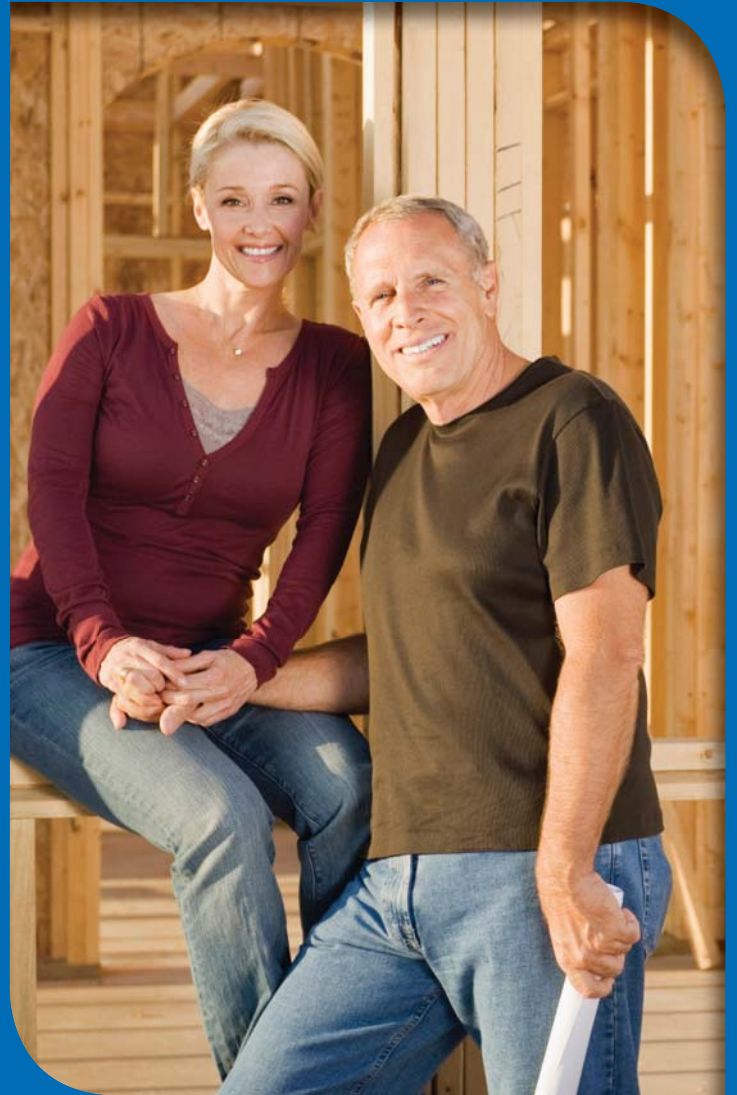




**MU** Manchester Unity  
Credit Union



# Annual Report 2011



## NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of Manchester Unity Credit Union will be held in the Chapel, Mission Estate Winery, Church Road, Napier, on Tuesday the 26th of July 2011 at 7.30pm followed by light refreshments.

### **Business**

1. Welcome
2. Apologies
3. Confirmation of Minutes 2010 Annual General Meeting
4. Reports of the Committee of Management
  - Chairman's Report
  - General Manager's Report
5. Annual Accounts for the year ended 31st March 2011
6. Trustees Report
7. Election of Officers
  - The following nominations are called for;
    - a. Chairman
    - b. Deputy Chairman
    - c. Treasurer
    - d. Trustee – *Mr M C Plested retires by rotation and is eligible for re-election*
    - e. Trustee – *to fill the vacant position following the resignation of Mr R Robinson in November 2010*

Nominations close on the 14th of July 2011 to:

**The Secretary**  
**P O Box 587**  
**Napier 4140**

8. Appointment of Auditors
9. General Business
10. Closing

All members welcome

## DIRECTORY

### Board of Directors

John Lowe	Chairman
Ian Fitchett	Deputy Chairman
Len Searle	Director/Trustee
Max Plested	Director/Trustee
Blair Robinson	Director/Trustee*
Richard Hocking	Treasurer
Paul Haglund	Director – <i>Appointed by Loyal Canterbury Lodge</i>

\*Appointed 1st November to fill the vacant position following the retirement of R Robinson

### Auditors

Staples Rodway Hawkes Bay

### Bankers

ANZ Banking Group  
Westpac Banking Corporation  
ASB  
BNZ

### Credit Union Offices

#### ***Napier***

54 Clive Square East, Napier

#### ***Taradale***

260 Gloucester Street, Napier

#### ***Hastings***

Market Street, Hastings

#### ***New Plymouth***

17/1 Nobs Line, Strandon , New Plymouth

#### ***Christchurch***

363 Colombo Street, Christchurch

### Service Centres

#### ***Palmerston North***

26 Walding Street, Palmerston North

#### ***Nelson***

C/- Carran Miller , 38 Halifax Street, Nelson

#### ***Rangiora***

C/- Sheppard and Ormsby, 77-83 High Street, Rangiora

#### ***Ashburton***

306 Havelock Street, Ashburton

#### ***Invercargill***

Pall Mall Arcade, Invercargill

[www.mucreditunion.co.nz](http://www.mucreditunion.co.nz)

0800 68 28 48

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## Chairman's Report

On behalf of the Manchester Unity Credit Union Board of Directors, I am pleased to present the Annual Report covering the period from the 1st of April 2010 to the 31st of March 2011.

### The Year in Review

The last 12 months has continued to be a challenging and uncertain time globally and not just in the financial sector. I am pleased to report that the Credit Union has traded profitably. Your board has continued to govern Manchester Unity Credit Union in a prudent and conservative manner while managing the challenges of the global financial crisis and the changing legislative landscape in the financial sector.

The financial performance is covered later in the report, but the board can report that members funds total \$46m. The quality of our lending has remained sound with our continued focus on first mortgage lending to assist members to purchase property.

Following the Christchurch Earthquakes in September and February our thoughts were with our members in the region and we have worked to ensure that we have been able to meet their needs.

During the year, Russell Robinson our long serving director and trustee retired. Russell has made an outstanding contribution to the operation of the credit union, with his legal knowledge being particularly invaluable. The Directors appointed Blair Robinson to fill the vacant position until the Annual General meeting, and we are pleased that Blair has accepted a nomination to continue in the Trustee role.

### Governance

The Board is pleased that Manchester Unity Credit Union has retained a B+ Stable long term rating from Standard and Poors.

As a Credit Union we are faced with increased regulatory and reporting requirements, this is a positive move for the financial services sector and provides transparency to investors, however this does come at a significant cost to the financial sector overall as all the Banks, Building Societies, Credit Unions and finance companies are operating in the same regulatory environment.

The implementation of the regulatory changes is impacting the way we do business and has meant that we have reviewed our risk management requirements in order to ensure that we comply with legislation and regulations. We need to continually review opportunities in light of market conditions, to achieve this Management and the Board are working through the large number of issues requiring additional resources and we have put new policies, procedures and strategies in place, and will continue to do so as new legislation is introduced.

As you will appreciate, the demands on Directors in this last year has been significant and this shows no signs of decreasing.

### Financial Results

At year end we achieved an operating surplus of \$167,661 and the credit union has met all the statutory requirements following the introduction on minimum capital and liquidity requirements introduced in December 2010. The General Managers report will detail the financial performance of the credit union further. Currently New Zealand is experiencing a significant period of constrained returns and profitability, it is all the more important to identify actions to increase income, manage costs, increase flexibility and promote operational excellence.

As at the 31st of March 2011 the interest rates paid on members funds was

- Under \$20,000 2.25%
- Over \$20,000 3.05%

This is slightly higher than the previous year.

- With the average interest rate on members term investments 5.28%

### The Future

Following the previous three years, the 2011 year has allowed us to look forward with a degree of clarity and certainty as to what will be required to continue to operate in the future. The last three years have been a period of consolidation and rationalisation across the whole sector with the domestic recession and flow on effects of the global financial crisis.

Regulation is driving improved systems and policies as the level of detail required to meet our obligations is considerable. The additional scrutiny in the sector and the introduction of new regulations requiring directors to be “fit and proper” will require a larger portion of directors to be well qualified and independent non-executive board members with specific expertise in risk management, finance and treasury functions. Policies around corporate governance will be sufficiently stronger to facilitate compliance with the legislation now in place.

Our aims and values remain the same; we place great importance on our founding principles of maintaining low or no fees wherever possible. We will continue to strive to provide friendly, accessible services to our members.

In January this year we conducted a comprehensive member survey, with over 3000 questionnaires posted to members with a 20% response.

The survey confirmed the high satisfaction our members have with the personal service they receive, and highlighted areas where additional services could be provided.

The information from the survey will form part of the future strategic planning for the Credit Union and we thank those members who took part.

The endurance of the Credit Union is a balancing act between savings and loans, and we encourage you as members to promote the services we provide. We are conscious of the wishes of members to achieve a good return balanced with the requirements to increase reserves to provide a buffer for unexpected events.

### **Appreciation**

I would like to thank my fellow directors for their contribution and support during a challenging period.

The directors express their gratitude to our staff, their combined efforts and commitment to Manchester Unity Credit Union has been tremendous and we are fortunate to have the skilled staff that we do. A very special thank you to Rhonda Henderson for her dedication, skill and commitment for guiding us through these changing challenging times.

The future continues to hold challenges, not only from legislative and compliance requirements but from uncertain economic conditions in a highly competitive industry.

The Credit Union is in good heart and we thank you, our loyal members, for your support.

We look forward to the coming year.

A handwritten signature in blue ink, appearing to read 'John Lowe', is written on a light-colored background.

John Lowe  
*Chairman*

## General Managers Report

The challenges of the previous year have continued and the impact of the two earthquakes in Christchurch on the New Zealand economy and the recovery from the Global Financial Crisis is proving to be slower than initially anticipated.

While we need to retain profits to build capital to provide a buffer in difficult financial times the role of the Credit Union is to assist our members to save to achieve their goals and to provide loan facilities that are accessible and reasonably priced.

We are proud of the support and loyalty shown by our members which has insulated the Credit Union from some of the more negative aspects of the volatile financial markets.

### Financial Performance

I am pleased to report an operating surplus of \$167,661 for the financial year, the full details of our financial result appear later in the report.

A small impairment provision has been made as this is prudent, however no funds have been written off as a bad debt in the last financial year and no specific provision has been made.

As advised last year as an after balance date activity, based on recommendations from our investment advisor, Craig's Investment Partners, the investment in Irongate (formerly St Laurence Property and Finance) was sold at a loss of \$134,989. The investment in Nu Farm was also sold, following recommendation, for a loss of \$45,685 in March 2011. Both of these investments had been held by the credit union for a considerable number of years but no longer met our risk criteria and it was prudent to sell these investments given their negative market position.

It is important that we continue to make profits to build our reserves, our goal, as a not for profit organisation is to provide our members with savings and lending rates in what is a very competitive industry.

### Regulatory Reform

In the past 12 months further legislation has been introduced specifically for the Non Bank Deposit Taking Sector, primarily this has been targeted at finance companies but has impacted on Building Societies and Credit Unions. Credit Unions operate differently from finance companies as we are member owned. Manchester Unity Credit Union has a strong history of conservative lending policies and does not lend on speculative property developments.

In 2010 legislation in the finance sector has covered the following areas;

- Financial Service Providers (registration and disputes resolution)
- Financial Advisors Act,
- Minimum capital requirements, minimum liquidity requirements and
- Anti money laundering legislation.

The additional workload and internal resources required from Management and the Board is significant but we have a skilled team in place to manage these regulatory requirements and changes to processes.

### The Future

We are anticipating a settled year as the economy stabilises and the outlook improves, we are looking for opportunities to provide additional member benefits in a cost effective manner, and the information provided by our recent customer survey will be instrumental in this process.

### Thanks

The foundation of the Credit Union is our people, both our members and our team and my personal thanks go to the staff for their dedication to assisting our members. We are proud of the support of our over 11,000 members in all corners of New Zealand.



Rhonda Henderson  
General Manager

## Trustees Report 2011

The trustees are pleased to report a sound financial year ending on the 31st of March 2011 given the economic constraints over the past 12 months.

Trustees of the Credit Union are responsible for monitoring the integrity of financial reporting, analysis of financial performance and overseeing internal controls and audit matters and meet weekly in addition to regular directors meetings.

### Regulatory Environment

In our role as trustees for Manchester Unity Credit Union we now have further responsibilities regarding risk management, including credit risk, minimum capital requirements and minimum liquidity requirements as well as overseeing reporting requirements to external parties such as our corporate trustee, Perpetual Trust, Reserve Bank, Treasury, Companies Office and Standard and Poors our credit rating agency.

In the 2011 year a significant amount of new legislation has come into effect:

- Minimum liquidity requirement
- Minimum capital requirements
- Credit Ratings
- Related Party Exposures

In 2012 legislation will come into effect for:

- Anti Money Laundering and Countering the Financing of Terrorism
- Disclosure requirements
- Fit and Proper Persons

### Lending

Total lending has reduced in an environment where people are looking to reduce debt, due to economic uncertainties and property market conditions nationwide. Since the September 2010 and February 2011 earthquakes there has been minimal lending requested by Canterbury members.

The credit union policy of lending on first mortgage rather than personal lending has been maintained; we are continuing to hold a greater than necessary level of cash reserves due to the reduced lending demand.

	2011	2010	2009	2008
Loans Advanced	\$13,502,307	\$16,482,089	\$16,185,148	\$15,948,816
Number of Loans	429	458	450	480
Total Lending	\$33,254,341	\$36,111,992	\$35,999,205	\$35,996,080

### As at the 31st of March 2011

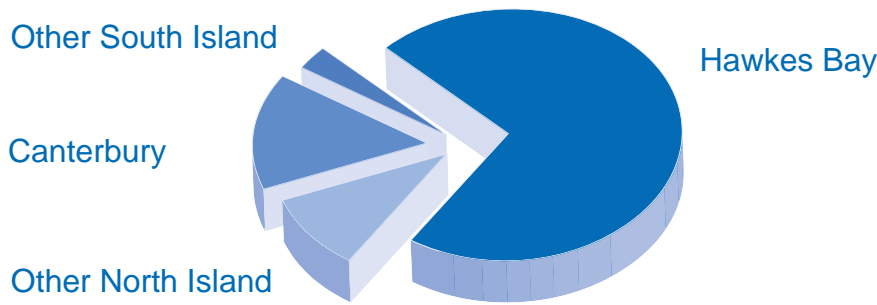
- Total Secured lending \$33,095,224 - average loan size \$90,178
- Unsecured \$170,616 - average loan size \$2,751.88

No funds were written off during the year as a bad debt and no specific bad debt provisioning has been made. We have continued to provide \$11,500 for possible bad debts during the next financial year as a conservative and prudent strategy.

While the demand for loans has been static, activity has been high as we have been engaging with our members in discussing their specific financial requirements, and in particular with our Christchurch members.

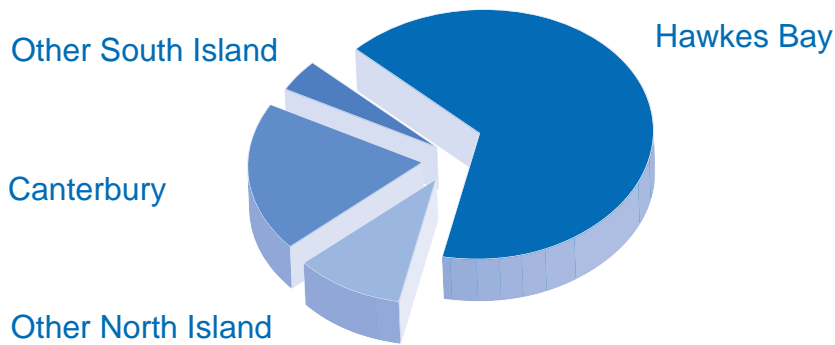
We have obtained an independent report on our Christchurch based lending to assess any additional risks that may have arisen. The Credit Union has 30 mortgages spread over 22 suburbs in Christchurch. The report confirms that there is currently no undue concern over the lending portfolio in this area.

**Lending by Geographic Location**



Members Funds	2011	2010	2009	2008
Deposit Accounts	11630	12,161	11,530	11,607
Members Funds	\$45,987,176	\$49,016,090	\$49,119,068	\$47,501,541

**Members Funds by Geographic Location**



The introduction of fixed term investments following the 2010 Annual General Meeting has been successful in providing our members with an alternative to on call savings.

Interest rates are monitored closely throughout the year and the on call savings interest rates remained competitive during the year under review when compared with similar offerings.

We have reviewed our lending policies throughout the year in line with market challenges and continue to work to ensure that we are able to provide lending opportunities to our members without compromising the quality of our lending book.

We thank the staff for their efforts and the members for their continued support.

B Robinson

Trustees

L L Searle

M C Plested

## 5 YEAR SUMMARY

<b>Statistical Information</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Number of Members	11,257	11,435	11,607	11,530	12,161	11,630
<b>Income (\$Millions)</b>						
Interest Income	3.8	3.9	4.2	4.1	3.2	3.0
Interest Expense	(3.0)	(3.1)	(3.3)	(3.0)	(1.3)	(1.2)
Net Interest Income	(0.8)	(0.8)	(0.9)	1.1	1.9	1.8
Operating Expenses	0.8	0.9	0.9	1.1	1.4	1.64
Operating Profit	-	(0.04)	-	(0.05)	0.54	0.16
<b>Statement of Financial Position</b>						
Total Assets	50.0	50.6	50.7	51.5	52.7	49.8
Total Liabilities	47.3	47.9	48.1	49.2	49.5	46.3
Total Reserves	2.6	2.6	2.5	2.2	3.2	3.5

**FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 31ST MARCH 2011

**STATEMENT OF COMPREHENSIVE INCOME**

	<i>Note</i>	2011 \$	2010 \$
<b>REVENUE</b>			
Interest revenue	3a	3,117,781	3,190,700
Interest expenditure - members' shares	3b	1,258,812	1,275,074
<b>Net interest revenue</b>		1,858,969	1,915,626
Other income	3c	(114,494)	11,975
<b>Total revenue</b>		<u>1,744,475</u>	<u>1,927,601</u>
<b>EXPENDITURE</b>			
Bad & doubtful loans	3d	0	35,910
Employee expenditure	3e	527,276	507,017
Depreciation and loss on sale	3f	92,931	38,706
Other expenditure	3g	956,607	842,987
<b>Total operating expenditure</b>		<u>1,576,814</u>	<u>1,387,042</u>
<b>Operating Profit (Loss)</b>		167,661	540,559
<b>OTHER COMPREHENSIVE INCOME</b>			
Amortisation of Held to Maturity discount		139,196	123,341
Increase (decrease) in Available for Sale investment valuations		(42)	66,714
<b>Total comprehensive income</b>		<u>306,815</u>	<u>730,614</u>

## FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2011

### STATEMENT OF CHANGES IN EQUITY

#### Equity as at 31st March 2011

	Note	Retained Earnings	General Reserve	Available for Sale Reserve	Held to Maturity Reserve	Total Equity
Balance at 1st April 2010		635,854	2,854,228	19,371	(291,315)	3,218,138
Operating profit for the year		167,661				167,661
Amortisation of Held to Maturity discount					139,196	139,196
Increase (decrease) in Available for Sale investment valuations				(42)		(42)
Balance at 31st March 2011		803,515	2,854,228	19,329	(152,119)	3,524,953
Reserve % to total assets	4	1.61%	5.72%	0.04%	-0.31%	7.07%
Risk weighted % to total assets						11.71%

#### Equity as at 31st March 2010

	Note	Retained Earnings	General Reserve	Available for Sale Reserve	Held to Maturity Reserve	Total Equity
Balance as at 1st April 2009		95,295	2,638,428	(47,343)	(414,656)	2,271,724
Operating profit (loss) for the year		540,559				540,559
Amortisation of Held to Maturity discount					123,341	123,341
Increase (decrease) in Available for Sale investment valuations				66,714		66,714
Transfer in from amalgamations	25		215,800			215,800
Balance at 31st March 2010		635,854	2,854,228	19,371	(291,315)	3,218,138
Reserve % to total assets	4	1.21%	5.41%	0.04%	-0.55%	6.10%
Risk weighted % to total assets						new disclosure, no comparative available

**FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31ST MARCH 2011

**STATEMENT OF FINANCIAL POSITION AS AT 31st MARCH 2011**

	<i>Note</i>	2011 \$	2010 \$
<b>EQUITY</b>			
Retained earnings		803,515	635,854
Statutory general reserve		2,854,228	2,854,228
Available for sale reserve		19,329	19,371
Held to maturity reserve		(152,119)	(291,315)
<b>TOTAL EQUITY</b>		<u>3,524,953</u>	<u>3,218,138</u>
<b>ASSETS</b>			
Cash and cash equivalents	5	7,664,327	7,443,127
Short-term deposits	6	5,546,604	5,802,867
Trade and other receivables	7	5,475	7,931
Loans to members	8	33,254,341	36,111,922
Available for Sale debt securities	9	801,144	1,001,783
Held to Maturity debt securities	9	2,193,077	2,136,468
Property, plant and equipment	10	398,227	254,845
<b>TOTAL ASSETS</b>		<u>49,863,195</u>	<u>52,758,943</u>
<b>LIABILITIES</b>			
Trade and other payables	11	351,066	524,715
Members' deposits	12	45,987,176	49,016,090
<b>TOTAL LIABILITIES</b>		<u>46,338,242</u>	<u>49,540,805</u>
<b>NET ASSETS</b>		<u>3,524,953</u>	<u>3,218,138</u>

These Financial Statements are authorised for issue by:

Director **28th June 2011**

Director **28th June 2011**

Director **28th June 2011**

*This statement must be read in conjunction with the Notes and Auditors' Report attached.*

## FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2011

### CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH 2011

	<i>Note</i>	2010 \$	2009 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Cash was provided from:</b>			
Interest received		3,118,377	3,187,779
Rent received		17,124	6,344
Other income		50,762	3,363
<b>Cash was applied to:</b>			
Interest paid		1,309,872	1,022,718
Payments to suppliers		980,865	977,272
Payments to employees and directors		498,970	427,358
<b>Net cash flows from operating activities before changes in operating assets and liabilities</b>		<u>396,556</u>	<u>770,138</u>
<b>Changes in operating assets and liabilities arising from cash flow movements</b>			
<b>Cash was provided from (applied to):</b>			
Increase (decrease) in deposits from members		(3,016,626)	(3,497,240)
Loans to members		(13,502,307)	(16,482,089)
Members' loan repayments		16,359,888	18,422,872
<b>Net change in operating assets and liabilities</b>		<u>(159,045)</u>	<u>(1,556,457)</u>
<b>Net cash flows from operating activities</b>		<u>237,511</u>	<u>(786,319)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>Cash was provided from:</b>			
Decrease in short term deposits		256,264	2,258,777
Investments repaid or sold		619,326	0
Property, plant and equipment		0	8,000
		<u>875,590</u>	<u>2,266,777</u>
<b>Cash was applied to:</b>			
Increase in short term deposits		0	0
Investments made		525,887	934,269
plant, property and equipment		366,014	117,296
		<u>891,901</u>	<u>1,051,565</u>
<b>Net investing cash flows</b>		<u>(16,311)</u>	<u>1,215,212</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>Cash was provided from/(applied to):</b>			
<b>Net financing cash flows</b>		<u>0</u>	<u>0</u>
Total net increase/(decrease) in cash held		221,200	428,893
Cash and cash equivalents at the beginning of the year		7,443,127	5,380,599
Cash and cash equivalents received by amalgamation of Credit Unions	25	0	1,633,635
Cash and cash equivalents at the end of the year		<u>7,664,327</u>	<u>7,443,127</u>
<b>Represented by:</b>			
Cash and cash equivalents		<u>7,664,327</u>	<u>7,443,127</u>

This statement must be read in conjunction with the Notes and Auditors' Report attached.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2011

### 1. REPORTING ENTITY

#### **Legislative Framework**

Manchester Unity Credit Union (the Credit Union) is a financial institution registered in New Zealand under the Friendly Societies and Credit Unions Act 1982. The Credit Union is an issuer for the purposes of the Financial Reporting Act 1993 and a public benefit entity as defined by New Zealand equivalents to International Financial Reporting Standards. The financial report is a general purpose financial report for the Credit Union as an individual entity which has been prepared in accordance with the Financial Reporting Act 1993, the Friendly Societies and Credit Unions Act 1982 and relevant Securities Regulations issued pursuant to the Securities Act 1978. The Credit Union is domiciled in New Zealand and its principal place of business is 54 Clive Square East, Napier, Hawkes Bay. The common bond of the Credit Union (i.e. qualification for membership) is membership of the Manchester Unity Friendly Society incorporated in New Zealand

To meet the requirements of The Securities Act 1978 a Trust Deed was entered into on 17 April 2001 between the Trustees of the Credit Union and Perpetual Trust Limited. Perpetual Trust Limited as the Prudential Supervisor was appointed to act in the interests of the members of the Credit Union by monitoring the compliance by the Credit Union with its obligations, its Rules, the Trust Deed and the Friendly Societies and Credit Unions Act 1982. In addition, the Prudential Supervisor is under duty to exercise reasonable diligence to ascertain whether the Credit Union has:

- (a) Committed any breach of the Trust Deed or any of the conditions of issue of the deposits and
- (b) Sufficient assets to meet its obligations to members, as they fall due.

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice. They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, as appropriate for public benefit entities. They also comply with International Financial Reporting Standards ("IFRS"). These financial statements are authorised for issue by the Directors on 28 June 2011.

#### **Nature of Business**

The purpose of the Credit Union is to promote savings among its members and to use those savings for their mutual benefit.

The Credit Union is restricted in its borrowings and members contribute to the Credit Union by way of share subscriptions. The shares cannot be transferred or sold. Throughout this document members' shares are referred to as members' deposits in keeping with their nature and the Securities Act 1978 classification as debt instruments. Members are able to withdraw their funds subject to certain conditions. The Credit Union makes loans to members or invests funds on the members' behalf. Interest and other income are received by the Credit Union and interest is paid to depositing members.

### 2. STATEMENT OF ACCOUNTING POLICIES

The following is a summary of the material accounting policies adopted by the Credit Union in the preparation of the financial report. Except where stated, the accounting policies have been consistently applied.

#### (a) **Measurement Base**

The financial statements have been prepared on a going concern basis in accordance with historical cost concepts, as modified by the revaluation of certain assets and liabilities as identified in specific accounting policies below.

#### (b) **Presentation Currency**

The financial statements are presented in New Zealand dollars, which is the functional currency of the Credit Union. All values are rounded to the nearest dollar, unless otherwise stated.

## STATEMENT OF ACCOUNTING POLICIES (CONT'D)

### (c) **Financial Assets**

The Credit Union classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments and available for sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date. At the reporting date the Credit Union had financial assets classified only as loans and receivables, held to maturity and available for sale.

#### **Initial recognition and derecognition**

Purchases (if applicable) and sales of financial assets are recognised on trade date (the date on which the Credit Union commits to purchase or sell the asset). Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired or have been transferred and the Credit Union has transferred substantially all the risks and rewards of ownership.

Financial assets are initially recognised at fair value plus transaction costs.

#### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Credit Union provides money, goods or services directly to a debtor with no intention of selling the receivable.

The Credit Union's loans and receivables comprise cash and cash equivalents, trade and other receivables and loans to members.

Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method.

#### **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

The Credit Union's available for sale financial assets comprise debt securities classified as available for sale.

Subsequent to initial recognition available for sale financial assets are carried at fair value.

Unrealised gains and losses arising from changes in the fair value of securities classified as available for sale are recognised in other comprehensive income, except for foreign exchange movements on monetary assets which are recognised in profit or loss. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments are included in profit or loss as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Credit Union establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Credit Union assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

#### **Held to maturity financial assets**

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Credit Union's management has the positive intention and ability to hold to maturity.

The Credit Union's held to maturity financial assets comprise debt securities classified as held to maturity. Subsequent to initial recognition held to maturity financial assets are carried at amortised cost using the effective interest method.

## STATEMENT OF ACCOUNTING POLICIES (CONT'D)

**(d) Financial Liabilities**

Non-derivative financial liabilities are initially recognised at fair value net of transaction costs, then subsequently recognised at amortised cost using the effective interest method. Member deposits and Trade payables (Refer Page 16) are classified as financial liabilities.

**(e) Revenue**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Credit Union's activities. Revenue is shown net of Goods and Services Tax (if applicable), returns, rebates and discounts. The Credit Union recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Credit Union and when specific criteria have been met for each of the Credit Union's activities, as described below.

**Interest Revenue**

Interest income is recognised on a time-proportion basis using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

**Fees & Commissions Revenue**

Fees and Commissions Revenue is recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. When the contract outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

**(f) Impairment of Financial Assets**

An assessment is made at each balance date whether there is objective evidence that financial assets are impaired. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial assets and can be reliably estimated. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the directors about any of the following loss events:

- Significant financial difficulty of the borrower or other counter party;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- A concession granted to the borrower that the Credit Union would not otherwise consider for economic or legal reasons relating to the borrower or other counter party's financial difficulty; or
- It becoming probable that the borrower or other counter party will enter bankruptcy or other financial reorganisation

The amount provided for impairment is determined by management and the directors. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

Loans which are known to be uncollectible are written off as an expense in the profit or loss. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtors credit rating), the previously recognised impairment loss is reversed by adjusting the allowance amount, with the reversal being recognised in the profit or loss.

The various components of impaired assets are as follows:

Restructured loans are loans where the original contractual terms have been modified to provide for concessions of interest, principal or repayment for reasons related to financial difficulties of the member, and the yield on the asset following restructuring is equal to, or greater than, the Credit Union's average cost of funds.

## STATEMENT OF ACCOUNTING POLICIES (CONT'D)

### (f) **Impairment of Financial Assets (cont'd)**

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

“Individually impaired Loans” are loans and advances for which there is reasonable doubt that the Credit Union will be able to collect all amounts of principal and interest in accordance with the terms of the agreement and for which an individual assessment of impairment is made.

“Collectively impaired Loans” are loans and advances that are not individually impaired for which a collective assessment of impairment is made based on the length of time the loan is in arrears.

### **Past due loans**

Past-due loans are loans or similar facilities in arrears when a member has failed to make payment when contractually due. 90 day past due loans are loans which have not been operated by the member within their key terms for at least ninety days and which are not impaired loans.

### (g) **Finance Expenses**

Finance expenses comprise interest expense on borrowings and impairment losses recognised on financial assets (except for loans and receivables).

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. A qualifying asset is one that takes six months or longer to prepare for its intended use or sale. The Credit Union does not have any qualifying assets. Other borrowing costs are expensed when incurred.

### (h) **Goods & Services Tax**

The Credit Union is not registered for GST because it provides financial services, which are exempt under section 14(1)(a) of the Goods and Services Tax Act 1985. All amounts are inclusive of GST where applicable. GST is included in asset and expense amounts.

### (i) **Income Tax**

No amounts have been provided for Income Tax as the Credit Union's income from members is exempt under section CW44 of the Income Tax Act 2007. Income derived other than from members does not produce a taxable profit.

### (j) **Property, Plant and Equipment**

All items of property, plant and equipment are initially measured at cost. The cost of an item of property, plant and equipment includes its purchase/construction price, costs, directly attributable to bringing it to the location and condition necessary for it to operate as intended.

After initial recognition, all items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Subsequent costs are added to the carrying amount of an item of property, plant and equipment when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Credit Union and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognised. All other repairs and maintenance costs are recognised in the profit or loss as an expense as incurred.

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

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 (i.e. if the asset is impaired).

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Gains and losses on disposal are determined by comparing proceeds with carrying amount. These are included in the profit or loss.

## STATEMENT OF ACCOUNTING POLICIES (CONT'D)

**(j) Property, Plant and Equipment (Cont'd)**

Depreciation of property, plant and equipment is calculated using rates which are estimated to expense the cost of the assets over their useful lives. The rates and bases are as follows:

Leasehold Improvements	10% per annum straight line
Motor Vehicles	30% per annum straight line
Computer Hardware	40-48% per annum diminishing value
Plant and Equipment	21.6–60% per annum diminishing value

Assets under \$500 are not capitalised.

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

**(k) Impairment Testing of Non-Financial Assets**

At each reporting date, the Credit Union reviews the carrying values of its non-financial assets to determine whether there is any indication that those assets have been impaired. If such an 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 profit or loss. Value in use is determined by estimating future cash flows from the use and ultimate disposal of the asset and discounting these to their present value using a pre-tax discount rate that reflects current market rates and the risks specific to the asset. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

**(l) Leases**

Leases of property, plant and equipment are classified as operating leases as the substantial risks and benefits incidental to ownership of the asset, are retained by the legal owner. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

**(m) Employee Benefits**

Liabilities for wages and salaries, including non-monetary benefits, annual leave, and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. The liability for employee entitlements is carried at the present value of the estimated future cash flows.

**Superannuation Plans**

The Credit Union pays contributions to superannuation plans such as Kiwisaver. The Credit Union has no obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

**(n) Statement of Cash Flows**

The Statement of Cash Flows is prepared using the direct approach. Definitions of terms used in the Statement of Cash Flows:

*Cash and cash equivalents* cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts repayable on demand. Bank overdrafts are shown within borrowings in liabilities on the Statement of Financial Position.

*Investing Activities* are those activities relating to the acquisition and disposal of investments and any other non-current assets, excluding loans to members which are classified as operating activities.

*Financing Activities* are those activities relating to changes in the size and composition of the capital structure of the Credit Union, excluding members deposits which are classified as operating activities.

*Operating Activities* include all transactions and other events that are not investing or financing activities and are the principal revenue producing activities of the Credit Union.

Cash flows for members' deposits have been netted in order to provide more meaningful disclosure as many of the cash flows are received and disbursed on behalf of members and reflect the activities of members rather than those of the Credit Union.

## STATEMENT OF ACCOUNTING POLICIES (CONT'D)

### (o) **Critical Estimates and Judgements in Applying the Accounting Policies**

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Credit Union's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events, that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 8 Impairment of Loans to Members and note 21 Fair Value of Financial Assets and Liabilities.

### (p) **Changes in Accounting Policies**

The classification of movements in member deposits and loans to members in the Statement of Cash Flows has been changed from financing activities and investing activities respectively to operating activities. The comparative figures have been changed. The effect of the change is to decrease net operating cash flows by \$159,045 (2010: \$1,556,457), decrease net investing cash flows by \$2,857,581 (2010: \$1,940,783) and increase net financing cash flows by \$3,016,626 (2010: \$3,497,240).

No other change in accounting policies has occurred during the reported periods.

### (q) **NZ IFRS issued but not yet effective**

The following NZ IFRS have been issued but are not yet effective. There are no further standards or amendments to standards that have been issued but are not yet effective, that are relevant to the Credit Union.

<i>Standard</i>	<i>Effective for periods beginning on or after</i>	<i>Initial Application in year ending</i>
NZ IFRS 9: Financial instruments	1 January 2013	31 March 2014
NZ IAS 24: Related Party Disclosures	1 January 2011	31 March 2012

NZ IFRS 9: *Financial Instruments* is applicable for annual periods beginning on or after 1 January 2013. Earlier application is permitted. NZ IFRS 9 is part of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The standard introduces new requirements for classifying and measuring financial assets and financial liabilities. Management is still assessing the impact that the adoption of NZ IFRS 9 will have.

NZ IAS *Related Party Disclosures* replaces the 2004 version of the standard. The revised NZ IAS 24 is to be applied retrospectively for annual periods beginning on or after 1 January 2011. Earlier application is permitted. The revised NZ IAS 24 clarifies the definition of a related party and requires the disclosure of commitments involving related parties. Although management is still assessing the impact that adoption of the revised NZ IAS 24 will have, any impact will be to disclosure only (i.e. there will be no recognition or measurement impacts).

3. REVENUE AND EXPENDITURE		2011	2010
a.	<b>Interest Revenue</b>		
	Loans to members	2,356,419	2,402,337
	Bank deposits	515,595	565,070
	Debt securities	254,241	220,372
	Held to maturity amortisation	(8,474)	2,921
	<b>Total interest revenue</b>	<u>\$3,117,781</u>	<u>\$3,190,700</u>
b.	<b>Interest paid</b>		
	Call shares	1,220,125	1,275,074
	Term shares	38,687	0
	<b>Total interest paid</b>	<u>\$1,258,812</u>	<u>\$1,275,074</u>
At balance date the following rates were applicable on members' funds, and may vary from time to time:			
		2011	2010
	<b>Call Shares</b>		
	\$1 - \$2,999	1.00%	2.25%
	\$3,000 - \$19,999	2.25%	2.25%
	\$20,000 and over	3.05%	3.05%
	<b>Term Deposits</b>		
	1 year	4.25%	N/A
	2 years	4.50%	N/A
	3 years	5.00%	N/A
c.	<b>Other Income</b>		
	Rent received	15,418	8,050
	Management fees received	46,396	0
	Commission received	4,116	3,725
	Dividends received	250	200
	Gain/(Loss) on sale of investments	(180,674)	0
	<b>Total other income</b>	<u>(\$114,494)</u>	<u>\$11,975</u>
d.	<b>Bad and Doubtful Loans</b>		
	Bad loans written off	0	24,410
	Provision for loan impairments	0	11,500
	<b>Total bad and doubtful loans</b>	<u>\$0</u>	<u>\$35,910</u>
e.	<b>Employee Expenditure</b>		
	Short-term employee benefits	492,257	475,141
	Post-employment employee benefits	8,471	7,725
	Long-term employee benefits	0	0
	Other employee benefits	0	0
	Accident compensation levies	2,267	1,948
	Staff training	24,281	22,203
	<b>Total employee expenditure</b>	<u>\$527,276</u>	<u>\$507,017</u>
f.	<b>Depreciation and loss on sale</b>		
	Leasehold improvements	49,748	9,424
	Computer equipment	25,226	21,630
	Office equipment	8,771	5,306
	Motor vehicle	9,186	2,296
	Loss on disposal	0	50
	<b>Total depreciation and loss on sale</b>	<u>\$92,931</u>	<u>\$38,706</u>

These notes form and must be read as part of the audited financial statements.

3.	REVENUE AND EXPENDITURE (CONT'D)	2011	2010
g.	<b>Other Expenditure</b>		
	Auditors' remuneration - Staples Rodway		
	Audit of financial statements	29,912	24,434
	Prospectus and Trust Deed assurance services	2,990	4,275
	Accountancy advice and assistance	1,277	4,937
	Accountancy fees - Gardiner Knobloch	31,583	37,539
	Agency administration fees	108,179	119,620
	Advertising and promotion	99,310	42,040
	Communication expenses	108,203	87,955
	Compliance costs	72,421	85,069
	Directors' fees	110,480	95,625
	Legal expenses	9,891	8,180
	Liability insurance	17,175	18,113
	Office equipment maintenance	46,684	23,312
	Office rent	99,439	87,083
	Other occupancy expenses	52,360	34,424
	Savings insurance	51,956	57,396
	Travelling expenses	20,426	25,425
	Other expenses	94,321	49,982
	<b>Total other expenses</b>	<b><u>\$956,607</u></b>	<b><u>\$805,409</u></b>

#### 4. EQUITY

##### **Retained Earnings**

Retained earnings arise from retained profits accumulated from operations.

##### **General Reserve**

A General Reserve has been established in accordance with Section 119 of the Friendly Societies and Credit Unions Act 1982 which requires the Credit Union to transfer 5% of gross earnings to the General Reserve until the General Reserve is the equivalent of 5% of total assets, and thereafter maintained at a minimum of 5% of total assets. The reserve may not be distributed until the Credit Union is being wound up or dissolved, but may be applied for the following purposes:

- a) to offset losses made by the Credit Union on loans to members, and
- b) to such persons of such amounts in such special circumstances as the Registrar, on application, may approve.

##### **Available for Sale Reserve**

This reserve records the accumulated difference between the amortised cost and market value of available for sale financial assets.

##### **Held to Maturity Reserve**

This reserve records the accumulated unamortised difference between the cost and market value of held to maturity financial assets that were transferred into that category at 31st March 2009. The reserve is being amortised over the remaining useful life of the instruments.

##### **Total Reserves**

The Trust Deed requires that the total reserves (including retained earnings) amount to at least 5% of the total assets of the Credit Union. The reserve percentage to total assets is disclosed in the Statement of Changes in Equity on page 2.

The Reserve bank requires that the total reserves (including retained earnings) amount to at least 8% of risk-weighted exposure as defined in the Deposit takers (Credit Ratings, Capital Ratios and Related Party Exposures) Regulations 2010.

The risk-weighted exposure is also disclosed on page 2.

## 5. CASH AND CASH EQUIVALENTS

	Weighted Average Interest Rates p.a.		31.3.11	31.3.10
	2011	2010		
Cash and Petty Cash			27,142	27,099
ANZ Bank Current Account			306,341	487,860
ANZ Bank Call Account	2.50%	2.50%	1,303,221	902,760
Bank Deposits for less than 90 days	4.54%	4.63%	6,027,623	6,025,408
			<u>\$7,664,327</u>	<u>\$7,443,127</u>

## 6. SHORT-TERM DEPOSITS

	Over 90 days		31.3.11	31.3.10
	Weighted Average Interest Rates p.a.			
Westpac Bank	4.78%	4.55%	2,528,390	4,793,867
ASB Bank		4.50%	0	1,009,000
ANZ National Bank	4.70%		<u>3,018,214</u>	<u>0</u>
			<u>\$5,546,604</u>	<u>\$5,802,867</u>

Effective interest rates in both notes 5 and 6 are the original contracted values, those shown for bank deposits being a weighted average of all deposits.

## 7. TRADE AND OTHER RECEIVABLES

	31.3.11	31.3.10
Rent receivable	0	1,706
Prepaid expenses	5,475	6,225
Total Trade and other Receivables	<u>\$5,475</u>	<u>\$7,931</u>

## 8. LOANS TO MEMBERS

## a. Loan maturity

	31.3.11	31.3.10
Current portion	4,214,013	4,585,553
Non-current portion	29,051,828	31,537,869
	<u>33,265,841</u>	<u>36,123,422</u>
Less provision for collective impairment	11,500	11,500
Total Loans	<u>\$33,254,341</u>	<u>\$36,111,922</u>

## b. Loan impairment status

	Overdue amount		Principal balance	
	31.3.11	31.3.10	31.3.11	31.3.10
Neither past due nor impaired	0	0	31,622,564	34,237,330
Past due but not impaired				
Up to one month	5,335	10,942	1,410,680	1,823,066
One to three months	3,470	1,398	220,060	40,290
Three to six months	849	2,408	1,037	11,236
Six to twelve months	0	0	0	0
Over twelve months	0	0	0	0
Impaired loans (collective impairment)	0	0	11,500	11,500
	<u>\$9,654</u>	<u>\$14,748</u>	<u>\$33,265,841</u>	<u>\$36,123,422</u>

	31.3.11	31.3.10
Past due but not impaired loans		
Secured by mortgage over real estate		1,629,458
Secured over other assets		0
Unsecured		2,319
		<u>\$1,631,777</u>
		<u>\$1,874,592</u>

<b>8. LOANS TO MEMBERS (CONT'D)</b>		
<b>c. Impairment provision reconciliation</b>	<b>31.3.11</b>	<b>31.3.10</b>
Opening balance	11,500	-
Provision added	-	11,500
Closing balance	<u>\$11,500</u>	<u>\$11,500</u>
<b>d. Movement in past due loans</b>	<b>31.3.11</b>	<b>31.3.10</b>
Opening balance	1,874,592	4,333,425
Deletions during the year	<u>(1,434,795)</u>	<u>(3,885,889)</u>
	439,797	447,536
Additions during the year	1,191,980	1,427,056
Closing balance	<u>\$1,631,777</u>	<u>\$1,874,592</u>
<b>e. Security dissection - all loans</b>	<b>31.3.11</b>	<b>31.3.10</b>
Secured by mortgage over real estate	32,957,382	35,797,278
Secured by other assets	137,842	118,218
Unsecured	170,617	207,926
	<u>\$33,265,841</u>	<u>\$36,123,422</u>

Other assets comprise principally life insurance policies and superannuation schemes, with a few loans secured over motor vehicles.

<b>Security held as mortgage against real estate is on the basis of</b>	<b>31.3.11</b>	<b>31.3.10</b>
Residential loan to valuation ratio of less than 80%	31,478,512	n/a
Residential loan to valuation ratio of more than 80%	145,145	n/a
Commercial loan to valuation ratio of less than 50%	905,169	n/a
Commercial loan to valuation ratio of more than 50%	737,015	n/a
All loans loan to valuation ratio of less than 70%	n/a	24,784,882
All loans loan to valuation ratio of more than 70%	n/a	11,338,540
	<u>\$33,265,841</u>	<u>\$36,123,422</u>

The commercial LVR policy at the time that these loans were made was 60%.

Only one commercial loan, with a balance of \$156,715, has an LVR greater than 60% (62.7%)

<b>f. Concentration of Loans</b>		
The geographical spread of loans to members by value was:	<b>31.3.11</b>	<b>31.3.10</b>
Hawkes Bay	70%	71%
Rest of North Island	9%	11%
Canterbury (Refer to note 29 for details)	17%	15%
Rest of South Island	4%	3%
	<u>100%</u>	<u>100%</u>

## 9. DEBT SECURITIES

	<b>Carrying Value</b>	
<b>a. Available for sale</b>	<b>31.3.11</b>	<b>31.3.10</b>
Opening balance	1,001,782	915,663
Additions	272,622	20,000
Repayments	(200,000)	0
Sales	(254,315)	0
Gain (loss) on disposal	(18,307)	0
Increase (decrease) in market values	(638)	66,119
Closing balance	<u>\$801,144</u>	<u>\$1,001,782</u>

## 9. DEBT SECURITIES (CONT'D)

a.	<b>Available for sale</b>		<b>31.3.11</b>	<b>31.3.10</b>
	Current portion		12,300	214,540
	Non-current portion		788,844	787,242
	Total		<u>\$801,144</u>	<u>\$1,001,782</u>

b.	<b>Held to maturity</b>	<b>Market Value</b>		<b>Carrying Value</b>	
		<b>31.3.11</b>	<b>31.3.10</b>	<b>31.3.11</b>	<b>31.3.10</b>
	Opening balance			2,136,468	1,075,344
	Transfer to Available for Sale			(272,622)	0
	Investment sold			(165,011)	0
	Gain (Loss) on sale			(134,989)	0
	New investments			525,887	934,862
	Amortisation of Discount			103,344	126,262
	Closing balance			<u>\$2,193,077</u>	<u>\$2,136,468</u>
	Current portio	122,556	0	122,042	0
	Non-current portion	<u>2,216,384</u>	<u>2,262,190</u>	<u>2,071,035</u>	<u>2,136,468</u>
	Total	<u>\$2,338,940</u>	<u>\$2,262,190</u>	<u>\$2,193,077</u>	<u>\$2,136,468</u>

## 10. PROPERTY, PLANT &amp; EQUIPMENT

## a. Classes of Property, Plant &amp; Equipment

	Computers	Leasehold Improvements	Plant & Equipment	Motor Vehicles	Total
<b>2011</b>	\$	\$	\$	\$	\$
At Cost	303,657	442,133	69,992	30,620	846,402
Accumulated depreciation	<u>(262,936)</u>	<u>(127,841)</u>	<u>(45,916)</u>	<u>(11,482)</u>	<u>(448,175)</u>
Carrying amount at 31 March 2011	<u>40,721</u>	<u>314,292</u>	<u>24,076</u>	<u>19,138</u>	<u>398,227</u>

	Computers	Leasehold Improvements	Plant & Equipment	Motor Vehicles	Total
<b>2010</b>	\$	\$	\$	\$	\$
At Cost	264,682	260,672	54,791	30,620	610,765
Accumulated depreciation	<u>(238,386)</u>	<u>(78,093)</u>	<u>(37,145)</u>	<u>(2,296)</u>	<u>(355,920)</u>
Carrying amount at 31 March 2011	<u>26,296</u>	<u>182,579</u>	<u>17,646</u>	<u>28,324</u>	<u>254,845</u>

## b. Movements in Carrying Amounts

	Computers	Leasehold Improvements	Plant & Equipment	Motor Vehicles	Total
<b>2011</b>	\$	\$	\$	\$	\$
Opening balance	26,296	182,579	17,646	28,324	254,845
Additions	39,650	181,461	15,201	0	236,312
Disposals	0	0	0	0	0
Gain (loss) on disposal	0	0	0	0	0
Depreciation expense	<u>(25,225)</u>	<u>(49,748)</u>	<u>(8,771)</u>	<u>(9,186)</u>	<u>(92,930)</u>
Carrying amount at 31 March 2011	<u>40,721</u>	<u>314,292</u>	<u>24,076</u>	<u>19,138</u>	<u>398,227</u>

**10. PROPERTY, PLANT & EQUIPMENT (CONT'D)**

	<b>Computers</b>	<b>Leasehold Improvements</b>	<b>Plant &amp; Equipment</b>	<b>Motor Vehicles</b>	<b>Total</b>
<b>2010</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Opening balance	29,642	25,569	11,867	8,050	75,128
Additions	18,285	166,434	11,085	30,620	226,424
Disposals	0	0	0	(8,000)	(8,000)
Gain (loss) on disposal	0	0	0	(50)	(50)
Depreciation expense	(21,631)	(9,424)	(5,306)	(2,296)	(38,657)
Carrying amount at 31 March 2010	<u>26,296</u>	<u>182,579</u>	<u>17,646</u>	<u>28,324</u>	<u>254,845</u>

There were no impairment losses in respect of property, plant and equipment (2010 nil).  
All items of property, plant and equipment are non-current assets.

**11. TRADE AND OTHER PAYABLES**

	<b>31.3.11</b>	<b>31.3.10</b>
Trade payables	65,695	205,661
Accrued expenses	67,889	62,800
Resident withholding tax	217,482	256,254
	<u>\$351,066</u>	<u>\$524,715</u>

Trade and other payables are current liabilities.

**12. MEMBERS' DEPOSITS**

	<b>31.3.11</b>	<b>31.3.10</b>
Call deposits	44,194,652	49,016,090
Term deposits (all greater than 12 months)	1,780,236	0
Interest accrued on term deposits	12,288	0
Total (all current liabilities)	<u>\$45,987,176</u>	<u>\$49,016,090</u>

Deposits from members are accepted on the basis of a fixed value of \$1 per share. Deposits not in whole dollars are deemed to be advance subscriptions for shares. Dividends not paid in cash but reinvested by members are deemed to be subscriptions for shares and are added to the member's share balance in the Credit Union. There are no separate classes of call deposit.

Members' deposits are classified as liabilities because, after repayment of members' deposits, any surplus upon winding up will not necessarily be returned to members.

All members' shares are of equal ranking, and there are no securities which rank ahead of member shares.

We have not granted an equitable assignment to Perpetual Trust, and there has been no security interest granted or financing statement registered on the Personal Property Securities Register

**13. COMMITMENTS**
**a. Capital Commitments**

The Credit Union had no capital commitments as at 31st March 2011 (2010 \$92,900).

**b. Outstanding Loan Commitments**

	<b>31.3.11</b>	<b>31.3.10</b>
Loans approved but not drawn down at the end of the reporting period	<u>\$940,244</u>	<u>\$721,900</u>

13. **COMMITMENTS (CONT'D)**c. **Operating Lease Commitments**

The Credit Union had the following operating lease commitments for properties occupied:

	<b>31.3.11</b>	<b>31.3.10</b>
	<b>\$</b>	<b>\$</b>
Within one year	102,618	89,126
One to two years	72,047	85,500
Two to five years	169,080	174,469
Over five years	0	46,341
	<u>343,745</u>	<u>395,436</u>

Terms of leases:

Napier office 6 years to 12th January 2016, with rights of renewal to 12th January 2022.

Taradale office 6 years to 30th April 2012.

New Plymouth office 3 years to 31st August 2013, with rights of renewal to 31st August 2019.

14. **CONTINGENT LIABILITIES**

There were no contingent liabilities at 31st March 2011 (2010 nil).

15. **CAPITAL ADEQUACY MANAGEMENT**

The Credit Union is regulated under the Friendly Societies and Credit Unions Act 1982. There is a statutory requirement over the minimum reserves required to be maintained. In addition, the Credit union operates under a Trust Deed which requires the minimum reserves held by the Credit Union to be 5% of total assets (refer to Note 4 and the Statement of Changes in Equity for details).

To manage the Credit Union's capital, which can be affected by excessive growth and by changes in total assets, the Credit Union regularly reviews the capital adequacy ratio and monitors major movements in the asset levels. Policies have been implemented to require reporting to the board and the trustee if the capital ratio falls below 5%. Further, an annual capital budget projection of the capital level is maintained to address the impact of strategic decisions or trends on the capital level.

16. **RISK MANAGEMENT OBJECTIVES AND POLICIES**

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

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

- Interest rate risk management
- Credit risk management
- Liquidity risk management
- Operational risk management

## 16. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

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

### Interest Rate Risk

Interest rate risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Credit Union manages interest rate risk by:

- Regularly reviewing the interest rate paid on members' call and term shares. Term shares have been available since September 2010.
- Monitoring the interest rates available from short-term deposits and utilising the best rates available after assessing the forecast requirements.
- Regularly reviewing the interest rate charged on loans to members.

There is exposure to fair value interest rate risk, which is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

An interest repricing profile and an interest sensitivity analysis are scheduled at note 18.

The Credit Union performs sensitivity analysis to measure market risk exposures. The method used in determining the sensitivity is to evaluate the profit based on the timing of the interest repricing on the book of the Credit Union for the next year. In doing the calculation the assumptions applied are that:

- The interest rate change would be applied in accordance with the repricing profile
- The rate change would be as at the beginning of the period and no other rate changes would be effective during the period.
- All loans would be repaid in accordance with the contractual repayment terms and replaced with loans of a similar rate and term.
- The term deposits would all reprice to the new interest rate at the term maturity, or be replaced by deposits with similar terms and rates applicable.
- The value and mix of call savings to term deposits will be unchanged.
- The value and mix of personal loans to mortgage loans will be unchanged.
- No change in basis risk.

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

### Credit Risk – Loans

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 entity. There is no concentration of credit risk with respect to loans and receivables as the Credit Union has a large number of members. Note 8 discloses the geographic concentration. The credit policy is that loans are made only to members who are credit-worthy.

Loans can be made only to Credit Union members. Loan interest rates range from 6.15% to 20.25% p.a. (2010 6.65% to 15.25% p.a.). The Credit Union has a lending policy that requires various levels and types of security for loans and includes that a portion of loans may be secured over the borrowing member's shares.

The Credit Union has established policies and procedures for

- Credit assessment and approval of loans covering, acceptable risk assessment and security requirements
- Limits of exposure over the value to individual borrowers, non-mortgage secured loans, and concentrations to geographic or 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
- Debt recovery procedures
- Review of compliance with the above policies

16. **RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)****Credit Risk – Loans (cont'd)****The Credit Union manages credit risk by:**

- Limiting the amount which may be advanced to any one member to \$310,000.
- Requiring a minimum equity of 20% from the borrower for residential properties.
- Limiting loans on commercial properties to 50% of valuation.
- Taking adequate security for the loans, usually by registered mortgage.
- Regular monitoring and review of loans in arrears.
- Establishing appropriate provisions where applicable to recognise the impairment of loans.

**Credit Risk – Debt Securities and cash and cash equivalents**

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 to the Credit Union.

The board policy is to place the investments with New Zealand registered banks which are rated AA or better, or in debt securities recommended by an experienced financial advisor.

**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. It is the policy of the Board of Directors that the Credit Union maintains adequate cash reserves and committed credit facilities so as to meet member withdrawal demands when requested.

The Credit Union manages liquidity risk by:

- Continuously monitoring forecast and actual daily cash flows.
- Reviewing the maturity profiles of financial assets and liabilities.
- Maintaining adequate cash reserves.
- Regularly monitoring loan repayments and comparing to forecast cash flows.

The Credit Union's policy is to maintain at least 20% of total assets as liquid assets capable of being converted to cash within 7 days. The liquidity percentage at balance date was 27.6% (2010 26.6%). 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.

The Credit Union also has the right at any time to require a sixty day notice period for repayment of members shares.

Monetary assets and liabilities having differing maturity profiles depending on the contractual term and in the case of loans the repayment amount and frequency. The table in note 18 shows the period in which different monetary assets and liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding plus interest will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained. For term loans the above dissection is based upon contractual conditions of each loan being strictly complied with and is subject to change in the event that current repayment conditions are varied. Future interest receivable and future interest payable represent the expected future interest cash flows arising from the contractual obligations of the underlying monetary assets and liabilities respectively.

16. **RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)**

**Operational Risk**

Operational Risks relate to those risks arising from a number of sources including legal compliance, business continuity, data infrastructure and outsourced service failures, and employee errors and fraud.

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 behaviour
- Implementation of whistle-blowing policies to promote a compliant culture and a duty by staff to report exceptions
- Education of members to review their account statements and report exceptions to the Credit Union promptly
- Effective dispute resolution procedures to respond to members' complaints
- Effective insurance arrangements to reduce the impact of losses
- Contingency plans for dealing with the loss of functionality of systems, of premises or of staff

## 16. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

The following tables summarise the sensitivity of the Credit Union's assets and financial liabilities to 1% movement in interest rates on the Credit Union's financial position and results.

	2011 Interest Rate Risk			2010 Interest Rate Risk		
	Carrying Amount	-1% Profit & Equity	+1% Profit & Equity	Carrying Amount	-1% Profit & Equity	+1% Profit & Equity
	\$	\$	\$	\$	\$	\$
<b>Financial Assets</b>						
Bank deposits excl. accrued interest	13,136,704	(128,032)	128,032	16,252,760	(126,528)	126,528
Loan receivables	33,254,341	(332,658)	332,658	36,123,422	(361,234)	361,234
Debt securities	2,994,221	(30,690)	30,690	3,138,251	(33,590)	33,590
		<u>(491,380)</u>	<u>491,380</u>		<u>(521,352)</u>	<u>521,352</u>
<b>Financial Liabilities</b>						
Members deposits	45,987,176	(459,872)	459,872	49,016,090	(490,161)	490,161
Total Increase (Decrease)		<u>(\$31,508)</u>	<u>\$31,508</u>		<u>(\$31,191)</u>	<u>\$31,191</u>

## 17. OTHER CREDIT RISKS

## a. Maximum Credit Risk Exposure

The Credit Union's maximum credit risk exposure without taking into account the value of any collateral or other security, in the event that other parties fail to perform their obligations under financial instruments in relation to each class of recognised financial asset, is the carrying amount of those financial assets as indicated in the Statement of Financial Position.

	31.3.11	31.3.10
	\$	\$
Bank deposits	13,183,789	13,218,896
Rent receivables	0	1,706
Loans to members	33,254,341	36,123,422
Debt securities	2,994,221	3,138,251
	<u>49,432,351</u>	<u>52,482,275</u>

## b. Concentrations of Credit Risk

The Credit Union minimises concentrations of credit risk in relation to loans by undertaking transactions with a large number of members. Credit risk is currently managed in accordance with the policies outlined in Note 16 to reduce the Credit Union's exposure to potential failure of counterparties to meet their obligations under the contract or arrangement. All loans are to members of the Credit Union, the concentration thereof being disclosed in Note 8(e).

## c. Large Counterparties

	31.3.11	31.3.10
Greater than 100% of equity	2	2
Between 80% and 90% of equity		
Between 70% and 80% of equity		
Between 60% and 70% of equity		
Between 50% and 60% of equity		
Between 40% and 50% of equity		1
Between 30% and 40% of equity		
Between 20% and 30% of equity		1
Between 10% and 20% of equity	11	13

These notes form and must be read as part of the audited financial statements.

18.

**MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES**
**Contractual Maturity Profile of Financial Assets and Liabilities**

	Within 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 2 years	2 - 5 Years	Over 5 years	No Maturity	Total
<b>Mar-11</b>									
<b>Financial Assets (\$'000)</b>									
Cash and Bank deposits	4,169	6,024	3,018						13,211
Trade and other receivables									0
Principal on Loans to Members	922	851	2,090	1,482	5,345	9,684	19,569		39,943
Interest on Loans to Members	181	357	507	947	1,994	5,951	7,876		17,813
Debt securities			122		628	1,658	574	12	2,994
Future interest receivables on deposits and debt securities	16	91	59	159	197	56	144		722
<b>Total Financial Assets</b>	<b>5,288</b>	<b>7,323</b>	<b>5,796</b>	<b>2,588</b>	<b>8,164</b>	<b>17,349</b>	<b>28,163</b>	<b>12</b>	<b>74,683</b>

	Within 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 2 years	2 - 5 Years	Over 5 years	No Maturity	Total
<b>Mar-11</b>									
<b>Financial Liabilities Payable (\$'000)</b>									
Trade and other payables	301	20	20	10	1,085	136			351
Members Deposits	44,195		41	530	1,085	136			45,987
<b>Total Financial Liabilities Payable</b>	<b>44,496</b>	<b>20</b>	<b>61</b>	<b>540</b>	<b>1,085</b>	<b>136</b>	<b>0</b>	<b>0</b>	<b>46,338</b>
<b>Net liquidity cover/(shortfall)</b>	<b>(39,208)</b>	<b>7,303</b>	<b>5,735</b>	<b>2,048</b>	<b>7,079</b>	<b>17,213</b>	<b>28,163</b>	<b>12</b>	<b>28,345</b>

**Expected Maturity Profile of Financial Assets and Liabilities**

	Within 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 2 years	2 - 5 Years	Over 5 years	No Maturity	Total
<b>Mar-11</b>									
<b>Financial Assets (\$'000)</b>									
Principal and Interest on Loans to members	367	734	1,101	2,202	4,404	8,808	37,192		54,808
<b>Financial Liabilities Payable (\$'000)</b>									
Members Deposits	287	500	754	2,077	3,826	8,385	30,158		45,987

With the exception of principal and interest on loans to members and members' deposits, all financial assets and liabilities are expected to be consistent with their contractual maturity profiles. The liquidity shortfall indicated by the contractual section of the table is not expected to arise because member deposits are expected, based on historical experience, to not be withdrawn in the short or medium term. The management of liquidity risk is detailed in note 16.

18.

**MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES (CONT'D)****Contractual Maturity Profile of Financial Assets and Liabilities**

	Within 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 2 years	2 - 5 Years	Over 5 years	No Maturity	Total
<b>Mar-10</b>									
<b>Financial Assets (\$'000)</b>									
Cash and Bank deposits	4,449	8,797							13,246
Trade and other receivables	2								2
Principal on Loans to Members	503	281	1,124	2,675	3,286	5,455	23,850		37,174
Interest on Loans to Members	199	392	578	1,085	1,920	4,969	7,937		17,080
Debt securities		202			348	1,605	700	284	3,139
Future interest receivables on deposits and debt securities	48	159	51	127	220	379	203		1,187
<b>Total Financial Assets</b>	<b>5,201</b>	<b>9,831</b>	<b>1,753</b>	<b>3,887</b>	<b>5,774</b>	<b>12,408</b>	<b>32,690</b>		<b>71,828</b>

	Within 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 2 years	2 - 5 Years	Over 5 years	No Maturity	Total
<b>Mar-11</b>									
<b>Financial Liabilities Payable (\$'000)</b>									
Trade and other payables	186			10	10				206
Members Deposits	49,016								49,016
<b>Total Financial Liabilities Payable</b>	<b>49,202</b>	<b>0</b>	<b>0</b>	<b>10</b>	<b>10</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>46,338</b>
<b>Net liquidity cover/(shortfall)</b>	<b>(44,001)</b>	<b>9,831</b>	<b>1,753</b>	<b>3,877</b>	<b>5,764</b>	<b>12,408</b>	<b>32,690</b>	<b>284</b>	<b>22,606</b>

**Expected Maturity Profile of Financial Assets and Liabilities**

	Within 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 2 years	2 - 5 Years	Over 5 years	No Maturity	Total
<b>Mar-10</b>									
<b>Financial Assets (\$'000)</b>									
Principal and Interest on Loans to members	278	556	834	1,668	3,336	10,008	41,952		58,632
<b>Financial Liabilities Payable (\$'000)</b>									
Members Deposits	458	700	250	300	700	1,500	45,108		49,016

With the exception of principal and interest on loans to members and members' deposits, all financial assets and liabilities are expected to be consistent with their contractual maturity profiles. The liquidity shortfall indicated by the contractual section of the table is not expected to arise because member deposits are expected, based on historical experience, to not be withdrawn in the short or medium term. The management of liquidity risk is detailed in note 16.

## 19. INTEREST RATE RISK

The Credit Union's interest rate risk repricing time frames are set out below.

The effective weighted average interest rate (EIR) on classes of financial assets and financial liabilities are also included in the table below. The impact on profit for the following 12 months of a 1% increase (decrease) in interest rates is an increase (a decrease) of \$31,509 (2010 \$31,191).

### REPRICING PERIOD

	Floating interest rate		Fixed interest rate maturing in										Non-interest sensitive		Totals		Weighted average eff. interest rate*						
	Mar-11	Mar-10	0 to 6 mths	6 to 12 mths	1 to 2 years	2 to 5 years	Over 5 years	Mar-11	Mar-10	Mar-11	Mar-10	Mar-11	Mar-10	Mar-11	Mar-10	Mar-11	Mar-10						
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000								
<b>Monetary Assets</b>																							
Cash and cash equivalents	1303	903	6,028	6,025												333	515	7,664	7,443	4.17%	4.14%		
Short-term deposits			5,547	5,803														5,547	5,803	4.74%	4.54%		
Trade & other receivables																							
Debt securities				215						619										0	3,139	7.69%	8.16%
Loans to members				36,112																0	36,112	6.73%	6.73%
<b>Total Monetary Assets</b>	<b>1,303</b>	<b>903</b>	<b>11,575</b>	<b>48,155</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>619</b>	<b>0</b>	<b>1,605</b>	<b>0</b>	<b>700</b>	<b>338</b>	<b>523</b>	<b>13,216</b>	<b>52,505</b>							
<b>Monetary Liabilities</b>																							
Trade payables																							
Members' call shares	44,195	49,016																		44,195	49,016	2.53%	2.68%
Members' term shares			41							1085										1,792	0	5.28%	NA
<b>Total Monetary Liabilities</b>	<b>44,195</b>	<b>49,016</b>	<b>41</b>	<b>0</b>	<b>530</b>	<b>0</b>	<b>1,085</b>	<b>0</b>	<b>136</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>351</b>	<b>525</b>	<b>46,338</b>	<b>49,541</b>							
<b>Total Mismatch</b>	<b>(42,892)</b>	<b>(48,113)</b>	<b>11,534</b>	<b>48,155</b>	<b>(530)</b>	<b>0</b>	<b>(1,085)</b>	<b>619</b>	<b>(136)</b>	<b>1,605</b>	<b>0</b>	<b>700</b>	<b>(13)</b>	<b>(2)</b>	<b>(33,122)</b>	<b>2,964</b>							

\*The weighted average effective interest rate has been calculated on the interest-sensitive financial instruments in each category.

20. **CONCENTRATION OF FUNDING**

The Credit Union's source of funding is members' deposits. Accordingly, the funding is concentrated in and limited to the area of the common bond.

	31.3.11	31.3.10
Hawkes Bay	65%	66%
Other North Island	11%	10%
Canterbury	20%	19%
Other South Island	4%	5%

21. **FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES**a. **Fair value heirarchy**

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

The following fair value information provides an analysis of the financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- \* Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- \* Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- \* Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Available for sale debt securities (Level 1) are the only financial instruments recorded at fair value.

An independent market value based on recent transactions in an active market is provided at the end of the reporting period by Craigs Investment Advisors, and that is regarded as approximating the fair value.

## b. Fair values of financial instruments not carried at fair value

	31.3.11		31.3.10	
	Fair Value \$	Book Value \$	Fair Value \$	Book Value \$
<b>FINANCIAL ASSETS</b>				
Cash, cash equivalents and bank deposits	13,210,933	13,210,933	13,245,994	13,245,994
Rent receivables	0	0	1,706	1,706
Loans to members	33,254,341	33,254,341	36,111,922	36,111,922
Held to maturity debt securities	2,338,941	2,193,076	2,262,190	2,136,468
<b>Total Financial Assets</b>	<u>48,804,215</u>	<u>48,658,350</u>	<u>51,621,812</u>	<u>51,496,090</u>
<b>FINANCIAL LIABILITIES</b>				
Trade and other payables	351,066	351,066	524,715	524,715
Deposits from members	45,987,176	45,987,176	49,016,090	49,016,090
<b>Total Financial Liabilities</b>	<u>46,338,242</u>	<u>46,338,242</u>	<u>49,540,805</u>	<u>49,540,805</u>

21. **FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONT'D)**

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

**Financial Assets**

***Cash, cash equivalents and bank deposits***

The reported amount is approximately fair value

***Trade and other receivables***

The reported amount takes into account the likelihood of collecting the amounts owed. The Directors believe that this amount approximates their fair value.

***Loans to members***

Loans to members are recorded at the principal sum plus all interest earned to the reporting date. The Directors have reviewed the loan portfolio and believe that the carrying amount approximates the fair value.

***Debt Securities - Held to Maturity***

An independent market value based on recent market transactions is provided at the end of the reporting period by Craigs Investment Advisors, and that is regarded as approximating the fair value.

**Financial Liabilities**

***Trade and other payables***

The reported amount approximates the fair value.

***Deposits from members***

The carrying value approximates the fair value.

22. **INVESTMENT PORTFOLIO CONCENTRATION BY MARKET VALUE**

	<b>31.3.11</b>	<b>31.3.10</b>
<b>Available for Sale Debt Securities</b>		
Vector	311,790	313,650
Trust Power	254,324	254,014
Infratil	222,730	219,578
Fonterra	12,300	12,600
Sky City	0	201,940
	<u>801,144</u>	<u>1,001,782</u>
<b>Held to Maturity Debt Securities</b>		
Infratil	337,960	328,300
ANZ Bank	312,720	0
Sky Television	258,680	249,400
Bank of New Zealand	226,801	123,424
Capital Guaranteed Bond Ltd (Fidelity)	152,265	141,165
Vector	132,684	127,524
Tauranga City Council	129,468	63,438
Fonterra	128,549	123,463
Rabobank	127,889	128,734
Auckland City Council	127,771	123,525
Westpac N Z Ltd	127,228	124,443
Auckland International Airport	122,556	123,876
Guinness Peat Finance	101,270	99,650
Meridian Energy	53,100	0
Nufarm	0	271,128
Irongate	0	234,120
	<u>2,338,941</u>	<u>2,262,190</u>

*These notes form and must be read as part of the audited financial statements*

## 23. OTHER DISCLOSURES

	31.3.11	31.3.10
Number of loans with arrears in excess of three months	2	11
Percentage of total loans	0.47%	0.44%
Total owing on loans with arrears in excess of three months	1,037	11,236
Percentage of total amount owing	0.00%	0.03%
Total owing by debtors owing the six largest amounts	\$2,962,171	\$2,669,597
Percentage of total amount owing	8.91%	7.39%

## 24. CASH FLOW STATEMENT RECONCILIATION

	31.3.11	31.3.10
	\$	\$
<b>Reconciliation of Cash Flow from operating activities with operating profit/loss</b>		
Operating profit (loss)	167,661	540,559
Non-cash items		
Held to Maturity amortisation	9,070	(2,921)
Depreciation and loss on disposal	92,931	38,706
Loss on investments sold	180,674	0
Loan impairment and write-offs	0	35,910
	<u>450,336</u>	<u>612,254</u>
Changes in Assets and Liabilities		
Increase (Decrease) in Payables	(43,948)	160,152
Decrease (Increase) in Receivables	2,456	(2,268)
Increase (Decrease) in Members' deposits	(3,028,914)	(3,497,240)
Decrease (Increase) in Loans to members	2,857,581	1,940,783
Net cash provided from operating activities	<u>237,511</u>	<u>(786,319)</u>

## 25. AMALGAMATION OF CREDIT UNIONS

The Credit Union entered into an agreement for a transfer of engagements (i.e. amalgamation of the entire entities) with the Taranaki District Manchester Unity Credit Union, effective from 1st July 2009. The transfer of engagements had a nil cost. The assets and liabilities of the Taranaki District Manchester Unity Credit Union as at the date of transfer comprised:

Liabilities and equity	\$	Assets	\$
Trade and other payables	38,714	Cash and cash equivalents	1,633,635
Members' deposits	3,394,262	Loans to members	2,089,105
Provision for dividend	93,964	Debt securities	20,000
General reserve	215,800		
	<u>3,742,740</u>		<u>3,742,740</u>

The net assets at the date of amalgamation were transferred at book value. The amalgamated entity has been absorbed into the operations of the Credit Union, and therefore it is impracticable to disclose the amount of the transferred Credit Union's profit or loss since transfer. The revenue and profit or loss as if the transfers had occurred at 1st April 2009 is impracticable to calculate because the transferred Credit Union had a different balance date.

26.	<b>RELATED PARTY TRANSACTIONS</b>	31.3.11	31.3.10
	Key management personnel (Directors and General Manager) holdings at balance date were:	\$	\$
	Shares held by key management personnel	143,630	158,439
	Shares held by related parties to key management personnel	230,409	196,488
	Interest paid to key management personnel	4,256	4,128
	Interest paid to related parties	5,546	4,798
	Loans made to related parties of key management personnel	417,478	460,760
	Interest paid by related parties	29,202	16,320

All shares/loans are held on the same terms as other members.

Willis Toomey Robinson, a law firm for which Mr L R Robinson ( a Director and Trustee of the Credit Union until November 2010) is a consultant, provided legal services on normal commercial terms.

The value of the services provided was	6,135	10,411
The amount outstanding at the reporting date was	nil	nil

Total key management personnel compensation was:

Short-term employee benefits	232,998	221,579
Post-employment benefits	2,450	2,600
Termination benefits	10,000	0

All remuneration to directors was approved by the members of the Credit Union at the previous Annual General meeting of the Credit Union.

## 27. BREACH OF TRUST DEED RATIOS

For the period from 1st November 2008 to 30th June 2009 a combination of factors including significant changes to market valuations of bonds, a change in accounting standards, and an unusually large influx of members' deposits resulted in the level of reserves moving below the minimum statutory requirement by a small dollar amount. From July 2009 onwards all trust deed ratios have been compliant.

## 28. EVENTS SUBSEQUENT TO BALANCE DATE

There have been no significant events subsequent to 31st March 2011. In 2010 reference was made to a significant fall in the value of the Credit Union's investment in Irongate Properties Ltd, since sold.

## 29. EXPOSURE TO CHRISTCHURCH EARTHQUAKE

The Credit Union has exposure to loans secured over property in the Christchurch earthquake zone totalling approximately \$2.48m (7.4% of total loans).

The directors have commissioned a report from Telfer Young (Canterbury) Ltd, assessing the impact of the earthquake on security properties, and identifying potential increases in risk to the Credit Union's loan portfolio due to reduced property values. The report notes that property sales volumes in the period February to May 2011 were significantly lower than the corresponding period last year. The sales transactions which have occurred are at values only 6% lower on average than for the corresponding period.

On 23 June 2011 the New Zealand Government announced the first stage of its long term response to earthquake affected properties. This response supports the valuation of security properties as it is proposing settlement at 2007 rateable values.

The Credit union has been in communication with all of its Christchurch borrowers, and none of those loans are in arrears. The directors are satisfied that no additional provision for impairment is required.

## INDEPENDENT AUDITOR'S REPORT To the Members of Manchester Unity Credit Union

### Report on the Financial Statements

We have audited the financial statements of Manchester Unity Credit Union on pages 1 to 28, which comprise the statement of financial position as at 31 March 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period then ended, and a summary of significant accounting policies and other explanatory information.

#### *Directors' Responsibility for the Financial Statements*

The directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that gives a true and fair view the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Other than in our capacity as auditor we have no relationship with, or interests in, Manchester Unity Credit Union.

#### *Opinion:*

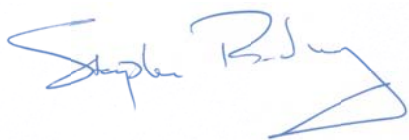
In our opinion the financial statements on pages 1 to 28:

- comply with generally accepted accounting practice in New Zealand;
- comply with requirements of the Friendly Societies and Credit Unions Act 1982;
- are in agreement with the accounting records of the credit union; and
- give a true and fair view of the financial position of Manchester Unity Credit Union as at 31 March 2011, and of its financial performance and cash flows for the period then ended.

### Report on Other Legal and Regulatory Requirements

In accordance with the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required.
- In our opinion proper accounting records have been kept by Manchester Unity Credit Union as far as appears from our examinations of those records.



Staples Rodway Hawkes Bay Partnership  
28 June 2011  
Hastings



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