

FIRST CHOICE CREDIT UNION LTD
ABN 63 087 649 867

FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2009

FIRST CHOICE CREDIT UNION LTD
ABN 63 087 649 867

Registered Office:

2/18 Sale Street
Orange NSW 2800
Phone: 02 6362 2944
Facsimile: 02 6362 6061

Postal Address:

PO Box 717
Orange NSW 2800

Email: enq@firstchoicecu.com.au

Website: www.firstchoicecu.com.au

Company Secretary:

Mr PR Dawson

Management:

Mr PR Dawson General Manager
Ms J McKinnon Assistant General Manager

Auditor:

Morse Group
Accountants & Advisors

Internal Auditor:

Mr Geoffrey Bannister

Solicitors:

Blackwell Short Lawyers, Orange
Daniels Bengtsson, Sydney

Bankers:

CUSCAL Limited
Centralised Banking Scheme with the National Australia Bank

Australian Financial Services License Number: 240722

**FIRST CHOICE CREDIT UNION LTD
ABN 63 087 649 867**

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FIRST CHOICE CREDIT UNION LTD
ABN 63 087 649 867

DIRECTORS' REPORT

Your Directors submit the financial report of the Credit Union for the year ended 30 June 2009.

DIRECTORS

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

Mr P Carman
Mr GW Dean
Mr R Dunkley
Mrs RL Neville
Mr JMJ Patarica
Mrs AH Wyllie

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

COMPANY SECRETARY

The following person held the position of company secretary at the end of the financial year:

Mr Paul Dawson – Diploma in Financial Services and Graduate of the Institute of Company Directors. Mr Dawson has worked for First Choice Credit Union Ltd for the past eight years in the position of General Manager. Mr Dawson was appointed company secretary on 8 October 2001.

PRINCIPAL BUSINESS ACTIVITIES

The principal business activities of the Credit Union during the year were the provision of financial services to members in the form of taking deposits and giving financial accommodation as prescribed by the Constitution. There were no significant changes in the nature of the Credit Union's activities during the year.

OPERATING RESULTS

The profit earned by of the Credit Union for the financial year after providing for income tax was \$446,416 (2008: \$450,039).

REVIEW OF OPERATIONS

Net profit after tax for the year ended 30 June 2009 was \$446,416 (2008 - \$450,039). The Credit Union's Constitution prevents the payment of a dividend and accordingly the Directors do not recommend payments of a dividend.

ENVIRONMENTAL ISSUES

The Credit Union's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or State.

EVENTS OCCURRING AFTER BALANCE DATE

No matters or circumstances have arisen since the end of the financial year which 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.

**DIRECTORS' REPORT
(Continued)**

FUTURE DEVELOPMENTS

The key strategy of the Credit Union will continue to be to improve saving and loan services to members. The Directors are not aware of any likely developments that will materially affect the results of the Credit Union's operations in future years.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments as decided at the Annual General Meeting) by reason of a contract made by the Credit Union or a related corporation with a Director or with a firm of which he or she is a member, or with an entity in which he or she has a substantial financial interest.

INDEMNIFYING OFFICERS AND AUDITOR

During the year, a premium was paid in respect of a contract insuring directors and officers of the company against liability. The officers of the Credit Union covered by the insurance contract include the directors, executive officers, secretary and employees. In accordance with normal commercial practice, disclosure of the total amount of premium payable under the insurance contract and the nature of liabilities covered is prohibited by a confidentiality clause in the contract. No insurance cover has been provided for the benefit of the auditors of the Credit Union.

PROCEEDINGS ON BEHALF OF CREDIT UNION

No person has applied for leave of the Court to bring proceedings on behalf of the Credit Union or intervene in any proceedings to which the Credit Union is a party for the purpose of taking responsibility on behalf of the Credit Union for all or any part of those proceedings.

The Credit Union was not a party to any such proceedings during the year.

AUDITOR'S INDEPENDENCE

The auditors have provided a declaration of independence to the Board prescribed by the Corporations Act 2001 as set out on page 5.

DIRECTORS' REPORT
(Continued)

INFORMATION ON DIRECTORS

The Directors in office at the date of this report are:

Peter Carman

Position	-	Director Corporate Governance Committee Member
Qualifications	-	Member of the Australasian Mutuals Institute
Employment	-	Self Employed Licenced Building Contractor
Experience	-	Board member since 31/10/03
Interest in shares	-	1 Ordinary share in the Credit Union

Geoffrey William Dean

Position	-	Director Chairman Corporate Governance Committee Member Remuneration and Review Committee Member Nominations Committee Member
Qualifications	-	Associate Fellow of the Australasian Mutuals Institute
Employment	-	Self Employed Businessman
Experience	-	Board member since 16/09/88
Interest in shares	-	1 Ordinary share in the Credit Union

Robin Dunkley

Position	-	Director Audit and Risk Committee Chairperson
Qualifications	-	Member of the Australasian Mutuals Institute Diploma of Superannuation Management
Employment	-	Self Employed Businessman
Experience	-	Board member since 03/11/06
Interest in shares	-	1 Ordinary share in the Credit Union

Rosalie Leonie Neville

Position	-	Director Deputy Chairperson Audit and Risk Committee Member
Qualifications	-	Member of the Australasian Mutuals Institute Bachelor of Social Science (Welfare) Masters in Social Policy and Planning
Employment	-	Central West Home and Community Care
Experience	-	Board member since 16/10/98
Interest in shares	-	1 Ordinary share in the Credit Union

Jozsef Mihaly Janos Patarica

Position	-	Director Audit and Risk Committee Member Remuneration and Review Committee Chairman Strategic Planning Co-ordinator
Qualifications	-	Member of the Australasian Mutuals Institute Bachelor in Engineering – (Mech) Engineering Graduate Diploma of Management Masters of Business Administration – Technology Management Australian Institute of Company Directors Graduate Diploma
Employment	-	Northgate Minerals Corporation
Experience	-	Board member since 15/10/99
Interest in shares	-	1 Ordinary share in the Credit Union

DIRECTORS' REPORT
(Continued)

INFORMATION ON DIRECTORS (Continued)

Annette Wyllie

Position	-	Director Corporate Governance Committee Chairperson Remuneration and Review Committee Member
Qualifications	-	Member of the Australasian Mutuals Institute Bachelor of Business Bachelor of Rural Science (Honours) MAIM
Employment	-	Self Employed Businesswoman
Experience	-	Board member since 28/04/03
Interest in shares	-	1 Ordinary share in the Credit Union

GENERAL BOARD, EXECUTIVE OF THE BOARD AND AUDIT COMMITTEE ATTENDANCE

Details of Directors' meetings held and attended since the date of appointment in the current year.

	Board Meetings Held	Board Meetings Attended	Audit and Risk Meetings Held	Audit and Risk Meetings Attended	Corporate Governance Meetings Held	Corporate Governance Meetings Attended
Mr P.J. Carman	12	9	n/a	n/a	1	Nil
Mr G.W. Dean	12	12	n/a	n/a	3	3
Mr R. Dunkley	12	12	4	4	n/a	n/a
Mrs R.L. Neville	12	11	3	3	2	2
Mr J.M.J. Patarica	12	11	4	4	n/a	n/a
Mrs A.H. Wyllie	12	11	1	1	1	1

Signed in accordance with a resolution of the Board of Directors.

Geoffrey Dean
Chairperson
Dated at Orange this 28th day of September 2009

Rosalie Neville
Deputy Chairperson

**AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF FIRST CHOICE CREDIT UNION LTD**

I declare that to the best of my knowledge and belief, during the year ended 30 June 2009, there have been:

- (i) No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) No contraventions of any applicable code of professional conduct in relation to the audit.

MORSE GROUP

237 Lords Place
Orange
Dated: 28 September 2009

**LR SMITH
PARTNER**

FIRST CHOICE CREDIT UNION LTD
ABN 63 087 649 867

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2009

	Notes	2009 \$	2008 \$
Interest revenue	2	2,690,678	2,572,164
Interest expense	2	<u>(1,083,486)</u>	<u>(937,446)</u>
Net interest income		1,607,192	1,634,718
Fees, commission and other income	3	492,948	470,637
Less			
Non interest expenses			
Impairment losses on loans receivable from members	4.1	(27,028)	(44,486)
General Administration			
- Employees compensation and benefit	4.2	(520,264)	(461,334)
- Depreciation and amortisation	4.2	(45,585)	(50,198)
- Information technology		(135,728)	(127,957)
- Property expenses	4.2	(110,388)	(116,521)
- Loss on disposal of assets	4.2	-	(870)
- Other administration	4.2	<u>(621,100)</u>	<u>(638,008)</u>
Total non interest expenses		<u>(1,460,093)</u>	<u>(1,439,374)</u>
Profit before income tax		<u>640,047</u>	<u>665,981</u>
Income tax expense	6.2	<u>(193,631)</u>	<u>(215,942)</u>
Profit after income tax		<u>446,416</u>	<u>450,039</u>

The accompanying notes form part of these financial statements

FIRST CHOICE CREDIT UNION LTD
ABN 63 087 649 867

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2009

	Asset Revaluation Reserve	Reserve for Credit Losses	Retained Earnings	Total
	\$	\$	\$	\$
Balance at 30 June 2007	181,974	293,404	3,107,805	3,583,183
Profit for the year	-	-	450,039	450,039
Revaluation of land and buildings	77,171	-	-	77,171
Transfer from retained earnings to reserve for credit losses	-	10,725	(10,725)	-
Correction of prior period deferred tax asset	-	-	(12,349)	(12,349)
At 30 June 2008	259,145	304,129	3,534,770	4,098,044
Profit for the year	-	-	446,416	446,416
Transfer from retained earnings to reserve for credit losses	-	41,970	(41,970)	-
At 30 June 2009	259,145	346,099	3,939,216	4,544,460

The accompanying notes form part of these financial statements.

FIRST CHOICE CREDIT UNION LTD
ABN 63 087 649 867

BALANCE SHEET
AS AT 30 JUNE 2009

	Notes	2009 \$	2008 \$
ASSETS			
Cash and liquid assets	7	749,352	569,525
Receivables due from financial institutions	8	10,709,225	9,246,198
Receivables	9	167,666	321,533
Loans and advances to members	10	24,921,991	21,948,173
Available for sale investments	11	78,938	78,938
Property, plant and equipment	12	632,656	659,365
Intangibles	13	4,924	7,900
Deferred tax assets	17.2	44,676	40,066
TOTAL ASSETS		<u>37,309,428</u>	<u>32,871,698</u>
LIABILITIES			
Short term borrowings	14	-	128,435
Deposits from members	15	31,984,057	27,754,994
Creditor accruals and settlement accounts	16	629,509	738,407
Current tax liabilities	17.1	30,672	45,765
Provisions	18	48,588	32,826
Deferred tax liabilities	17.1	72,142	73,277
TOTAL LIABILITIES		<u>32,764,968</u>	<u>28,773,654</u>
NET ASSETS		<u>4,544,460</u>	<u>4,098,044</u>
MEMBERS' EQUITY			
Asset revaluation reserve	19.1	259,145	259,145
Reserve for credit losses	19.2	346,099	304,129
Retained profits		3,939,216	3,534,770
TOTAL MEMBERS' EQUITY		<u>4,544,460</u>	<u>4,098,044</u>

The accompanying notes form part of these financial statements.

FIRST CHOICE CREDIT UNION LTD
ABN 63 087 649 867

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2009

	Notes	2009 \$	2008 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Revenue Inflows			
Interest received on loans		2,063,535	1,975,779
Interest received on investments		732,021	561,982
Dividends received		14,472	9,867
Fees and commissions received		463,954	439,441
Other income		14,522	21,329
Revenue Outflows			
Interest paid on members' savings		(998,425)	(916,917)
Interest paid on borrowings		(1,395)	(1,226)
Payments to suppliers and employees		(1,422,543)	(1,296,192)
Income taxes paid		(214,419)	(192,500)
Net cash provided by revenue activities	33.3	651,722	601,563
Members' loan repayments		5,297,668	6,823,231
Members' loan fundings		(8,298,514)	(7,637,348)
Net increase in member shares		1,180	670
Net increase in member savings		4,227,883	2,231,279
Decrease in deposits to other financial institutions (net)		(1,263,027)	(2,033,189)
Net increase/(decrease) in members' clearing		(92,749)	329,258
Net cash provided by (used in) operating activities		524,163	315,464
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on sale of property, plant and equipment		-	-
Payment for property, plant and equipment		(15,900)	(60,082)
Payment for intangibles		-	(3,361)
Net cash provided by (used in) investing activities		(15,900)	(63,443)
NET INCREASE/(DECREASE) IN CASH HELD		508,263	(252,021)
Cash at beginning of year		1,041,090	789,069
CASH AT END OF YEAR	33.2	1,549,353	1,041,090

The accompanying notes form part of these financial statements.

FIRST CHOICE CREDIT UNION LTD
ABN 63 087 649 867

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

This financial report is prepared for First Choice Credit Union Ltd as a single credit union, for the year ended 30 June 2009. The report was authorised for issue on 28 September 2009 in accordance with a resolution of the Board of Directors. The financial report is presented in Australian dollars. The financial report is a general purpose financial report which has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board (including Australian Accounting Interpretations) and the *Corporations Act 2001*. Compliance with Australian equivalents to International Financial Reporting Standards (AIFRS) ensures the financial statements and notes comply with the International Financial Reporting Standards (IFRS).

First Choice Credit Union Ltd is a company limited by guarantee, incorporated in Australia.

The following is a summary of the material accounting policies adopted by the entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of Preparation

The financial report has been prepared on an accruals basis and are based on historical costs, which do not take into account changing money values or current values of non current assets except for real property and available for sale investments which are stated at fair value. The accounting policies are consistent with the prior year unless otherwise stated.

1.1 Loans to members

(i) **Basis of recognition**

All loans are initially recognised at fair value, net of loan origination fees and inclusive of transaction costs incurred. Loans are subsequently measured at amortised cost. Any difference between the proceeds and the redemption amount is recognised in the income statement over the period of the loans using the effective interest method.

Loans to members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the Credit Union at balance date, less any allowance or provision against debts considered doubtful. A loan is classified as impaired where recovery of the debt is considered unlikely as determined by the Board of Directors. Australian Prudential Regulation Authority (APRA) has mandated that interest is not recognised as revenue after the irregularity exceeds 90 days for a loan facility.

(ii) **Interest earned**

Term Loans - The loan interest is calculated on the basis of the daily balance outstanding and is charged in arrears to a member's account on the last day of each month.

Overdraft - The loan interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a member's account on the last of each month.

Non-Accrual Loan Interest - while still legally recoverable, interest is not brought to account as income where the Credit Union is informed that the member has deceased, or, where a loan is impaired.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.1 Loans to members (continued)

(iii) Loan origination fees and discounts

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

(iv) Transaction costs

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

(v) Fees on loans

The fees charged on loans after origination of the loan are recognised as income when the service is provided or costs are incurred.

1.2 Loans impairment

(i) Provision for impairment

A provision for losses on impaired loans is recognised when there is objective evidence that the impairment of a loan has occurred. Estimated impairment losses are calculated on either a portfolio basis for loans of similar characteristics, or on an individual basis. The amount provided is determined by management and the Board to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement. The critical assumptions used in the calculation are as set out in Note 10. Note 20 details the credit risk management approach for loans.

The APRA Prudential Standards require a minimum provision to be maintained, based on specific percentages on the loan balance which are contingent upon the length of time the repayments are in arrears. This approach is used to assess the collective provisions for impairment.

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset or a group of financial assets is impaired. Evidence of impairment may include indications that the borrower has defaulted, is experiencing significant financial difficulty, or where the debt has been restructured to reduce the burden to the borrower.

(ii) Reserve for credit losses

In addition to the above specific provision, the Board has recognised the need to make an allocation from retained earnings to ensure there is adequate protection for members against the prospect that some members will experience loan repayment difficulties. The reserve is based on estimation of potential risk in the loan portfolio based upon:

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.3 Bad debts written off

Bad debts are written off from time to time as determined by management and the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provision for impairment previously recognised. If no provision had been recognised, the write offs are recognised as expenses in the income statement.

1.4 Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Property

Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings.

Any revaluation increments are credited to the asset revaluation reserve, unless it reverses a previous decrease in value in the same asset previously debited to the income statement. Revaluation decreases are debited to the income statement unless it directly offsets a previous revaluation increase in the same asset in the asset revaluation reserve.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Plant and equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement.

FIRST CHOICE CREDIT UNION LTD
ABN 63 087 649 867

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.4 Property, Plant and Equipment (continued)

Depreciation

The depreciable amount of all fixed assets including building assets, but excluding freehold land, is depreciated on a diminishing value basis over their useful lives to the entity commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets is:

Buildings	2.5%
Office furniture and equipment	10% to 25%
EDP equipment	12.5% to 50%
Motor vehicles	25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

Assets with a cost less than \$500 are not capitalised.

This policy is in accordance with the prescribed minimum set down under the Prudential Standards for Credit Unions.

1.5 Intangible assets

Software is carried at cost less, where applicable, any accumulated amortisation and impairment losses.

The carrying amount of software is reviewed annually by the directors to ensure it is not in excess of the recoverable amount of these assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.6 Receivables from other financial institutions

Term deposits with other financial institutions are unsecured and have a carrying amount equal to their principal amount. Interest is paid on the daily balance at maturity. All deposits are in Australian currency. The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in the amount of receivables in the balance sheet.

The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in the amount of receivables in the balance sheet.

1.7 Equity investments

Investments in shares are classified as available for sale financial instruments.

Investments in shares, which do not have a ready market and are not capable of being reliably valued are recorded at the lower of cost or recoverable amount. Investments in shares where no market value is readily available are carried at cost less any provision for impairment.

All investments are in Australian currency.

1.8 Members' deposits

(i) Basis for measurement

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

(ii) Interest payable

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

1.9 Employee benefits

Provision is made for the Credit Union's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year, have been measured at their nominal amount.

Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits discounted using national government bond rates.

Provision for long service leave is on a pro-rata basis from commencement of employment with the Credit Union based on the present value of its estimated future cash flows.

Annual leave is accrued in respect of all employees on pro-rata entitlement for part years of service and leave entitlement due but not taken at balance date. Annual leave is reflected as part of the sundry creditors and accruals.

FIRST CHOICE CREDIT UNION LTD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.9 Employee benefits (Continued)

Contributions are made by the Credit Union to an employee's superannuation fund and are charged to the income statement as incurred.

1.10 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lease payments for operating leases, are charged as expenses in the periods in which they are incurred.

1.11 Income tax

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Credit Union will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.12 Goods and services tax

As a financial institution the Credit Union is input taxed on all income except for income from commissions and some fees. An input taxed supply is not subject to GST collection, and similarly the GST paid on related or apportioned purchases cannot be recovered. As some income is charged GST, the GST on purchases are generally recovered on a proportionate basis. In addition certain prescribed purchases are subject to reduced input tax credits (RITC), of which 75% of the GST paid is recoverable.

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

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

1.13 Impairment of assets

At each reporting date, the Credit Union reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If any such indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Where it is not possible to estimate the recoverable amount of an individual asset, the entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

1.14 Accounting estimates and judgements

Management have made critical accounting estimates when applying the Credit Union's accounting policies with respect to the impairment provisions for loans - refer Note 10.

1.15 Correction of prior period error

During the calculation of the current year taxation entries, it was found that the tax base of the buildings held by the Credit Union had been incorrectly determined on transition to AIFRS. This error has been corrected in the comparatives to these financial statements and has resulted in an increase in deferred tax assets of \$12,349 and an adjustment to retained earnings at 1 July 2007 of \$12,349.

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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. Most averages are monthly averages and are representative of the Credit Union's operations during the period.

	Average Balance \$	Interest \$	Average Rate %
<i>Interest revenue - 2009</i>			
Receivables from financial institutions	9,649,412	627,143	6.50
Loans and advances (non-commercial)	22,646,791	2,034,249	8.98
Commercial loans	272,641	29,286	10.74
	32,568,844	2,690,678	8.26
<i>Interest expense - 2009</i>			
Deposits from members	30,392,889	1,082,091	3.56
Short-term borrowings	173,944	1,395	0.80
	30,566,833	1,083,486	3.54
Net interest income 2009		1,607,192	
<i>Interest revenue - 2008</i>			
Receivables from financial institutions	9,295,656	596,385	6.42
Loans and advances (non-commercial)	19,710,952	1,928,861	9.79
Commercial loans	295,855	46,918	15.86
	25,903,244	2,572,164	8.78
<i>Interest expense - 2008</i>			
Deposits from members	26,663,526	936,220	3.51
Short-term borrowings	15,425	1,226	7.95
	25,807,444	937,446	3.51
Net interest income 2008		1,634,718	

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	2009 \$	2008 \$
3. FEE, COMMISSIONS AND OTHER INCOME		
Fee and commission revenue		
Fee income on loans	62,069	65,692
Fee income from member deposits	63,059	56,916
ATM and Redicard	253,879	240,894
Other fee income	32,283	34,150
Insurance commissions	32,589	28,589
Other commissions	20,075	13,200
	463,954	439,441
Other income		
Dividends received on available for sale assets	14,472	9,867
Bad debts recovered	9,333	18,393
Miscellaneous revenue	5,189	2,936
	492,948	470,637
4.1 NON INTEREST EXPENSE		
4.1 Impairment losses		
Loans and advances		
Increase in provision for impairment	27,028	35,000
Bad debts written off against directly against profit	-	9,486
	27,028	44,486

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	2009	2008
	\$	\$
4.2 Individually significant items of signature		
The following items of expense are shown as part of Administration expenses and are considered to be significant to the understanding of the financial performance :-		
<i>Loss on disposal of assets</i>	-	870
<i>Depreciation and amortisation</i>		
Depreciation	42,609	45,730
Amortisation of intangible assets	2,976	4,468
Total depreciation and amortisation	45,585	50,198
<i>Property expenses</i>		
Occupancy expenses	58,096	62,300
Agency costs	52,292	54,221
	110,388	116,521
<i>Employee benefits expense</i>		
Salaries	416,234	381,832
Superannuation contributions	38,123	35,021
Annual leave	9,816	6,421
Long service leave	15,762	6,009
Other	40,329	32,051
Total employee benefits	520,264	461,334
<i>General administrative expenses</i>		
ATM costs	120,321	98,828
Board costs	53,629	50,542
Legal fees	11,575	13,305
Marketing and promotion	71,200	88,857
Member chequing	52,759	21,647
Member protection	54,903	52,025
Office administration	100,015	125,836
Redicard costs	99,373	123,971
Other	57,325	62,997
Total general and administration	621,100	638,008

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	2009	2008
	\$	\$
5. AUDITOR'S REMUNERATION		
Amounts received or due and receivable by the auditors of the Credit Union for:		
- Audit of the financial statements	26,965	23,000
- Other regulatory audit services	5,500	5,500
- Taxation services	6,000	5,000
- Other	-	6,820
	38,465	40,320

6. INCOME TAX

6.1 Current Tax Provision

Represented by:

Current tax expense – current year profits	30,672	45,765
Adjustments for previous years	-	-
	30,672	45,765

6.2 Reconciliation of Current Year Tax Payable to Income Tax Expense

The prima facie tax on profit from operations before income tax is reconciled to the income tax as follows:

	2009	2008
	\$	\$
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2007: 30%)	192,014	199,794
Plus / (Less) tax effect of:		
- Employee leave entitlements	-	4,094
- Other accruals	-	1,118
- Property	1,085	30,269
- Dividend rebate	(4,342)	(2,961)
Amended assessments - refund	-	(16,372)
Under/(over) provision in prior year	4,874	-
	193,631	215,942

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	2009	2008
	\$	\$
7. CASH AND LIQUID ASSETS		
Cash on hand	438,472	311,671
Imprest accounts (CUSCAL Limited)	<u>310,880</u>	<u>257,854</u>
	<u>749,352</u>	<u>569,525</u>
8. RECEIVABLES FROM FINANCIAL INSTITUTIONS		
	<u>10,709,225</u>	<u>9,246,198</u>
9. ACCRUED RECEIVABLES		
Clearing accounts	104,798	152,270
Interest receivable on deposits with other financial institutions	62,868	167,745
Other	<u>-</u>	<u>1,518</u>
	<u>167,666</u>	<u>321,533</u>
10. LOANS AND ADVANCES		
Overdrafts	1,026,579	871,507
Term loans	<u>23,930,412</u>	<u>21,111,666</u>
	<u>24,956,991</u>	<u>21,983,173</u>
Less: Provision for impaired loans	(35,000)	(35,000)
	<u>24,921,991</u>	<u>21,948,173</u>

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	2009	2008
	\$	\$
10. LOANS AND ADVANCES (Continued)		
10.1 Credit quality – security held against loans		
Secured by mortgage over real estate	14,586,206	11,842,958
Partly secured by goods mortgage	6,792,655	6,519,139
Assigned savings	32,152	-
Wholly unsecured	<u>3,545,978</u>	<u>3,621,076</u>
	<u>24,956,991</u>	<u>21,983,173</u>

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

Security held as mortgages against real estate		
- loan to valuation ratio of less than 80%	13,415,090	10,922,400
- loan to valuation ratio of more than 80% but mortgage insured	1,171,116	920,558
- loan to valuation ratio of more than 80% but not mortgage insured	<u>-</u>	<u>-</u>
	<u>14,586,206</u>	<u>11,842,958</u>

10.2 Concentration of loans

	2009	2008
	\$	\$
The Credit Union has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments as follows:		
(i) Loans to individual or related groups of members which exceed 10% of capital – aggregate value	<u>427,764</u>	<u>438,399</u>
(ii) Loans to members are mainly concentrated in Central Western New South Wales		
(iii) Loans by customer type were:		
Residential loans and facilities	14,801,675	11,842,958
Personal loans and facilities	9,883,604	9,818,530
Business loans and facilities	<u>271,712</u>	<u>321,685</u>
	<u>24,956,991</u>	<u>21,983,173</u>

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NOTES TO THE FINANCIAL STATEMENTS
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	2009 \$	2008 \$
10. LOANS AND ADVANCES (Continued)		
10.3 Movement in the provision for impairment		
Opening balance	35,000	35,000
Bad debts written off against provision	(27,028)	(35,000)
Loans provided for during the year	<u>27,028</u>	<u>35,000</u>
	<u>35,000</u>	<u>35,000</u>
10.4 Impaired Loans Written Off		
Amounts written off against the provision	27,028	35,000
Amounts written off directly to expense	<u>-</u>	<u>9,586</u>
Bad debts expense	<u>27,028</u>	<u>44,586</u>
Bad debts recovered in the period	<u>9,333</u>	<u>18,393</u>

10.5 Analysis of loans that are impaired or potentially impaired based on age of repayments outstanding

	2009 Carrying Value \$	2009 Provision \$	2008 Carrying Value \$	2008 Provision \$
0 to 90 days in arrears	103,148	21,850	86,909	4,960
90 to 180 days in arrears	875	350	42,762	17,105
180 to 270 days in arrears	2,942	1,765	11,847	7,108
270 to 365 days in arrears	-	-	-	-
Over 365 days in arrears	10,735	10,735	1,057	1,057
Over limit facilities over 14 days	<u>751</u>	<u>300</u>	<u>11,385</u>	<u>4,770</u>
Total	<u>118,451</u>	<u>35,000</u>	<u>153,960</u>	<u>35,000</u>

The impaired loans are generally not secured against residential property. Some impaired loans are secured by bill of sale over motor vehicles or other assets of varying value. It is not practicable to determine the fair value all collateral as at the balance date due to the variety of assets and condition.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

	2009 \$	2008 \$
10. LOANS AND ADVANCES (Continued)		
10.6 Assets acquired via enforcement of security		
<i>Assets acquired via enforcement of security (excluding loans reported)</i>		
- Motor Vehicles	-	7,000

The policy is to sell the assets via auction at the earliest opportunity after measures to assist the members to repay the debts have been exhausted.

10.7 Loans with repayments past due but not regarded as impaired

There are no loans past due, which are not considered to be impaired.

10.8 Key assumptions in determining impairment

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

	2009 \$	2008 \$
11. AVAILABLE FOR SALE INVESTMENTS		
Shares held with special service providers		
- primary shares	8,778	8,778
- central banking shares	70,160	70,160
	78,938	78,938

The shareholding in CUSCAL is measured at cost as its fair value could not be measured reliably. This company was created to supply services to the member credit unions. These shares are held to enable the Credit Union to receive essential banking services – refer to Note 30. The shares are not able to be traded and are not redeemable.

The financial reports of CUSCAL record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of CUSCAL, any fair value determination on these shares is likely to be greater than their cost value, but due to the absence of a ready market and restrictions on the ability to transfer the shares, a market value is not able to be determined readily.

The Credit Union is not intending, nor able to, dispose of these shares.

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	2009	2008
	\$	\$
12. PROPERTY, PLANT AND EQUIPMENT		
Land - at valuation	<u>206,700</u>	<u>206,700</u>
Buildings - at valuation	293,300	293,300
Less: provision for depreciation	<u>(7,333)</u>	<u>-</u>
	<u>285,967</u>	<u>293,300</u>
Plant and equipment - at cost	336,995	327,195
Less: provision for depreciation	<u>(219,936)</u>	<u>(189,546)</u>
	<u>117,059</u>	<u>137,649</u>
Motor vehicles – at cost	30,000	30,000
Less: provision for depreciation	<u>(13,170)</u>	<u>(8,284)</u>
	<u>16,830</u>	<u>21,716</u>
Capital works in progress	<u>6,100</u>	<u>-</u>
Total property, plant and equipment	<u>632,656</u>	<u>659,365</u>

The land and buildings were valued as at 30 June 2008 by Mr Mitchell Staniforth (Registered Valuer No. 5016), of Saunders & Staniforth Valuers.

Movement in carrying amounts for each class of property, plant and equipment between the beginning and end of the current financial year.

	Beginning balance	Additions	Disposals WDV	Depreciation expense	Carrying amount at year end
Land	206,700	-	-	-	206,700
Buildings	293,300	-	-	(7,333)	285,967
Plant and equipment	137,649	9,800	-	(30,390)	117,059
Motor vehicles	21,716	-	-	(4,886)	16,830
Capital Works in Progress	-	6,100	-	-	6,100
Totals	<u>659,365</u>	<u>15,900</u>	<u>-</u>	<u>(42,609)</u>	<u>632,656</u>

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	2009	2008
	\$	\$
13. INTANGIBLES		
Member transaction system	31,244	31,244
Accumulated amortisation	<u>(26,320)</u>	<u>(23,344)</u>
	<u>4,924</u>	<u>7,900</u>

Movement in carrying amounts for each class of intangibles between the beginning and end of the current financial year.

	Beginning balance	Additions	Revaluations and impairment decrements or reversals	Disposals WDV	Depreciation expense	Carrying amount at year end
Member transaction system	7,900	-	-	-	(2,976)	4,924
				2009		2008
				\$		\$

14. SHORT TERM BORROWINGS

Overdraft	<u>-</u>	<u>128,435</u>
There were no defaults on interest and capital payments on this liability in the current or prior year.		

15. DEPOSITS FROM MEMBERS

Member deposits		
- at call	17,329,286	15,864,521
- at term	14,611,241	11,848,123
Member withdrawable shares	<u>43,530</u>	<u>42,350</u>
	<u>31,984,057</u>	<u>27,754,994</u>

There were no defaults on interest and capital payments on this liability in the current or prior year.

15.1 Concentration of member deposits

There are no members who individually have deposits, which represent 10% or more of total liabilities (2008: Nil).

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	2009	2008
	\$	\$
16. PAYABLES AND OTHER LIABILITIES		
Payables and accrued expenses	55,527	117,686
Accrued interest payable	335,905	252,239
Members' clearing accounts	184,846	325,067
Annual leave	53,231	43,415
	635,134	738,407
17. TAXATION		
17.1 Taxation liabilities		
Income tax	30,672	45,765
Property	72,142	73,227
	102,814	118,992
17.2 Taxation assets		
Provision for impairment	10,500	10,500
Employee leave entitlements	30,546	22,872
Other	3,630	6,694
	44,676	40,066
17.3 Reconciliation of deferred taxation balances		
(i) Gross movements		
The overall movement in the deferred tax account is as follows:		
Opening balance	(32,076)	9,456
Charge/(credit) to income statement	4,610	(41,532)
	(27,466)	(32,076)
(ii) Deferred tax liability		
The movement in deferred tax liability for property during the year as follows:		
At 1 July 2008	(73,227)	(34,236)
Charged to income statement	1,085	(38,991)
	(72,142)	(73,227)

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	2009 \$	2008 \$
17. TAXATION (Continued)		
17.3 Reconciliation of deferred taxation balances (continued)		
(iii) Deferred tax assets		
The movement in deferred tax assets for each temporary difference during the year as follows:		
<i>Provision for impaired loans</i>		
At 1 July 2008	10,500	10,500
Charged to income statement	-	-
At 30 June 2009	10,500	10,500
 <i>Employee leave entitlements</i>		
At 1 July 2008	22,872	18,778
Charged to income statement	7,674	4,094
At 30 June 2009	30,546	22,872
 <i>Other</i>		
At 1 July 2008	6,694	5,575
Charged to income statement	(3,064)	1,119
At 30 June 2009	3,630	6,694
 18. PROVISIONS		
<i>Long service leave:</i>		
Opening balance at 1 July 2008	32,826	26,817
Additional provision raised during year	12,762	6,009
Amounts used	-	-
Balance at 30 June 2009	45,588	32,826

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

	2009 \$	2008 \$
19. RESERVES		
19.1 Asset revaluation reserve		
Asset revaluation reserve relating to land and buildings	259,145	259,145
Balance at the beginning of the year	259,145	181,974
Add: increase on revaluation of land and buildings	-	110,244
Less: deferred tax liability	-	(33,073)
	259,145	259,145
19.2 Reserve for credit losses		
Opening balance	304,129	293,404
Transfer from retained earnings	41,970	10,725
	346,099	304,129

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

For each type of risk arising from financial instruments, an entity shall disclose:

- (i) the exposures to risk and how they arise;
- (ii) it's objectives, policies and processes for managing risk and the methods used to measure the risk; and
- (iii) any changes in (i) or (ii) from the previous period.

If quantitative data at reporting date not representative of entity's exposure to risk provide further information that is representative

Introduction

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

The Credit Union's risk management focuses on the major areas of market risk, credit risk and operational risk. Authority flows from the Board of Directors to and from there to the Audit and Risk Committee which are integral to the management of risk.

Board

This is the primary governing body. It approves the level of risk which the Credit Union is exposed to and the framework for reporting and mitigating those risks.

NOTES TO THE FINANCIAL STATEMENTS
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20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Audit and Risk Committee

Its key role in risk management is the assessment of the controls that are in place to mitigate risks. The Audit and Risk Committee considers and confirms that the significant risks and controls are to be assessed within the internal audit plan. The Audit and Risk Committee receives the internal audit reports on assessment and compliance with the controls, and provides feedback to the Board for their consideration.

The Audit and Risk Committee carries out a regular review of all operational areas to ensure that operational risks are being properly controlled and reported. It also ensures that contingency plans are in place to achieve business continuity in the event of serious disruptions to business operations.

The Audit and Risk Committee monitors compliance with the framework laid out in the policy on a quarterly basis and reports in turn to the board, where actual exposures to risks are measured against prescribed limits.

Internal Audit

Internal audit has responsibility for implementing the controls testing and assessment as required by the Audit and Risk Committee.

Key risk management policies encompassed in the overall risk management framework include:

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

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

20.1 Market risk policy

The objective of the Credit Union's market risk management is to manage and control market risk exposures in order to optimise risk and return.

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

20.2 Interest Rate Risk

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

Most banks are exposed to interest rate risk within its treasury operations. This Credit Union does not have a treasury operation and does not trade in financial instruments.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

20.2 Interest Rate Risk (Continued)

Interest rate risk in the banking book

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

The interest rate risk on the banking book and reported to the Board monthly.

In the banking book the most common risk the Credit Union faces arises from fixed rate assets and liabilities. This exposes the Credit Union to the risk of sensitivity should interest rates change.

The table set out at Note 23 displays the period that each asset and liability will reprice as at the balance date. This risk is not considered significant to warrant the use of derivatives to mitigate this risk.

Method of managing risk

The Credit Union manages its interest rate risk by the use of interest rate sensitivity analysis, the detail and assumptions used are set out below.

Interest rate sensitivity

The Credit Union's exposure to market risk is measured and monitored using interest rate sensitivity models.

The policy of the Credit Union to manage the risk is to maintain a balanced 'on book' strategy by ensuring the net interest rate gaps between assets and liabilities are not excessive. The gap is measured monthly to identify any large exposures to the interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets and term deposits liabilities to rectify the imbalance to within acceptable levels. The policy of the Credit Union is not to undertake derivatives to match the interest rate risks. The Credit Union's exposure to interest rate risk is set out in Note 23 which details the contractual interest change profile.

An independent review of the interest rate risk profile was conducted by CUSCAL Ltd, an independent risk management consultancy. The Board monitors these risks through the reports from CUSCAL Ltd and other management reports.

Based on the calculations as at 30 June 2009, the net profit impact for a 2% (2008: 1%) movement in interest rates would be \$229,131 (2008: \$108,645.)

The Credit Union performs a sensitivity analysis to measure market risk exposures.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

20.2 Interest Rate Risk (Continued)

The method used in determining the sensitivity was to evaluate the profit based on the timing of the interest repricing on the banking book of the Credit Union for the next 12 months. In doing the calculation the assumptions applied were that:

- the interest rate change would be applied equally over to the loan products and term deposits;
- the rate change would be as at the beginning of the 12 month period and no other rate changes would be effective during the period;
- the term deposits would all reprice to the new interest rate at the term maturity, or be replaced by deposit with similar terms and rates applicable;
- savings deposits would not reprice in the event of a rate change ;
- the value and mix of call savings to term deposits will be unchanged; and
- the value and mix of personal loans to mortgage loans will be unchanged.

There has been no change to the Credit Union's exposure to market risk or the way the Credit Union manages and measures market risk in the reporting period.

20.3 Liquidity risk

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

The Credit Union manages liquidity risk by:

- continuously monitoring actual daily cash flows;
- monitoring the maturity profiles of financial assets and liabilities;
- maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- monitoring the prudential liquidity ratio daily.

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

The Credit Union is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA Prudential standards. The Credit Union policy is to apply at least 12% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this level the management and Board are to address the matter and ensure that the liquid funds are obtained from new deposits, or borrowing facilities available. Note 27 describes the borrowing facilities as at the balance date. These facilities are in addition to the support from CUFSS.

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20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

20.3 Liquidity risk (Continued)

The maturity profile of the financial liabilities, based on the contractual repayment terms are set out in the specific Note 22. The ratio of liquid funds over the past year is set out below:

APRA	2009	2008
Total adjusted liabilities	35,266,104	32,167,797
As at 30 June	32.67%	30.61%
Average for the year	33.00%	30.55%
Minimum during the year	29.83%	26.93%
Total member deposits	31,940,527	27,712,644
As at 30 June	36.07%	35.53%

20.4 Credit risk

Credit risk is the risk that members, financial institutions and other counterparties will be unable to meet their obligations to the Credit Union which may result in financial losses. Credit risk arises principally from the Credit Union's loan book, investment assets and derivative contracts (where applicable).

(i) Credit risk - loans

The analysis of the Credit Union's loans by class is as follows:

Loans to:	2009 Carrying value \$	2009 Off balance sheet \$	2009 Maximum Exposure \$	2008 Carrying value \$	2008 Off balance sheet \$	2008 Maximum Exposure \$
Households	14,801,676	1,406,110	16,207,786	11,729,820	2,506,005	14,235,825
Personal	8,857,024	14,153	8,871,177	9,095,161	139,413	9,234,574
Overdrafts	1,026,579	1,056,545	2,083,124	871,507	801,000	1,672,507
Total to natural persons	24,685,279	2,476,808	27,162,087	21,696,488	3,446,418	25,142,906
Corporate Borrowers	271,712	-	271,712	286,685	-	286,685
Total	24,956,991	2,476,808	27,433,799	21,983,173	3,446,418	25,429,591

NOTES TO THE FINANCIAL STATEMENTS
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20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

20.4 Credit risk (Continued)

(i) Credit risk – loans (Continued)

Carrying value is the value on the balance sheet. Maximum exposure is the value on the balance sheet plus the undrawn facilities (loans approved not advanced, redraw facilities; line of credit facilities; overdraft facilities.). The details are shown in Note 24 and a summary is in Note 10.

All loans and facilities are within Australia. The geographic distribution is not analysed into significant areas within Australia as the exposure classes are not considered material. Concentrations are described in Note 10.2.

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

The Credit Union has established policies over the:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment, security requirements;
- Limits of acceptable exposure over the value to individual borrowers, non mortgage secured loans, commercial lending and concentrations to geographic and industry groups considered at high risk of default;
- Reassessing and review of the credit exposures on loans and facilities;
- Establishing appropriate provisions to recognise the impairment of loans and facilities;
- Debt recovery procedures;
- Review of compliance with the above policies;

A regular review of compliance is conducted as part of the internal audit scope.

Past due and impaired

A financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, a member enters into a lending agreement with the Credit Union that requires interest and a portion of the principle to be paid every month. On the first day of the next month, if the agreed repayment amount has not been paid, the loan is past due. Past due does not mean that a counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings. Once the past due exceeds 90 days the loans is regarded as impaired, unless other factors indicate the impairment should be recognised sooner.

Daily reports monitor the loan repayments to detect delays in repayments and recovery action is undertaken after 7 days. For loans where repayments are doubtful, external consultants are engaged to conduct recovery action once the loan is over 90 days in arrears. The exposures to losses arise predominantly in the personal loans and facilities not secured by registered mortgages over real estate.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

20.4 Credit risk (Continued)

(i) Credit risk – loans (Continued)

Past due and impaired (Continued)

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

In addition to specific provisions against individually significant financial assets, the Credit Union makes collective assessments for each financial asset portfolio segmented by similar risk characteristics.

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

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

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

Details are as set out in Note 10.

Bad debts

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

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

A reconciliation in the movement of both past due and impaired exposure provisions is provided in Note 10.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

20.4 Credit risk (Continued)

(i) Credit risk – loans (Continued)

Collateral securing loans

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

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

Concentration risk – individuals

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

The aggregate value of large exposure loans are set out in Note 10. [The Credit Union holds no significant concentrations of exposures to members.] Concentration exposures to counterparties are closely monitored with annual reviews being prepared for all exposures over 5 per cent of the capital base.

Concentration risk – industry

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

The Credit Union has a concentration in the retail lending for members who reside within the central west region of New South Wales. This concentration is considered acceptable as this is an area of great diversity in industry. The Credit Union does not have a concentration risk to any single industry.

(ii) Credit risk – liquid investments (Continued)

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Credit Union incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the Credit Union.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

20.5 Operational risk

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

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

- the segregation of duties between employee duties and functions, including approval and processing duties;
- documentation of the policies and procedures, employee job descriptions and responsibilities, to reduce the incidence of errors and inappropriate behavior;
- implementation of the whistleblowing policies to promote a compliant culture and awareness of the duty to report exceptions by staff ;
- education of members to review their account statements and report exceptions to the Credit Union promptly;
- effective dispute resolution procedures to respond to member complaints;
- effective insurance arrangements to reduce the impact of losses;
- contingency plans for dealing with the loss of functionality of systems or premises or staff.

Fraud

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

IT systems

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

20.6 Capital management

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

- Credit risk
- Market risk (trading Book)
- Operations risk.

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

Capital resources

Tier 1 Capital

The vast majority of Tier 1 capital comprises retained profits

Tier 2 Capital

Tier 2 capital consists of capital instruments that combine the features of debt and equity in that they are structured as debt instruments, but exhibit some of the loss absorption and funding flexibility features of equity. There are a number of criteria that capital instruments must meet for inclusion in Tier 2 capital resources as set down by APRA.

Tier 2 capital generally comprises:

- Asset revaluation reserve on land and buildings
- A general reserve for credit losses.

The Credit Union's asset revaluation reserve on the land and buildings is discounted to 45% of the value net of any capital gains tax and estimated costs of sale.

Capital in the Credit Union is made up as follows:

	2009	2008
	\$	\$
Tier 1		
Retained earnings	3,939,216	3,668,071
Less prescribed deductions	(59,369)	(84,407)
Net tier 1 capital	3,879,847	3,583,664
Tier 2		
Reserve for credit losses	242,269	216,362
Asset revaluation reserves on property (discounted to 45%)	116,615	116,615
Less prescribed deductions	-	(78,937)
Net tier 2 capital	358,884	254,040
Total Capital	4,238,731	3,837,704

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20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

20.6 Capital management (Continued)

The Credit Union is required to maintain a minimum capital level of 8% as compared to the risk weighted assets at any given time.

The risk weights attached to each asset are based on the weights prescribed by APRA in its Guidance AGN 112-1. The general rules apply the risk weights according to the level of underlying security.

		Carrying Value	Risk Weighted Value	Carrying Value	Risk Weighted Value
		2009 \$	2009 \$	2008 \$	2008 \$
Cash	0%	438,472	-	302,078	-
Deposits in highly rated ADI's	20%	11,082,973	2,216,595	9,543,362	1,908,672
Standard Loans secured against eligible residential mortgages up to 80% LVR	35%	10,395,289	3,638,351	8,161,081	2,856,379
Standard Loans secured against eligible residential mortgages greater than 80% LVR	50% to 75%	911,154	436,262	675,872	409,331
Standard Loans secured against eligible residential mortgages greater than 80% LVR, but mortgage insured	35%	295,004	127,349	138,821	48,587
Past due claims	100%	5,470	5,470	42,438	42,438
Other assets	100%	13,050,631	13,050,631	12,814,879	12,814,879
Total		36,178,993	19,474,658	31,678,531	18,080,286

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

2009	2008	2007	2006	2005
19.38%	18.22%	18.13%	17.09%	15.77%

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

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

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009**

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

20.6 Capital management (Continued)

Pillar 2 capital on operational risk

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

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

Based on this approach, the Credit Union's operational risk requirement is as follows:

	2009	2008
	\$	\$
Operational Risk Capital	196,550	179,407

It is considered that the Standardised approach accurately reflects the Credit Union's operational risk other than for the specific items set out below.

Internal capital adequacy management

The Credit Union manages its internal capital levels for both current and future activities through a combination of the various committees. The outputs of the individual committees are reviewed by the Board in its capacity as the primary governing body. The capital required for any change in the Credit Union's forecasts for asset growth, or unforeseen circumstances, are assessed by the Board.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

21. CATEGORIES OF FINANCIAL INSTRUMENTS

The following information classifies the financial instruments into measurement classes

	Note	2009 \$	2008 \$
Financial assets			
Cash and liquid assets	7	749,352	569,525
Receivables from financial institutions	8	10,709,225	9,246,198
Accrued receivables	9	167,666	320,015
Loans to members	10	24,956,991	21,983,173
Total loans and receivables		35,833,882	31,549,386
Available for sale investments - carried at cost	11	78,938	78,938
TOTAL FINANCIAL ASSETS		36,662,172	32,197,849
Financial liabilities – carried at amortised cost			
Short term borrowings	14	-	128,435
Deposits from members	15	31,984,057	27,754,994
Payables and other liabilities	16	576,278	577,306
TOTAL FINANCIAL LIABILITIES		32,560,335	28,460,735

22. MATURITY PROFILE OF FINANCIAL LIABILITIES

Monetary liabilities have differing maturity profiles depending on the contractual term. The table below shows the period in which different monetary liabilities held will mature and be eligible for renegotiation or withdrawal.

	Within 1 month \$	1-3 months \$	3-12 months \$	1-5 years \$	> 5 years \$	At call \$	Total \$
2009							
Borrowings	-	-	-	-	-	-	-
Deposits	2,218,892	5,139,385	7,252,964	-	-	17,372,816	31,984,057
Payables and other liabilities	-	-	-	-	-	576,278	576,278
Total financial liabilities	2,218,892	5,139,385	7,252,964	-	-	17,949,094	32,560,335
2008							
Borrowings	-	-	-	-	-	128,435	128,435
Deposits	1,298,819	2,890,038	7,701,617	-	-	15,864,521	27,754,995
Payables and other liabilities	-	-	-	-	-	577,306	577,306
Total financial liabilities	1,298,819	2,890,038	7,701,617	-	-	16,570,262	28,460,735

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23. INTEREST RATE CHANGE PROFILE OF FINANCIAL ASSETS AND LIABILITIES

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

Financial instruments	Within 1 month		1-3 months		3-12 months		1-5 years		Non interest rate sensitive		Total	
	2009 \$	2008 \$	2009 \$	2008 \$	2009 \$	2008 \$	2009 \$	2008 \$	2009 \$	2008 \$	2009 \$	2008 \$
(i) Financial assets												
Cash and liquid assets	310,880	257,854	-	-	-	-	-	-	438,472	311,671	749,352	569,525
Receivables due from other financial institutions	4,717,319	2,047,555	2,491,906	2,116,098	3,500,000	4,619,753	-	462,792	-	-	10,709,225	9,246,198
Accrued receivables	-	-	-	-	-	-	-	-	167,666	320,015	167,666	320,015
Loans to members	24,947,908	21,948,173	-	-	-	-	-	-	9,083	35,000	24,956,991	21,983,173
Other investments	-	-	-	-	-	-	-	-	78,938	78,938	78,938	78,938
Total financial assets	29,976,107	24,253,582	2,491,906	2,116,098	3,500,000	4,619,753	-	462,792	694,159	745,624	36,662,172	32,197,849
(ii) Financial liabilities												
Borrowings	-	128,435	-	-	-	-	-	-	-	-	-	128,435
Deposits	19,548,178	14,018,449	5,139,385	2,890,038	7,252,964	10,804,157	-	-	43,530	42,350	31,984,057	27,754,994
Payables and other liabilities	-	-	-	-	-	-	-	-	576,278	577,306	576,278	577,306
Total financial liabilities	19,548,178	14,146,884	5,139,385	2,890,038	7,252,964	10,804,157	-	-	619,808	619,656	32,560,335	28,460,735

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24. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

The values reported have not been adjusted for the changes in credit ratings of the assets.

The calculation reflects the interest rate applicable for the remaining term to maturity not the rate applicable to the original term.

	Fair value	2009 Carrying value	Variance	Fair value	2008 Carrying value	Variance
	\$	\$	\$	\$	\$	\$
Financial assets						
Cash	749,352	749,352	-	569,525	569,525	-
Advances to other financial institutions	10,709,225	10,709,225	-	9,246,198	9,246,198	-
Receivables	167,666	167,666	-	320,015	320,015	-
Loans & advances	24,956,991	24,921,991	35,000	21,983,173	21,948,173	35,000
Investments	78,938	78,938	-	78,938	78,938	-
Total Financial Assets	36,662,172	36,627,172	35,000	32,197,849	32,161,849	35,000
Financial liabilities						
Borrowings	-	-	-	128,435	128,435	-
Deposits from members	31,984,057	31,984,057	-	27,754,994	27,754,994	-
Payables and other liabilities	576,278	576,278	-	577,306	577,306	-
Total Financial Liabilities	32,560,335	32,560,335	-	28,460,735	28,460,735	-

The carrying value of receivables and creditors approximates fair value.

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

NOTES TO THE FINANCIAL STATEMENTS
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24. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Continued)

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

Liquid assets and receivables from other financial institutions

The carrying values of cash and liquid assets and receivables due from other financial institutions redeemable within 12 months approximate their fair value as they are short term in nature or are receivable on demand.

Loans and advances

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

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

The Credit Union did not hold any fixed rate loans at either 30 June 2008 or 30 June 2009.

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

Deposits from members

The fair value of call and variable rate deposits, and fixed rate deposits repricing within 12 months, is the amount shown in the balance sheet. Discounted cash flows were used to calculate the fair value of other term deposits, based upon the deposit type and the rate applicable to its related period maturity.

The Credit Union had no deposits which are maturing more than 12 months from year end in either the current or previous financial year.

Short term borrowings

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

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	2009 \$	2008 \$
25. FINANCIAL COMMITMENTS		
Outstanding loan commitments		
The loans approved but not funded	<u>379,182</u>	<u>1,515,390</u>
Loan redraw facilities		
The loan redraw facilities available	<u>1,041,081</u>	<u>1,130,028</u>
Overdrafts		
Overdraft facilities available	<u>1,056,545</u>	<u>801,000</u>
Total Financial Commitments	<u>2,476,808</u>	<u>3,446,418</u>

26. EXPENDITURE COMMITMENTS

26.1 Future Capital Commitments

At 30 June 2009 the Credit Union has no future capital commitments (2008: Nil).

	2009 \$	2008 \$
26.2 Lease Expenditure Commitments		
<i>Operating leases</i>		
Within 1 year	27,608	-
1 to 5 years	85,124	-
Over 5 years	<u>-</u>	<u>-</u>
	<u>112,732</u>	<u>-</u>

26.3 Other

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 the members. The Credit Union applies 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. The Credit Union holds collateral supporting these commitments where it is deemed necessary.

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	2009	2008
	\$	\$
27. STANDBY BORROWING FACILITIES		
The Credit Union has gross borrowing facilities with CUSCAL Limited of:		
Overdraft facility		
Gross	250,000	250,000
Current borrowing	-	-
Net available	250,000	250,000
Standby Loan facility		
Gross	1,000,000	-
Current borrowing	-	-
Net available	1,000,000	-

There are no restrictions as to withdrawal of these funds subject to the availability of funds to CUSCAL Limited at the time of draw down.

The borrowing facilities are secured by a fixed and floating charge over the assets and undertakings of the Credit Union.

28. CONTINGENT LIABILITIES

Credit Union Financial Support System

The Credit Union is a member of the Credit Union Financial Support System (CUFSS). CUFSS is a voluntary scheme of all Credit Unions that are affiliated with CUSCAL Limited. As a member, the Credit Union is committed to keep 9% of total liabilities as a deposit with CUSCAL Limited, of which 3.2% may be used by CUFSS for providing financial support backed by a floating charge over assets of the borrowing Credit Union. No funds have been so provided as at 30 June 2009.

29. KEY MANAGEMENT PERSONNEL AND RELATED PARTY DISCLOSURES

29.1 Names of Directors

During the course of the financial year the following Directors held office:

- P. Carman
- R.L. Neville
- G.W. Dean
- J.M.J. Patarica
- R. Dunkley
- A.H. Wyllie

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NOTES TO THE FINANCIAL STATEMENTS
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29. KEY MANAGEMENT PERSONNEL AND RELATED PARTY DISCLOSURES (Continued)

29.2 Key Management Personnel Compensation

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

Key Management Persons (KMP) have been taken to comprise the Directors and the members of the executive management team during the financial year, responsible for the day to day financial and operational management of the Credit Union.

	Short-term employee benefits	Post- employment benefits	Other long-term benefits	Termination benefits	Total
	\$	\$	\$	\$	\$
Year ended 30 June 2009					
Directors	18,750	6,652	-	-	25,402
Other KMP	188,023	16,834	-	-	204,857
Year ended 30 June 2008					
Directors	21,997	5,530	-	-	27,527
Other KMP	170,880	14,838	-	-	185,718

Compensation includes all employee benefits as defined in AASB 119: *Employee Benefits* including employee benefits to which AASB 2: *Share-based Payment* applies. Employee benefits are all forms of consideration paid, payable or provided by the Credit Union, or on behalf of the Credit Union, in exchange for services rendered to the Credit Union.

Compensation includes:

- (i) short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;
- (ii) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;
- (iii) other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation;
- (iv) termination benefits; and
- (v) share-based payment.

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NOTES TO THE FINANCIAL STATEMENTS
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29. KEY MANAGEMENT PERSONNEL AND RELATED PARTY DISCLOSURES (Continued)

29.3 Loans to Key Management Personnel and their Close Members of Family

	Balance as at 1 July	Interest charged	Write- off	Balance as at 30 June	Number in group	Amount of impairment loss expense recognised
	\$	\$	\$	\$		\$
Year ended 30 June 2009						
Directors	447,831 [^]	34,321	-	425,235 [*]	4	-
Other KMP	24,785	2,101	-	32,209	2	-
Close members of family	49,032	3,234	-	37,366	1	-
Year ended 30 June 2008						
Directors	449,277 ^{**}	40,518	-	447,831 [^]	5	-
Other KMP	15,067	608	-	24,785	2	-
Close members of family	23,180	4,477	-	49,032	1	-

** : \$186,978 worth of this balance is securitised

[^]: \$184,555 worth of this balance is securitised

*: \$201,586 worth of this balance is securitised

Loans provided to key management personnel and their close members of family are on conditions no more favourable than those extended to members. Security has been obtained for these loans in accordance with the Credit Union's lending policy.

There is no provision for impairment in relation to any loan extended to key management personal or their close members of family. No loan impairment expense in relation to these loans has been recognised during the period.

29.4 Other transactions

There were no other transactions during the financial year between the Credit Union and members of the Board.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

29. KEY MANAGEMENT PERSONNEL AND RELATED PARTY DISCLOSURES (Continued)

29.5 KMP and their Close Members of Family Saving, Term Deposit and Revolving Credit Facility Accounts

	Balance as at 1 July	Interest Paid	Balance as at 30 June	Number in group
	\$	\$	\$	
Year ended 30 June 2009				
Directors	396,448	28,062	347,081	6
Other KMP	9,024	184	52,663	2
KMP close members of family	28,457	5,413	521,054	9
Year ended 30 June 2008				
Directors	487,654	21,406	396,448	7
Other KMP	7,990	128	9,024	2
KMP close members of family	149,283	15,581	28,457	8

Directors and related parties have received interest on deposits with the Credit Union during the financial year. Interest has been paid on terms and conditions no more favourable to those available on similar transactions to members of the Credit Union.

30. ECONOMIC DEPENDENCY

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

- (i) CUSCAL Ltd - this entity supplies the Credit Union rights to members' cheques and Redicards in Australia and provides services in the form of settlement with bankers for member chequing, Redicard transactions and the production of members' cheque books and Redicards for use by members. It also provides central banking facilities.
- (ii) First Data International Limited (FDI) - this company operates the switching computer used to link Redicards operated through reditellers, and other approved ATM suppliers, to the Credit Union EDP systems.
- (iii) Lynx Financial Systems Pty Ltd - this company provides and maintains the application software used by the Credit Union.
- (iv) Credit Union Financial Support System (CUFSS) - this entity provides emergency liquidity support to the Credit Union.

31. SEGMENTAL REPORTING

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

32. SECURITISATION

The Credit Union has an arrangement with Integriss Securitisation Services Pty Limited 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 bears no risk exposure in respect of these loans. The Credit Union receives a management fee to recover the costs of on-going administration of the processing of the loan repayments and the issue of statements to the members.

The amount of securitised loans under management as at 30 June 2009 is \$400,863 (2008: \$596,381).

33. CASH FLOW STATEMENT

33.1 Cash Flows Presented on a Net Basis

Cash arising from the following activities are presented on a net basis in the Cash Flow Statement:

- (i) member deposits to and withdrawals from savings, money market and other deposit accounts;
- (ii) sales and purchases of maturing certificates of deposit;
- (iii) provision of member loans and the repayment of such loans.

33.2 Reconciliation of Cash

For the purposes of the Cash Flow Statement, cash includes cash on hand and at call with other financial institutions. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the balance sheet position as follows:

	2009 \$	2008 \$
Reconciliation of cash		
Cash balance comprises:		
- Cash on hand	749,353	569,525
- Deposits at call held with special service providers	800,000	600,000
- Overdraft	-	(128,435)
	<hr/> 1,549,353	<hr/> 1,041,090

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

	2009 \$	2008 \$
33.3 Reconciliation of Net Cash Provided by Operating Revenue Activities to Net Profit After Income Tax		
Net profit after tax	446,416	450,039
Non-cash items		
Provision for employee entitlements	25,578	12,430
Depreciation and amortisation	45,585	50,198
Loss on disposal of property	-	870
Bad debts written off	27,028	-
Movements in assets and liabilities		
Deferred income tax asset	(5,695)	(8,723)
Other receivables	1,518	463
Provision for income tax	(15,093)	25,230
Accrued interest receivable	104,877	(34,403)
Accrued interest payable	83,666	19,303
Creditors and accruals	(62,158)	47,165
Deferred income tax liability	-	38,991
Net cash provided by revenue activities	651,722	601,563

34. CHANGES IN ACCOUNTING POLICIES

The following Australian Accounting Standards have been issued or amended and are applicable to the economic entity but are not yet effective and have not been adopted in preparation of the financial statements at reporting date.

- AASB 8: Operating Segments (applicable for annual reporting periods commencing from 1 January 2009). This standard is now only applicable to for-profit entities. There are no significant changes to the requirements contained in the previous standard.
- AASB 101: Presentation of Financial Statements, AASB 2007-8: Amendments to Australian Accounting Standards arising from AASB 101 and AASB 2007-10: Further Amendments to Australian Accounting Standards arising from AASB 101 (applicable for annual reporting periods commencing from 1 January 2009). These standards contain changes to disclosure requirements and do not impact on the measurement or recognition of amounts reported in the entity's financial statements.
- AASB 2007-3: Amendments to Australian Accounting Standards arising from AASB 8 (applicable for annual reporting periods commencing from 1 January 2009). This standard makes consequential amendments to other standards as a result of the issue of AASB 8 – Operating Segments. This standard is only applicable to for-profit entities.
- AASB 2008-5: Amendments to Australian Accounting Standards Arising from the Annual Improvements Project (applicable for annual reporting periods commencing 1 January 2009). The amendments in this standard are expected to impact on disclosure requirements only, with no anticipated changes to measurement or recognition of amounts reported in the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

34. CHANGES IN ACCOUNTING POLICIES (Continued)

- AASB 2009-2: Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments (applicable for annual reporting periods commencing from 1 January 2009). These amendments arise from the issuance of Improving Disclosures about Financial Instruments (Amendments to IFRS 7) by the International Accounting Standards Board in March 2009. The amendments require enhanced disclosures about fair value measurements and liquidity risk.
- AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (applicable for annual reporting periods commencing from 1 January 2010). The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes. These amendments are not expected to have a material effect on the amounts presented in the financial statements.
- AASB 2009-6: Amendments to Australian Accounting Standards (applicable for annual reporting periods commencing from 1 January 2009) and AASB 2009-7: Amendments to Australian Accounting Standards (applicable for annual reporting periods commencing from 1 July 2009). These standards make editorial amendments to most Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS's by the IASB.

The entity does not anticipate early adoption of any of the above reporting requirements and does not expect them to have any material effect on the entity's financial statements.

35. CORPORATE INFORMATION

The Credit Union is a company limited by shares, and is registered under the Corporations Act 2001.

The address of the registered office is: First Choice Credit Union Ltd
2/18 Sale Street
Orange NSW 2800

The address the principal place of business is: 2/18 Sale Street
Orange NSW 2800

The nature of the operations, and it's principal activities are the provision of deposit taking facilities and loan facilities to the members of the Credit Union.

36. CORPORATE GOVERNANCE DISCLOSURES

Board

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

36. CORPORATE GOVERNANCE DISCLOSURES (Continued)

Board (Continued)

The Board:

- Monitors the matters of operational risk management and APRA reporting obligations
- Monitors the compliance with applicable laws
- General Manager remuneration – benefits
- Staff remuneration policies
- Financial budgets and performance criteria
- Approval of General Manager expenses
- Approval of large loans or commercial loans
- Approval of interest rate changes

Board Remuneration

The Board receives remuneration from the Credit Union in the form of allowances agreed to each year at the AGM and out of pocket expenses. There are no other benefits received from the Credit Union by the Directors.

Audit and Risk Committee

An Audit and Risk Committee has been formed to assist the Board in relevant matters of financial prudence. The Directors form the majority of this committee with General Manager participation.

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

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

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

Policies

The Board has endorsed a policy of compliance and risk management to suit the risk profile of the Credit Union's ethical guidelines to staff, and to reinforce the practice of providing efficient service to members with courtesy and recognition of members as owners.

The ethical principles adopted by the Credit Union are in accordance with the Credit Union Code of Practice.

Key Risk Management Policies include:-

- Capital adequacy management
- Liquidity Management
- Credit risk management
- Data risk management
- Operations risk management

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

36. CORPORATE GOVERNANCE DISCLOSURES (Continued)

Compliance Officer

The Credit Union has a Compliance Officer who is responsible for maintaining the awareness of staff for all changes in compliance legislation and responding to staff inquiries on compliance matters. The Officer also monitors the FSR License obligations and responds to all member complaints and disputes should they arise.

External Audit

Audit is performed by Morse Group Accountants and Business Advisors. Morse Group has been auditing credit unions for 30 years and audits 7 credit unions and building societies in NSW.

The work performed by the external auditors is examined by the Audit and Risk Committee to ensure that it is consistent with the current external audit reporting role and does not impair their independence.

Internal Audit

An internal audit function has been established using the services Geoffrey Bannister Consulting to deal with the areas of internal control compliance and regulatory compliance.

Regulation

The Credit Union is regulated by:

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

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

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

Occupational, Health & Safety

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

36. CORPORATE GOVERNANCE DISCLOSURES (Continued)

Occupational, Health & Safety (Continued)

Staff are trained in robbery procedures and offices are designed to detract from such acts by

- Little or no cash being held in accessible areas
- Cameras and monitoring equipment visible throughout the office

Office premises are examined regularly to ensure that the electrical safety and physical safety measures are appropriate to the needs to the public and staff. Independent security consultants report regularly on the areas of improvement which may be considered.

The Credit Union has established an OH&S checklist that is completed monthly by staff on a rotating basis. Any concerns raised are actioned upon in a prompt manner. Secure cash handling policies are in place, and injury from lifting heavy weights and RSI are managed by proper techniques to minimise the risk of damage.

All staff have access to Trauma counsellors where required following an incident which may impair their feeling of safety in the work place.

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DIRECTORS' DECLARATION

The Directors of First Choice Union Ltd declare that:

- (a) The financial report and notes set out on pages 6 to 56;
 - (i) comply with Accounting Standards and the Corporations Act 2001; and
 - (ii) give a true and fair view of the financial position as at 30 June 2009 and performance for the year ended on that date of the Credit Union.
- (b) In the Directors' opinion there are reasonable grounds to believe that the Credit Union will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed at Orange on the 28th day of September 2009 for and on behalf of the Directors by:

Geoffrey Dean
Director
Chair of Board of Directors

Rosalie Neville
Director
Deputy Chair

**INDEPENDENT AUDIT REPORT TO THE MEMBERS OF
FIRST CHOICE CREDIT UNION LTD
ABN 63 087 649 867**

Scope

Report on the financial report

We have audited the accompanying financial report of First Choice Credit Union Ltd, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the director's declaration.

Directors' responsibility for the financial report

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Central West Credit Union Limited on 28 September 2009, would be in the same terms if provided to the directors as at the date of this auditor's report.



Chartered Accountants



Liability limited by the Accountants Scheme, approved under the Professional Standards Act 1994 (NSW)

Audit Opinion

In our opinion:

- a. the financial report of the First Choice Credit Union Ltd, is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the company's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001
- b. The financial report also complies with International Financial Reporting Standards as discussed in Note 1.

MORSE GROUP

237 Lords Place
Orange
Dated: 29 September 2009

**LR SMITH
PARTNER**