640	342	2,715	364
Provision for deferred tax liability	–	17	–	16
Provision for redundancy	–	136	–	136
Provision for card fraud	–	256	–	256
Sundry creditors	13,376	30,769	13,343	30,723
Sundry provisions	497	129	497	129
Total creditors and other liabilities	24,912	39,849	24,696	39,248
17. Reserves				
General reserves				
Balance as at 1 July 2003	99,481	56,980	99,481	56,980
Add transfer from profit and loss account	10,193	44,819	10,193	42,976
Less transfer to asset revaluation reserve	–	(2,318)	–	(475)
Balance as at 30 June 2004	109,674	99,481	109,674	99,481
Asset revaluation reserve				
Balance as at 1 July 2003	4,550	853	1,837	853
Transfer from general reserves	–	2,318	–	475
Revaluation of land and buildings	39	1,379	338	509
Balance as at 30 June 2004	4,589	4,550	2,175	1,837
Redeemed capital reserve				
Balance as at 1 July 2003	181	114	181	114
Transfer from retained earnings	64	67	64	67
Balance as at 30 June 2004	245	181	245	181
Total reserves	114,508	104,212	112,094	101,499
<i>Redeemed capital reserve represents the amount of redeemable preference shares redeemed since 1 July 1999. The Corporations Act requires redemption of shares to be made out of profits. Since the value of the shares redeemed have been paid to members in accordance with the Constitution of the Credit Union, the redeemed capital reserve account represents the amount of profits appropriated to the account.</i>				
Retained profits				
Retained profits at the beginning of the period	353	139	–	–
Additions for 2004	10,091	45,100	10,257	43,043
Total available for appropriation	10,444	45,239	10,257	43,043
Transfer to general reserve	(10,193)	(44,819)	(10,193)	(42,976)
Transfer to capital reserve	(64)	(67)	(64)	(67)
Retained profits at the end of the year	187	353	–	–

	Consolidated Entity 2004 \$'000s	Consolidated Entity 2003 \$'000s	The Credit Union 2004 \$'000s	The Credit Union 2003 \$'000s
18. Director and executive disclosures				
Aggregate remuneration of directors during the year	642	543	642	543
The number of Directors whose income (including superannuation contributions) falls within the following bands is:				
	No.	No.	No.	No.
\$10,000 – \$19,999 *	–	4	–	4
\$20,000 – \$29,999	3	2	3	2
\$30,000 – \$39,999	4	1	4	1
\$40,000 – \$49,999	1	1	1	1
\$80,000 – \$89,999 #	–	2	–	2
\$180,000 – \$189,999 *	–	1	–	1
\$390,000 – \$399,999	1	–	1	–

* Part year remuneration – Directors appointed 1 January 2003

Part year remuneration and redundancy payments, as approved at the 2002 AGM.

Directors ceased appointment on 31 December 2002

	Consolidated Entity 2004 \$'000s	Consolidated Entity 2003 \$'000s	The Credit Union 2004 \$'000s	The Credit Union 2003 \$'000s
19. Remuneration of external auditors				
Total remuneration received, or due and receivable, for the financial period by the external auditor of Members and Education Credit Union Limited directly or indirectly, from the Credit Union, in connection with:				
- Audit services	110	105	105	100
- Other services	18	17	17	17
Total remuneration of external auditors	128	122	122	117

20. Commitments for expenditure

(a) Lease commitments

Operating lease commitments under existing lease arrangements for building accommodation and Automatic Teller Machines are payable over the following periods:

Within 1 year	838	981	807	888
1 to 2 years	763	827	752	796
2 to 5 years	1,151	1,845	1,143	1,827
over 5 years	–	69	–	69
Total lease commitments	2,752	3,722	2,702	3,580

(b) Material service contract commitments

The Credit Union has a contract with Data Action Pty Ltd and Corvis to provide computer facilities management services and associated support services. The balance of fees payable under the contract are payable over the the following periods

Within 1 year	1,595	1,623	1,595	1,623
1 to 2 years	1,522	1,551	1,522	1,551
2 to 5 years	4,391	4,479	4,391	4,479
over 5 years	357	1,791	357	1,791
Total material service contract commitments	7,865	9,444	7,865	9,444

	Consolidated Entity 2004 \$'000s	Consolidated Entity 2003 \$'000s	The Credit Union 2004 \$'000s	The Credit Union 2003 \$'000s
21. Contingent liabilities and forward commitments				
(a) Outstanding member loan commitments				
Loans approved but not funded	25,092	23,189	25,092	23,189
Undrawn credit commitments	106,997	105,835	106,997	105,835
Loans available for redraw	58,635	51,456	58,635	51,456
Total commitments	190,724	180,480	190,724	180,480

Generally, there are no restrictions to withdrawal of funds under undrawn credit commitments, provided normal repayments are maintained. All such commitments are, however, cancellable at the discretion of the Credit Union.

(b) Bank guarantee

The Credit Union has provided an indemnity to the National Australia Bank Limited, on behalf of Outlook Financial Planning Pty Ltd, for the purpose of securing a Dealer's Licence from the Australian Securities and Investment Commission.

The amount at 30 June was:	20	20	20	20
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(c) Merchant agreement

The Credit Union has a merchant agreement facility with National Australia Bank Limited to indemnify the bank for losses against individual accounts where approval to operate such facilities has been provided by the Credit Union.

(d) Guarantee of lease payments

The Credit Union has guaranteed the lease rental of the controlled entity, Outlook Financial Planning Pty Ltd, being \$84,712 per annum, with a total commitment of \$21,178. The lease expires on 30 September 2004.

(e) Liquidity support scheme

The Credit Union is party to the Credit Union Financial Support System (CUFSS). CUFSS is a voluntary scheme that all credit unions who are affiliated with CUSCAL have agreed to participate in. CUFSS is a company limited by guarantee, each credit union's guarantee being \$100.

As a member of CUFSS, the Credit Union:

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

22. Standby arrangements

The Credit Union has arranged the following standby credit facilities:

CUSCAL overdraft facility	5,000	5,000	5,000	5,000
St.George Bank Ltd standby facility	25,000	25,000	25,000	25,000
Total facilities available	30,000	30,000	30,000	30,000
Less overdraft with CUSCAL	(3,488)	(790)	(3,584)	(294)
Total undrawn balance	26,512	29,210	26,416	29,706

There are no restrictions as to the withdrawal of these funds. Borrowings with CUSCAL and St.George Bank Ltd are secured by an equitable mortgage charge over the assets of the Credit Union.

	Consolidated Entity 2004 \$'000s	Consolidated Entity 2003 \$'000s	The Credit Union 2004 \$'000s	The Credit Union 2003 \$'000s
23. Employee entitlements and superannuation commitments				
(a) Employee entitlements				
The aggregate employee entitlement liability is comprised of:				
Provisions for leave entitlements	2,015	1,938	1,869	1,828
Provision for redundancy	–	136	–	136
(b) Superannuation commitments				
The Credit Union sponsors superannuation funds for its employees under normal conditions of employment, and in satisfaction of the requirements of the Superannuation Guarantee Scheme. During the year, the Credit Union contributed to various superannuation funds with the main fund being CUE Super Plan.				
The CUE Super Plan was restructured from a defined benefit plan to an accumulation plan on 30 June 1992. Accumulation benefits provided under the plans are based on contributions for each employee whilst defined benefits provided under the plans are based on salary levels and number of years membership of the fund. The Credit Union contributes on behalf of its employees various percentages of their gross income adhering at all times to minimum legal requirements. The Credit Union is not obliged to contribute to these funds other than to meet its liability under the Superannuation Guarantee and to meet any liability that could arise in respect of members of the CUE Super Plan where minimum defined benefit guarantees exist. Minimum defined benefits were given to those staff who were members of the CUE Super Plan at 30 June 1992. The last Actuarial Review and Valuation of the CUE Plan was made as at 1 July 2002 by Stephen Defina (William M.Mercer Pty Ltd) It was the opinion of the Actuary that; in relation to the Plan's Defined Benefit membership category, the Plan's assets were:				
(i) sufficient to meet its liabilities at 1 July 2002 as well as both the vested benefits and fully accrued benefits for past service; and				
(ii) together with the recommended employer contribution rate and maintenance of the member contribution rate, will adequately provide for the future liabilities of the Plan in relation to the benefit guarantees extended to those concerned.				
Employer contributions to the plans	1,073	1,041	973	970
Employer contributions payable to the plans	140	4	140	4
(c) On a consolidated basis the total number of Effective Fulltime Employees as at 30 June 2004 was 228 (211 – 2003) The total number of Effective Fulltime Employees at the Credit Union as at 30 June 2004 was 214 (199 – 2003)				

	Consolidated Entity 2004 \$'000s	Consolidated Entity 2003 \$'000s	The Credit Union 2004 \$'000s	The Credit Union 2003 \$'000s
24. Notes to the statements of cash flows				
(a) Reconciliation of cash				
For the purposes of the statements of cash flows, cash means cash on hand and cash equivalents. Cash equivalents are highly liquid investments with short periods to maturity which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, and borrowings which are integral to the cash management function and which are not subject to a term facility. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statements of financial position as follows:				
Cash on hand	3,766	4,870	3,766	4,869
Cash at bank – CUSCAL	–	11,381	–	10,741
Deposits at call – CUSCAL	3,000	–	3,000	–
	6,766	16,251	6,766	15,610
(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, shares and withdrawals from savings and investment accounts;				
(ii) member loans and repayments; and				
(iii) investment activities				
(c) Reconciliation of net cash provided by operating activities to operating profit after income tax:				
Operating profit after income tax	10,091	45,100	10,257	43,043
Depreciation	2,034	2,505	1,344	2,164
Amortisation	145	153	143	153
Profit on disposal of non current assets	(133)	(19)	(131)	(22)
Bad debts written off	488	509	488	509
Charge for doubtful debts	56	(305)	56	(305)
Increase/(decrease) in employee entitlements	(59)	(671)	(95)	(610)
Increase/(decrease) in sundry provision	112	(41)	112	(41)
Transfer of business	–	(40,682)	–	(38,840)
(Increase)/decrease in accrued income	882	(385)	563	73
(Increase)/decrease in prepayments	(112)	108	(95)	65
Increase/(decrease) in trade creditors and accruals	122	76	476	(113)
(Increase)/decrease in sundry debtors	3,646	(11,057)	3,662	(10,998)
Increase/(decrease) in deferred income tax liability	(17)	(31)	(16)	(29)
(Increase)/decrease in future income tax benefit	59	153	63	(428)
Increase/(decrease) in provision for income tax	2,298	(1,086)	2,351	(395)
Net cash (used)/provided by operating activities	19,612	(5,673)	19,178	(5,774)

	Consolidated Entity 2004 \$'000s	Consolidated Entity 2003 \$'000s	The Credit Union 2004 \$'000s	The Credit Union 2003 \$'000s
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25. Related party transactions

(a) Directors

During the year, the Directors of the Credit Union were:

J W Baistow	P E Doughty	G M Reid
H M Clarke	P J Ford	D J Russell
P J Crocker	B A Fulton	P J Taylor

(b) Loans

The aggregate value of loans and credit facilities to Directors and spouses, or relatives of Directors and spouses at balance date amounted to:

Directors	752	704	752	704
Related parties	144	146	144	146
less provision for doubtful debts	-	-	-	-
	896	850	896	850

Loans made during the financial year by the Credit Union to Directors and spouses, or relatives of Directors and spouses:

	387	831	387	831
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Directors and spouses or, relatives of Directors and spouses who received loans referred to above were:

J W Baistow	P J Crocker	P J Ford	D J Russell
H M Clarke	P E Doughty	G M Reid	P J Taylor

All loans disbursed were approved on the same terms and conditions which applied to members generally for each class of loan.

Repayments against loans and interest charged to Directors and spouses, or relatives of Directors and spouses amounted to:

Repayments	422	945	422	945
Interest Charged	81	61	81	61

Repayments were received in respect of loans to the following Directors or spouses, or relatives of Directors and spouses:

J W Baistow	P J Crocker	P J Ford	D J Russell
H M Clarke	P E Doughty	G M Reid	P J Taylor

All transactions between Directors and spouses, or relatives of Directors and spouses and the Credit Union were conducted in accordance with normal terms and conditions. The terms and conditions in respect of all loans to Directors and spouses, or relatives of Directors and spouses have not been breached.

(c) Service Contracts

There are no service contracts to which Directors or Director related entities are a related party.

26. Related controlled entity

Details of controlled entities consolidated into the group financial statements are as follows:

Name	Country of Incorporation	% Owned	Investment at cost \$'000s	Contribution to operating profit after tax \$'000s
Outlook Financial Planning Pty Ltd	Australia	100	50	34
Ed Credit Services Pty Ltd	Australia	100	-	-
ECS Unit Trust	Australia	100	3,618	275
Ed Credit Insurance Services Pty Ltd	Australia	100	-	-

27. Economic dependency

The Credit Union has service contracts with, and is economically dependent upon the following suppliers:

(a) CUSCAL

CUSCAL is an Approved Deposit Taking Institution registered under the Corporations Law and the Banking Act.

This Entity:

- (i) provides the licence rights to VISA Card in Australia and settlement with bankers for ATM, VISA Card and cheque transactions, as well as the production of VISA and Redicards for use by members;
- (ii) provides and maintains application software utilised by the Credit Union; and
- (iii) provides treasury and money market facilities to the Credit Union.

(b) First Data International

This company operates the switching computer used to link Redicards and VISA cards operated through Reditellers, other approved electronic funds transfer suppliers, and VISA acquirers and merchants, to the Credit Union's computer banking system.

(c) Ultradata Australia Pty Ltd

This company provides and maintains application software currently utilised by the Credit Union.

Ultradata is a major supplier of software to credit unions throughout Australia.

(d) Data Action Pty Ltd

This company provides application software, mainframe and network support for the Credit Union.

28. Segmental reporting

The Credit Union operates predominantly in the retail financial services industry within Australia. The operations comprise the acceptance of deposits, the making of loans to members and provision of financial planning services.

29. Securitisation

The Credit Union has an arrangement with Integris Securitisation Services Pty Ltd whereby it acts as an agent to promote and complete loans on their behalf, for on-sale to an investment trust. The Credit Union also manages the loans portfolio on behalf of the trust. The Credit Union is only liable for loan repayments default to the extent of interest foregone by the trust, and for which the Credit Union has mortgage insurance cover to recoup all such payments.

The balance of securitised loans as at 30 June 2004 was \$11,067,521. (2003: \$11,066,126)

30. Financial instruments**(a) Terms, conditions and accounting policies**

Recognised financial instruments	Note	Accounting policies	Terms and conditions
(i) Financial assets			
Cash and liquid assets	5	Cash and liquid assets are stated at cost.	Deposits are at call.
Receivables due from other financial institutions	6	Receivables due from other financial institutions are stated at cost. Interest is recognised when earned.	Receivables due from other financial institutions have an average maturity of 120 days with effective interest rates of 5.41% to 5.97%.
Receivables	7	Receivables are recognised for accrued interest on investments and member overdrafts and amounts owed to the consolidated entity for services provided.	Investment interest is received on maturity except for long-term investments where interest is payable annually or semi-annually. Interest on member overdrafts is received monthly. Amounts due for services provided are normally settled on 30-day terms.
Investment securities	8	Investment securities are stated at cost. Interest is recognised on an accruals basis.	Investment securities have an average maturity of 1445 days with effective interest rates of 5.44% to 9.00%.
Loans and advances	9 & 10	Interest on loans and advances is calculated on the daily balance outstanding and is charged in arrears to a member's account on a monthly basis. No interest is brought to revenue on loans where repayments are more than six months in arrears and where legal proceedings have commenced and recovery is unlikely.	All housing loans are secured by registered mortgages. Security for remaining loans is assessed on an individual basis.
Other investments	11	Unlisted are stated at cost.	All shares are fully paid.
(ii) Financial liabilities			
Deposits and borrowings	14	Deposits are recorded at the principal amount. Interest is calculated on the daily balance outstanding as per the individual product terms and conditions. Interest is brought to account on an accrual basis.	Interest on savings is posted monthly, quarterly or annually as applicable to the product type. Interest on term deposits is either posted on maturity or intervals agreed with individual depositors.
Payables to other financial institutions	15	Payables to other financial institutions are recorded at the principal amount. Interest is calculated on the daily balance outstanding as per the applicable interest rate and is brought to account on an accrual basis.	Interest on payables to financial institutions is charged monthly.
Creditors and other liabilities	16	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the consolidated entity.	Trade liabilities are normally settled on 30 day terms.

30. Financial instruments (continued)

(b) Net fair values of financial assets and liabilities

2004	Assets				Liabilities	Off Balance Sheet
	Cash & liquid assets	Receivable from other financial institutions	Investment securities	Loans and advances (net of provision)	Members' deposits	Swaps
Net fair value \$000s	6,766	164,418	117,294	769,498	949,461	–
Book value \$000s	6,766	163,500	116,491	769,498	949,599	–
Variance \$000s	–	918	803	–	138	–

2003	Assets				Liabilities	Off Balance Sheet
	Cash & liquid assets	Receivable from other financial institutions	Investment securities	Loans and advances (net of provision)	Members' deposits	Swaps
Net fair value \$000s	16,251	120,849	105,666	720,158	857,219	24
Book value \$000s	16,251	119,552	104,731	720,158	857,302	–
Variance \$000s	–	1,297	935	–	83	24

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

Cash and liquid assets

The carrying values of cash and liquid assets approximate their net fair value as they are short term in nature or are receivable on demand.

Receivables from other financial institutions

Net fair value is a reasonable estimate of the fair value determined by reference to the current market value of another instrument which is substantially the same and is calculated based on the expected cash flows of the underlying asset.

Investment securities

Net fair value is a reasonable estimate of the fair value determined by reference to the current market value of another instrument which is substantially the same and is calculated based on the expected cash flows of the underlying asset.

Loans and advances

The carrying value of loans and advances is net of the total provision for doubtful debts. Interest rates on loans (both fixed and variable) equate to comparable products in the marketplace. Thus, the carrying amount is considered to be a reasonable estimate of net fair value.

Members' deposits

The net fair value of non interest bearing, call and variable rate deposits, and fixed rate deposits maturing within three months, is the carrying value as at 30 June 2004. Discounted cash flows (based upon the deposit type and its related maturity) were used to calculate the net fair value of other term deposits.

Off balance sheet instruments

Interest rate swap agreements: The fair values of interest rate swap contracts is determined as the present value of future interest cash flows.

30. Financial instruments (continued)
(c) Interest rate risk

The Credit Union's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised on the balance date are as follows:

2004 Financial Instruments	Floating interest rate	Fixed interest maturing in:		Non interest bearing	Total carrying amount as per balance sheet	Weighted average effective interest rate
		1 yr or less	Over 1 to 5 yrs			
	2004 \$'000s	2004 \$'000s	2004 \$'000s	2004 \$'000s	2004 \$'000s	2004 %
(i) Financial Assets						
Cash and liquid assets	3,000	–	–	3,766	6,766	2.26%
Due from other FI's	–	163,500	–	–	163,500	5.53%
Accrued Receivables	–	–	–	15,200	15,200	n/a
Investment securities	29,932	81,559	5,000	–	116,491	5.71%
Loans and advances	671,873	94,103	1,604	1,918	769,498	7.40%
Unlisted shares	–	–	–	6,593	6,593	n/a
Interest rate swaps	–	–	–	–	–	n/a
Total Financial Assets	704,805	339,162	6,604	27,477	1,078,048	
(ii) Financial Liabilities						
Deposits	648,323	291,800	8,943	533	949,599	3.24%
Trade creditors & accruals	–	–	–	6,384	6,384	n/a
Total Financial Liabilities	648,323	291,800	8,943	6,917	955,983	

n/a – not applicable for non-interest bearing investments

2003 Financial Instruments	Floating interest rate	Fixed interest maturing in:		Non interest bearing	Total carrying amount as per balance sheet	Weighted average effective interest rate
		1 yr or less	Over 1 to 5 yrs			
	2003 \$'000s	2003 \$'000s	2003 \$'000s	2003 \$'000s	2003 \$'000s	2003 %
(i) Financial Assets						
Cash and liquid assets	11,381	–	–	4,870	16,251	1.10%
Due from other FI's	–	103,552	16,000	–	119,552	4.91%
Accrued Receivables	–	–	–	19,728	19,728	n/a
Investment securities	–	103,731	1,000	–	104,731	4.91%
Loans and advances	660,280	56,251	1,625	2,002	720,158	7.17%
Unlisted shares	–	–	–	6,682	6,682	n/a
Interest rate swaps	5,000	(5,000)	–	–	–	0.25%
Total Financial Assets	676,661	258,534	18,625	33,282	987,102	
(ii) Financial Liabilities						
Deposits	605,012	233,915	17,815	560	857,302	2.68%
Trade creditors & accruals	–	–	–	6,262	6,262	n/a
Total Financial Liabilities	605,012	233,915	17,815	6,822	863,564	

n/a – not applicable for non-interest bearing investments

30. Financial instruments (continued)

(d) Credit risk exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

On-balance sheet financial instruments

The credit risk on financial assets, excluding investments, of the Credit Union which have been recognised on the balance sheet, is the carrying amount, net of any provision for doubtful debts.

The Credit Union minimises concentrations of credit risk by undertaking transactions with a large number of customers and counterparties. The Credit Union is not materially exposed to any individual counterparty.

Off-balance sheet financial instruments

The Credit Union enters into derivatives, particularly interest rate swaps, in order to alter the interest rate exposure arising from mismatches between assets and liabilities. Under interest rate swaps, the Credit Union agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating rate interest amounts calculated by reference to an agreed notional principal amount.

In relation to unrecognised financial assets, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement. The Credit Union's maximum credit risk exposure in relation to interest rate swap contracts – which is limited to the net fair value of the swap agreement at balance date, is nil. [\$23,722 – 2003].

31. Analysis of interest income and interest expense

2004	Assets				Liabilities	
	Cash and liquid assets	Receivable from other financial institutions	Investment securities	Loan and advances (net of prov'n)	Borrowings from other financial institutions	Members' deposits
Interest revenue \$'000s	314	8,594	5,174	52,471		
Interest expense \$'000s					26	29,677
Average balance \$'000s	11,160	160,251	99,486	743,363	334	916,199
Average interest rate %	2.81%	5.36%	5.20%	7.06%	7.78%	3.24%

2003	Assets				Liabilities	
	Cash and liquid assets	Receivable from other financial institutions	Investment securities	Loan and advances (net of prov'n)	Borrowings from other financial institutions	Members' deposits
Interest revenue \$'000s	395	4,865	3,633	42,235		
Interest expense \$'000s					18	20,745
Average balance \$'000s	8,833	102,984	71,541	614,643	250	727,494
Average interest rate %	4.47%	4.72%	5.08%	6.87%	7.20%	2.85%

In the opinion of the Directors of Members and Education Credit Union Limited ("the Credit Union"),

- (a) the financial statements and notes set out on pages 5 to 29 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Credit Union's and consolidated entity's financial position as at 30 June 2004 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
- (b) 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.

For and on behalf of the Directors in accordance with a resolution of the Directors:



Desmond Russell, Director
Signed at Melbourne on 26 August 2004



Peter Taylor, Director
Signed at Melbourne on 26 August 2004

Scope

We have audited the financial report of Members and Education Credit Union Limited ("the Credit Union") for the financial year ended 30 June 2004, consisting of the statements of financial performance, statements of financial position, statements of cash flows, accompanying notes 1 to 31, and the Directors' declaration. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Credit Union and the entities it controlled at the end of the year or from time to time during the financial year. The Credit Union's Directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Credit Union.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements and statutory requirements in Australia so as to present a view which is consistent with our understanding of the Credit Union's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of Members and Education Credit Union Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Credit Union's and the consolidated entity's financial position as at 30 June 2004 and of their performance for the financial year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements.



KPMG



PJ Matthey

Partner

Melbourne
26 August 2004



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