

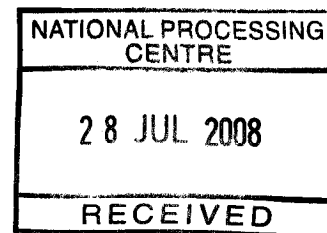
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**CREDIT UNION MT MAUNGANUI**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MARCH 2008**



# **CREDIT UNION MT MAUNGANUI**

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# **CREDIT UNION MT MAUNGANUI**

## **DIRECTORY**

**FOR THE YEAR ENDED 31 MARCH 2008**

### **Board of Directors**

**Chairman**

Paul Clark

**Vice Chairman**

Tony Kelly

**Secretary**

Roger McIntyre

**Treasurer**

Frank Neilson

**Directors**

Ross Durham

John Weston

Andrea Findsen

Paul Stanley

Nicki De Grey

### **Trustees**

John Weston

Ross Durham

Tony Kelly

### **Senior Management**

**General Manager**

Dave Oliver

**Manager Administration**

Ken Robison

**Manager Financial Services**

Tony Wilbraham

**Manager Finance**

Ian Burdis

**Manager Credit**

Julie Cleary

### **Auditors**

**BDO Spicers  
Hamilton**

### **Bankers**

**New Zealand Association of  
Credit Unions**

### **Affiliations**

**New Zealand Association of  
Credit Unions**

**Institute of Credit Union  
Directors**

# CREDIT UNION MT MAUNGANUI

## INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2008

	Note	2008 \$	2007 \$
Interest revenue	2	5,637,890	5,089,442
Interest expenditure	2	<u>2,788,121</u>	<u>2,343,916</u>
<b>NET INTEREST REVENUE</b>		<b>2,849,769</b>	<b>2,745,526</b>
Other Income	2	<u>2,241,092</u>	<u>2,110,628</u>
<b>TOTAL REVENUE</b>		<b>5,090,861</b>	<b>4,856,154</b>
<b>EXPENDITURE</b>			
Loan impairment expenses		558,619	353,361
Employee benefits		1,836,805	1,535,293
Occupancy		160,541	104,929
Depreciation		351,815	271,390
Impairment losses		-	-
Other expenditure	2	<u>2,109,958</u>	<u>1,955,976</u>
<b>TOTAL EXPENDITURE</b>		<b>5,017,738</b>	<b>4,220,949</b>
<b>Operating profit</b>		<b><u>73,123</u></b>	<b><u>635,205</u></b>

The attached notes to the financial statements form part of and should be read in conjunction with the financial statements.



# CREDIT UNION MT MAUNGANUI

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2008

	Retained Earnings \$	Reserves \$	Total \$
<b>Balance at 1 April 2007</b>	2,325,560	3,420,485	5,746,045
Operating profit	73,123		73,123
Total recognised income	<u>2,398,683</u>	<u>3,420,485</u>	<u>5,819,168</u>
Transfers to and from reserves			
General Reserve	(147,109)	147,109	-
Prudential Reserve	-	-	-
Property Revaluation Reserve	-	-	-
Retained Earnings	-	-	-
Adjustment on Adoption of NZ IFRS - prudential reserve			
<b>Balance as at 31 March 2008</b>	<u><u>2,251,574</u></u>	<u><u>3,567,594</u></u>	<u><u>5,819,168</u></u>
<b>Balance at 1 April 2006</b>	86,155	4,329,135	4,415,290
Operating profit	635,205	-	635,205
Total recognized income	<u>721,360</u>	<u>4,329,135</u>	<u>5,050,495</u>
Transfers to and from reserves			
General Reserve	(250,000)	250,000	-
Property Revaluation Reserve		695,550	695,550
Retained Earnings	-	-	-
Adjustment on Adoption of NZ IFRS - prudential reserve	<u>1,854,200</u>	<u>(1,854,200)</u>	<u>-</u>
<b>Balance at 31 March 2007</b>	<u><u>2,325,560</u></u>	<u><u>3,420,485</u></u>	<u><u>5,746,045</u></u>



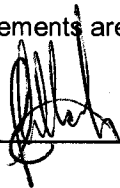
# CREDIT UNION MT MAUNGANUI

## BALANCE SHEET AS AT 31 MARCH 2008

	Note	2008	2007
		\$	\$
<b>MEMBERS FUNDS</b>			
Retained earnings	4	2,251,574	2,325,560
Other reserves	4	3,567,594	3,420,485
<b>TOTAL MEMBERS FUNDS</b>		<b>5,819,168</b>	<b>5,746,045</b>
<b>ASSETS</b>			
Cash & Bank	5	473,660	520,935
Deposits at NZACU	5	3,300,000	4,250,000
Trade and other receivables	6	351,343	236,865
Loans to members	7-8	42,349,962	38,842,158
Property, plant and equipment	9	2,475,684	2,399,423
Capital Notes	10	991,525	658,191
<b>TOTAL ASSETS</b>		<b>49,942,174</b>	<b>46,907,572</b>
<b>LIABILITIES</b>			
Trade and other payables	11	1,008,712	1,125,177
Members deposits	12	43,114,294	40,036,350
<b>TOTAL LIABILITIES</b>		<b>44,123,006</b>	<b>41,161,527</b>
<b>NETT ASSETS</b>		<b>5,819,168</b>	<b>5,746,045</b>

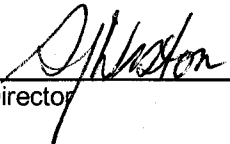
These Financial Statements are authorized for issue by:

Director



30/6/2008  
Date

Director



30/6/2008  
Date

The attached notes to the financial statements form part of and should be read in conjunction with the financial statements.



# CREDIT UNION MT MAUNGANUI

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2008

	Note	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest received		5,561,015	4,437,297
Other income		2,203,488	2,550,594
Interest paid		(2,878,766)	(1,961,314)
Payments to suppliers and employers		<u>(4,133,123)</u>	<u>(3,807,982)</u>
Net cash provided by/(used in) operating activities	24	<u>752,614</u>	<u>1,218,595</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net movement in member loans		(4,066,423)	4,644,399
Payments for property, plant and equipment		(428,076)	319,036
Proceeds from sale of property, plant and equipment		-	-
Net Movement in Short Term Investments		950,000	(500,000)
Capital Notes Investment - NZACU		<u>(333,334)</u>	<u>(253,278)</u>
Net cash provided by/(used in) investing activities		<u>(3,877,833)</u>	<u>4,210,157</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net movement in member deposits		3,077,944	3,757,974
Net cash provided by/(used in) financing activities		<u>3,077,944</u>	<u>3,757,974</u>
Total net increase/(decrease) in cash held		(47,275)	259,856
Cash at the beginning of the financial period		<u>520,935</u>	<u>261,079</u>
Cash at the end of the financial period		<u><u>473,660</u></u>	<u><u>520,935</u></u>

The attached notes to the financial statements form part of and should be read in conjunction with the financial statements.



# **CREDIT UNION MT MAUNGANUI**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 MARCH 2008**

### **Reporting Entity**

The Credit Union is registered under the Friendly Societies and Credit Unions Act 1982. The Credit Union is an issuer for the purposes of the Financial Reporting Act 1993. The financial report is a general purpose financial report which has been prepared in accordance with the Financial Reporting Act 1993, the Friendly Societies and Credit Unions Act 1982 and relevant Securities Regulations.

These financial statements have also been prepared in accordance with New Zealand Generally Accepted Accounting Principles ("GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), as appropriate for profit-oriented entities for the benefit of their members. Compliance with NZ IFRS ensures that the financial statements also comply with International Financial Reporting Standards ("IFRS"). The presentation currency is \$NZ.

### **Nature of Business**

The purpose of a 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. 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 is received by the Credit Union and interest is paid to depositing members in the form of interest on shares.

The Credit Union operates predominantly in one industry, being the investment of members' funds. All operations are based in New Zealand.

### **Trust Deed**

To meet the requirements of The Securities Act 1978 a Trust Deed was entered into on the 30 November 2000 between the Trustees of the Credit Union and Trustees Executors Limited. Trustees Executors 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 of 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 shares; and
- (b) sufficient assets to meet its obligations to members, as they fall due.

## **1 SIGNIFICANT 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) Adoption of NZ IFRS**

First-time adoption of New Zealand Equivalents to International Financial Reporting Standards has been applied by the Credit Union for the year ended 31 March 2008.

In accordance with the requirements of IFRS1: First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards, adjustments to financial statements resulting from the introduction of NZ IFRS have been applied retrospectively to 2006 comparative figures. These financial statements are the first financial statements of the Credit Union to be prepared in accordance with NZ IFRS.

Reconciliations of the transition from previous New Zealand GAAP to NZ IFRS have been included in Note 26 to this financial report.



# **CREDIT UNION MT MAUNGANUI**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008**

### **Yearly Financial Statements**

Yearly financial statements have been prepared under NZ IFRS and comparatives for the previous period have been adjusted to comply with NZ IFRS.

### **(b) Measurement Base**

The financial statements have been prepared on a going concern basis in accordance with historical cost concepts, except for land and buildings which are reflected at valuation.

### **(c) Members' Shares (Deposits)**

Members' shares in the Credit Union have characteristics of both debt and equity instruments. For the purposes of financial reporting, members' shares are recorded debt instruments. All payments of dividends on these shares are recorded as interest payments. Members have the right to one vote at the meeting of the Credit Union regardless of how many shares they hold in the Credit Union.

### **(d) Receivables Due from other Financial Institutions**

Receivables from other financial institutions are primarily settlement account balances due from banks, New Zealand Association of Credit Unions (NZACU) and other credit unions. They are brought to account at the gross value of the outstanding balance. Interest is brought to account in the Income Statement on the effective interest basis.

### **(e) Financial Instruments Recognition**

Financial instruments are initially measured at fair value plus transactions costs. Subsequent to initial recognition these instruments are measured as set out below.

### **Financial assets at fair value through profit and loss**

The Credit Union has no financial assets at fair value through the profit and loss as defined in NZ IAS 39.

### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised costs using the effective interest rate method.

### **Held-to-maturity investments**

Capital notes are defined as held to maturity investments. The capital notes are measured at cost as its fair value could not be measured reliably as there is no active market for this investment.

### **Available for sale Financial Assets**

The Credit Union has no available for sale financial assets.

### **Trade and other payables**

Trade and other payables are recognised at amortised cost.

### **(f) Revenue**

#### **Loans Interest Revenue**

Loan interest is calculated on the daily loan balance outstanding and is charged in arrears to the members loan account on the repayment date. Loan interest is recognised in the Income Statement using the effective interest rate method.

#### **Investment Interest Revenue**

Investment interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

#### **Fees & Commissions Revenue**

Fees and commission are brought to account on an accrual basis once a right to receive consideration has been attained.



# CREDIT UNION MT MAUNGANUI

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008

### **Loan Origination Fees Revenue**

Loan origination fees where material, are deferred and amortised as a component of the calculation of the effective interest rate in relation to originated loans. They therefore reduce the interest recognised in relation to this portfolio of loans.

Where loan origination fees are not material these are taken to revenue when the loan is drawn down.

### **(g) Impairment – Loans & Advances**

All loans are subject to continuous management review to assess whether there is any objective evidence that any loan or group of loans is impaired. Impairment loss is measured as the difference between the loan's carrying amount and the value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate. Impairment losses are recognised in the income statement.

The amount provided for impairment of loans is determined by management and the board. The Prudential Standards issued by NZACU enable the minimum provision to be based on specific percentages of the loan balance, contingent upon the length of time the repayments are in arrears, and the security held. This approach is adopted by the Credit Union. In addition, the board makes a provision for loans in arrears where the collectability of the debts is considered doubtful by estimation of expected losses in relation to loan portfolios where specific identification is impracticable.

In addition a statutory General Reserve as required by section 119 of the Friendly Society and Credit Unions Act 1982 is maintained to cover risks inherent in the loan portfolios. Movements in the General Reserve for credit losses are recognised as an appropriation of retained earnings.

Bad debts are written off to the provision for impaired loans when identified.

"Non-accrual 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 provisions for impairment are recognised.

"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.

"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.

### **90 days Past-due loans**

"90 days Past-due loans" are loans or similar facilities in arrears which has not been operated within its key terms by the borrower for at least 90 days and which is not an impaired loan.

### **(h) Derivative financial instruments and hedge accounting**

Derivatives (interest rate swaps) are entered into from time to time for the purpose of hedging the interest rate risk of the Credit Union's interest bearing assets.

For the purpose of hedge accounting, hedges are classified as either fair value hedges where they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction. The Credit Union classifies all interest rate swaps as fair value hedges.

In relation to fair value hedges which meet the condition for special hedge accounting, any gain or loss from re-measuring the hedging instrument at fair value is recognised immediately in the income statement.

Any gain or loss attributable to the hedged risk on measurement of the hedged item is adjusted against the carrying amount of the hedged item and recognised in the income statement. Where the adjustment is to the carrying amount of a hedged interest-bearing financial instrument, the adjustment is amortised to the income statement such that it is fully amortised by maturity.



# CREDIT UNION MT MAUNGANUI

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008

The Credit Union currently does not enter into derivatives.

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

The Credit Union is registered for GST in relation to its commission sales activities and recovers GST on expenditure related to that income. Irrecoverable GST is included in the amounts recognised as expenses and assets.

### **(j) Income Tax**

No amounts have been provided for Income Tax as the Credit Union's income from members is exempt under section CW 37 of the Income Tax Act 2004. Income derived other than from members does not produce a taxable profit.

### **(k) Property, plant and equipment ("PPE")**

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

#### **Property**

Freehold land and buildings are measured at their fair value, being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction, less subsequent depreciation. It is the policy of the Credit Union to have an independent valuation every 3 years, with annual appraisals being made by the directors.

A revaluation surplus is credited to the asset revaluation reserve included within equity unless it reverses a revaluation decrease on the same asset previously recognised in the Income Statement. A revaluation deficit is recognised in the income statement unless it directly offsets a previous revaluation surplus on the same asset in the asset revaluation reserve.

#### **Plant and Equipment**

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

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount of these assets. The recoverable amount is assessed on the basis of expected net cash flows that will be received from the assets employment and subsequent disposal. Any decrement in the carrying amount is recognised as an impairment expense in the Income Statement in the reporting period in which the impairment loss occurs. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

#### **Depreciation**

The depreciable amount of all property, plant and equipment including buildings and capitalised leased assets but excluding freehold land, is depreciated over their useful lives to the Credit Union commencing from the time the asset is held ready for use. Leasehold improvements (if applicable) are depreciated over the shorter of either the unexpired term of the lease or the estimated useful life of the improvements.

Plant and equipment is depreciated on a straight-line basis. A summary of the rates used is:

Buildings	2.50% to 5.00%
Motor Vehicles	20.00%
Computer Hardware	20.00% to 36.00%
Office Furniture and Equipment	10.00% to 33.00%

Assets purchases under \$500 are not capitalised but expensed at time of purchase.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the Income Statement. When re-valued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.



# CREDIT UNION MT MAUNGANUI

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008

### **(l) Impairment Testing of Assets (excluding PP&E and Loans & Advances)**

At each reporting date, the Credit Union reviews the carrying values of its tangible and intangible 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 assets carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the Income Statement.

### **(m) Leases**

Leases of property, plant and equipment, where substantially all the risks and benefits incidental to ownership of the asset, but not the legal ownership, are transferred to the Credit Union are classified as finance leases.

Finance leases are capitalised recording an asset and a liability equal to lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over their estimated useful lives.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and are amortised on a straight-line basis over the life of the lease term.

### **(n) Members' Deposits**

Members' deposits are brought to account at cost. Interest on deposits is brought to account on an accrual basis. Interest accrued at balance date is shown as a part of other payables.

### **(o) Employee Benefits**

Provision is made for the liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made if material.

### **(p) Comparative figures**

Where required as a result of the adoption of NZ IFRS, comparative figures have been adjusted to conform to changes in presentation in the current year.

### **(q) 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" includes coins and notes, demand deposits and other highly liquid investments readily convertible into cash and includes at call borrowings such as bank overdrafts, used by the organisation as part of their day-to-day cash management.

"Investing Activities" are those activities relating to the acquisition and disposal of current and non current investments and any other non current assets.

"Financing Activities" are those activities relating to changes the size and composition of the capital structure of the Credit Union.

"Operating Activities" include all transactions and other events that are not investing or financing activities.

### **Netting of Cash flows**

Certain cash flows 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 the members rather than those of the Credit Union. These include members' loans and borrowings.



# **CREDIT UNION MT MAUNGANUI**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008**

### ***(r) Accounting Judgements, Estimates and Assumptions***

The preparation of the financial statements requires the use of management judgements, estimates and assumptions that affect reported amounts and the application of policies. The estimates and associated assumptions are based on historical experience and various other factors that are believe to be reasonable. Actual results may differ from these estimates.

Management have made judgements when applying the Credit Union's accounting policies with respect to the classification of financial instruments recognition.

The details of the critical accounting estimates and assumptions are set out in note 8 for the impairment provisions for loans.



# CREDIT UNION MT MAUNGANUI

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008

### 2 REVENUE AND EXPENDITURE

	2008	2007
<b>Interest Revenue</b>	<b>\$</b>	<b>\$</b>
Interest on Loans	5,205,532	4,516,632
Interest on Investments	432,358	572,810
Other Interest	-	-
	<hr/>	<hr/>
<b>Total Interest Revenue</b>	<b>5,637,890</b>	<b>5,089,442</b>
	<hr/>	<hr/>
<b>Interest Expenditure</b>		
Interest on Members Call Shares	530,179	445,603
Interest on Members Term Shares	2,233,384	1,876,230
Interest on Overdraft from NZACU	24,558	22,083
Other Interest	-	-
	<hr/>	<hr/>
<b>Total Interest Expenditure</b>	<b>2,788,121</b>	<b>2,343,916</b>
	<hr/>	<hr/>
<b>Net Interest Revenue</b>	<b>2,849,769</b>	<b>2,745,526</b>
	<hr/>	<hr/>
<b>Other Income</b>		
Loan Application Fees	585,124	495,090
Cost Recoveries	1,210,136	1,153,069
Bad Debts Recovered	88,946	38,597
Commissions	318,224	329,125
Rental Income	-	-
Profit on Sale of Property Plant & Equipment	-	15,811
Other Income	38,662	78,936
	<hr/>	<hr/>
<b>Total Other Income</b>	<b>2,241,092</b>	<b>2,110,628</b>
	<hr/>	<hr/>
<b>Other Expenditure</b>		
Auditors Remuneration		
Audit Costs		
Audit of Financial Statement	13,638	12,613
Internal Audit	6,075	5,100
Loss on Disposal of Property Plant & Equipment		15,402
Directors Fees		
Directors Expenses and Training	33,307	24,047
Donations Made / Community Support	22,698	22,799
Transaction Processing Costs	1,089,723	1,005,872
Other Expenses	944,517	870,143
	<hr/>	<hr/>
<b>Total Other Expenditure</b>	<b>2,109,958</b>	<b>1,955,976</b>
	<hr/>	<hr/>



# CREDIT UNION MT MAUNGANUI

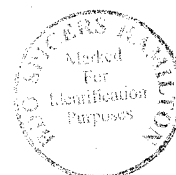
## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008

	2008	2007
	\$	\$
<b>Loan Impairment Expenses</b>		
Bad Debts Written Off	-	-
Movement Provision for Loan Impairments	558,619	353,361
	<u>558,619</u>	<u>353,361</u>
<b>Total Loan Impairment Expenses</b>	<u><u>558,619</u></u>	<u><u>353,361</u></u>
<b>Depreciation Expenditure</b>		
Buildings	48,376	36,099
Computer Hardware	150,539	123,066
Motor Vehicles	15,168	13,257
Office Furniture and Equipment	137,732	98,968
Leasehold Improvements	-	-
	<u>351,815</u>	<u>271,390</u>
<b>Total Depreciation Expenditure</b>	<u><u>351,815</u></u>	<u><u>271,390</u></u>

### 3 INTEREST PAID

Interest is paid to depositing members and relates to the Credit Union's ability to pay the interest. At times during the period the Credit Union may offer depositors special accounts that have a pre-set interest rate. Interest rates applied to members' deposits for the period were:

	2008	2007
Ordinary , Special Purpose Shares	0-4.00%	0-4.00%
Loan Provider Shares	1.00-3.00%	1.00-3.00%
Christmas Club and Future Shares	4.0%	1.00-4.00%
Money Maker Shares	1.00-7.75%	1.00-7.00%
Term Shares		
Term Deposit (3 months)	7.50-8.45%	6.25-6.50%
Term Deposit (6 months)	7.50-9.00%	7.25-8.20%
Term Deposit (9 months)	8.40-9.20%	7.25-8.15%
Term Deposit (12 months)	7.65-9.30%	7.50-8.50%
Term Deposit (24 months)	7.25-9.25%	7.25-8.60%



# CREDIT UNION MT MAUNGANUI

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008

### 4 RESERVES

Reserves at 31 March 2008

	Retained Earnings	General Reserve	Property Revaluation Reserve	Other Reserves	Total Members' Reserves
Balance at 1 April 2007	2,325,560	2,350,000	1,070,485	-	5,746,045
Operating profit for the period	73,123				73,123
Transfer to/from retained earnings	(147,109)	147,109			-
Adjustment on adoption of NZ IRFS					-
Balance carried forward at 31 March 2008	2,251,574	2,497,109	1,070,485	-	5,819,168
The Reserve % to Total Assets	4.51%	5.00%	2.14%		11.65%

Reserves at 31 March 2007

	Retained Earnings	General Reserve	Property Revaluation Reserve	Other Reserves	Total Members' Reserves
Balance brought forward at 1 April 2006	86,155	2,100,000	374,935	1,854,200	4,415,290
Operating profit for the period	635,205				635,205
Property revaluation			695,550		695,550
Transfer to/from retained earnings	(250,000)	250,000			-
Adjustment on adoption of NZ IRFS	1,854,200			(1,854,200)	-
Balance carried forward at 31 March 2007	2,325,560	2,350,000	1,070,485	-	5,746,045
The Reserve % to Total Assets	4.96%	5.00%	2.28%	0.00%	12.24%

#### **Retained Earnings**

Reserve arising from retained profits accumulated from operations.

#### **General Reserve**

A General Reserve has been established in accordance with S119 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 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:

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

#### **Revaluation Reserve**

A Revaluation Reserve was established to provide for the unrealised surplus on the revaluation of the Credit Union's land and building at 33 Totara Street, Mt Maunganui. On 31 March 2007, the Land and Buildings at 33 Totara Street, Mt Maunganui, were re-valued to reflect the current market value. There was a net increase to the revaluation reserve of \$695,550.



# CREDIT UNION MT MAUNGANUI

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008

### Total Reserves

The Trust Deed requires that the total reserves, including retained earnings, of the Credit Union amount to at least 10% of the total assets of the Credit Union.

### 5 CASH AND CASH EQUIVALENTS

	Interest Rates	2008	2007
		\$	\$
Cash & Bank	2%	473,660	520,935
Deposits at NZ Association of Credit Unions	8.25-8.80%	3,300,000	4,250,000
		<u>3,773,660</u>	<u>4,770,935</u>

The Credit Union does not hold tradeable securities. Effective interest rates are the original contracted values. Movements in market rates will not affect the recorded value of investments. The deposits with the NZACU's central banking facility are excess funds held by the Credit Union. The NZACU minimises its exposure to credit risk by maintaining a diversified portfolio with controls over maturity, counter party and concentration of investment risks.

### 6 TRADE AND OTHER RECEIVABLES

	2008	2007
	\$	\$
Accrued Interest	256,368	179,493
Sundry Debtors	64,670	37,901
Prepayments	30,305	19,471
	<u>351,343</u>	<u>236,865</u>

### 7 LOANS TO MEMBERS'

Loans are made in accordance with the lending policy of the Credit Union and are repayable on demand. A provision for impairment has been made at the end of the reporting period. Bad loans are written off against the provision for impairments.

#### (a) Loans to members comprises:

	2008	2007
	\$	\$
Personal Loans	23,811,215	22,787,226
Mortgages	19,097,208	16,472,585
<b>Gross Loan Receivables</b>	<u>42,908,423</u>	<u>39,259,811</u>
Provision for Impairment (refer to note 8)	558,461	417,653
<b>Net Credit Exposure</b>	<u>42,349,962</u>	<u>38,842,158</u>



# CREDIT UNION MT MAUNGANUI

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008

### (b) Credit quality - Security dissection

	2008 \$	2007 \$
Secured by mortgage over real estate	19,097,208	16,472,585
Secured by members shares	4,446,155	4,267,244
	<u>23,543,363</u>	<u>20,739,829</u>

It is impractical to provide a valuation of the security held against loans due to the large number of assets to be valued to arrive at the amount. A breakdown of the quality of the security on a portfolio basis is as follows:

	2008 \$	2007 \$
Security held as mortgage against real estate is on the basis		
- loan to valuation ratio of less than 80%	14,895,823	12,983,649
- loan to valuation ratio of more than 80% but mortgage insured	-	-
- loan to valuation ratio of more than 80% but not mortgage insured	4,201,385	3,488,936
<b>TOTAL</b>	<u>19,097,208</u>	<u>16,472,585</u>

### (c) Credit quality - Concentration of loans

(i) Loans to individual or related groups of members which exceed 10% of member funds in aggregate	NIL	NIL		
(ii) Loans to members are not concentrated to individuals employed in any particular industry	NIL	NIL		
(iii) Loans to members are concentrated solely in New Zealand and principally within the common bond of the Credit Union	100%	100%		
(iv) Loans drawn down by member type (purpose) for 12 month period ended 31/3/08				
Residential loans and facilities	(139)	6,369,338	(179)	6,033,069
Personal Loans				
Motor Vehicles	(1,579)	5,996,189	(1,467)	5,411,617
Other Assets/Chattels	(1,497)	7,055,100	(1,654)	6,377,336
Personal loans	(2,894)	4,908,209	(2,508)	3,803,055
Loans to Charitable Trusts and Incorporated Societies		-		
<b>Loan drawdown for 12 months to 31/3/08</b>		<u>24,328,836</u>		<u>21,625,077</u>



# CREDIT UNION MT MAUNGANUI

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008

### 8 IMPAIRMENT OF LOANS AND ADVANCES

#### (a) Provision for Impairment

	2008	2007
	\$	\$
Opening balance	417,653	285,306
Increase in provision in period	140,808	132,347
	<u>558,461</u>	<u>417,653</u>
Balance carried forward	<u>558,461</u>	<u>417,653</u>

#### (b) Key assumptions in determining the provision for impairment

In the course of the preparation of the interim report the Credit Union has determined the likely impairment loss on loans which have not maintained loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances.

In identifying the impairment likely from these events the Credit Union is required to estimate the potential impairment using the length of time the loan is in arrears and the historical losses arising in past years. Given the relatively small number of impaired loans, the circumstances may vary for each loan over time resulting in higher or lower impairment losses. An estimate is based on the period of impairment.

Period of Impairment	% of Balance
31 days to 90 days	20%
91 days to 180 days	40%
181 days to 270 days	60%
271 days to 365 days	80%
Over 365 days	100%
Unauthorized O/D savings	100%

This provision is checked to historical write offs and an additional provision is made if necessary.



# CREDIT UNION MT MAUNGANUI

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008

### (c) Impairment Expense

	2008	2007
	\$	\$
Provisions for Impairment - increase in period	140,808	132,640
Bad loans written off as an expense in the period	417,811	220,721
	<u>558,619</u>	<u>353,361</u>

### (d) Impaired Loans, Assets Acquired and Past Due Loans

#### Non Accrual Loans (No interest charged)

Loans with Specific Provisions	62,836	-
Provision for Impairment	(62,836)	-
	<u>-</u>	<u>-</u>
Total Non Accrual Loans	-	-

#### Past Due Loans 30 days to 90 days

Total Past Due Loans	679,893	678,993
Provision for Impairment	(121,179)	(121,886)
	<u>558,714</u>	<u>557,107</u>

#### Past Due Loans beyond 90 days

Total Past Due Loans	642,560	437,206
Provision for Impairment	(312,179)	(235,361)
	<u>330,381</u>	<u>201,845</u>

#### Other Impaired Assets

Total Other Loans	62,267	60,406
Provision for Impairment	(62,267)	(60,406)
	<u>-</u>	<u>-</u>

There were no restructured loans, or loans where real estate or other assets were acquired through the enforcement of security at 31 March 2008 (2007 Nil).

	2008	2007
	\$	\$
<b>(e) Interest and Other Revenue recognised and foregone</b>		
Interest revenue on non-accrual and restructured loans	9,426	-
Interest foregone on non-accrual and restructured loans	9,426	-

#### (f) Loans with repayments past due but not Impaired

The total of past due loans (which were overdue by 1 day or more) at 31 March 2008 was \$4,337,561 (2007 \$4,276,213).



# CREDIT UNION MT MAUNGANUI

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008

### (g) Restructured Loans

Loans that were past due or impaired that have been restructured by the Credit Union were Nil at 31 March 2008 (2007 Nil).

### 9 PROPERTY PLANT AND EQUIPMENT

<b>(a) Classes of Property, Plant &amp; Equipment</b>	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>Land</b>		
At cost	80,473	80,473
Revaluation increase	819,527	819,527
	<u>900,000</u>	<u>900,000</u>
<b>Buildings</b>		
At cost	1,073,905	822,948
Revaluation increase	-	250,958
Accumulated depreciation	(298,784)	(250,406)
	<u>775,121</u>	<u>823,500</u>
<b>Computer Equipment</b>		
At cost	861,111	761,766
Accumulated depreciation	(655,047)	(504,509)
	<u>206,064</u>	<u>257,257</u>
<b>Plant &amp; Equipment</b>		
At cost	1,196,164	867,969
Accumulated depreciation	(657,764)	(520,571)
	<u>538,400</u>	<u>347,398</u>
<b>Motor Vehicles</b>		
At cost	124,480	124,480
Accumulated depreciation	(68,381)	(53,213)
	<u>56,099</u>	<u>71,267</u>
<b>Total Property, Plant &amp; Equipment</b>	<u><u>2,475,684</u></u>	<u><u>2,399,422</u></u>



# CREDIT UNION MT MAUNGANUI

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008

### (b) Movements in Carrying Amounts

Reconciliations of the carrying amounts of each class of property, plant and equipment between the beginning and end of the current financial year are set out below.

	Land \$	Buildings \$	Plant & Equipment \$	Computer Equipment \$	Motor Vehicles \$	Total \$
Balance at the Beginning of the period	900,000	823,497	347,028	257,631	71,267	2,399,423
Additions	-	-	329,104	98,972	-	428,076
Disposals	-	-	-	-	-	-
Depreciation Expense	-	(48,376)	(137,732)	(150,539)	(15,168)	(351,815)
Impairment write-downs	-	-	-	-	-	-
Net Revaluation increment/(decrement)	-	-	-	-	-	-
Carrying amount at the end of the financial period	<u>900,000</u>	<u>775,121</u>	<u>538,400</u>	<u>206,064</u>	<u>56,099</u>	<u>2,475,684</u>

### (c) Revaluations

The valuations of freehold land and buildings were based on the assessment of their current market value. The independent revaluations on 31 March 2007 were carried out by Mr D P Vane, Registered Valuer with Bay Valuations Ltd. The revaluation surplus was credited to an asset revaluation reserve in equity.

The revaluation was made in accordance with a policy to revalue land and buildings every three years.

### (d) Impairment Losses

There was no impairment loss in respect of property, plant and equipment.

## 10 CAPITAL NOTES

NZACU Business Services Division Trust Base Capital Notes (Capital Notes). These represent monies invested with the NZACU Business Services Division Trust for an open-ended term. The Capital Notes constitute unsecured obligations of the NZACU Business Services Division Trust and rank equally and without priority or preference among themselves. The Capital Notes rank after creditors in the event of the winding up of the NZACU Business Services Division Trust. Capital Notes may only be sold or transferred to another Credit Union that is a member of the NZACU Business Services Division Trust and with the consent of the NZACU Business Services Division Trust Board of Directors. There is no active market for these securities which have no guaranteed interest rate return.

Dividends are payable on a six monthly basis subject to the profitability of the NZACU Business Services Division Trust.

	2008 \$	2007 \$
Capital Notes at Cost	991,525	658,191
Less Impairment	-	-
	<u>991,525</u>	<u>658,191</u>



# CREDIT UNION MT MAUNGANUI

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008

### 11 TRADE AND OTHER PAYABLES

	2008	2007
	\$	\$
Trade Payables	148,604	159,089
Accrued Interest Payable	461,397	376,210
Resident Withholding Tax	87,771	82,314
Sundry Creditors and Accrued Expenses	79,804	99,393
Employee Entitlements	150,865	75,910
ACCESSCARD Settlement	80,271	332,261
Other Liabilities	-	-
	<u>1,008,712</u>	<u>1,125,177</u>

### 12 MEMBERS' DEPOSITS

	2008	2007
	\$	\$
<b>Ordinary Shares</b>		
Savings Accounts	3,904,071	4,317,980
Christmas Club	497,942	465,391
Loan Provider Account	5,226,010	5,350,317
Money Maker Account	<u>5,015,556</u>	<u>4,635,648</u>
Total Ordinary Shares	14,643,579	14,769,336
<b>Term Shares:</b>		
<b>Original Maturity Terms:</b>		
1 month	7,000	1,192
2 month	-	-
3 months	832,760	320,626
6 months	1,193,126	3,520,227
9 months	7,266,937	3,975,820
12 months	15,026,465	14,002,317
24 months	<u>4,144,427</u>	<u>3,446,832</u>
Total Term Shares	<u>28,470,715</u>	<u>25,267,014</u>
<b>Total Members' Deposits</b>	<u><u>43,114,294</u></u>	<u><u>40,036,350</u></u>



# CREDIT UNION MT MAUNGANUI

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008

### 13 COMMITMENTS

#### (a) Future Capital Commitments

The Credit Union has entered into contracts for the purchase of property, plant and equipment which has not been recognized as a liability and is payable as follows:

Not longer than 1 year	166,667	-
Longer than 1 and not longer than 5 years	-	-
Longer than 5 years	-	-

	2008 \$	2007 \$
Not longer than 1 year	166,667	-
Longer than 1 and not longer than 5 years	-	-
Longer than 5 years	-	-
	<u>166,667</u>	<u>-</u>

#### (b) Finance Lease Commitments

Payable:

Not longer than 1 year	-	-
Longer than 1 and not longer than 5 years	-	-
Longer than 5 years	-	-

Not longer than 1 year	-	-
Longer than 1 and not longer than 5 years	-	-
Longer than 5 years	-	-
	<u>-</u>	<u>-</u>

Minimum Lease Payments  
Less Future Finance Charges

Minimum Lease Payments	-	-
Less Future Finance Charges	-	-
	<u>-</u>	<u>-</u>

#### (c) Operating Lease Commitments

Non cancellable operating leases contracted for but not capitalised in the financial statements, payable:

Not longer than 1 year	178,056	124,157
Longer than 1 and not longer than 5 years	564,668	437,082
Longer than 5 years	134,762	39,231

Not longer than 1 year	178,056	124,157
Longer than 1 and not longer than 5 years	564,668	437,082
Longer than 5 years	134,762	39,231
	<u>877,486</u>	<u>600,470</u>

The property leases are non-cancellable leases with varying terms up to 8 years, with rent payable monthly in advance. An option exists to renew the leases at the end of the terms for additional negotiable terms.



# CREDIT UNION MT MAUNGANUI

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008

	2008 \$	2007 \$
<b>(d) Outstanding Loan Commitments</b>		
Loans and credit facilities approved but not funded or drawn		
Loans approved but not funded	629,457	562,267
Undrawn overdraft, line of credit and Accesscredit	409,820	428,834
	<u>1,039,277</u>	<u>991,101</u>
<b>(e) Operating Leases Receivable</b>		
Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases		
	<u>Nil</u>	<u>Nil</u>

### 14 STANDBY BORROWING FACILITIES

The Credit Union has a gross borrowing facility with NZACU of:

	Approved Facility \$	Current Borrowing \$	Net Available \$
<b>2008</b>			
Overdraft Facility	1,500,000	-	1,500,000
Stand by Facility	-	-	-
	<u>1,500,000</u>	<u>-</u>	<u>1,500,000</u>
<b>2007</b>			
Overdraft Facility	1,500,000	-	1,500,000
Stand by Facility	-	-	-
	<u>1,500,000</u>	<u>-</u>	<u>1,500,000</u>

Currently the unused overdraft facility is for \$1,500,000 (2007 \$1,500,000). The interest rate is 10.00% p.a. (2007 9.10% p.a.) and the penalty rate is 15.00% p.a. (2007 13.65% p.a.). There are no material terms of use.

### 15 CONTINGENT LIABILITIES

There are no contingent liabilities not provided for in the financial statements. (2007 Nil)

### 16 SEGMENTAL REPORTING

The Credit Union operates in the New Zealand financial services industry with a concentration of members and activity in Western Bay of Plenty and Tauranga City environs.

### 17 EVENTS OCCURRING AFTER BALANCE DATE

The members of the Credit Union have agreed to a transfer of engagement in favour of Credit Union North with effect from 1 April 2008. This means that Credit Union Mt Maunganui will cease to exist from that date and all its assets and liabilities will have been transferred to Credit Union North. (2007 Nil)



# CREDIT UNION MT MAUNGANUI

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008

### 18 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The board had 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:

- Market Risk and Hedging Policy management
- Credit risk management
- Liquidity risk management
- Operations risk management
- Capital adequacy management

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

#### **Market Risk and Hedging Policy**

The Credit Union is not exposed to currency risk, and other price risk. The Credit Union does not trade in the financial instruments it holds on its books.

The Credit Union is exposed to interest rate risk arising from changes in market interest rates.

The policy of the Credit Union to manage the risk is to maintain a balanced "on book" strategy by ensuring the net interest rate gaps between members loans and members shares are not excessive. The measured gap in each 3 month range to be maintained between 4.75% to 5.25% of the difference between loans and members deposits. The gap is measured monthly to identify any large exposures to the interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets, and term deposits liabilities to rectify the imbalance to within acceptable levels. The policy of the Credit Union is not to undertake derivatives to match the interest rate risks. The Credit Unions exposure to interest rate risk is set out in Note 20 which details the contractual interest change profile.

Based on the calculations as at 31 March 2008, the net profit impact for a 1% movement in interest rates on members loans would be \$423,499 (2007 \$388,420) and the impact on equity would be the same amount. The net profit impact for a 1% movement in interest rates on members shares would be \$267,688 (2007 \$250,668) and the impact on equity would be the same amount. The net profit impact for a 1% movement in interest rates on the NZACU deposits would be \$33,000 (2007 \$42,500) and the impact on equity would be the same amount.

The Credit Union performs sensitivity analysis to measure market risk exposures. The method used in determining the sensitivity was to evaluate the profit based on the timing of the interest repricing between the members deposits and loans for the next 12 months. In doing the calculation the assumptions applied were that:

- The interest rate change would be applied equally over the loan products and term deposits
- The rate change would be as at the beginning of the 12 month period and no other rate changes would be effective during the period
- The term deposits would all reprice to the new interest rate at the term maturity, or be replaced by deposit with similar terms and rates applicable
- All loans would be repaid in accordance with the contractual repayment terms
- 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

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 industry concentration of credit risk with respect to loans and



# **CREDIT UNION MT MAUNGANUI**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008**

receivables as the Credit Union has a large number of customers dispersed in areas of employment. The credit policy is that loans and investments are only made to members that are credit worthy.

The Credit Union has established policies or procedures over the:

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

Regular reviews of compliance are conducted as part of the internal audit scope.

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. The board policy is to maintain at least 40% of the loans in well secured residential mortgages which carry an 80% Loan to Valuation ratio or less.

The Credit Union has a concentration in the retail lending for members who reside primarily in the Western Bay of Plenty and Tauranga City and environs. This concentration is considered acceptable on the basis that the Credit Union was formed to service these members.

Daily reports monitor the loan repayments to detect delays in repayments and recovery is undertaken after 7 days if not rectified. For loans where repayments become doubtful, external consultants are engaged to continue and support recovery action initiated by Credit Union.

Exposures to losses arise predominately in the personal loan area and are spread across the varying personal loan sectors.

The significant accounting judgements are related to the determination of the provision for impairment of loans are set out in Note 8.

### ***Credit Risk - Liquid Investment***

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

The board policy is to maintain all its investments in the NZ Association of Credit Unions, an association set up to support the member Credit Unions. This association does not have a credit rating.

### ***Credit Risk - Equity Investments***

The Credit Union does not have investments in equity investments.

### ***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 the 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 reserves, liquidity support facilities and reserve borrowing facilities
- The Credit Union has a standby borrowing facility with the NZACU to provide support to the Credit Union if necessary at short notice.



# CREDIT UNION MT MAUNGANUI

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008

The Credit Union's policy is to maintain at least 8% of total assets as liquid assets capable of being converted to cash within 7 days. 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 maturity profile of the financial liabilities, based on the contractual repayment terms are set out in the specific note 19.

### **Operational Risk**

Operations risks relate to those risks arising from a number of sources including legal compliance, business continuity, data infrastructure and outsourced services failures and employees errors.

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, e.g. approval and processing duties are two separate functions.
- documentation of the policies and procedures, employee job descriptions and responsibilities, to reduce the incidence of errors and inappropriate behaviour
- implementation of the whistle blowing policies to promote a compliant culture and awareness of the duty to report exceptions by staff
- education of members to review their account statements and report exceptions to the Credit Union promptly
- effective dispute resolution procedures to respond to members complaints
- effective insurance arrangements to reduce the impact of losses
- contingency plans for dealing with the loss of functionality of systems or premises or staff
- regular reviews by the internal auditor.

### **Capital Management**

The Credit Union is regulated under the Friendly Societies and Credit Union 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 to be held by the Credit Union to be 10% of total assets. The Credit Union reserves as the end of the reporting period is stated in note 4.

The Credit Union's capital is determined as follows:

	2008	2007
<b>Tier 1</b>		
Retained profits & other revenue reserves	2,251,574	2,325,560
General reserve	2,497,109	2,350,000
<b>Tier 2</b>		
Asset revaluation reserves	1,070,485	1,070,485
Other reserves	-	-
<b>Total reserves</b>	<b>5,819,168</b>	<b>5,746,045</b>

To manage the Credit Union's capital, which can be affected by excessive growth and by changes in total assets, the Credit Union reviews the capital adequacy ratio monthly 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 10%. Further, an annual capital budget projection of the capital level is maintained annually to address how strategic decisions or trends may impact on the capital level.



# **CREDIT UNION MT MAUNGANUI**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008**

### **19 MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES**

Monetary assets and liabilities have differing maturity profiles depending on the contractual term, and in the case of loans the repayment amount and frequency. The associated table 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 will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained.



# CREDIT UNION MT MAUNGANUI

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2008

	On Call	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>2008 Monetary Assets Receivable</b>										
Cash and Bank	473,660		-	-	-	-	-	-	-	473,660
Deposits at NZACU	800,000	2,500,000								3,300,000
Trade and other receivables		351,343	-	-	-	-	-	-	-	351,343
Loans to members		2,914,614	2,156,626	3,083,486	5,473,213	7,442,204	6,087,795	15,192,024	-	42,349,962
Capital Notes		-	-	-	-	-	-	-	991,525	991,525
<b>Total Monetary Assets Receivable</b>	<b>1,273,660</b>	<b>5,765,957</b>	<b>2,156,626</b>	<b>3,083,486</b>	<b>5,473,213</b>	<b>7,442,204</b>	<b>6,087,795</b>	<b>15,192,024</b>	<b>991,525</b>	<b>47,466,490</b>

	On Call	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>2008 Monetary Liabilities Payable</b>										
Trade and other payables		1,008,712	-	-	-	-	-	-	-	1,008,712
Members Deposits	8,919,627	9,411,893	7,539,163	3,816,950	10,501,601	2,925,060	-	-	-	43,114,294
<b>Total Monetary Liabilities Payable</b>	<b>8,919,627</b>	<b>10,420,605</b>	<b>7,539,163</b>	<b>3,816,950</b>	<b>10,501,601</b>	<b>2,925,060</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>44,123,006</b>



# CREDIT UNION MT MAUNGANUI

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2008

2007	On Call	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>Monetary Assets Receivable</b>										
Cash and bank	520,935	-	-	-	-	-	-	-	-	520,935
Deposits at NZACU	-	-	4,250,000	-	-	-	-	-	-	4,250,000
Trade and other receivables	-	236,865	-	-	-	-	-	-	-	236,865
Loans to members	-	2,497,551	1,958,316	2,867,139	5,374,291	7,247,518	6,206,341	12,691,002	-	38,842,158
Capital Notes	-	-	-	-	-	-	-	-	658,191	658,191
<b>Total Monetary Assets Receivable</b>	<b>520,935</b>	<b>2,734,416</b>	<b>6,208,316</b>	<b>2,867,139</b>	<b>5,374,291</b>	<b>7,247,518</b>	<b>6,206,341</b>	<b>12,691,002</b>	<b>658,191</b>	<b>44,508,149</b>

2007	On Call	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>Monetary Liabilities Payable</b>										
Trade and other payables	-	1,125,177	-	-	-	-	-	-	-	1,125,177
Members Deposits	8,953,628	8,276,102	5,625,506	5,553,145	10,120,172	1,507,797	-	-	-	40,036,350
<b>Total Monetary Liabilities Payable</b>	<b>8,953,628</b>	<b>9,401,279</b>	<b>5,625,506</b>	<b>5,553,145</b>	<b>10,120,172</b>	<b>1,507,797</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>41,161,527</b>



# CREDIT UNION MT MAUNGANUI

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008

### 20 INTEREST RATE RISK

The Credit Union's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rate on classes of financial assets and financial liabilities, is as follows:

	Floating Interest Rate		Fixed Interest Rate Maturing in:												Non-interest sensitive		Interest set six monthly in arrears		Total		Weighted average effect interest rate*		
			0 to 3 months		3 to 6 months		6 to 12 months		1 to 2 years		2 to 5 years		Over 5 years										
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Monetary Assets</b>																							
Cash & Bank	144	200													330	321			474	521	1.38%	1.22%	
Deposits at NZACU			3,300	4,250															3,300	4,250	8.65%	8.13%	
Trade & other receivables															351	237			351	237			
Loans to members	42,349	38,842																	42,349	38,842	13.67%	12.20%	
Capital Notes (a)																	992	658	992	658			
<b>Total Monetary Assets</b>	<b>42,493</b>	<b>39,042</b>	<b>3,300</b>	<b>4,250</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>681</b>	<b>558</b>	<b>992</b>	<b>658</b>	<b>47,466</b>	<b>44,508</b>			
<b>Monetary Liabilities</b>																							
Deposits	8,919	8,953	16,952	13,896	3,816	5,553	10,502	10,120	2,925	1,508	0	6	0	0					43,114	40,036	6.66%	6.08%	
Other payables															1,009	1,125			1,009	1,125			
<b>Total Monetary Liabilities</b>	<b>8,919</b>	<b>8,953</b>	<b>16,952</b>	<b>13,896</b>	<b>3,816</b>	<b>5,553</b>	<b>10,502</b>	<b>10,120</b>	<b>2,925</b>	<b>1,508</b>	<b>0</b>	<b>6</b>	<b>0</b>	<b>0</b>	<b>1,009</b>	<b>1,125</b>			<b>44,123</b>	<b>41,161</b>			

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

(a) Capital notes do not have any pre determined rate of interest. Interest is payable on a six monthly basis subject to the profitability of the NZACU Business Services Division Trust. The last interest payment was at 15% per annum. (2007 : 15% per annum).



# CREDIT UNION MT MAUNGANUI

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2008

### 21 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 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 assets as indicated in the Balance Sheet.

#### (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 customers. Credit risk is currently managed in accordance with the Prudential Standards to reduce the Credit Union's exposure to potential failure of counterparties to meet their obligations under the contract or arrangement.

#### (c) Large Counterparties

The Credit Union has exposure to counter-parties as follows:

	Number of Counter-parties	
	Assets	Liabilities
Greater than 100% of equity	-	-
Between 90% and 100% of equity	-	-
Between 80% and 90% of equity	-	-
Between 70% and 80% of equity	1	-
Between 60% and 70% of equity	-	-
Between 50% and 60% of equity	-	-
Between 40% and 50% of equity	-	-
Between 30% and 40% of equity	-	-
Between 20% and 30% of equity	-	-
Between 10% and 20% of equity	-	-

In relation to loans to members, where a member has shares as security or deemed security, the security has not been taken into account when calculating the percentage of exposure.

#### (d) Loans to Members

Loans can only be made to Credit Union members. Loan interest rates range from 7.90% to 21.00% p.a. (2007 5.6% to 25% p.a.) with delinquent loans possibly incurring an additional penalty of 10% 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 members shares. The Friendly Societies and Credit Unions Act 1982 limits the risk of any one member and provides, along with the loan agreement that any and all shares might be used to offset an individual loan to the limit of their liability. Under section 110 of the Act, the maximum indebtedness and repayment terms of a member shall not, without the prior consent of the Registrar, exceed the following limits:

Unsecured Loan 5% of the value of the assets of the Credit Union and 5 Years  
Secured Loan 10% of the value of the assets of the Credit Union and 10 Years

The Registrar of Friendly Societies and Credit Unions has approved an extension of the secured loan term from 10 to 30 Years.

The proportion of loans with repayments in arrears in excess of three months is:

2008	2007
1.50%	1.71%

Other than loans, there are no other monetary assets in arrears.



# CREDIT UNION MT MAUNGANUI

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008

### Loans to Members

Loans are for varying terms but the standard loan contract includes an "on demand" clause. The monthly repayments on the loans for the past period represent an average loan of:

2008	2007
17.76 months	18.64 months

The proportion of loans owed in aggregate by the debtors who owe the six largest amounts is

2008	2007
6.13%	5.40%

There are no other monetary asset receivables that exceed the individual value of these six largest loans.

### 22 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' and consequently the Credit Union funding is almost exclusively from individuals residing within Western Bay of Plenty and Tauranga City environs. The funding from members is recorded as Members' Deposits in the Balance Sheet.

### 23 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value has been determined on the basis of the present value of expected future cash flows under the terms and conditions of each financial asset and financial liability. Significant assumptions used in determining the cash flows are that the cash flows will be consistent with the contracted cash flows under the respective contracts. The information is only relevant to circumstances at balance date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets held are regularly traded by the Credit Union. There is no active market to assess the value of the capital notes.



# CREDIT UNION MT MAUNGANUI

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008

	2008 Book			2007 Book		
	Fair Value \$	Value \$	Variance \$	Fair Value \$	Value \$	Variance \$
<b>FINANCIAL ASSETS</b>						
Cash & Bank	473,660	473,660	-	520,935	520,935	-
Deposits at NZACU	3,300,000	3,300,000	-	4,250,000	4,250,000	-
Trade and other receivables	351,343	351,343	-	236,865	236,865	-
Loans to members	42,349,962	42,349,962	-	38,842,158	38,842,158	-
Capital Notes	991,525	991,525	-	658,191	658,191	-
<b>Total Financial Assets</b>	<b>47,466,490</b>	<b>47,466,490</b>	<b>-</b>	<b>44,508,149</b>	<b>44,508,149</b>	<b>-</b>
<b>FINANCIAL LIABILITIES</b>						
Trade and other payables	1,008,712	1,008,712	-	1,125,177	1,125,177	-
Deposits from members	43,114,294	43,114,294	-	40,036,350	40,036,350	-
<b>Total Financial Liabilities</b>	<b>44,123,006</b>	<b>44,123,006</b>	<b>-</b>	<b>41,161,527</b>	<b>41,161,527</b>	<b>-</b>

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

### **Financial Assets**

#### **Loans to Members**

As detailed in the accounting policies, loans are carried at estimated realisable value after providing for impairments. The directors believe that any differences between carrying value and fair value are not material because the loan periods are relatively short and can be changed to "on demand" by the trustees. In addition, interest rate differences between lending dates and balance date are not significant.

#### **Cash and Bank**

The reported amount is equal to fair value.

#### **Receivables**

The reported amount takes into account the likelihood of collecting the amounts owed. The Directors believe these amounts reflect their fair value.

#### **Investments**

Investments are disclosed on the basis of the value at the time of purchase. Any variance between market value and cost price is not material.

### **Financial Liabilities**

#### **Deposit from members**

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, and reinvested by members, are deemed to be subscriptions for shares and add to the members' share balance in the Credit Union. The Directors believe the reported values reflect fair value.



# **CREDIT UNION MT MAUNGANUI**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008**

### **Financial Assets**

#### **Loans to Members**

As detailed in the accounting policies, loans are carried at estimated realisable value after providing for impairments. The directors believe that any differences between carrying value and fair value are not material because the loan periods are relatively short and can be changed to "on demand" by the trustees. In addition, interest rate differences between lending dates and balance date are not significant.

#### **Cash and Bank**

The reported amount is equal to fair value.

#### **Receivables**

The reported amount takes into account the likelihood of collecting the amounts owed. The Directors believe these amounts reflect their fair value.

#### **Investments**

Investments are disclosed on the basis of the value at the time of purchase. Any variance between market value and cost price is not material.

### **Financial Liabilities**

#### **Deposit from members**

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, and reinvested by members, are deemed to be subscriptions for shares and add to the members' share balance in the Credit Union. The Directors believe the reported values reflect fair value.

Members' shares are secured by a first ranking equitable assignment by way of security over the whole of the Credit Union's present and future undertaking, property, assets and revenues, including the proceeds received for the subscription shares and unpaid capital (if any). The equitable assignment by way of security was granted in favour of Trustees Executors Limited, the Prudential Supervisor of the Credit Union, under Trust Deed dated 30/11/2000, which has been registered with the Registrar of Companies.

The Credit Union has also granted to Trustees Executors Limited a security interest in all its present and after-acquired personal property as additional security for the members' shares. Trustees Executors Limited has registered a financing statement under the Personal Property Securities Act 1999 in respect of the same. The grant of this security interest was recorded in a Deed of Modification to Trust Deed dated 25/10/2002 which has been registered with the Registrar of Companies.

#### **Other Liabilities**

Accounts Payable are carried at fair value.



# CREDIT UNION MT MAUNGANUI

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008

### 24 CASH FLOW STATEMENT RECONCILIATION

<i>Reconciliation of Cash Flow from operating activities with operating profit</i>	2008 \$	2007 \$
Operating profit	73,123	635,205
Non Cash Items		
Depreciation	351,815	271,390
Loan Impairment Expenses	558,619	353,361
Assets Written Off	-	15,402
Changes in Assets and Liabilities		
Movements in Accounts Receivable	(103,644)	(66,413)
Movements in Accounts Payable	(116,465)	15,186
Movements in Prepayments	(10,834)	(5,536)
Net Cash Provided by /(Used in) Operating Activities	<u>752,614</u>	<u>1,218,595</u>

### 25 DISCLOSURES ON DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

#### (a) Remuneration of Key Management Person (KMP)

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

**Key management person (KMP)** has been taken to comprise the directors and five senior management responsible for the day to day financial and operational management of the Credit Union.

The aggregate compensation of **key management positions** during the year comprising amounts paid or payable or provided for was as follows:

	2008 Directors \$	2008 Other KMP \$	2007 Directors \$	2007 Other KMP \$
(a) short-term employee benefits	-	370,609	-	313,667
(b) post-employment benefits – superannuation contributions	-	-	-	-
(c) other long-term benefits – net increases in long service leave provision	-	-	-	-
(d) termination benefits	-	-	-	-
(e) share-based payment	-	-	-	-
Total	<u>-</u>	<u>370,609</u>	<u>-</u>	<u>313,667</u>

In the above table, remuneration shown as short term benefits means (where applicable) **wages, salaries, paid annual leave and sick leave, bonuses, value for fringe benefits received**, but excludes out of pocket reimbursements.

The directors received no fees or honoraria for their services



# CREDIT UNION MT MAUNGANUI

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008

### 25 DISCLOSURES ON DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL - Continued

The Credit Union deals with Directors and Trustees on the same term and conditions applied to all members.

	2008 \$	2007 \$
Directors' holdings at balance date are:		
Owing to Directors (Shares)	123,803	256,579
Owing from Directors (Loans)	281,904	239,711

There are no shares from directors exceeding 12 months and all directors loans are repayable upon demand.



# CREDIT UNION MT MAUNGANUI

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008

### 26 IMPACT OF FIRST-TIME ADOPTION OF NEW ZEALAND EQUIVALENT TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (NZ IFRS)

<i>Reconciliation of Equity at 1 April 2006</i>	Note	GAAP at 1 April 2006 *	Adjustment	NZIFRS at 1 April 2006
<b>ASSETS</b>				
Cash and cash equivalents		5,011,079	-	5,011,079
Trade and other receivables		164,916	-	164,916
Loans to Members	a,b	34,551,120	-	34,551,120
Property, Plant & Equipment		1,671,628	-	1,671,628
Capital Notes		404,913	-	404,913
<b>TOTAL ASSETS</b>		<b>41,803,656</b>	<b>-</b>	<b>41,803,656</b>
<b>LIABILITIES</b>				
Trade and other payables		1,109,990		1,109,990
Members Deposits		36,278,376		36,278,376
Short-term borrowings		-		-
Provisions		-		-
<b>TOTAL LIABILITIES</b>		<b>37,388,366</b>		<b>37,388,366</b>
<b>NET ASSETS</b>		<b>4,415,290</b>		<b>4,415,290</b>
<b>EQUITY</b>				
Retained earnings	a,b,c	86,155	1,854,200	1,940,355
Reserves	c	4,329,135	(1,854,200)	2,474,935
<b>TOTAL EQUITY</b>		<b>4,415,290</b>	<b>-</b>	<b>4,415,290</b>

#### (a) Loans - General Provision

General provision is reallocated to retained earnings in accordance with NZIFRS

Decrease in Provision for doubtful debts	(285,306)
Increase in Retained Earnings	285,306
	-

The Credit Union is unable to carry a general provision for doubtful debts under NZ IFRS. This provision has been reversed to Retained Earnings and a new provision for impairments has been calculated. This has had no impact to the Income Statement.

#### (b) Loans - Specific Provision for Impairment

Specific Provision has been increased to reflect the provisioning requirements of NZIFRS

Increase in Provision for Impaired Loans	285,306
Decrease in Retained Earnings	(285,306)
	-

#### (c) Reclassification of Prudential Reserves

The Prudential Reserve was formed from appropriations of surplus income and allocations from Retained Earnings. This reserve is no longer required and has been reversed to Retained Earnings.

\* GAAP refers to the accounting regime that existed prior to the adoption of NZIFRS



# CREDIT UNION MT MAUNGANUI

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008

<i>Reconciliation of Equity at 31 March 2007</i>	Note	GAAP at 31 March 2007 *	Adjustment	NZIFRS at 31 March 2007
<b>ASSETS</b>				
Cash and cash equivalents		4,770,935	-	4,770,935
Trade and other receivables		236,865	-	236,865
Loans to Members	a,b	38,842,158	-	38,842,158
Property, Plant & Equipment		2,399,423	-	2,399,423
Capital Notes		658,191	-	658,191
<b>TOTAL ASSETS</b>		<b>46,907,572</b>	-	<b>46,907,572</b>
<b>LIABILITIES</b>				
Trade and other payables		1,125,177	-	1,125,177
Members Deposits		40,036,350	-	40,036,350
Short-term borrowings		-	-	-
Provisions		-	-	-
<b>TOTAL LIABILITIES</b>		<b>41,161,527</b>	-	<b>41,161,527</b>
<b>NET ASSETS</b>		<b>5,746,045</b>	-	<b>5,746,045</b>
<b>EQUITY</b>				
Retained earnings	a,b,c	86,155	2,239,405	2,325,560
Reserves	c	5,659,890	(2,239,405)	3,420,485
<b>TOTAL EQUITY</b>		<b>5,746,045</b>	-	<b>5,746,045</b>

### (a) Loans - General Provision

General provision is reallocated to retained earnings in accordance with NZIFRS

Decrease in Provision for doubtful debts	(417,653)
Increase in Retained Earnings	417,653
	-

The Credit Union is unable to carry a general provision for doubtful debts under NZ IFRS. This provision has been reversed to Retained Earnings and a new provision for impairments has been calculated. This has had no impact to the Income Statement.

### (b) Loans - Specific Provision for Impairment

Specific Provision has been increased to reflect the provisioning requirements of NZIFRS

Increase in Provision for Impaired Loans	417,653
Decrease in Retained Earnings	(417,653)
	-

### (c) Reclassification of Prudential Reserves

The Prudential Reserve was formed from appropriations of surplus income and allocations from Retained Earnings. This reserve is no longer required and has been reversed to Retained Earnings.

\* GAAP refers to the accounting regime that existed prior to the adoption of NZIFRS



**AUDIT REPORT****TO THE MEMBERS OF CREDIT UNION MOUNT MAUNGANUI**

We were appointed in accordance with Section 122 of the *Friendly Societies and Credit Unions Act 1982* to act as Auditors of the Credit Union. We are qualified in accordance with Section 123 of that Act to act as Auditors.

We report on the Financial Report, on Pages 4 to 40. The Financial Report provides information about the financial performance and cash flows of the Credit Union for the year ended 31 March 2008 and its financial position at that date, stated in accordance with the accounting policies as set out in Note 1 to the Financial Statements.

**Directors' Responsibilities**

The Directors are responsible for the preparation of the Financial Report which gives a true and fair view of the financial performance and cash flows for the year ended 31 March 2008, and of the financial position of the Credit Union at that date.

**Auditors' Responsibilities**

It is our responsibility to express an independent opinion on the Financial Report presented by the Directors and to report our opinion to you.

**Basis of Opinion**

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial report. It also includes assessing:

- ★ the significant estimates and judgements made by the Directors in the preparation of the Financial Report; and
- ★ whether the accounting policies are appropriate to the Credit Union's circumstances consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary. We obtained sufficient evidence to give reasonable assurance that the Financial Report is free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall accuracy of the presentation of information in the Financial Report.

Other than in our capacity as auditors, our firm has no interest in the Credit Union.

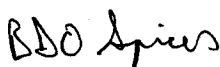
**Unqualified Opinion**

We have obtained all the information and explanations we have required.

In our opinion:

- ★ The Credit Union has kept proper accounting records throughout the year and has maintained a satisfactory system of control over transactions.
- ★ The Financial Report on Pages 4 to 40
  - has been prepared in accordance with generally accepted accounting practice;
  - complies with requirements of the *Friendly Societies and Credit Unions Act*;
  - is in agreement with the accounting records of the Credit Union; and
  - gives a true and fair view of the financial position of Credit Union Mount Maunganui as at 31 March 2008 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 14 July 2008 and our unqualified opinion is expressed as at that date.

**BDO SPICERS  
HAMILTON**