

2004

ANNUAL REPORT

Goulburn Murray Credit Union
Co-operative Limited

ABN 87 087 651 509



CHAIRMAN'S REPORT

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

The annual accounts reflect a continuing trend of strong financial performance. During the year the following results have been achieved.

- Asset growth of \$9,408,294 (9.50%)
- Loan growth of \$11,402,941 (14.49%)
- Deposit growth of \$3,773,361 (4.35%)
- An operating profit after tax of \$1,189,570 (2003 - \$754,345)

Interest rates have over the past year remained relatively stable, however there is some indication that rates may rise marginally in the near future. The strong loan growth, and lower rate of deposit growth has enhanced financial performance, through a more efficient use of liquid funds. Interest rate margins continue to come under pressure through the growth in mortgage finance, and member investment in higher rate products. Non interest income continues to be an essential component of revenue performance, with continued member use of the full suite of products offered being essential in maintaining that revenue stream.

Maintaining strong profitability is essential in ensuring reserves are maintained. Our regulators, the Australian Prudential Regulation Authority require the credit union to maintain a minimum capital adequacy ratio of 8%, our current level stands at 17%, thus ensuring the credit union is well placed to meet any difficult trading conditions.

The maintenance of a high level of reserves is of importance, particularly over the coming year, as substantial cost is to be incurred as a result of a migration to a new data processing platform. This proposed migration to a new platform has resulted from the decision by CUSCAL to sell Corvis, our current platform supplier to Ultradata. It is expected the migration will provide significant benefit in reliability, system development and member relationship management.

Currently, merger talks are underway with North East Credit Union. Your board sees a possible merger with North East Credit Union as ultimately providing benefits to our members through economies of scale, particularly in administration and head office activities. Other benefits will be available in computer platform maintenance, product development, compliance with financial services regulations, and marketing. Both credit unions operate within a similar geographic footprint. The first step in moving towards a merger is the conduct of due diligence reviews, to ensure parties to the merger are aware of the status

of each organization. Due to the relative asset size of North East Credit Union (\$11 million in total assets), as compared to Goulburn Murray Credit Union, a vote of Goulburn Murray Credit Union members is not required to proceed with a merger. Your Board, however undertakes to ensure members are well aware of progress through our member newsletters. Maintenance of member service levels continue to be a focus of board and management. Strategic initiatives have been undertaken to ensure that members have a full suite of financial products available, as well as ensuring our branch network offers comfortable surroundings in which to transact business. The recent completion of a purpose built facility in Echuca reinforces our commitment to member service standards.

Corporate governance maintains a high level of priority. Under the provision of the Financial Services Reform Legislation, all staff have been trained to required levels, and the credit union successfully applied to be licensed under the new legislation. Significant investment has been made in ensuring all documentation to be passed on to members complies with legislative requirements, and many new policies and procedures have been developed to ensure continued legislative compliance. The appointment of a Governance Manager, whose primary responsibility is to ensure compliance with all legislative requirements, reflects the board's desire to maintain governance standards. A recent inspection by the Australian Prudential Regulation Authority indicated that operational and governance activities were effective.

The efforts of our management team and staff over the past year has reflected in the strong financial performance as disclosed in this report. Our people continue to be faced with challenges, whether the result of legislative change, or changing market trends. They continue to meet these challenges well, and our membership continues to benefit from their efforts. We are indebted to our staff, and on behalf of the board and members, I sincerely thank them.

Your credit union continues to enjoy a unique competitive advantage - our members are our owners - as a result your board works toward satisfying the needs of our members, and is not faced with the distraction of satisfying the needs of outside shareholders. Your board and management strive to ensure service standards are maintained, and that the needs of members continue to be met. We are a mutual organization, and the support of members is an essential element in the growth and success of the Goulburn Murray Credit Union.

John B Lyle
Chairman

DIRECTORS' REPORT

The directors present their report together with the financial report of Goulburn Murray Credit Union (the "Credit Union") for the year ended 30 June 2004 and the auditors' 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. F.C.A.

Chairman
Occupation: Group Finance Manager
Director since: 1992

Ernest J McDermott

Occupation: Retired
Director since: 1981

John W Guilmartin

Deputy Chairman
Occupation: Business Manager
Director since: 1994

Lorraine J Rowe M.A.Ps.S.

Occupation: Psychologist
Director since: 1996

Frank Mandaradoni CPA

Chairman – Audit Committee
Occupation: Accountant
Director since: 1996

Fredrick J West

Occupation: Operations manager
Director since: 1980

Geoffrey A Squires

Occupation: Retired
Director since: 1976

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		Salary & Structure	
	A	B	A	B	A	B
J Lyle	12	11	18	13	1	1
J Guilmartin	12	11	18	14	-	-
F Mandaradoni	12	11	18	18	-	-
G Squires	12	9	-	-	1	1
E McDermott	12	11	18	18	-	-
L Rowe	12	9	-	-	1	1
F West	12	7	-	-	1	-

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

B – number of meetings attended

DIRECTORS' REPORT (CONTINUED)

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.

Trading results

The profit from ordinary activities for the financial year before income tax was \$1,721,471 (2003: \$1,207,633). Income tax was \$531,901 (2003: \$453,288). Profit after tax for 2004 was \$1,189,570 (2003: \$754,345).

Review of operations

Net loans for the year have increased by \$11,402,941 to \$90,078,477.
Member deposits increased during the year by \$3,773,361 to \$90,579,167.
Members' equity during the year has increased by \$1,578,038 to \$11,622,188.

Dividends

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

State of affairs

There has been no significant change in the state of affairs that has occurred during the financial year and there has been no matter or circumstance that has arisen since the end of the financial year that has significantly affected or may significantly affect the operations of the Credit Union, the results of those operations or the state of affairs of the Credit Union in subsequent financial years.

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, not otherwise disclosed in this report or the financial statements, of a material and unusual nature likely, in the opinion of the Directors, to affect significantly or which may affect significantly, the results of those operations, or the state of affairs of the Credit Union in subsequent financial years.

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.

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.

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 Directors and Officers

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.

Dated at Shepparton 22nd September 2004.

Signed in accordance with a resolution of the Directors.

E McDermott – Director

J W Guilmartin – Director

**STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2004**

	Note	2004 \$	2003 \$
Interest revenue	2	7,075,244	6,204,113
Interest expense	2	(2,278,215)	(1,888,185)
Net interest revenue	2	4,797,029	4,315,928
Non-interest revenue	3	1,835,178	1,395,788
Total ordinary income		<u>6,632,207</u>	<u>5,711,716</u>
Bad and doubtful debts	8(d)	(118,831)	(111,228)
Occupancy expenses		(215,028)	(167,279)
Depreciation expense	3	(176,042)	(202,601)
Other expenses from ordinary activities	3	(4,400,835)	(4,022,975)
Profit from ordinary activities before income tax		<u>1,721,471</u>	<u>1,207,633</u>
Income tax expense relating to ordinary activities	4	(531,901)	(453,288)
Profit from ordinary activities after income tax expense	26	<u><u>1,189,570</u></u>	<u><u>754,345</u></u>

The Statement of Financial Performance is to be read in conjunction with the accompanying notes set out on pages 7 to 30

**STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 30 JUNE 2004**

	Note	2004 \$	2003 \$
ASSETS			
Cash and liquid assets	5	1,288,561	2,205,671
Investments in other financial institutions	6	13,280,000	14,780,000
Receivables	7	89,777	57,175
Loans and advances	8	90,078,477	78,675,536
Other investments	10	632,985	632,985
Property, plant and equipment	11	2,896,445	2,436,515
Other	12	227,263	297,332
TOTAL ASSETS		108,493,508	99,085,214
LIABILITIES			
Deposits and short-term borrowings	13	90,579,167	86,805,806
Payables	14	1,263,185	1,188,260
Due to other financial institutions	15	4,453,506	657,725
Tax liabilities	16	200,955	36,876
Provisions	19	374,507	352,397
TOTAL LIABILITIES		96,871,320	89,041,064
NET ASSETS		11,622,188	10,044,150
EQUITY			
Reserves	17	1,527,746	1,134,016
Retained profits	26	10,094,442	8,910,134
TOTAL EQUITY		11,622,188	10,044,150

The Statement of Financial Position is to be read in conjunction with the accompanying notes set out on pages 7 to 30

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2004**

	Note	2004 \$	2003 \$
Cash flows from operating activities			
Interest received		7,042,642	6,176,556
Dividends received		12,559	-
Other non-interest income received		2,276,746	1,378,182
Interest paid		(2,334,875)	(1,560,904)
Cash paid to suppliers and employees		(4,610,849)	(4,280,379)
Income tax paid		(695,419)	(391,501)
Net cash flows from operating activities	18(a)	1,690,804	1,321,954
Cash flows from investing activities			
Net movement in loans		(11,415,549)	(5,588,877)
Net movement in investment securities		-	(65,155)
Payments for property, plant and equipment		(337,485)	(330,826)
Proceeds for property, plant and equipment		50,136	-
Net cash flows used in investing activities		(11,702,898)	(5,984,858)
Cash flows from financing activities			
Net increase/(decrease) in deposits and other borrowings		3,799,203	13,279,185
Net cash flows from financing activities		3,799,203	13,279,185
Net increase/(decrease) in cash held		(6,212,891)	8,616,281
Cash at the beginning of the financial year	18(b)	16,327,946	7,711,665
Cash at the end of the financial year	18(b)	10,115,055	16,327,946

The Statement of Cash Flows is to be read in conjunction with the accompanying notes set out on pages 7 to 30

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

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.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or current valuations of non-current assets.

These accounting policies have been consistently applied, and, except where there is a change in accounting policy, are consistent with those of the previous year.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

Accounting standards

The Statement of Financial Performance, Statement of Financial Position and notes to the financial statements, have been prepared in accordance with AASB 1032 – Disclosures by Financial Institutions. Where there is a conflict between a requirement of AASB 1032, AASB 1018 – Statement of Financial Performance, AASB 1034 – Financial Report Preparation and Disclosures and AASB 1040 – Statement of Financial Position, then the requirement of AASB 1032 prevails. AASB 1032 requires assets and liabilities to be classified by their nature and in order that reflects their relative liquidity. Accordingly, assets and liabilities are not classified into current and non-current.

(b) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous year.

(c) Cash and cash equivalents

Cash on hand and at banks and short-term deposits are stated at the lower of cost and net realisable value.

For the purposes of the Statement of Cash

Flows, cash includes cash on hand and at Credit Union Services Corporation (Australia) Limited (CUSCAL) (net of overdraft), and short-term liquid deposits.

CUSCAL overdrafts are carried at the principal amount. Interest is charged as an expense as it accrues.

(d) Income tax

The Credit Union adopts the 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 beyond reasonable doubt. The tax effect of capital losses is not recorded unless realisation is virtually certain.

(e) Investments in other financial institutions

Investments in other financial institutions are intended to be held to maturity and are recorded at the lower of cost and recoverable amount.

(f) Other investments

Other investments are carried at the lower of cost and recoverable amount.

(g) Loans and advances

Loans and advances are recognised at recoverable amount, after assessing required provisions for impairment. Impairment of a loan is recognised when there is reasonable doubt that not all the principal and interest can 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.

The 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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

month. All housing loans are secured by registered mortgages. The remaining loans are assessed on an individual basis.

Bad debts are written off when identified. If a provision for impairment has been recognised in relation to a loan, write-offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write-offs for bad debts are recognised as expenses in the Statement of Financial Performance.

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 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.

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.

(h) Property, plant and equipment

Acquisition

Items of property, plant and equipment are initially recorded at cost and depreciated as outlined below.

Revaluation of Non-Current Assets

The Credit Union has applied AASB 1041 "Revaluation of Non-Current Assets" which requires each class of non-current asset to be measured on either the cost or fair value basis.

Land and buildings are independently valued every three years on an open market basis of valuation and included in the financial statements at the revalued amounts. Other

assets are recorded at cost.

A provision for capital gains tax is only provided when it is known that the asset will be sold.

Disposal of revalued assets

The gain or loss on disposal of revalued assets is calculated as the difference between the carrying amount of the asset at the time of disposal and the proceeds on disposal and is included in the results in the year of disposal.

Depreciation

Depreciation is provided on a straight line basis on all property, plant and equipment, other than freehold land.

Major depreciation periods are:

	2004	2003
Furniture and fittings	5 - 15 years	5 - 15 years
Leasehold improvements	The lease term	The lease term
Office equipment	3 - 15 years	3 - 15 years
Motor vehicles	5 - 15 years	5 - 15 years
Freehold buildings	40 years	40 years

(i) 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 in which they are incurred.

(j) Recoverable amount

Assets are not revalued to an amount above their recoverable amount, and where carrying values exceed this recoverable amount assets are written down. In determining recoverable amount the expected net cash flows have not been discounted to their present value, except where stated.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Payables

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 Credit Union.

(l) 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

The 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.

Fees and commissions

Control of a right to be compensated for services is attained, usually evidenced by approval of contract by customer.

Interest

Control of a right to receive consideration for the provision of, or investment in, assets has been attained.

Dividend income

Dividend income is taken into revenue as received.

(m) Employee entitlements

Wages, salaries and annual leave

The provisions for employee entitlements to wages, salaries and annual leave represent the amount which the Credit Union has a present obligation to pay resulting from employees' services provided up to the balance date, calculated at undiscounted amounts based upon remuneration wage and salary rates that the Credit Union expects to pay as at reporting date including related on-costs.

Long service leave

The liability for employees' entitlements to long service leave represents the present value of the estimated future cash outflows to be made by the Credit Union resulting from employees' services provided up to the balance date. Liabilities for employee entitlements which are not expected to be settled within twelve months are discounted using the rates attached to

national government securities at balance date, which most closely match the terms of maturity of the related liabilities. In determining the liability for employee entitlements, consideration has been given to future increases in wage and salary rates, and the Credit Union's experience with staff departures. Related on-costs have also been included in the liability.

(n) GST

Revenues, expenses and assets are recognised net of the GST, except where the amount of the GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated with the amount of GST excluded. 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 in the Statement of Cashflows 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 activities.

(o) Off balance sheet lending

The Credit Union has facilitated the funding of Integris (Perpetual Trustees) securitised loans during the year. The Credit Union receives a management fee in relation to each separate loan funded via this method. The balance at 30 June 2004 was \$1,062,765.

(p) 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 Member Share Redemption Reserve has been separately disclosed in the current year.

2. INTEREST REVENUE AND INTEREST EXPENSE

The following tables show the average balance for each of the major categories of interest-bearing assets and liabilities, the amount of interest revenue or expense and the average interest rate. Year end averages were used. They were considered to be representative of the Credit Union's operation during the year.

	Average balance \$	Interest \$	Average Interest rate %
Interest revenue 2004			
Deposits with other financial institutions	14,203,077	726,337	5.11%
Loans and advances	84,339,570	6,348,907	7.52%
	<hr/> 98,542,647	<hr/> 7,075,244	<hr/> 7.18%
Interest expense 2004			
Customer deposits	88,439,379	2,133,930	2.41%
Short-term borrowings	2,112,996	144,215	6.82%
	<hr/> 90,552,375	<hr/> 2,278,215	<hr/> 2.52%
Net interest income 2004		<hr/> 4,797,029	<hr/> 4.66%
Interest revenue 2003			
Deposits with other financial institutions	12,280,000	572,425	4.66%
Loans and advances	75,588,367	5,631,688	7.45%
	<hr/> 87,868,367	<hr/> 6,204,113	<hr/> 7.06%
Interest expense 2003			
Customer deposits	81,503,830	1,806,437	2.21%
Short-term borrowings	1,339,407	81,748	6.10%
	<hr/> 82,843,237	<hr/> 1,888,185	<hr/> 2.27%
Net interest income 2003		<hr/> 4,315,928	<hr/> 4.79%

3. PROFIT FROM ORDINARY ACTIVITIES

Profit from ordinary activities before income tax expense has been arrived at after charging/(crediting) the following items:

	2004 \$	2003 \$
Depreciation		
Depreciation of property, plant and equipment:		
Plant and equipment	146,359	174,253
Buildings	29,683	28,348
Total depreciation	<u>176,042</u>	<u>202,601</u>
General and administration		
Personnel costs	1,735,597	1,693,253
EDP costs	381,370	379,864
Employee entitlements	22,110	13,387
Superannuation contributions	155,566	142,362
Fees and commissions	652,629	605,215
Marketing and promotion	273,606	220,474
General administration	715,160	755,713
Other	464,797	212,707
Total general and administration	<u>4,400,835</u>	<u>4,022,975</u>
Included in the operating profit are the following items of operating revenue:		
Non interest revenue		
Loan fee income	215,873	175,207
Other fee and commission income	1,537,218	1,125,427
Bad debts recovered	46,287	59,170
Income from property	23,241	35,984
Dividends	12,559	-
Total non interest revenue	<u>1,835,178</u>	<u>1,395,788</u>

4. INCOME TAX

The prima facie tax on operating profit is reconciled to the income tax provided in the financial statements as follows:

	2004 \$	2003 \$
Prima facie income tax on operating profit at 30% (2003: 30%)	516,441	362,290
<i>Tax effect of permanent differences</i>		
Depreciation of building	8,905	6,446
Other items	4,123	(4,705)
General provision for impairment	2,432	89,257
	<hr/>	<hr/>
Income tax expense attributable to profit from ordinary activities	<u>531,901</u>	<u>453,288</u>

The general provision for impairment is treated as a permanent difference, as the provision does not relate to specific doubtful debt accounts for which a tax deduction would be available in the event of a loss. Realisation is not beyond reasonable doubt.

5. CASH AND LIQUID ASSETS

Cash on hand and at bank	1,288,561	2,205,671
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6. INVESTMENTS IN OTHER FINANCIAL INSTITUTIONS

Interest earning deposits	13,280,000	14,780,000
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Maturity analysis

At call	500,000	2,000,000
Not longer than 3 months	12,520,000	12,530,000
Longer than 3 months and not longer than 12 months	260,000	250,000
	<hr/>	<hr/>
	<u>13,280,000</u>	<u>14,780,000</u>

7. RECEIVABLES

Interest receivable	89,777	57,175
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8. LOANS AND ADVANCES

	2004 \$	2003 \$
Overdrafts	3,483,142	3,640,089
Term loans	86,546,642	74,978,525
Loans to directors	407,403	403,024
Gross loans and advances	90,437,187	79,021,638
Provision for impairment	(358,710)	(346,102)
Net loans and advances	<u>90,078,477</u>	<u>78,675,536</u>

(a) Aggregate amounts receivable from related parties

Directors and director related entities	407,403	403,024
Provision for impairment	-	-
	<u>407,403</u>	<u>403,024</u>

(b) Maturity analysis

Overdrafts	3,483,142	3,640,089
Not longer than 3 months	1,853,463	1,947,988
Longer than 3 and not longer than 12 months	5,370,365	5,558,378
Longer than 1 and not longer than 5 years	19,156,783	18,994,444
Longer than 5 years	60,573,434	48,880,739
	<u>90,437,187</u>	<u>79,021,638</u>

(c) Concentration of risk

The Credit Union has an exposure to groupings of individual loans, which concentrate risk and create exposure to particular segments as follows:

Victoria	86,954,897	75,455,084
Other states	3,482,290	3,566,554
	<u>90,437,187</u>	<u>79,021,638</u>

8. LOANS AND ADVANCES (continued)

(d) Provision for impairment

	2004 \$	2003 \$
General provision		
Opening balance	297,524	266,754
Bad debts written off	-	-
Doubtful debts provided for during the year	21,268	30,770
Closing balance	<u>318,792</u>	<u>297,524</u>
Specific provision		
Opening balance	48,578	96,967
Bad debts written off	(93,480)	(121,243)
Doubtful debts provided for during the year	84,820	72,854
Closing balance	<u>39,918</u>	<u>48,578</u>
Total provision for impairment	<u>358,710</u>	<u>346,102</u>
Bad and doubtful debt expense		
Specific provision	84,820	72,854
General provision	21,268	30,770
Bad debts recognised directly	12,743	7,604
	<u>118,831</u>	<u>111,228</u>

The specific provision for impairment includes the provision required under the prudential standards at 30 June 2004, and a provision for specifically identified individual loans. In line with its prudent and conservative approach, the Credit Union has adopted a policy to maintain a general provision of impairment of loans of 0.5% of total risk weighted assets. This approach is based on the APRA Prudential Standards.

9. IMPAIRMENT OF LOANS AND ADVANCES

2004
\$

2003
\$

The policy covering impaired assets is set out in Note 1(g).

Non-accrual loans

Balances with specific provision for impairment	54,495	77,834
Specific provision for impairment	(22,524)	(48,578)
Net non-accrual loans	<u>31,971</u>	<u>29,256</u>

Restructured loans

Balance	276,748	-
Interest revenue on non accrual loans and restructured loans	6,175	9,948
Interest foregone on non-accrual and restructured loans	4,018	4,794

Past-due loans

Balance	-	21,268
Net fair value of assets acquired through the enforcement of security during the financial year (These assets included motor vehicles which have been subsequently sold).	2,900	2,000

10. OTHER INVESTMENTS

Shares in Special Service Providers	627,980	627,980
Unlisted shares	5,005	5,005
	<u>632,985</u>	<u>632,985</u>

11. PROPERTY, PLANT AND EQUIPMENT

	2004 \$	2003 \$
Freehold land - at independent valuation (Note 11b)	1,111,650	826,000
	<u>1,111,650</u>	<u>826,000</u>
Buildings on freehold land- at independent valuation (Note 11b)	1,225,350	1,213,805
Accumulated depreciation	(7,659)	(55,832)
	<u>1,217,691</u>	<u>1,157,973</u>
Plant and equipment- at cost	1,762,882	1,604,098
Accumulated depreciation	(1,216,273)	(1,178,678)
	<u>546,609</u>	<u>425,420</u>
Capital works in progress – at cost	20,495	27,122
	<u>20,495</u>	<u>27,122</u>
Total property, plant & equipment	<u>2,896,445</u>	<u>2,436,515</u>

(a) Reconciliations

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

Land

Carrying amount at the beginning of year	826,000	805,000
Additions – at cost	-	21,000
Revaluation increment	285,650	-
	<u>1,111,650</u>	<u>826,000</u>

Buildings

Carrying amount at the beginning of year	1,157,973	1,042,516
Additions – at cost	12,426	143,805
Revaluation Increment	76,975	-
Depreciation expense	(29,683)	(28,348)
	<u>1,217,691</u>	<u>1,157,973</u>

11. PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Reconciliations (continued)

	2004 \$	2003 \$
<i>Plant and equipment</i>		
Carrying amount at the beginning of year	425,420	471,271
Additions	331,686	157,712
Disposals	(64,138)	(29,310)
Depreciation expense	(146,359)	(174,253)
	<hr/>	<hr/>
Carrying amount at end of year	546,609	425,420
	<hr/>	<hr/>
<i>Work in progress</i>		
Carrying amount at the beginning of year	27,122	-
Additions	116,320	27,122
Transfer to other asset classes	(122,947)	-
	<hr/>	<hr/>
Carrying amount at end of year	20,495	27,122
	<hr/>	<hr/>
Total property plant & equipment	2,896,445	2,436,515
	<hr/>	<hr/>

(b) Valuations

Land and buildings owned by the Credit Union were valued during March 2004 based on current market values.

The land and buildings at Shepparton, Seymour and Numurkah were valued by Shane McDrury A.A.P.I., Registered Valuer No 2904 of Hann McKenzie & Co for a market value of \$1,987,000. This valuation has been recognised in the financial report.

The land and buildings situated in Kyabram were valued by Michael Eason A.P.I., registered Valuer No. 1294 for the State of Victoria and Registered Valuer No. 6041 for the State of New South Wales of Riverlink Valuers for a market value of \$350,000. This valuation has been recognised in the financial report.

The directors believe that the current book values are a reasonable approximation of fair value. 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.

12. OTHER ASSETS

Prepayments	85,969	97,174
Sundry debtors	7,284	72,335
Future income tax benefit	134,010	127,823
	<hr/>	<hr/>
	227,263	297,332
	<hr/>	<hr/>

Future income tax benefit comprises the estimated future benefits relating to timing differences for tax and accounting purposes calculated at 30%.

13. DEPOSITS AND SHORT-TERM BORROWINGS

	2004 \$	2003 \$
On call deposits	48,290,359	44,399,907
Term deposits	42,288,808	42,405,899
	<u>90,579,167</u>	<u>86,805,806</u>

Maturity Analysis

On call	48,290,359	44,399,907
Not longer than 3 months	18,621,517	11,410,169
Longer than 3 and not longer than 12 months	22,095,329	25,818,752
Longer than 1 and not longer than 5 years	1,571,962	5,176,978
	<u>90,579,167</u>	<u>86,805,806</u>

Concentration of deposits

The Credit Union operates in the bond areas set out in the Credit Union's rules.

This area generally covers the Goulburn and Murray Valleys.

Victoria	87,702,147	83,479,195
Other states	2,877,020	3,326,611
	<u>90,579,167</u>	<u>86,805,806</u>

The Credit Union's deposit portfolio does not include any deposit which represents 10% or more of total liabilities.

14. PAYABLES

Trade creditors	248,800	202,758
Accrued interest payable	670,144	726,803
Clearing accounts	344,241	258,699
	<u>1,263,185</u>	<u>1,188,260</u>

15. DUE TO OTHER FINANCIAL INSTITUTIONS

	2004 \$	2003 \$
Short-term loans	2,000,000	-
Bank overdraft – secured	2,453,506	657,725
	<u>4,453,506</u>	<u>657,725</u>

The Credit Union has an overdraft facility available to the extent of \$3,000,000 (2003: \$3,000,000). This facility is provided by CUSCAL and is subject to funds being available from CUSCAL 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 7.85%.

Overdraft facility	3,000,000	3,000,000
Overdraft at balance date	(2,453,506)	(657,725)
	<u>546,494</u>	<u>2,342,275</u>

The short-term loans are due to mature within 3 months of balance date, and have a weighted average interest rate of 6.04%

16. TAX LIABILITIES

Provision for Income Tax	200,394	36,876
Provision for Deferred Income Tax	561	-
	<u>200,955</u>	<u>36,876</u>

17. RESERVES

General	51,585	51,585
Asset revaluation	1,445,057	1,082,431
Member share redemption reserve	31,104	-
	<u>1,527,746</u>	<u>1,134,016</u>

Movements in reserves during the year

Asset revaluation reserve		
Balance at the beginning of the year	1,082,431	1,082,431
Add: revaluation of land and buildings	362,626	-
	<u>1,445,057</u>	<u>1,082,431</u>

17. RESERVES (continued)

	2004 \$	2003 \$
Member share redemption reserve		
Balance on initial adoption	25,842	-
Add: current year transfer from retained profits	5,262	-
	<hr/>	<hr/>
Balance at the end of the year	31,104	-

18. STATEMENT OF CASH FLOWS**(a) Reconciliation of net cash provided by operating activities to operating profit after income tax:**

Operating Profit after Tax	1,189,570	754,345
Depreciation	176,042	202,601
Provision for doubtful debts	12,608	(17,619)
(Profit)/Loss on Sale of Asset	14,002	10,497

Changes in assets and liabilities

Increase (Decrease) in provision for employee entitlements	22,110	13,387
Increase (Decrease) in provision for income tax	163,518	(27,470)
(Increase) Decrease in future income tax benefit	(6,187)	94,152
Increase (Decrease) in provision for deferred income tax	561	-
(Increase) Decrease in accrued interest receivable	(32,602)	(27,557)
Increase (Decrease) accrued interest payable	(56,659)	327,281
Increase (Decrease) in sundry creditors	131,585	57,660
(Increase) Decrease in prepayments and sundry debtors	76,256	(65,323)
	<hr/>	<hr/>
Net cash flow from operating activities	1,690,804	1,321,954

(b) Reconciliation of cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand, at banks and CUSCAL net of outstanding overdrafts. Cash at end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

Cash balance comprises:

Cash on hand and at Banks	1,288,561	2,205,671
Overdraft and short-term loans	(4,453,506)	(657,725)
Other short term liquid assets	13,280,000	14,780,000
	<hr/>	<hr/>
Closing cash balance	10,115,055	16,327,946

19. PROVISIONS

	2004 \$	2003 \$
Employee entitlements	374,507	352,397
Number of employees at year end	50	50

Superannuation Commitments

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

All employees of the Credit Union are able to participate in the CUSCAL – The Portfolio Service Retirement Fund. The Directors are able to nominate which superannuation fund the Credit Union contributes the compulsory superannuation guarantee levy to.

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

The Credit Union is not obliged to contribute 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 fund is an accumulated fund no actuarial assessment of the funds has been undertaken.

20. 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 2004 are exclusive of Goods and Services Tax.

Credit related commitments

Approved but undrawn loans and credit limits	5,588,449	4,961,708
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Financial guarantees

Guarantees	154,295	187,925
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Other Commitments

Operating Commitments	20,000	31,359
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20. 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 Credit Union Services Corporation (Australia) Limited (CUSCAL) 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.

21. 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 Mitchell and The Greater Shepparton City.

Service dependency

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

- Credit Union Services Corporation (Australia) 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.
- Credit Union Services Corporation (Australia) Limited for the rights to, and support of, computer software.
- Combined Financial Processing for electronic data processing.

On 4 December 2003 CUSCAL announced that Ultradata Australia Limited would acquire Corvis Pty Limited, the owner of Corvis FCS, the core banking system software used by a majority of Australia's Credit Unions. As part of the arrangements Ultradata have committed to maintaining all existing service levels for existing Corvis FCS customers and working with IDPC's (independent data processing centres) and third party technology suppliers to Credit Unions for a minimum period of three years.

22. REMUNERATION OF DIRECTORS

The remuneration of directors during the year was:

	2004	2003
	\$	\$
Aggregate income received, or due and receivable, for the financial period.	55,876	53,296

The number of directors who received remuneration within the following bands:

\$0 - \$10,000	6	6
\$10,001 - \$20,000	1	1

23. AUDITORS' REMUNERATION

Amounts received or due and receivable by the auditors of the Credit Union for:

• Audit of the financial statements of the Credit Union	27,500	23,750
• Other Services in relation to the Credit Union	5,800	1,750
	<u>33,300</u>	<u>25,500</u>

24. TRANSACTIONS WITH DIRECTORS AND RELATED PARTIES

All transactions with related parties and Directors of Goulburn Murray Credit Union have been conducted on an arms-length basis. In accordance with ASIC Class Order 98/110, only transactions with Directors of Goulburn Murray Credit Union have been disclosed in the financial statements. The following reportable related party transactions occurred during the financial year:

At the end of the financial year the aggregate of loans and overdrafts to all directors and directors' spouses amounted to.

407,403	403,024
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During the financial year loans disbursed and overdraft facilities granted to directors and to directors' spouses amounted to

Residential loans	6,000	45,000
Personal loans	-	-
Commercial loans	14,400	168,631
	<u>20,400</u>	<u>213,631</u>

24. TRANSACTIONS WITH DIRECTORS AND RELATED PARTIES (continued)

Directors concerned with the above fundings in 2004 were:

- Residential: J Lyle
- Commercial: L Rowe

All loans disbursed, and overdraft facilities granted were approved on the same terms and conditions which applied generally for each class of loan, and those terms and conditions have not been breached.

During the financial year repayments against loans to directors and directors' spouses amounted to:

	2004	2003
	\$	\$
Residential loans	16,616	14,400
Personal loans	3,510	16,878
Commercial loans	42,759	32,340
	<u>62,885</u>	<u>63,618</u>

Directors concerned with the above repayments were:

- Residential Loans: J Lyle
- Personal Loans: F Mandaradoni
- Commercial Loans: L Rowe, F Mandaradoni

The aggregate amount of loan interest included as revenue in the determination of the operating profit before income tax for the financial year that resulted from transactions with directors and directors' spouses amounted to:

27,492	24,783
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The aggregate amount of provisions for doubtful debts included as expense in the determination of the operating profit before income tax for the financial year that resulted from transactions with directors and directors' spouses and director and spouse related parties amounted to:

Nil	Nil
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The aggregate amount of bad debts written off included as expense in the determination of the operating profit before income tax for the financial year that resulted from transactions with directors and directors' spouses amounted to:

Nil	Nil
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Other transactions

From time to time the Directors of the Credit Union 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.

25. SEGMENT INFORMATION

The Credit Union operates predominantly in the finance industry within Australia. The operations comprise the acceptance of deposits and the provision of loans. Specific segmentation of deposits and loans are set out in Notes 8 and 13.

26. RETAINED PROFITS

Retained profits at the beginning of the financial year	8,910,134	8,155,789
Net profit attributable to members of the Credit Union	1,189,570	754,345
Less: Transfer to member share redemption reserve	(5,262)	-
Retained profits at the end of the financial year	<u>10,094,442</u>	<u>8,910,134</u>

27. FINANCIAL INSTRUMENTS

(a) Terms, conditions and accounting policies

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

Recognised Financial Instruments	Statement of Financial Position Note	Accounting Policies	Terms and Conditions
(i) Financial assets			
Loans and advances	8	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 – related parties/ entities	8	Amounts receivable from related parties/ entities are carried at nominal amounts due.	Details of the terms and conditions are set out in Note 24.
Short-term deposits	6	Short-term deposits are stated at the lower of cost and net realisable value. Interest is recognised when earned.	Short term deposits have an average maturity of 86 days and effective interest rates of 3.25% to 5.58% (3.50% to 4.82% in 2003).
Unlisted Shares	10	Unlisted shares are carried at the lower of cost or recoverable amount. Dividend income is recognised when the dividends are received.	
(ii) Financial liabilities			
Trade Creditors and Accruals	14	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	13	Deposits and borrowings are recorded at the principal amount.	Details of maturity terms are set out in Note 13. Interest is calculated on the daily balance outstanding.
Bank Overdraft	15	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 15.

27. 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	
	1 year or less		Over 1 to 5 years		More than 5 years		Non-interest bearing			Total carrying amount as per the Statement of Financial Position			Weighted average effective interest rate			
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 %	2003 %		
(i) Financial Assets:																
Cash and liquid assets	-	-	-	-	-	-	-	-	1,288	2,206	1,288	2,206	2,206	N/A	N/A	
Receivables	-	-	-	-	-	-	-	-	89	57	89	57	57	N/A	N/A	
Investments in other financial institutions	-	-	13,280	14,780	-	-	-	-	-	-	13,280	14,780	14,780	5.43	4.86	
Unlisted Shares	-	-	-	-	-	-	-	-	5	5	5	5	5	N/A	N/A	
Other Investments	-	-	-	-	-	-	-	-	628	628	628	628	628	N/A	N/A	
Loans and Advances	90,078	78,676	-	-	-	-	-	-	-	-	90,078	78,676	78,676	7.62	7.45	
Total Financial Assets	90,078	78,676	13,280	14,780	-	-	-	-	2,010	2,896	105,368	96,352	96,352			
(ii) Financial Liabilities:																
Deposits	52,707	44,400	36,300	37,229	1,572	5,177	-	-	-	-	90,579	86,806	86,806	2.80	2.25	
Bank Overdraft	2,453	658	-	-	-	-	-	-	-	-	2,453	658	658	9.19	-	
Short-term loans	-	-	2,000	-	-	-	-	-	-	-	2,000	-	-	6.04	-	
Trade Creditors and Accruals	-	-	-	-	-	-	-	-	593	461	593	461	461	N/A	N/A	
Accrued Interest	-	-	-	-	-	-	-	-	670	727	670	727	727	N/A	N/A	
Total Financial Liabilities	55,160	45,058	38,300	37,229	1,572	5,177	-	-	1,269	1,188	96,295	88,652	88,652			

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

27. FINANCIAL INSTRUMENTS (continued)

(c) Net fair values

The aggregate net fair values of financial assets and financial liabilities, both recognised and unrecognised, at the balance date are as follows:

	Total carrying amount as per the Statement of Financial Position		Aggregate net fair value	
	2004	2003	2004	2003
	\$	\$	\$	\$
Financial Assets				
Cash and liquid assets	1,288,561	2,205,671	1,288,561	2,205,671
Receivables	89,777	57,175	89,777	57,175
Investments in other financial Institutions	13,280,000	14,780,000	13,280,000	14,780,000
Loans and advances- related Parties/entities	407,403	403,024	407,403	403,024
Unlisted shares	5,005	5,005	5,005	5,005
Other investments	627,980	627,980	627,980	627,980
Loans and advances	89,671,074	78,272,512	89,671,074	78,272,512
Total Financial Assets	105,369,800	96,351,367	105,369,800	96,351,367
Financial Liabilities				
Deposits	90,579,167	86,805,806	90,579,167	86,805,806
Bank overdraft	4,453,506	657,725	4,453,506	657,725
Trade creditors and accruals	593,041	461,457	593,041	461,457
Accrued interest	670,144	726,803	670,144	726,803
Total Financial Liabilities	96,295,858	88,651,791	96,295,858	88,651,791

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

Recognised financial instruments

Cash and liquid assets and Investments in Other Financial Institutions: The carrying amounts approximate fair value because of their short-term to maturity or are receivable on demand.

Trade Creditors and Accruals: The carrying amount approximates fair value as they are short term in nature.

27. FINANCIAL INSTRUMENTS (continued)

(c) Net fair values (continued)

Loans and advances: The carrying value of loans, advances and other receivables is net of general and specific provisions for impairment. For variable rate loans, excluding impaired loans, the carrying amount is a reasonable estimate of the net fair value.

Investments/securities: For financial instruments traded in organised financial markets, fair value is the current quoted market bid price for an asset. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows or the underlying net asset base of the investment/security.

Other financial liabilities: This includes interest payable and unrealised expenses payable for which the carrying amount is considered to be a reasonable estimate of net fair value.

(d) Credit risk exposures

The Credit Union's maximum exposures (not taking into account the value of any collateral or other security held, in the event other entities/parties fail to perform their obligations under the financial instruments in question) to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the Statement of Financial Position.

Concentrations of credit risk

The Credit Union minimises concentrations of credit risk in relation to loans receivable by undertaking transactions with a large number of members within the specified category. However, the majority of members are concentrated in Australia.

	2004	2003	2004	2003
	\$	\$	\$	\$
Victoria	96.15%	95.49%	86,954,897	75,455,084
Other States	3.85%	4.51%	3,482,290	3,566,554
	100.00%	100.00%	90,437,187	79,021,638

Credit Risk in regard to loans is managed in the following ways:

- a risk assessment process is used for all customers
- credit Insurance is obtained for high-risk customers.

28. OPERATING LEASE COMMITMENTS

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

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

	2004	2003
	\$	\$
• not later than one year;	49,612	38,001
• later than one year and not later than five years	81,520	6,900
• later than five years	-	-
	<u>131,132</u>	<u>44,901</u>

Expenditure commitments are stated exclusive of Goods and Services Tax.

29. IMPACTS OF ADOPTING INTERNATIONAL FINANCIAL REPORTING STANDARDS

For reporting periods beginning on or after 1 July 2005, the Credit Union 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 are still in the process of being identified via the methodology outlined below.

The Credit Union has not quantified the effects of the differences, if any, that may exist. Accordingly there can be no assurances that the financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

The Credit Union is working toward the transition to IFRS reporting requirements and is working within a specific credit union industry group to achieve compliance. The Credit Union's implementation project consists of three phases as described below:

Assessment and planning phase

The assessment and planning phase aims to produce a high level overview of the impacts of conversion to IFRS reporting on existing accounting and reporting policies and procedures, systems and processes, business structures and staff.

This phase includes:

- high level identification of the key differences in accounting policies and disclosures that are expected to arise from adopting IFRS
- assessment of new information requirements affecting management information systems, as well as the impact on the business and its key processes
- evaluation of the implications for staff, for example training requirements
- preparation of a conversion plan for expected changes to accounting policies, reporting structures, systems, accounting and business processes and staff training

The Credit Union expects the assessment and planning phase will be complete in most respects as at 31 December 2004.

29. IMPACTS OF ADOPTING INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Design phase

The design phase aims to formulate the changes required to existing accounting policies and procedures and systems and processes in order to transition to IFRS. The design phase will incorporate:

- formulating revised accounting policies and procedures for compliance with IFRS requirements
- identifying potential financial impacts as at the transition date and for subsequent reporting periods prior to adoption of IFRS
- developing revised IFRS disclosures
- designing accounting and business processes to support IFRS reporting obligations
- identifying and planning required changes to financial reporting and business source systems
- developing training programs for staff

The Credit Union has commenced its design phase, with work progressing in each of the areas described above. The design phase is expected to be completed during the upcoming financial year.

Implementation phase

The implementation phase will include implementation of identified changes to accounting and business procedures, processes and systems and operational training for staff. It will enable the Credit Union to generate the required disclosures of AASB 1 as it progresses through its transition to IFRS.

Except for certain training that has been given to operational staff, the Credit Union has not yet commenced the implementation phase. However, the company expects this phase to be substantially complete by 30 June 2005.

The key potential implications of the conversion to IFRS on the Credit Union which have been initially identified relate to the following areas:

- Financial instruments;
- Income tax;
- Loan provisioning;
- Property, plant and equipment, and
- Changes in accounting policies.

DIRECTORS' DECLARATION

The directors of the company declare that:-

1. the financial statements and notes, set out on pages 4 to 30, are in accordance with the Corporations Act 2001, including:
 - (a) giving a true and fair view of the financial position as at 30 June 2004 and of the performance for the year ended on that date of the Credit Union; and
 - (b) complying with the Accounting Standards and Corporations Regulations; and
2. 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:

E McDermott – Director

J W Guilmartin – Director

INDEPENDENT AUDIT REPORT

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

Scope

We have audited the financial report of Goulburn Murray Credit Union Co-operative Limited (the 'Credit Union') for the financial year ended 30 June 2004, consisting of the Statement of Financial Performance, Statement of Financial Position, Statement of Cashflows, accompanying notes and the Directors' declaration, as set out on pages 4 to 31. 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, 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 financial position, and performance as represented by the results of its operations and its 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 Goulburn Murray Credit Union Co-Operative Limited is in accordance with:

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

KPMG
Chartered Accountants

Dougald J. Frederick
Partner

Dated at Albury, this 12th day of October 2004.