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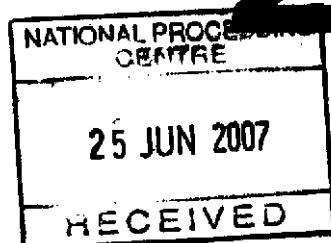


***Credit Union
Mt Maunganui***

***Annual
Report***



2007



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Board of Directors:

Chairperson:	Paul Clark
Vice Chairperson:	Tony Kelly
Secretary:	Roger McIntyre
Treasurer:	Frank Neilson
Board:	Ross Durham
	Andrea Findsen
	(Resigned 3/07) Richard Hawthorne
	Paul Stanley
	John Weston
	Ross Durham
	(Resigned 3/07) Richard Hawthorne
	John Weston

Trustees:

General Manager:	Dave Oliver
Manager Financial Services:	Tony Wilbraham
Manager Administration:	Ken Robison
Manager Finance:	Ian Burdis
Manager Credit:	Julie Cleary
Team Leader Mt Maunganui	Margaret Grainger
Loans Officers:	Gladys O'Connor
	Tom Riches
Retail Support - Insurance:	Susan Gallagher
Investment Officer:	Kathy Gillibrand
Contact Centre Supervisor:	Ana Field
Customer Services Supervisor:	Michelle Wooster
Customer Services:	Alice Aldridge
	Kimberley Beattie
	Christine Blackford
	Jacqueline Campbell
	Jordan Desson
	Pat Galbraith
	Nattalie Gardner
	Penny Harrison
	Debra Knapp
	Laura Kramers
	Brenda Mareroa
	Shay Oliver
	Cathi Tamati

Greerton Office:

Team Leader:	Phillip Ranger
Customer Services:	Jayne Harding
	Deslie Higgins
	Rhonda Sanders
	Jill Steward

Papamoa Office:

Team Leader:	Kathy Young
Customer Services:	Pam Hughes
	Shirley Plowman

Te Puke Office:

Team Leader:	Chris Legg
Customer Services:	Karin Sulzberger
Auditor:	BDO Spicers
	Hamilton

Bankers: New Zealand Association of Credit Unions

Affiliations:

New Zealand Association of Credit Unions
Institute of Credit Union Directors

The 36th Annual General Meeting of Members was held on 20th June 2007
at Mt Maunganui Cosmopolitan Club, Miro Street,
Mt Maunganui

HIGHLIGHTS 2007



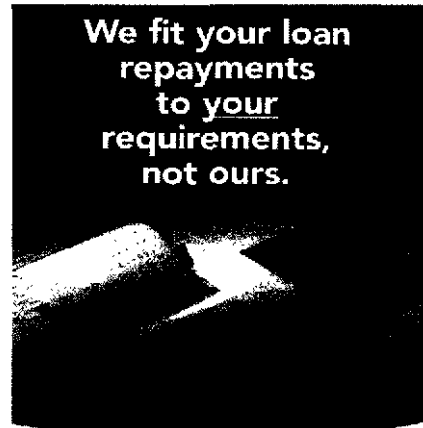
TRAVEL MONEY



ACCESSCARD™



ACCESSCREDIT®



HOME MORTGAGES

A year of good growth.

Financial Highlights

Operating Surplus	\$635,205	Up 7.79%
Total Loans	\$38,842,158	Up 12.42%
Total Deposits	\$40,036,350	Up 10.36%
Total Assets	\$46,907,572	Up 12.21%
Capital Adequacy	12.25%	Up from 10.58%, increase = 15.78%

Non Financial Highlights

- Decision to open branch at Bethlehem.
- Establishment of a Telephone Contact Centre.
- Movement of Administration Services to separate offices.
- Development of our ATM Credit Union Network.
- Introduction of a new system Member Movement Database.
- The scanning of all our records onto our Database – known as File Optics.

CORPORATE GOVERNANCE STATEMENT

"The Board of Credit Union Mt Maunganui operates within the relevant corporate governance best practice principles to assist and contribute to the performance of the Credit Union".

Credit Union Mt Maunganui is a member-owned organization with Directors being elected by the members following a nomination process prior to each annual general meeting. The Board consists up to 9 Directors, all of whom serve in a non-executive capacity for a term of three years.

The Role of the Board

The Directors are responsible to the members for the performance of the Credit Union to ensure the Credit Union is properly managed. The Board draws on the best practice principles to assist and contribute to the performance of the Credit Union.

Functions of the Board include:-

- Review and approval of strategies, the annual budget and financial plans.
- Overseeing and the monitoring of organizational performance and achievement of strategic goals and objectives.
- Monitoring financial performance including approval of the financial reports and liaison with auditors.
- Appointment of, and assessment of the performance of the General Manager.
- Ensuring there are effective management processes in place and approving major Credit Union initiatives.
- Enhancing and protecting the reputation of the Credit Union.
- Ensuring the risks facing the Credit Union have been identified and appropriate and adequate controls, monitoring and reporting mechanisms are in place.
- Reporting to members.

In practice the Board achieves its role through the defined delegation to the General Manager who is charged with the day to day leadership and management of the Credit Union.

The Board has 12 scheduled meetings, an extended strategic planning meeting at least once a year, at least three Audit Committee meetings and occasional unscheduled meetings to consider any other special circumstances that may arise from time to time.

Internal Control

The Credit Union has a system of internal controls. The system is based upon written procedures, policies and guidelines. Organizational structures that provide an appropriate division of responsibility, sound risk management and a programme of internal audit.

While the Board acknowledges that it is responsible for the overall control framework of the Credit Union, it recognizes that effective internal control systems will minimize errors and irregularities.

Internal Audit

The Credit Union has established an outsourced internal audit function that is responsible for the monitoring of the Credit Union internal controls as well as the integrity of the financial information reported to the Board. This function is carried out monthly.

The Internal audits operate independently from the Board and reports its findings directly to the Audit Committee. Internal audit liaises closely with the external auditor, who regularly reviews the system of audit control to the extent necessary to support their audit opinion.

Both the internal audit and external auditors have unrestricted access to the Audit Committee and to the Board.

Audit Committee

The Board is required within the charter of the Credit Union to appoint an Audit Committee that consists of three Board members; the committee meets at least 3 times a year.

The role of this committee is formally recorded in the Rules of the Credit Union. The primary objective of the committee is to assist the Board in fulfilling its responsibilities relating to

CORPORATE GOVERNANCE STATEMENT

accounting and reporting practices of the Credit Union. In particular, the committee's main responsibilities are to:-

- Review and report to the Board on the annual report and the half yearly financial report.
- Assist the Board in reviewing the effectiveness of the Credit Unions internal controls by covering:-
 - effectiveness and efficiency of operations;
 - reliability of financial reporting;
 - compliance with applicable laws and regulations.

Determining the scope of the internal audit function and ensure that its resources are adequate and effectively used.

Oversee the risk management framework and its effectiveness

Recommend to the Board the:-

- Appointment, removal and remuneration of the external auditors, and review the terms of engagement and the scope and quality of the audit.

In fulfilling its responsibilities, the Audit Committee receives regular reports from management and the internal and external auditors. It also meets twice yearly with the internal and external auditor and more frequently if deemed necessary.

The internal and external auditors have a clear line of direct communication at any time to either the Chairperson of the Audit Committee or the Chairperson of the Board.

Risk Management

The Credit Union has a risk management framework. Management actively participate in the identification, assessment and monitoring of new and existing risks. Particular attention is given to the market risks that could impact on the Credit Union. Management regularly report to the Board outlining the likely risk and treatment of those risks.

Access to Independent Professional Advice

Each Director has the right to access independent professional advice at the expense of the Credit Union to assist them to carry out the responsibilities as a Director.

Conflict of Interest

Directors are required to keep the Board informed of any material interest that may potentially conflict with their responsibilities as a Director or with the interests of Credit Union Mt Maunganui. Board has established policies and guidelines to ensure that decisions of the Board are made in the best interest of the members as a whole.

Director Professional Development.

The board ensures that each director has access and the opportunity to industry specific and professional development courses and industry conferences on an ongoing basis.

DIRECTORS REPORT

On behalf of the Board of Directors it is again my pleasure to present the 36th Annual Report of your Credit Union.

It is pleasing to see we have achieved another record surplus which is detailed in our Annual Accounts and will be discussed later in the meeting. Your Credit Union continues to grow in line with planned strategies whilst at the same time exceeding the Prudential standards set by our Regulators.

The past year has been a challenge where we have seen problems in the finance sector along with a multitude of lenders offering lending services which impact on our member base. The Gen X – Gen Y certainly do live by the saying “I want it and I want it now”. This attitude has certainly driven up the overall indebtedness of New Zealanders. It has also come at a cost to them where we can produce examples of borrowing rates as high as 31% p.a. and associated fees up to \$5,000 plus.

Your Board has taken a Strategic stance to become more aggressive in ensuring that our members realize the benefits of being a Credit Union member. One benefit is that borrowing rates of 31% and up front fees of \$5,000 are not in our repertoire.

The Board has spent considerable time in looking at our overall operations and organizational structure to ensure we are well based to handle expected growth over the next 5 years. Apart from revamping our organizational structure we have also considered our branch representation for the area. Directors recently attended a World Conference in Ireland and one of the overriding factors is despite all the technology available to members to access their accounts, members still need to be no more than 8 kms from a Credit Union branch. Hence the decision to open a branch at Bethlehem to service 17% of our members who live in and around Bethlehem.

It also provides a handy access for the people who reside on the road to Katikati as well as allowing us to build on the existing membership base. We expect our Bethlehem branch to be as successful as our other branches. As mentioned in our Year's highlights we now have an extremely efficient marketing tool (Member Movement Data) that allows us to assess our member data so that we can better understand our member behavior. This will be used to support strategic planning and marketing activities. A simple example of this is that we can receive a list of all members who use other Banks ATM at say Papamoa at \$1.75 per transaction. We can quickly contact this member and say they should use their Credit Union ATM machine which is 20 metres down the footpath at a cost of 50c – thereby saving themselves \$1.25.

Incidentally in having our own ATM network members using our machines are saving approximately \$11,000 per month in not having to pay other Bank ATM fees.

Another strategic initiative from the World Conference has resulted in our establishment of a telephone Contact Centre – answered by real people. This has improved our member service immensely by

- being able to answer 80% of members queries at first contact;
- substantially reduce the pressure on counter staff who are now able to spend quality time with the members rather than rushing off to answer phone.

This will also allow us to develop other phone based services.

Perhaps the most influential decision was to relocate our Administration operation to offices across the road from our Mt Maunganui office. This has allowed for our branches, Mt Maunganui, Papamoa, Greerton and Te Puke to be “stand-a-lone” entities and operate with increased autonomy. This now allows the Administration staff to provide support to the “workers” and also address strategic and operational issues along with compliance issues and regulatory reporting. While this has only been in place for a few short weeks the benefits of a better structured and more defined workplace is already evident.

As an industry that is very paper based, with ever increasing volumes which obviously requires extensive storage space we have taken steps to become more environmentally friendly. Your Credit Union is moving very quickly to having all records electronically stored and changing the way we handle our paper based activities. When you realize that your Credit Union recently disposed of 14 tons of old records any steps to save paper waste must be of benefit.

Appreciation

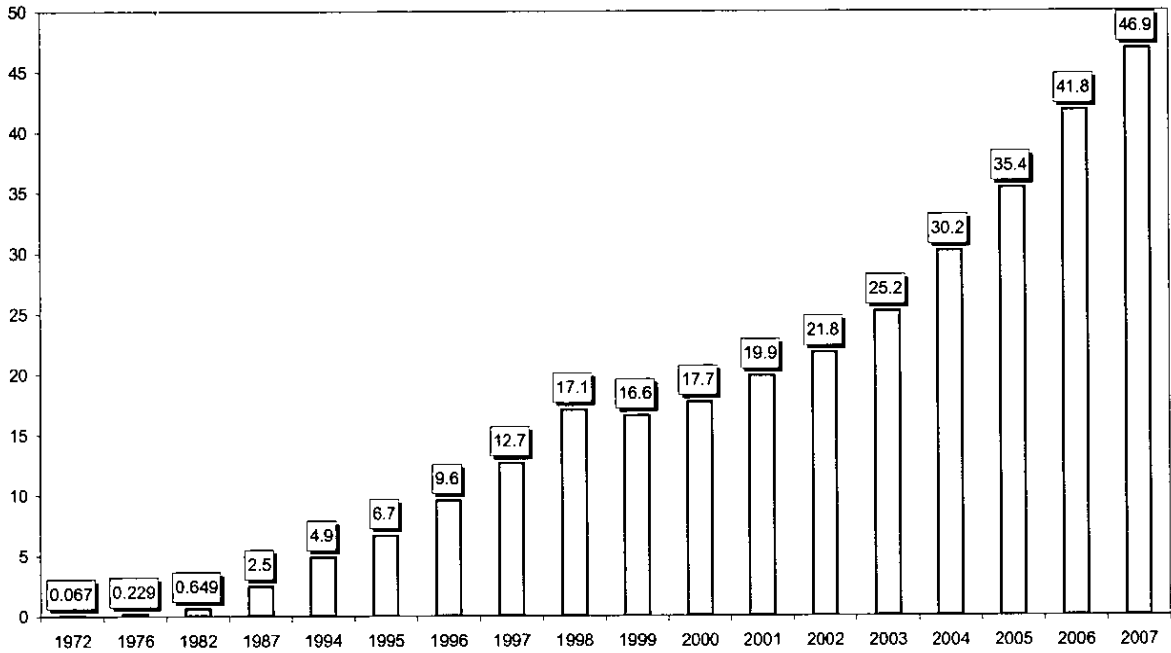
As your Chair I must on behalf of our membership thank not only my fellow directors for their personal contribution and efforts but also acknowledge the Management and staff for also contributing to the ongoing success and growth of our Credit Union. The strength of our team work is essential as we strive to grow and develop for the benefit of the members and the community.

Paul Clark, Chairperson.

CREDIT UNION MT MAUNGANUI – GROWTH CHARTS

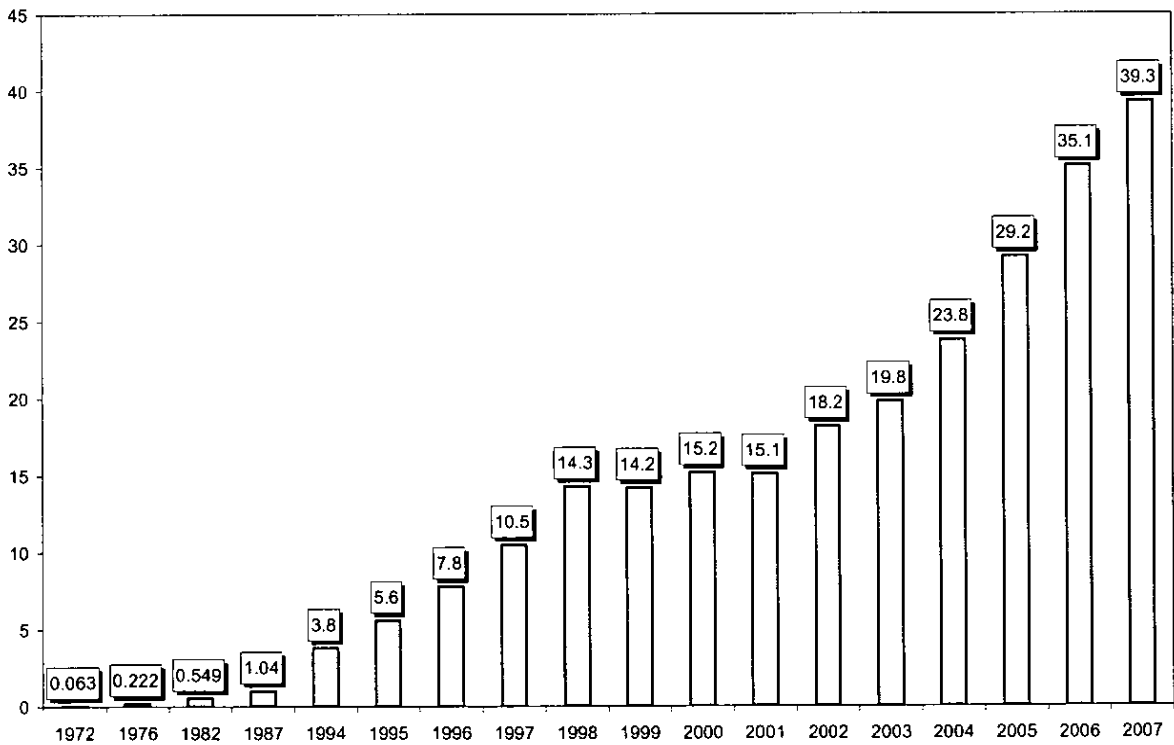
ASSETS

\$ Million



\$ Million

LOANS



STATEMENT OF FINANCIAL PERFORMANCE FOR YEAR ENDING 31 MARCH 2007

	<u>Note</u>	<u>2007</u>	<u>2006</u>
<u>Income</u>			
Interest - Loans to Members		4516632	3976268
Interest - from Investments		572810	339074
Loan Fees		495090	440821
Accounts/ACCESSCARD™/ACCESSCREDIT® Fees	[2]	1153069	1026656
Bad Loan Recovered		38597	44427
Other Income	[2]	423872	250627
Total Income		7200070	6077873
<u>Expenditure</u>			
Administration Expenses		515533	420953
Affiliation Costs		60559	55712
Annual and Board Meetings		12285	14512
Audit Costs		17713	16463
Community Support		22799	31226
Data and ACCESSCARD™/ACCESSCREDIT® Processing		1005872	894788
Debts Written Off	[3]	485708	159122
Doubtful Debts - Provisioning	[11]	(132347)	50000
Directors' Expenses/Training		47555	41421
Depreciation		286792	201482
Fidelity Insurance		24712	25206
Interest on Borrowing		22083	16347
Loan Protection Insurance-Life		62796	59522
Marketing		170750	177375
Personnel Costs		1535293	1322357
Rent/Rates		<u>104929</u>	<u>99128</u>
Expenditure Sub-total		4243032	3585614
<u>Funding Costs</u>			
Dividend on Closed Accounts	[4]	4734	4028
[1] Ordinary Shares		48101	46068
[2] Loan Provider		137566	133598
[3] Christmas and Future		15508	18028
[4] Money Maker		239694	191684
[5] Term Shares		1876230	1509555
Total Operating Expenditure		6564865	5488575
<u>Net Operating Surplus</u>		635205	589298
The Net Operating Surplus was allocated as follows:			
Transferred to General Reserve		250000	325000
Transferred to Prudential Reserve		<u>385205</u>	<u>264298</u>
		635205	589298

The notes to the financial statements form part of and are to be read in conjunction with the above accounts.

CERTIFIED CORRECT COPY OF FINANCIAL STATEMENTS:

DIRECTOR

DIRECTOR *ML*

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2007

<u>MEMBERS RESERVES AND LIABILITIES</u>	Note	<u>2007</u>	<u>2006</u>
Retained Earnings	[7]	86155	86155
General Reserve	[7]	2350000	2100000
Prudential Reserve		2239405	1854200
Property Revaluation Reserve		1070485	374935
<u>Total Members Reserve</u>		5746045	4415290
Current Liabilities			
Members' Shares	[8]	38528553	34217608
Accounts Payable	[9]	1125177	1109990
<u>Total Current Liabilities</u>		39653730	35327598
Term Liabilities			
Term Shares	[8]	1507797	2060768
<u>Total Term Liabilities</u>		1507797	2060768
<u>TOTAL MEMBER RESERVES AND LIABILITIES</u>		<u>46907572</u>	<u>41803656</u>
ASSETS			
Current Assets			
Loans to Members	[11]	38842158	34551120
Cash and Bank	[10]	520935	261079
Cash Investments	[10]	4250000	4750000
Accounts Receivable		37900	17437
Prepayments		19471	13935
Interest Accrued		179494	133544
<u>Total Current Assets</u>		43849958	39727115
Term Investment			
Base Capital Notes	[12]	658191	404913
<u>Total Term Investments</u>		658191	404913
<u>Total Fixed Asset</u>	[13]	<u>2399423</u>	<u>1671628</u>
<u>TOTAL ASSETS</u>		<u>46907572</u>	<u>41803656</u>

For and behalf of the Board of Directors



Director



Treasurer

Dated the 14th of June 2007.

These notes to the financial statements form part of and are to be read in conjunction with the above accounts.

STATEMENT OF CASH FLOWS

FOR YEAR ENDING 31 MARCH 2007

	<u>2007</u>	<u>2006</u>
<u>Cash Flows from Operating Activities</u>		
<u>Cash was provided from:</u>		
Interest on Loans	4437297	3915743
Investment Income	472652	266055
All Other Income	2039345	1700710
Bad Loans Recovered	38597	44427
Net Sundry Third Party Payables	123125	0
	7111016	5926935
<u>Cash was applied to:</u>		
Administration Expenses	3931107	3326408
Dividends Paid to Members	1939231	1469708
Net Third Party Withdrawals	0	13648
Interest on borrowings	22083	16347
	5892421	4826111
Net Cash Flows From Operating Activities	1218595	1100824
<u>Cash Flows from Investing Activities</u>		
<u>Cash was provided from:</u>		
Loan Repayment	27310768	18115231
Investments Matured	40850000	17622802
	68160768	35738033
<u>Cash was applied to:</u>		
Loan Advances	31955167	24208844
Purchase of Fixed Assets	319036	240819
Cash Investments made	40350000	18123333
Capital Notes - NZACU	253278	0
	72877481	42572996
Net Cash Flows used in (from) Investing Activities	(4716713)	(6834963)
<u>Cash Flows from Financing Activities</u>		
<u>Cash was provided from:</u>		
Members' Share Deposits – Savings	242798910	223188259
<u>Cash was applied to:</u>		
Members Share Withdrawals	239040936	217521204
Net Cash Flows from Financing Activities	3757974	5667055
Net increase (decrease) in Cash held	259856	(67084)
Add Cash at beginning of period	<u>261079</u>	<u>328163</u>
Ending Cash carried forward	<u>520935</u>	<u>261079</u>

STATEMENT OF CASHFLOWS FOR YEAR ENDING 31 MARCH 2007

RECONCILIATION OF OPERATING SURPLUS

	<u>2007</u>	<u>2006</u>
Net Surplus	635205	589298
Non cash items:		
Depreciation	286792	201482
Loans Written-off	485708	159122
Doubtful Debts - Provisioning	(132347)	50000
Movements in Accounts Receivable	(66413)	(28008)
Movements in Prepayments	(5536)	257
Movements in Accounts Payable	15186	128673
Cash Flows from Operating Activity	1218595	1100824

STATEMENT OF MOVEMENTS IN EQUITY FOR YEAR ENDING 31 MARCH 2007

	<u>2007</u>	<u>2006</u>
Net Surplus for the period	635205	589298
Property Revaluation Reserve	<u>695550</u>	<u>0</u>
Total Recognized Revenues and Expenses	1330755	589298
Plus Members Equity at Beginning of Year	<u>4415290</u>	<u>3825989</u>
Members Equity at End of Period	5746045	4415287

Note: Interest paid to members in the form of a dividend on shares is not a dividend in terms of the statement above.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 MARCH 2007

Notes to the Financial Statements for the year ending 31st March 2007

Basis of Reporting

Credit Union Mount Maunganui is a Credit Union 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 statements have been prepared in accordance with Financial Reporting Act 1993, Friendly Societies and Credit Unions Act 1982 and relevant Security Regulations.

Nature of Business

The Credit Union's primary activity has been to provide a co-operative saving facility for members to form a loan fund.

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 a dividend on shares.

Trust Deed

To meet the amended requirements of The Securities Act 1978 a Trust Deed was entered into on the 30th November 2000 between the Trustees of the Credit Union and The Trustees Executors and Agency Company of New Zealand (trading as Trustees Executors). Trustees Executors 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 Credit Union & Friendly Societies Act. Also the Prudential Supervisor is under duty to exercise reasonable diligence to ascertain whether or not 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.

The Credit Union is also required to furnish the Prudential Supervisor with unaudited half yearly, and annual audited financial statements prepared in accordance with generally accepted accounting practice. The directors of the Credit Union are also required to furnish the Prudential Supervisor with a quarterly certificate detailing the Credit Union's compliance with the ratios set out in the Trust Deed and whether any security interests have been created or permitted to exist in respect of the Credit Union's personal property, as well as with monthly internal accounts (except in respect of those months which end a quarter in respect of which a quarterly certificate is supplied).

Note 1 – Statement of Accounting Policies

General Accounting Policies

Measurement Base

The accounting principles recognized as appropriate for the measurement and reporting of earnings and financial position on an historical cost basis are followed, with the exception of land and buildings which are reflected at valuation. Where appropriate all amounts are inclusive of Goods and Services Tax (GST) as the Credit Union is treated as an end user for GST purposes on its financial services operation. GST is payable on some commissions received and this income is reported on an exclusive basis.

Members Shares

Members shares in the Credit Union have characteristics of both debt and equity instruments. For the purposes of financial reporting, members shares have been treated substantially as debt instruments.

Specific Accounting Policies

The following specific accounting policies which materially effect the measurement of financial performance and the financial position have been applied:

- a. Recognition of Revenue:
Income is recorded on an accrual basis. An allowance has been made for a potential reduced collection on interest on doubtful loans.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 MARCH 2007

b. Loans to Members:

Loans to members are recorded in the financial records at the original loan value less repayments and write offs to date. To meet the "true and fair view" required by the generally accepted accounting principles, the Financial Reporting Act 1993 and the Securities Regulations 1983, a provision has been made for doubtful loans. Loans are written off in accordance with policy set by Directors. The provision for doubtful loans has been based on a review of loans and reference to the prudential guidelines as promoted by the New Zealand Association of Credit Unions – refer Note 10.

c. Investments:

Investments are stated at cost.

d. Receivables:

Receivables are valued at their expected realisable value.

e. Fixed Assets:

There are 6 classes of Fixed Assets.

- Land
- Buildings
- Fixtures and Fittings
- Computer Equipment
- Office Equipment
- Motor Vehicles

All fixed assets except land are initially recorded at cost less accumulated depreciation.

However, Freehold land and buildings are subsequently re-valued at least every 3 years. Valuations are net current value as determined by an independent registered valuer. Any revaluations surplus arising on revaluation is transferred direct to revaluation reserve. A revaluation deficit asset in excess of asset revaluation reserve balance is recognized in the statement of financial performance in the period it arises. Revaluation surpluses, which reverse previous revaluation deficits recognized in the statement of financial performance are recognized as revenue in the statement of financial performance.

Government Valuation of Land and Buildings at 33 Totara Street as at July 2006 \$1,525,000 and there have been no further additions since that date.

Credit Union Land and Buildings at 33 Totara Street - a registered valuation report was prepared by Bay Valuation Ltd – Registered Valuers of Tauranga. This independent valuation report prepared in March 2007 values Land and Building, but excluding Office Furniture, Fittings, Computer and Plant, at \$1,723,500 including GST. The valuation was completed on an Investment basis.

When any asset is disposed of, any gain or loss is recognized in the statement of financial performance and is the difference between sale price and carrying value of item.

f. Depreciation:

Depreciation is provided on a straight line basis at rates calculated to write off the assets over their expected useful lives. Depreciation rates applied in current financial year are as follows:-

Buildings	2.50 to 5.00%
Fixtures and Fittings	10.00 to 33.33%
Computer Equipment	20.00 to 36.00%
Office Equipment	20.00 to 33.33%
Motor Vehicle	20.00%

g. Statement of Cash Flows:

The statement of cash flows has been prepared using the direct approach. Cash and cash equivalents reflect the balance of cash used in the day to day management of the Credit Union.

h. Asset Quality Disclosures:

These are loans to members that are recognized in accordance with paragraphs 4.2.7, 4.3.8 and 5.2 of FRS33. Gross amounts of these assets and corresponding provision for doubtful loans which have been

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 MARCH 2007

brought to account in the financial statements are set out in Note 10 of these financial statements. Interest income from these assets is not accrued.

Non accrual assets are those loans to members for which the Credit Union expects it will not be able to collect all amounts owing in accordance with the terms of the contract of those members.

Restructured Assets

The Credit Union occasionally restructures loan terms. Whereby amended terms are generally comparable with the new loans criteria, however there are instances when a members changing financial circumstances mainly due to the economic climate dictate that loan repayments be extended over a greater period of time than would normally be the case. The Credit Union has included in this definition loans that are being collected under terms of a Court Order.

Past Due Assets are those loans to members (not having classified as any other type of asset) which have not been operated by the member outside of the terms of the contract for 90 days.

Real Estate and Enforced Security Assets are assets acquired through the enforcement of a security.

- i. Employee Entitlements:
A liability for annual leave and long service leave is accrued and recognized in the statement of financial position. This liability is equal to the present value of the estimated future cash flows and is a result of employee services provided at balance date.
- j. Leases:
Credit Union leases certain land and buildings for branch operations. 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.
- k. Financial Instruments:
Financial instruments recognized in the Statement of Financial Position includes cash balances, bank overdrafts (if any), receivables, payables, investments in and loans to others and any term borrowings. There are no off balance sheet financial instruments. The particular recognition methods adopted are disclosed in the individual policy statement associated with each item.
- l. Income Tax:
No amounts have been provided for Income Tax as the Credit Unions income from members is exempt under section CW38 of the Income Tax Act 2004. Income derived other than from members does not produce a taxable surplus.
- m. Loan Fees:
Are applied to a member's loan and collected at time of loan drawdown.
- n. Changes in Accounting Policy:
There have been no changes in accounting policy. All accounting policies have been applied on a basis consistent with previous years.

Note 2 – Income (other than interest on Loans and interest from Investments)

<u>Account fees/ACCESSCARD™/ACCESSCREDIT® fees</u>	<u>31.3.07</u>	<u>31.3.06</u>
	1153069	1026656
Increase due to increasing volumes of ACCESSCARD™/ACCESSCREDIT® transactions.		
<u>Other Income</u>	<u>31.3.07</u>	<u>31.3.06</u>
	423872	250627
Mainly commission received on sales of loan protection insurance along with sundry service fees.		

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 MARCH 2007

Note 3 – Debts Written Off

	<u>31.3.07</u>	<u>31.3.06</u>
Loan write offs incurred during reporting period	220721	159122
Long term Non Accrual and Restructured loans on which loan interest is not being collected due to members inability to meet loan contracted terms. Ongoing member loan principal repayments for these loans will be accounted for through Bad Loans Recovered. Loans in this category have been fully provided for in our Bad Loan provisioning, which is reduced to meet this write off expense.	<u>264987</u> 485708	<u>0</u> 159122
Loan Provisioning Activity	<u>31.3.07</u>	<u>31.3.06</u>
Carry forward	550000	500000
Provisioning withdrawn	(264987)	0
Provision for reporting year	132640	<u>50000</u>
Sub total	<u>(132347)</u>	<u>50000</u>
Provisioning held	417653	550000

Note 4 – Dividends Paid

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

Ordinary Shares	1.00c-4.00c
Loan Provider Shares	1.00c-3.00c
Christmas Club and Future Accounts	1.00c-4.00c
Money Maker Account	1.00c-7.00c
Term Shares – maturing in less than 12 months	4.00c-8.10c
Term Shares – maturing in more than 12 but less than 24 months	7.25c-8.00c

Note 5 – Lease Commitments

Credit Union has lease commitments for branch premises existing as at 31 March 2007.

Properties at:	<u>1 year</u>	<u>2 year</u>	<u>3 year</u>	<u>4 year</u>	<u>5 year</u>	<u>5+year</u>
Papamoa	67254	67254	67254	67254	67254	39231
Greerton	20250	20250	20250	0	0	0
Te Puke	10125	10125	10125	844	0	0
Tawa Street	<u>26528</u>	<u>26528</u>	<u>26528</u>	<u>26528</u>	<u>26528</u>	<u>0</u>
Total	124157	124157	124157	94626	93782	39231

Note 6 – Related Parties

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

	<u>31.3.07</u>	<u>31.3.06</u>
Directors' holdings at balance date are:		
Owing to Directors (Shares) - up to 12 months	256579	49808
- greater than 12 months	<u>0</u>	<u>17197</u>
	256579	67005
Owing from Directors (Loans)	239711	60502

The Directors loans are for varying terms but the loan contracts include a "payable on demand" clause.

No Directors loans have been forgiven or written off.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 MARCH 2007

Note 7 – Reserves

Reserves as at 31 March 2007

	General Reserve	Prudential Reserve	Retained Earnings	Property Revaluation	Total Reserves
Balance brought forward	2100000	1854200	86155	374935	4415290
Allocation for Years Surplus	250000	385205	0	0	635205
Property Revaluation	0	0	0	695550	695550
Roundings	0	0	0	0	0
Total	2350000	2239405	86155	1070485	5746045
Reserve % to Total Assets	5.01%	4.81%	0.18%	2.28%	12.25%

Reserves as at 31 March 2006

	General Reserve	Prudential Reserve	Retained Earnings	Property Revaluation	Total Reserves
Balance brought forward	1775000	1589902	86152	374935	3825989
Allocation for Years Surplus	325000	264298	0	0	589298
Property Revaluation	0	0	0	0	0
Roundings	0	0	3	0	3
Total	2100000	1854200	86155	374935	4415290
Reserve % to Total Assets	5.03%	4.44%	0.21%	0.90%	10.58%

General Reserve

A General Reserve has been established in accordance with S119 of the Friendly Societies and Credit Unions Act 1982. 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 realised losses made by the Credit Union to members, and
- (b) To such persons of such amounts in such special circumstances, as the Registrar, on application, may approve.

Prudential Reserve

This reserve was established in terms of the Trust Deed whereby at least 10% of earnings be allocated to this Reserve till a level of 5% of Total Assets is achieved. For this year the Directors have allocated remaining surplus after the General Reserve provision to this Reserve.

Retained Earnings

Reserves arise from retained profits accumulated from operations. The Directors will not recommend an addition to retained earnings until the Prudential Reserve reaches 5% of total assets.

Property Revaluation Reserve

This reserve was established to reflect current market value of property owned at 33 Totara Street, Mt Maunganui. (See Note 12.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 MARCH 2007

Note 8 – Member Shares

	<u>31.3.07</u>	<u>31.3.06</u>
Ordinary Shares:	4317980	3891512
Loan Provider	5350317	5114757
Christmas & Future	465391	402866
Money Maker Account	<u>4635648</u>	<u>3391631</u>
	14769336	12800766
Term Shares:		
Original Maturity Terms:		
0-6 months	13639045	15631552
7-12 months	10120172	5785290
12-24 months	<u>1507797</u>	<u>2060768</u>
	25267014	23477610
Total Member Shares	40036350	36278376

Disclosed as current and term liabilities.

Note 9 – Accounts Payable

	<u>31.3.07</u>	<u>31.3.06</u>
Resident withholding tax	82314	75922
Provision for Dividend	376210	417758
Employee entitlements	75910	59309
Trade Creditors	159089	289191
ACCESSCARD™/ACCESSCREDIT® Settlement	332261	183498
Sundry Payables	99393	84312
Total	1125177	1109990

Note 10 – Cash & Bank and Cash Investments

	<u>31.3.07</u>	<u>31.3.06</u>
	<u>Interest Rates</u>	
Cash & Bank	0.00 to 2.00%	520935
NZ Association of Credit Unions	7.20 to 7.70%	261079
Total		4750000
		4770935
		5011079

The Credit Union has not historically traded its securities. Effective interest rates are the original contracted values. Movements in market rates will not affect the recorded value of investments.

Note 11 – Loans to Members

Loans are made in accordance with the lending policy of the Credit Union. A provision for doubtful loans has been made at balance date.

	<u>31.3.07</u>	<u>31.03.06</u>
Personal Loans	22787226	21261060
Mortgages	16472585	13840060
Gross Loan Receivables	39259811	35101120
Provision for Doubtful Debts	417653	550000
Loan Receivables	38842158	34551120
Movement in Provision	132347	50000
In calculating the provision, allowance has been made for shares held as security collateral that may be held on these loans.		
Debts Written Off	485708	159122

In accordance with the Financial reporting standard No. 33 (FRS33), the following analysis of loans to members is provided.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDING 31 MARCH 2007

Loan Quality as at 31.3.07

	<u>Opening Balance Loans 1.4.06</u>	<u>Additions (Movements period)</u>	<u>Deletions during</u>	<u>Written Off</u>	<u>Provn.</u>	<u>Loan Balance 31.3.07</u>	<u>Movement In Provisions</u>
Non Accrual Loans	43089	113402	64148	92343	0	0	- 43089
Restructured Loans	251079	100382	128418	222965	0	78	- 249193
Real Estate and Enforced Securities	0	0	0	0	0	0	
Total Impaired Loans	294168	213784	192566	315308	0	78	- 292282
Past due Loans	267574	628441	351870	105936	250708	187501	109699
Other Loans with Interest Accrued	34539378	29667127	25320517	64464	166945	38654579	50236
Totals	35101120	30509352	25864953	485708	417653	38842158	- 132347

Loan Quality as at 31.3.06

	<u>Opening Balance Loans 1.4.05</u>	<u>Additions (Movements period)</u>	<u>Deletions during</u>	<u>Written Off</u>	<u>Provn.</u>	<u>Loan Balance 31.3.06</u>	<u>Movement In Provisions</u>
Non Accrual Loans	36721	80315	56994	16953	43089	0	+ 6368
Restructured Loans	182158	195851	125377	1553	249193	1886	+ 72583
Real Estate and Enforced Securities	0	0	0	0	0	0	0
Total Impaired Loans	218879	276166	182371	18506	292282	1886	+ 78951
Past due Loans	342735	332591	302755	104997	141009	126565	- 1319
Other Loans with Interest Accrued	28605015	24208844	18238862	35619	116709	34422669	- 27632
Totals	29166629	24817601	18723988	159122	550000	34551120	50000

Non accrual assets are those loans to members for which the Credit Union expects it will not be able to collect all amounts owing in accordance with the terms of the contract with those members. These totalled 0 for the year (March 2006 - 6).

Restructured Assets

The Credit Union occasionally restructures loan terms, however, amended terms are generally comparable with the new loans criteria, however there are instances when a members changing financial circumstances mainly due to the economic climate dictate that loan repayments be extended over a greater period of time than would normally be the case. The Credit Union has included in this definition loans that are being collected under terms of a Court Order. These totalled 1 for the year (March 2006 - 44).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 MARCH 2007

Past Due Assets are those loans to members (not having classified as any other type of asset) which have not been operated by the member outside of the terms of the contract for 90 days. These totalled 94 for the year (March 2006 - 69).

Real Estate and enforced security assets are assets acquired through the enforcement of a security. These totalled 0 for year (March 2006 – 0).

Method for calculation of the Doubtful Debt Provision.

A provision for Doubtful loans is made in accordance with the Prudential Standards recommended to their members by the NZ Association of Credit Unions. These guidelines have been approved by the Board, and pertain to all loans where loan is not being paid in accordance with the terms of the loan agreement, and the debtor has not entered into a satisfactory arrangement to discharge the loan. The provision is calculated as follows

<u>Period in Arrears</u>	<u>Percentage applying to balance owing</u>
31 - 90 days	20%
91 -181 days	40%
182 -272 days	60%
273 -364 days	80%
365 days and over	100%

along with an amount equal to 1% of overdrawn savings and 100% of unauthorized account balances.

In reviewing the Prudential Standards provisioning, the Directors have applied requirements against past trends to validate provisioning requirements. As Impaired loans, not earning interest are 100% fully provided for at time of classification, the review concentrated on the Provisioning for Past Due and other Loans including ACCESSCREDIT®.

	31.3.07	31.3.06	31.3.05	31.3.04
Total Provisioning Provided	<u>417653</u>	<u>550000</u>	<u>500000</u>	<u>500000</u>
Includes Doubtful Debt Provisioning of	417653	257718	286669	193042
Bad Debts written off for year	*220721	159122	124142	152882
Number of times Doubtful Debt provisioning covers Bad Debts written off	1.89	1.62	1.62	1.26

* excludes Impaired/Restructured Loans – See Note [3] Debts written off.

Note 12 – Capital Notes

31.3.07	31.3.06
658191	404913

Base Capital Notes

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

NZACU Business Services Trust base returns on a six monthly dividend basis, subject to their profitability. From forecasts provided from NZACU Business Services Trust and past dividends received the Directors have accrued a dividend of \$68,678 in this years income (March 2006 \$15180).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 MARCH 2007

Note 13 – Fixed Assets

	<u>Cost</u>	<u>Revaluation</u>	<u>Accumulated Depreciation</u>	<u>Book Value 31.3.07</u>	<u>Book Value 31.3.06</u>
Land	80473	819527	0	900000	450000
Buildings	361569	0	152588	208981	221741
- Alterations	461379	0	97008	364371	387440
- Revaluation	0	250958	810	250148	4868
Total Land & Buildings	903421	1070485	250406	1723500	1064049
Computer Equipment	761766	0	504509	257257	208942
Fixture and Fittings	458203	0	260966	197237	217847
Motor Vehicles	124480	0	53213	71267	20391
Office Equipment	409766	0	259605	150161	160399
Total Fixed Assets	2657636	1070485	1328699	2399422	1671628

Movement in Fixed Assets

	<u>Opening Value 31.3.06</u>	<u>Additions +</u>	<u>Disposals -</u>	<u>Revaluation +</u>	<u>Depreciation -</u>	<u>Closing Value 31.3.07</u>
Land	450000	0	0	450000	0	900000
Buildings	614049	0	0	245550	36099	823500
Computer Equipment	208942	171382	0	0	123066	257258
Fixtures & Fittings	217847	30161	0	0	50771	197237
Motor Vehicle	20391	75840	11707	0	13257	71267
Office Equipment	160399	41653	3695	0	48197	150160
	1671628	319036	15402	695550	271390	2399422

Note 14 – Financial Instruments

The Credit Union is a party to financial instruments as part of its day to day operations.

Risk Management Policies

a. Maximum Credit Risk

Financial instruments which potentially subject the Credit Union to credit risk principally consist of:

	<u>31.3.07</u>	<u>31.3.06</u>
Loans to Members	38842158	34551120
Bank Balances	520935	261079
Cash Investments	4250000	4750000
Accounts Receivables	37900	17437
Interest Accrued	179494	133544
NZACU Base Capital Notes	658191	404913
	44488678	40118093

The Credit Union has no "off balance sheet" financial instruments.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 MARCH 2007

Loans to Members

Loans can only be made to Credit Union members. The Credit Union membership is drawn from the Western Bay of Plenty and Tauranga City Districts. Loan interest rates range from 0% to 18% p.a. with delinquent loans possibly incurring an additional penalty of 10% p.a. The Credit Union has some non accrual loans with 0% interest rate which are restructured loans and have a priority to recover the capital balance of the impaired loan.

The Credit Union has a lending policy which requires prospective borrowers to meet certain lending criteria. The Trustees have delegated authority to approve loans to management and staff up to set limits. 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 approved in March 1998 the Credit Unions application for an extension of the secured loan term from 10 to 20 years and then in December 2003 approved an extension in secured loan term to 30 years.

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

<u>31.3.07</u>	<u>31.3.06</u>
1.71%	0.90%

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

Receivables

Receivables comprise of interest on loans and investments plus minor amounts payable for services provided and there is no perceived credit risk associated with this asset. Receivables are recorded at expected realisable value.

Cash Investments

The Credit Union's management policies comply with the Friendly Societies and Credit Unions Act 1982, S49 and S117 in regard to investments made by Trustees. Details of investments are outlined in Notes 9 and 11. The composite total of both cash investments and NZACU Base Capital Notes is not considered by the Directors to be high risk investments. No collateral securities are held on the bank balances and investments.

Collateral

Current management policy generally requires collateral to be in place prior to a loan being made. Collateral securities include mortgage over real property and instruments by way of security over assets – predominantly motor vehicles and chattels. Loans can only be made to members and Credit Union shares are thus available for security.

b. Liquidity Risk

Investments

The liquidity risk is minimised with the short term nature of the majority of Credit Union's cash investments. With the exception of the NZACU Capital Notes, investments are either on call or can be converted into cash within 5 working days.

Loans to Members

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

<u>31.3.07</u>	<u>31.3.06</u>
18.64 months	17.58 months

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 MARCH 2007

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

<u>31.3.07</u>	<u>31.3.06</u>
5.40%	5.47%

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

The Credit Union has an overdraft facility of \$1,500,000 with the NZ Association of Credit Unions.

	<u>31.3.07</u>	<u>31.3.06</u>
Amount drawn down	0	5019
Interest rate to \$1,500,000	9.00%	8.50%
Interest rate over \$1,500,000	13.50%	12.75%

Member Shares

Member share deposits may be withdrawn at any time but the Credit Union has the right to require members to give 60 days notice of their intention to withdraw the whole or part of the shares deposited.

c. Concentration of Credit Risk

Financial instruments, which potentially subject the Credit Union to concentrations of credit risk principally, consist of:

	<u>31.3.07</u>	<u>31.3.06</u>
Cash and Bank	520935	261079
Cash Investments	4250000	4750000
Accounts Receivable	37900	17437
Interest Accrued	179471	133544
NZACU Base Capital Notes	658191	404913
Loans to Members	<u>38842158</u>	<u>34551120</u>
	44488655	40118093

The Credit Union places its cash and short term investments with high quality financial institutions and sovereign bodies and limits the amount of credit exposure to any one financial institution.

Concentration of credit risk with respect to loans to members is limited due to the large number and varied membership base that are from a wide range of financial and employment backgrounds. The membership is drawn from the Western Bay of Plenty with 80% of members based in the Mt. Maunganui, Papamoa and Tauranga Districts and the Credit Union is exposed to the risk of a regional natural disaster. The directors do not consider the risk to exceed normal business risk.

d. Large Counterparts

The Credit Union has exposure to counterparts as follows:

	<u>Number of Counterparts</u>	
	<u>Assets</u>	<u>Liabilities</u>
Greater than 100% of equity	1 NZ Assn of Credit Unions	-
Between 90% and 100% 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	-	-
Between 30% and 40% of equity	-	-
Between 20% and 30% 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 MARCH 2007

e. 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 as a consequence the Credit Union funding is almost exclusively from individuals residing within the Western Bay of Plenty environs. The funding from members is recorded as Member Shares in the Statement of Financial Position.

f. Currency Risk

The Credit Union has no currency risk given that all financial instruments it deals with are in New Zealand dollars.

g. Interest Rate Risk

Loans to Members

The Credit Union standard loan agreement provides for adjustments to interest rate on existing loans upon written notice to members. Loan terms vary from 1 month to 10 years for personal loans with mortgage loans being approved up to a 30 year term. However the majority of personal loans are for a term less than 5 years with the majority of mortgage loans being repaid within a 20 year term. Loan Agreements include a clause allowing the Credit Union to demand repayment of the loan at any time. Given the nature of the loan portfolio the Credit Union does not face any material interest rate risk on loans.

Cash Investments

The policy requiring that cash investments be able to be converted into cash in 5 working days limits the interest rate risk on investments due market fluctuations.

Shares

Dividend rates payable on members' shares are set by the Board of Directors and subject to the profitability of the Credit Union. These rates and their effect on the Credit Union's overall return are kept under constant review. Term Shares are limited to terms under 24 months to allow repricing.

h. Fair Values

Financial Assets

Loans to Members

As detailed in the accounting policies, loans are carried at estimated realisable value after providing for doubtful loans. The directors believe this reflects the fair value.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 MARCH 2007

Financial Liabilities

Shares

Members' shares 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 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 Unions' 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 the Prudential Supervisor under Trust Deed dated 30th November 2000 which has been registered with the Registrar of Companies.

Other Liabilities

Accounts Payable are carried at fair value.

Note 15 – Financial Instrument Maturities

<u>As at 31.3.07</u>	Total	0-6 months	6-12 months	12-24 months	24-60 months	60+ months
<u>Monetary Assets Receivables</u>						
Cash & Bank	520935	520935	-	-	-	-
Receivables	236865	236865	-	-	-	-
Investments	4908191	4250000	-	-	-	658191
Loans	38842158	38842158	-	-	-	-
Total Monetary Assets Receivables	44508149	43849958	-	-	-	658191
<u>Monetary Liabilities Payable</u>						
Payables	-	-	-	-	-	-
Members Shares – At Call	14769336	14769336	1507797	-	-	-
Members Shares - Term	25267014	13639045	10120172	-	-	-
Total Monetary Payable	40036350	28408381	11627969	-	-	-
<u>As at 31.3.06</u>	Total	0-6 months	6-12 months	12-24 months	24-60 months	60+ months
<u>Monetary Assets Receivables</u>						
Cash & Bank	261079	261079	-	-	-	-
Receivables	164916	164916	-	-	-	-
Investments	5154913	4750000	-	-	-	404913
Loans	34551120	34551120	-	-	-	-
Total Monetary Assets Receivables	40132028	39727115	-	-	-	404913
<u>Monetary Liabilities Payable</u>						
Payables	-	-	-	-	-	-
Members Shares – At Call	12800766	12800766	-	-	-	-
Members Shares - Term	23477610	15631552	5785290	2060768	-	-
Total Monetary Payable	36278376	28432318	5785290	2060768	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 MARCH 2007

Interest rate Profile of Monetary Assets and Liabilities

	<u>As at 31.3.07</u> <u>effective rate</u>	<u>As at 31.3.06</u> <u>effective rate</u>
Cash and Bank	1.22%	1.41%
Receivables	Nil	Nil
Cash Investments	8.11%	7.45%
Loans	12.20%	12.59%
Payables	Nil	Nil
Members Call Shares	3.24%	3.04%
Members Term Shares	7.70%	7.37%

Note 16 – Capital Commitments

There are no contracted capital commitments as at 31 March 2007. (31 March 2006 Nil).

Commitment to Lend

As at 31 March 2007 loans approved but not yet advanced amounted to \$991,101 (31 March 2006 \$689,609).

Note 17 – Contingent Liabilities

There are no contingent liabilities not provided for in accounts as at 31 March 2007 (31 March 2006 Nil).

Note 18 – Commodity Instruments

Commodity Instruments are defined by FRS 33 to include contracts that provide for settlement only by receipt or delivery of a physical asset. The Credit Union has no commodity instruments at balance date.

Note 19 – Segment Reporting

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

Note 20 – Events Subsequent to Balance Date

There are no known events subsequent to balance date which have a material effect on the state of the Credit Union.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 MARCH 2007

Note 21 – First-time adoption of New Zealand equivalents to International Financial Reporting Standards.

Reconciliation of Equity at 1 April 2007	Note	GAAP at 1 April 2007	Adjustment	NZIFRS at 1 April 2007
ASSETS				
Cash and cash equivalents		4770935		4770935
Trade and other receivables		236865		236865
Loans to Members	a, b	38842158	144785	38986943
Other Financial Assets		0		0
Property, Plant & Equipment		2399423		2399423
Intangible Assets		0		0
Capital Notes		658191		658191
TOTAL ASSETS		46907572	144785	47052357
LIABILITIES				
Trade and other payables		1125177		1125177
Member deposits		40036350		40036350
Short-term borrowings		0		0
Provisions		0		0
TOTAL LIABILITIES		41161527		41161527
NET ASSETS		5746045	144785	5890830
EQUITY				
Retained earnings	a, b	86155	144785	230940
Reserves		5659890		5659890
TOTAL EQUITY		5746045	144785	5890830

(a) Loans – General Provision	2007
General provision is reallocated to retained earnings with NZIFRS	\$
Decreased in Provision for doubtful debts	(400934)
Increase in Retained Earnings	400934
	-

(b) Loans – Specific Provision for Impairment	2007
Specific Provision has been increased to reflect the provisioning requirements of NZIFRS	\$
Increase in Provision for doubtful debts	545719
Decrease in Retained Earnings	(545719)
	-

The Total Nominal Value of the Securities of that Class that have not been allotted

Nil

Restrictions on Allotment

Shares may only be allotted to members.

Amount of Cumulative Dividends in Arrears

Nil. There are no dividends in arrears.

AUDITORS REPORT

BDO

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 7 to 25. The Financial Report provides information about the financial performance and cash flows of the Credit Union for the year ended 31 March 2007 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 2007, 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 7 to 25
 - 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 2007 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 14 June 2007 and our unqualified opinion is expressed as at that date.


BDO SPICERS
HAMILTON

TO THE MEMBERS OF CREDIT UNION MT MAUNGANUI

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 MARCH 2007

What a busy year for everyone in our lending process – the Credit Union processed 5,688 loans totalling \$29,667,127. Both these figures are an increase on last year's figures.

We will continue to focus our desire in helping members to make the right decision when it comes to borrowing money and ensure that they do have the ability to repay without placing too much stress on their income.

Great efforts have been made in the control of our lending delinquency rate and this now sits around 2.97% of our total loan portfolio. Our thanks to Julie Cleary and her team.

The Trustees continue to meet most weeks to overview the Credit Union Lending portfolio. At times these meetings can be involved but it does give your Trustees peace of mind that the lending activities of our Credit Union are being well managed and monitored correctly.

While our write offs for the year at \$485,708 appear high it should be noted that \$220,721 relates to the lending activity of the last 12 months. This total represents 0.56% of our loan portfolio. The balance of write offs \$264,987 relates to loans classified as Impaired Loans and an explanation is covered in Notes 3 and 11 in our Financial Statements. Decision to formally write these loans off was made as we move into a more complex and detailed financial reporting environment. Please note that a significant majority of these loans are being repaid over extended terms and these loan repayments will in future be accounted through Bad Loans Recovered. Also classified Impaired loans had been fully provided for in our Doubtful Debt provisioning and therefore does not impact on this year's bottom line. While it is disappointing to note the write off levels it is part and parcel of the lending business. The levels of our write offs are not excessive when compared to other lending institutions but the Credit Union does not use that as an excuse rather more as a motivation to continue improvements here. Recoveries of Bad Debts previously written off total \$38,597.

So while the year has been challenging it has also been rewarding and your Trustees are looking forward to another year of good growth and meeting those challenges that growth brings.

John Weston, Trustee Chair.

AUDIT COMMITTEE REPORT

The Audit Committee consists of 3 Directors myself, Tony Kelly and John Weston. It is our responsibility to monitor and establish practices so that the Credit Union complies with not only our statutory, compliance obligations but operates within our own Rules, Policies and Procedures.

We are also responsible for the nomination and recommendation of an External Auditor as well as the appointment of an Internal Auditor.

The Internal Auditor "visits" monthly and provides a written report to the Audit Committee on his findings as well as detailing the work areas he has covered. In the main, the last 12 months reports have shown that this Credit Union's operational systems and compliance with the various rules, policies and procedures have been of a high standard.

Obviously with an organization of our size there were occasions highlighted where we could have done better. However the co-operation and liaison between Audit Committee, Management and the Audit process is very proactive and any concerns or failings are quickly rectified.

The Audit Committee wish to acknowledge the excellent work of our Internal Auditor Ken Harland.

Over the last few years Bernard Lamusse and his team from BDO Spicers, have been responsible for reviewing the bigger picture of the Credit Union and once again we have enjoyed good lines of communication here. The Credit Union certainly appreciates the guidance here especially in the ever changing world of financial regulation and compliance.

So the Audit Committee has recommended to the Board that BDO Spicers be appointed for a further term of 1 year.

Roger McIntyre, Audit Committee Chair

TO THE MEMBERS OF CREDIT UNION MT MAUNGANUI

NOMINATING COMMITTEE REPORT FOR YEAR ENDED 31 MARCH 2007

In accordance with Rule 23 the Chair has appointed a Nominating Committee. It is the role of that committee to nominate at the Annual General Meeting at least one member for each vacancy that is available.

Our Rules state "That the Board shall comprise of not less than 7 or more than 9 Directors with Directors serving a term of 3 years. Each year the Directors retiring on rotation may be eligible for re-election".

So with the Rules in mind the Nominating Committee advise:

- Director Frank Neilson has completed his term and he offers himself for re-election.
- Directors Paul Clark and John Weston's terms expire next year.
- Director Richard Hawthorne (27 years) has resigned with effect from 21 March 2007.
- Directors Ross Durham, Tony Kelly, Roger McIntyre, Andrea Findsen and Paul Stanley have 2 years to complete their terms.

The Committee sought interest from members who wished to serve as "Directors" or "Associate Directors" and were fortunate to be approached by Nicki De Grey. Nicki De Grey having been interviewed by the Committee is seen to be a very suitable candidate and meets the Director "fit and proper" assurance check.

In submitting the following nominations, the Committee does so with confidence that the nominees will carry out the responsibilities well and be a true reflection of the membership.

Nominations proposed are:

- Frank Neilson (current Director seeking re-election) and Nicki De Grey.

The members retain the right however to make nominations from the floor at the Annual General Meeting and the Chairperson will call for further nominations when members who wish to make nominations can do so. In making these nominations the member so nominated must be aware and able to pass a "fit and proper" assurance check.

ELECTION OF CREDIT UNION TRUSTEES

Once the election of Directors is complete, the Nominating Committee will call for nominations from those Directors elected to fill the vacant Credit Union Trustee positions.

Currently Trustees John Weston and Ross Durham's 2 year terms expire and they offer themselves for re-election. With the resignation of Richard Hawthorne during the year the members will need to elect 3 Trustees.

It is the recommendation of the Nominating Committee that John Weston and Ross Durham be elected for terms of 2 years and Tony Kelly for a term of 1 year. This will provide a degree of continuity within the Trustee ranks.

In accordance with our rules the positions of Chairperson, Vice Chairperson, Treasurer and Secretary will be elected at a special meeting of the new Board of Directors to be held within 7 days of the Annual General Meeting.

On behalf of the Nominating Committee

Paul Clark, Andrea Findsen and Paul Stanley.

DIRECTORY

Main Branch and Registered Office:

Cnr Totara & Puriri Street
Mt Maunganui

Postal Address: P O Box 4105
Mt Maunganui 3149

Telephone Number: (07) 572-7090

Email: info@cu-mount.co.nz

Facsimile: (07) 575-0968

Office Hours: Monday to Friday
9.00 a.m. – 5.00 p.m.

Branches: Papamoa

Palm Beach Shopping Plaza
Gravatt Road, Papamoa

Office Hours: Monday to Friday
9.00 a.m. – 5.00 p.m.
Saturday
9.00 a.m. – 12 noon

Greerton

1318D Cameron Road
Greerton
Tauranga

Office Hours: Monday to Friday
9.00 a.m. – 5.00 p.m.
Saturday
9.00 a.m. – 12 noon

Te Puke

36 Jellicoe Street
Te Puke

Office Hours: Monday to Friday
9.00 a.m. to 5.00 p.m.
Saturday
9.00 a.m. – 12 noon

SERVICES

LENDING

Personal Loans

- Competitive Rates of Interest
- Flexible Repayments
- LOANMINDER®
- Line of Credit Loan
- Overdraft facilities
- Mortgage
- CARMINDER® Insurance

FINANCIAL SERVICES

ATM/EFTPOS, ACCESSCARD™
ACCESSTELLER® – Telephone Banking
ACCESSIONLINE – Internet Banking
Automatic Payment Service
Money Management Advice
Travelex Travellers Cheques
Direct Credits
Funeral Plan
Cheque Books
ACCESSCREDIT®
ACCESSTXT®

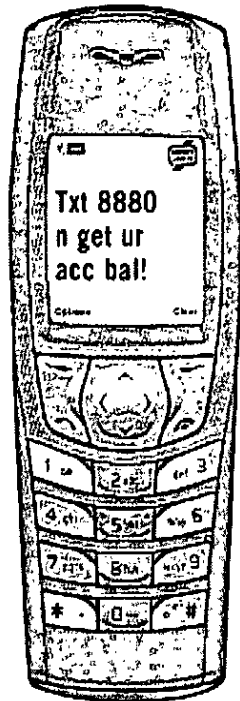
SAVINGS

Range of Accounts

- Access Account – ATM, EFTPOS accounts
- Special Purpose
- Money Management
- Loan Provider
- Christmas Club
- Future Account
- Money Maker

Term Share Investments

- Competitive Interest Rates
- Terms: 3 months to 24 months
- Interest paid as required



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