



# ANNUAL RETURN

## FRIENDLY SOCIETY

Friendly Societies and Credit Unions Act 1982



\*10061234810\*

31 AUG 2012

RECEIVED

This return is to be completed and sent **within three months of the end of the financial year** to the Registrar of Friendly Societies and Credit Unions, Private Bag 92061, Auckland Mail Centre.

The purpose of the return is to obtain up-to-date information, and to present certain details in a consistent manner for all friendly societies for ease of analysis. It is also used to compile overall friendly society statistics.

Please complete all sections. This return may be typed or neatly handwritten.

Organisation Number: **1802898**

Name of Friendly Society: **Manchester Unity Friendly Society**

Name of Branch (Where applicable):

Registered Office: **Level 6, 142 Lambton Quay, Wellington**

Postal Address: **P O Box 5083 Wellington 6145**

Financial Year Ended (DD/MM/YYYY): **31-May-2012**

### NAMES AND ADDRESSES OF OFFICERS (as at the date of the Return; continue on separate sheet if necessary).

	Name	Residential Address	
Committee of Management	John Hayman LOWE	11 Eden Terrace	WAIPUKURAU 4200
	Ingrid Robyn TAYLOR	19 Taylors Avenue	CHRISTCHURCH 8052
	Michael George AMBROSE	18 Otley Street	CHRISTCHURCH 8013
	Paul Leonard HAGLUND	47 Stackhouse Avenue	CHRISTCHURCH 8053
	Graham John ALLANSON	17 Kimbolton Road	FEILDING 4702
	Peter William SCHUMACHER	76 Hawker Street	WELLINGTON 6011

Trustees	Ingrid Robyn TAYLOR	19 Taylors Avenue	CHRISTCHURCH 8052
	John Hayman LOWE	11 Eden Terrace	WAIPUKURAU 4200
	Graham John ALLANSON	17 Kimbolton Road	FEILDING 4702

Secretary	Peter William SCHUMACHER	76 Hawker Street	WELLINGTON 6011
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Treasurer	Keith Harold MACKENZIE	104 Ranui Crescent	WELLINGTON 6035
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### MEMBERSHIP

Total number of members at beginning of year

Number who joined during year

Number who died during year

Number who left during year

Total number of members at end of year

	333
	3
	4
	12
	320

**STATEMENT OF FINANCIAL PERFORMANCE ("REVENUE ACCOUNT")**

(in respect of all business undertaken by the society/branch during the financial year)

		(whole dollars only)
Total Members' Equity at beginning of year (restated)		<u>18,821,257</u>
<b>Income</b>		
Contributions or levies	1,928,032	
Funeral benefits repaid by central body		
Other transfers from a central body or branch		
1 Investment income	5,194,185	
2 Other income (specify significant items)	344,901	
Commissions	48,918	
Unrealised revaluation gains	561,000	
Realised gain on sale leasehold land	280,995	
	<u>Total Income</u>	<u>8,077,036</u>
<b>Expenditure</b>		
Sickness benefits	14,209	
Annuity benefits		
Funeral benefits	1,039,746	
3 Assurance benefits	2,699,055	
Medical benefits	840,141	
Management expenses	309,354	
Audit fees	74,500	
Expenses incurred on properties	219,231	
Asset revaluations/losses	297,593	
Levies to central body		
4 Other transfers to a central body or branch		
Taxation		
Wages & Honorarium	1,155,286	
Other expenditure (specify significant items)		
Distress and Benevolent	20,624	
Interest paid to D&L	127,878	
Member benefit fund appropriation	526,496	
Change in life insurance contract obligations	328,129	
	<u>Total Expenditure</u>	<u>7,652,242</u>
		<u>424,794</u>
Total Members' Equity at end of year		<u>19,246,051</u>

1 Include all interest, dividends (including United Friendly Societies Dispensary dividends), rents, etc

2 Include separately any significant items, such as revaluation of assets, profit on sale of assets, commissions, donations, etc.

3 Include all benefits paid from a Life Assurance Fund, whether upon death, maturity or surrender.

4 include separately any significant items, such as depreciation, loss on sale of assets, social expenses, etc.

# STATEMENT OF FINANCIAL POSITION ("BALANCE SHEET")

## ASSETS

(whole dollars only)

Land and buildings	23,588,352	
Mortgages	522,382	
Government securities	4,829,750	
Local Authorities and SOE securities	10,845,319	
Term Deposits	13,600,000	
Bank accounts and cash on hand	444,971	
Furniture, fittings & other fixed assets	64,901	
Sundry Debtors/ Accounts receivable	716,394	
5 Society investment fund		
5 District investment fund (Promo fund)		
Other Assets	46,182	
Shares	2,975,903	
Bank bonds	8,582,235	
Fixed interest	14,437,077	
Other		
UFS	14,200	
	<b>Total Assets</b>	<b>80,667,666</b>

Less credit union investment fund		
6 Less branch investment fund		
Less funds held on behalf of a central body or branch	2,051,791	
	<b>Total Members' Assets</b>	<b>78,615,875</b>

## 7 LIABILITIES

Bank loans /Overdraft		
Trade and other payables and provisions		470,444
Member benefit fund liabilities		9,654,624
Funeral funds	23,501,580	
Increased assurance benefit	24,904,859	
Medical services fund	250,000	
Society sick fund	270,323	
Education support plan	317,994	
Member insurance contract obligations		49,244,756
		59,369,824
		<b>19,246,051</b>

## NET ASSETS

## EQUITY

Retained Earnings		2,933,213
District & lodge relief fund		968,222
Society Benefit emergency relief fund		669,206
Medical services reserve		2,200,410
Medical services fund		750,000
Restricted Lodge reserve		483,000
General reserve		11,242,000
<b>RESERVES</b>		<b>19,246,051</b>

- 5 applicable only to a branch of a central body  
 6 applicable only to a central body  
 7 include any funds in deficit as negative liabilities

I hereby certify that this Return is in accordance with the audited financial statements of the society/branch.  
 A signed copy of the annual financial statements and auditor's report are enclosed.

Secretary

*M. Schumacher*

Date

30/8/2012



FINANCIAL STATEMENTS  
for the 12 months ended  
31 May 2012



# Marichester Unity Friendly Society

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# Manchester Unity Friendly Society

## Statement of Comprehensive Income

for the financial year ended 31 May 2012

	Note	Group 2012 \$'000	2011 Restated \$'000	2012 \$'000	Parent 2011 Restated \$'000
<b>Income and Expenses</b>					
Investment income including gains and losses	2a	5,738	6,803	5,738	6,803
Other income	2a	403	308	394	299
Other expenses	2b	(2,725)	(2,780)	(2,716)	(2,771)
		<b>3,416</b>	<b>4,331</b>	<b>3,416</b>	<b>4,331</b>
Interest on District and Lodge deposits		(128)	(141)	(128)	(141)
Appropriations to Member Benefit Fund Liabilities	12	(526)	(515)	(526)	(515)
		<b>2,762</b>	<b>3,676</b>	<b>2,762</b>	<b>3,676</b>
<b>Insurance Funds</b>					
Member insurance contributions	2a	1,928	2,041	1,928	2,041
Member insurance withdrawals and claims	2b	(4,593)	(4,396)	(4,593)	(4,396)
Change in life insurance contract obligations					
- Contributions		(1,928)	(2,041)	(1,928)	(2,041)
- Withdrawals		4,593	4,396	4,593	4,396
- Society management fees		224	243	224	243
- Other acquisition costs		44	44	44	44
- Transfers		26	215	26	215
- Appropriations		(2,631)	(2,650)	(2,631)	(2,650)
	14b	328	207	328	207
<b>Net surplus for the year</b>		<b>425</b>	<b>1,528</b>	<b>425</b>	<b>1,528</b>
Other comprehensive income		-	-	-	-
<b>Total comprehensive income attributable to members</b>		<b>425</b>	<b>1,528</b>	<b>425</b>	<b>1,528</b>

# Manchester Unity Friendly Society

## Statement of Financial Position

as at 31 May 2012

	Note	2012	Group 2011	2010	2012	Parent 2011	2010
		\$'000	Restated \$'000	Restated \$'000	\$'000	Restated \$'000	Restated \$'000
<b>Assets</b>							
Cash and cash equivalents	4	4,461	10,908	8,969	4,445	10,892	8,954
Other financial assets designated at fair value through profit or loss	5	51,284	45,161	42,824	51,284	45,161	42,824
Trade and other receivables	5	1,239	1,062	690	1,239	1,062	690
Other assets	6	33	147	30	46	160	43
Investment property	7	23,588	22,914	22,369	23,588	22,914	22,369
Property, plant & equipment	8	53	88	144	53	88	144
Intangible assets	9	12	21	10	12	21	10
<b>Total assets</b>		<b>80,670</b>	<b>80,302</b>	<b>75,036</b>	<b>80,667</b>	<b>80,299</b>	<b>75,034</b>
<b>Liabilities</b>							
Trade and other payables	10	290	453	385	290	453	385
Other liabilities - contributions in advance		134	147	155	134	147	155
Other financial liabilities							
-District, Lodge and other deposits	11	2,052	2,433	2,809	2,052	2,433	2,809
-Member benefit fund liabilities	12	9,654	8,816	4,563	9,654	8,816	4,563
Provisions	13	46	57	50	46	57	50
Member insurance contract obligations	14(b)	49,245	49,573	49,780	49,245	49,573	49,780
<b>Total liabilities</b>		<b>61,422</b>	<b>61,479</b>	<b>57,742</b>	<b>61,421</b>	<b>61,479</b>	<b>57,742</b>
<b>Net assets</b>		<b>19,248</b>	<b>18,823</b>	<b>17,295</b>	<b>19,246</b>	<b>18,821</b>	<b>17,293</b>
<b>Equity</b>							
Retained earnings	15	2,938	2,692	2,433	2,936	2,689	2,431
<b>Reserves</b>							
-District and lodge relief fund		968	968	968	968	968	968
-Society benevolent and emergency relief fund		669	690	713	669	690	713
<b>Restricted reserves</b>							
-Lodge reserve	24	482	384	-	482	384	-
<b>Other reserves</b>							
-Medical services reserve		2,200	2,174	1,959	2,200	2,174	1,959
-Medical services fund		750	750	750	750	750	750
-General reserve		11,242	11,166	10,472	11,242	11,166	10,472
Total Other Reserves		14,192	14,090	13,181	14,192	14,090	13,181
<b>Total reserves</b>	16	<b>16,311</b>	<b>16,132</b>	<b>14,862</b>	<b>16,311</b>	<b>16,132</b>	<b>14,862</b>
<b>Total equity</b>		<b>19,248</b>	<b>18,823</b>	<b>17,295</b>	<b>19,246</b>	<b>18,821</b>	<b>17,293</b>

The Directors of Manchester Unity Friendly Society authorised these financial statements for issue on 26 July 2012  
On behalf of the Board

John Lowe  
CHAIRMAN

Ingrid Taylor  
DIRECTOR

Signed: 26 July 2012

# Manchester Unity Friendly Society

## Statement of Changes in Equity

for the financial year ended 31 May 2012

	Note	Group		Parent	
		2012	2011	2012	2011
		\$'000	Restated \$'000	\$'000	Restated \$'000
Opening equity		18,823	26,120	18,821	26,118
Adjustment for change in accounting policy to Appendix C.		-	(8,825)	-	(8,825)
Restated opening equity	27	18,823	17,295	18,821	17,293
Net surplus for the year and total comprehensive income attributable to members	15	425	1,528	425	1,528
<b>Closing equity</b>		<b>19,248</b>	<b>18,823</b>	<b>19,246</b>	<b>18,821</b>



# Manchester Unity Friendly Society

## Cash Flow Statement

for the financial year ended 31 May 2012

	Note	Group		Parent	
		2012	2011	2012	2011
			Restated		Restated
		\$'000	\$'000	\$'000	\$'000
<b>Cash flows from operating activities</b>					
Member contributions-insurance contracts		1,918	2,041	1,918	2,041
Interest received		3,408	3,430	3,408	3,430
Dividends received		169	134	169	134
Rental received		1,623	1,621	1,623	1,621
Member benefit fund contributions		56	1,049	56	1,049
Other income		431	318	403	299
Member withdrawals-insurance contracts		(4,593)	(4,381)	(4,593)	(4,396)
Member benefit fund withdrawals		(436)	(497)	(436)	(482)
Payments to suppliers and employees		(2,745)	(3,223)	(2,717)	(3,205)
Interest paid		(128)	(141)	(128)	(141)
<b>Net cash inflow/ (outflow) from operating activities</b>	22	(297)	351	(297)	350
<b>Cash flows from investing activities</b>					
Proceeds from sale of leasehold properties		521	815	521	815
Proceeds from sale of holiday home		-	-	-	-
Proceeds from realisation of financial assets designated at fair value through profit or loss		8,075	4,032	8,075	4,032
Member IAB loan repayments		11	79	11	79
Purchase of bank term deposits		(9,400)	(200)	(9,400)	(200)
Purchase of property, plant & equipment		(17)	(17)	(17)	(17)
Purchase of intangible assets		-	(21)	-	(21)
Purchase of investment properties		(8)	(49)	(8)	(49)
Purchase of financial assets		(5,267)	(3,080)	(5,267)	(3,080)
Member IAB loan advances		(27)	(25)	(27)	(25)
Deposits received from Districts, Lodges and Credit Unions		75	473	75	473
Deposit repayments to Districts, Lodges and Credit Unions		(113)	(419)	(113)	(419)
<b>Net cash inflow/ (outflow) from investing activities</b>		(6,150)	1,588	(6,150)	1,588
Net increase/ (decrease) in cash held		(6,447)	1,939	(6,447)	1,938
Opening cash and cash equivalents		10,908	8,969	10,892	8,954
<b>Closing cash and cash equivalents</b>	4	<b>4,461</b>	<b>10,908</b>	<b>4,445</b>	<b>10,892</b>

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2012

### 1. Summary of accounting policies

#### Reporting entity

Manchester Unity Friendly Society (Manchester Unity/the Society) is a Friendly Society registered pursuant to the Friendly Societies and Credit Unions Act 1982. Its principal purpose is to provide financial products, including insurance products, affordable holiday accommodation and fraternal services for the benefit of its members. Manchester Unity is an issuer for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act. Its registered office is located at 142 Lambton Quay, Wellington, New Zealand.

Manchester Unity (the parent) and Unity Ltd comprise the Manchester Unity Friendly Society Group (the group).

The financial statements do not include the operations of Manchester Unity Friendly Society Districts, Lodges and Credit Unions, which are separately registered and accounted for.

#### Statement of compliance

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards as appropriate for profit-oriented entities. The financial statements comply with the International Financial Reporting Standards (IFRS).

#### Basis of preparation

The financial statements have been prepared on the basis of historical cost, except for investment properties and those financial instruments which are measured at fair value. Cost is based on the consideration given in exchange for assets.

The functional and reporting currency used in preparation of the financial statements is New Zealand dollars, rounded to the nearest thousand.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

As the Society did not meet the legal definition of a life insurance company as defined under the Life Insurance Act 1908 it has previously reported under NZ IFRS4 Appendix D - "Financial Reporting of Insurance Activities". On 7 March 2012 the relevant section of the Life Insurance Act 1908 that excluded Friendly Societies from the definition of a life insurance company was repealed. As a consequence of this the financial statements have been prepared in accordance with NZ IFRS4 Appendix C - "Life Insurance Entities". An explanation of how this change has affected the parent and group's Statement of Comprehensive Income and Statement of Financial Position, including comparatives, is set out in note 27.

#### Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements.

#### Principles of consolidation

The group financial statements are prepared by combining the financial statements of all the entities that comprise the group, being Manchester Unity and its subsidiary. Details of the subsidiary are in note 17.

On acquisition, the assets, and liabilities of a subsidiary are measured at their fair values. Any excess of the cost of acquisition over the fair value is recognised as goodwill. All intercompany balances and transactions are eliminated in full on consolidation.

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2012

### **Contributions revenue**

Contributions are recognised in the statement of comprehensive income from the attachment date in accordance with the pattern of incidence of risk expected over the term of the contract.

### **Contributions in advance**

Contributions in advance relates only to the medical services fund and includes the written contribution policies, gross of commission payable to intermediaries, attributable to subsequent periods. The change in the contributions in advance is taken to the statement of comprehensive income in order that revenue is recognised over the period of risk.

### **Member insurance contract obligations**

An insurance contract is defined as a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

The Society's member insurance contracts obligations are accounted for in accordance with NZ IFRS 4 - Insurance Contracts. The valuation of insurance contract obligations is calculated using the Margin on Services ("MoS") methodology in accordance with New Zealand Society of Actuaries Professional Standard 3, Determination of Life Insurance Policy Liabilities. MoS is designed to recognise profits on insurance contracts as services are provided to policyholders. Profits are deferred and amortised over the life of policies, while losses are recognised immediately as they arise.

Those products which expose the group to insurance risk are outlined in note 14(a). While some of these products include an insurance component and a deposit component, the Directors after obtaining advice from the Actuary, have determined that these components cannot be unbundled. Therefore the deposit components (contributions and withdrawals) and the insurance components (premiums and claims) are included in the statement of comprehensive income as contributions and withdrawals.

### **Interest and dividends**

For financial instruments measured at fair value, interest income is recognised on an accruals basis either daily, or on a yield to maturity basis. All other interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset. Dividend revenue is recognised when the right to receive payment has been established.

### **Rental income**

Rental income from investment properties is accounted for on a straight line basis over the term of the lease.

### **Financial assets**

Financial assets are recognised and derecognised on settlement date and are initially measured at fair value including any transaction costs.

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

The group's cash, fixed interest securities, and equity instruments are managed as one portfolio and have been determined as being held to back member insurance contract obligations and other activities and are therefore designated as 'at fair value through profit or loss'.

They are stated at fair value, with any resultant gain or loss recognised in comprehensive income, except that interest income and dividends are shown separately, and accrued interest is separated from the fair value of cash and fixed interest instruments and included in trade and other receivables. Fair value is determined in the manner described in note 23(i).

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2012

### Financial assets (cont'd)

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments.

#### Loans and receivables

Trade and other receivables, loans, mortgages and other receivables are recorded at amortised cost less impairment.

#### Investment in subsidiary

The parent financial statements recognise the investment in its subsidiary at cost less impairment.

### Inventory

Inventory is valued at the lower of cost and net realisable value. Cost is assigned on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

### Investment property

The group's investment properties have been determined as being held to back member insurance contract obligations and other activities. They are measured at fair value at the reporting date. Gains or losses arising from changes in the fair value of investment properties are included in the statement of comprehensive income in the period in which they arise.

### Unrealised gains/losses

Unrealised gains/losses on investment properties and financial assets at fair value through profit or loss are not represented by cash funds. Accordingly the Directors do not consider it appropriate to make such gains and losses available for distribution.

Gains and losses are transferred from retained earnings to the general reserve account and released to retained earnings when the asset is realised.

### Property, plant & equipment

Property, plant & equipment is stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of an item.

Depreciation is provided on items of property, plant & equipment. Depreciation is calculated on a straight line basis so as to write off the net cost over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life whichever is the shorter, using the straight line method.

The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period. The following estimated useful lives are used in the calculation of depreciation:

	Years
Plant & equipment	5
Leasehold improvements	6
Computer hardware	3
Motor vehicles	5

### Intangibles

Software is a finite life intangible and is recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over its estimated useful life of three years.

The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

### Impairment of assets

At each reporting date, the group reviews the carrying amount of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2012

### **Impairment of assets (cont'd)**

Recoverable amount is the higher of fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using an appropriate discount rate.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal is treated as a revaluation increase.

### **Financial liabilities**

#### ***Trade and other payables***

Trade and other payables are recognised when the group becomes obliged to make future payments resulting from the purchase of goods and services. Trade and other payables are recorded at amortised cost.

#### ***District, Lodge and other deposits***

The group manages deposits received from Districts, Lodges and Credit Unions, which are then invested on their behalf.

District, Lodge and Credit Union deposits are recognised as a financial liability upon receipt of the funds.

Subsequent to initial recognition, the carrying value of the deposits is measured at amortised cost. This is considered to be equivalent to fair value as the majority of deposits are held on call or on short maturity dates (less than 1 year).

#### ***Member benefit fund liabilities***

Details of the individual benefit funds held by the group for members are detailed in note 12.

Member benefit fund liabilities are recognised as a financial liability upon receipt of the funds. As Manchester Unity does not have an unconditional right to defer payment of these funds, they are recognised at their initial value plus appropriations made. This value represents the amount that may be called.

### **Leases**

#### ***Parent as lessee***

All operating lease payments, where substantially all the risks and benefits remain with the lessor, are charged as an expense on a straight line basis over the lease term, unless another systematic method of allocation is more appropriate.

#### ***Parent as lessor***

Rental income from investment properties is recognised in comprehensive income on a straight-line basis over the term of the lease.

### **Goods and services tax**

Revenues, expenses, assets and liabilities are recognised net of the amount of goods and services tax (GST), except for receivables and payables which are recognised inclusive of GST.

Cash flows are included in the cash flow statement on a net basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the Inland Revenue Department is classified as an operating cash flow.

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2012

### Provisions

Provisions are recognised when the group has a present obligation as a result of a past event, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

Provisions are recognised as the best estimate of the consideration required to settle the present obligation at balance date, taking into account the risks and uncertainties surrounding the obligation.

### Taxation

No taxation has been provided for in the parent financial statements on the basis that Manchester Unity is a Friendly Society and accordingly is exempt from income tax. Taxation relating to UNITY Ltd is accounted for as follows:

#### Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

#### Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

Deferred tax assets arising from deductible temporary differences are only recognised to the extent it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences in the foreseeable future.

### Appropriations

Manchester Unity's investment policy is for all funds to be invested in a mix of asset classes including investment properties, fixed interest securities, equities and short term cash deposits. The investment income, excluding any unrealised gains or losses, and other income (after deduction of management, administrative, fraternal, property, interest and other expenses) is available for appropriation to member insurance contract obligations, member share funds, other member benefit funds and reserves. In accordance with the Board Charter the Directors will determine the appropriations to these funds and the transfers to reserves on an annual basis.

### Reserves

Certain monies are held aside in reserves, as disclosed in note 16. Movements in these reserves are recognised as transfers to and from retained earnings.

### Cash flow statement

For the purpose of the cash flow statement, cash and cash equivalents include cash on hand and in banks and term deposit investments with less than 90 days to maturity, net of outstanding bank overdrafts. The following terms are used in the cash flow statement:

Operating activities: are the principal revenue producing activities of the Society and other activities that are not investing or financing activities.

Investing activities: are the acquisition and disposal of long term assets, deposits received from and repaid to Districts and Lodges and other investments not included in cash equivalents.

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2012

### Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 7 - valuation of investment properties (estimation)
- Note 14 - unbundling of premiums and claims (judgement)

### Standards or interpretations not yet effective

Various standards, amendments and interpretations have been issued by the External Reporting Board but have not been adopted by the group as they are not yet effective. The table below sets out the standards, amendments and interpretations which are considered to be relevant to the Society and Group but are not expected to have a material impact on the Society or Group's financial position and results in the period of initial application.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
NZ IFRS 9 'Financial Instruments'	1 January 2015	31 May 2016
*Revised NZ IFRS 9 'Financial Instruments'	1 January 2015	31 May 2016
Amendments to NZ IFRS 7 'Financial Instruments: Disclosures'	1 July 2011	31 May 2013
NZ IFRS 13 Fair Value Measurements	1 January 2013	31 May 2014

### Comparative amounts

The presentation and classification of items in the financial statements is consistent in the current period with the prior year.

### Adoption of new or revised accounting standards

The only revised accounting standard applicable to the group in the current year was Amendments to NZIAS 24 'Related Party Disclosures'. There was no material impact from the adoption of this standard.

### Change in accounting policies

Until 7 March 2012 the Life Insurance Act 1908 excluded Friendly Societies from the definition of a life insurance company. As a consequence of this the Society has previously reported under NZ IFRS 4 Appendix D - *Financial Reporting of Insurance Activities*. On 7 March 2012 the relevant section of the Life Insurance Act 1908 was repealed by the Insurance (Prudential Supervision) Act 2010. Consequently the Society is no longer excluded from the definition of a life insurance company under NZ IFRS 4. These financial statements have been prepared in accordance with NZ IFRS 4 Appendix C - *Life Insurance Entities*. Details of the effect of this change in accounting policy are set out in Note 27. The comparative figures for the 2011 year have been adjusted accordingly. The impact of this change in accounting policy has been shown as a restatement of the opening equity through the Statement of Changes in Equity - see page 5.

There have been no other changes in accounting policies during the year.

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2012

### 2. Comprehensive income attributable to members

#### (a) Revenue

	Group		Parent	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
<b>Revenue from continuing operations consisted of the following items:</b>				
<b>Member insurance contributions:</b>				
Increasing Assurance Benefit	353	380	353	380
Funeral Fund	426	416	426	416
Medical Services Fund	1,081	1,184	1,081	1,184
Society Sickness Benefit	1	-	1	-
Education Support Plan	67	61	67	61
<b>Total member insurance contributions</b>	<b>1,928</b>	<b>2,041</b>	<b>1,928</b>	<b>2,041</b>
<b>Investment and other income</b>				
<b>Investment properties - rental income:</b>				
Commercial properties rental income	1,109	1,074	1,109	1,074
Leasehold properties rental income	298	337	298	337
Holiday accommodation rental income	216	217	216	217
<b>Total rental income</b>	<b>1,623</b>	<b>1,628</b>	<b>1,623</b>	<b>1,628</b>
<b>Interest income:</b>				
Bank deposits	536	391	536	391
Income from loans and receivables	39	34	39	34
Fixed interest securities	2,827	3,036	2,827	3,036
<b>Total interest income</b>	<b>3,402</b>	<b>3,461</b>	<b>3,402</b>	<b>3,461</b>
<b>Dividend income</b>	<b>169</b>	<b>134</b>	<b>169</b>	<b>134</b>
<b>Investment gains and losses</b>				
Revaluation of investment property	561	259	561	259
Realised gain on disposal of investment property	281	413	281	413
Realised gain/(loss) on sale of financial assets designated at fair value through profit or loss	(37)	91	(37)	91
Change in fair value of financial assets designated at fair value through profit or loss	(261)	816	(261)	816
<b>Total investment gains and losses</b>	<b>544</b>	<b>1,580</b>	<b>544</b>	<b>1,580</b>
<b>Total investment income including gains and losses</b>	<b>5,738</b>	<b>6,803</b>	<b>5,738</b>	<b>6,803</b>
<b>Other income:</b>				
Unity Ltd revenue from web hosting	26	19	-	-
Management fee Unity Ltd	-	-	17	10
Member management fees	143	108	143	108
Other income	234	180	234	180
<b>Total other income</b>	<b>403</b>	<b>308</b>	<b>394</b>	<b>299</b>



# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2012

### 2. Comprehensive income attributable to members (cont'd)

#### (b) Comprehensive income before tax

	Group		Parent	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000

**Comprehensive income for the period has been arrived at after charging the following expenses from continuing operations:**

#### Member insurance withdrawals and claims:

Increasing Assurance Benefit	2,682	2,595	2,682	2,595
Funeral Fund	1,040	1,038	1,040	1,038
Medical Services Fund	840	735	840	735
Society Sickness Benefit	14	15	14	15
Education Support Plan	17	13	17	13
<b>Total insurance withdrawals and claims</b>	<b>4,593</b>	<b>4,396</b>	<b>4,593</b>	<b>4,396</b>

#### Other expenses

Directors' fees and expenses	195	199	195	199
Operational plan for the future	9	54	9	54
Employee expenses	1,155	1,198	1,155	1,198
Auditors remuneration - audit fees*	75	54	75	54
Other professional fees	201	125	201	125
Fraternal Council	133	68	133	68
Rent and other occupancy expenses	219	208	219	208
Travel expenses	31	38	31	38
Office administration	117	107	117	107
Insurance	85	80	85	80
Communications	48	51	48	51
Marketing expenses	6	25	6	25
Computer expenses	49	55	40	46
Other expenses	98	129	98	129
Direct property expenses of investment properties:				
- Commercial properties	28	18	28	18
- Leasehold properties	3	5	3	5
- Holiday accommodation properties	149	217	149	217
Depreciation (note 8)	52	73	52	73
Amortisation of software (note 9)	9	10	9	10
Society Benevolent Fund grants	21	23	21	23
Commissions expense	44	44	44	44
<b>Total other expenses</b>	<b>2,725</b>	<b>2,780</b>	<b>2,716</b>	<b>2,771</b>

\*The auditor of Manchester Unity is Deloitte.

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2012

### 3. Taxation

#### Current tax

As it has tax losses available to offset taxable income Unity Ltd has no current tax.

#### Deferred Tax

Unity Ltd has an unrecognised deferred tax asset of \$445,000 (2011; \$445,000). No transfer has been made to the statement of comprehensive income of Manchester Unity. As stated in the policy on taxation, a debit balance in the deferred tax account arising from tax differences or income tax losses is only recognised if their realisation is probable.

### 4. Cash and cash equivalents

	Group		Parent	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Cash on hand	29	13	13	(3)
Short term bank deposits	4,432	10,896	4,432	10,896
<b>Total cash and cash equivalents</b>	<b>4,461</b>	<b>10,908</b>	<b>4,445</b>	<b>10,892</b>

The maturity profile of these assets is shown in note 23(d).

### 5. Other financial assets

#### Trade and other receivables:

Member contributions in arrears	14	17	14	17
Trade and other sundry receivables	172	3	172	3
Interest receivable	530	536	530	536
First mortgage securities	400	400	400	400
IAB loans and advances	122	106	122	106
<b>Total trade and other receivables</b>	<b>1,239</b>	<b>1,062</b>	<b>1,239</b>	<b>1,062</b>

#### Other financial assets designated at fair value through profit or loss:

Government stock	4,830	4,754	4,830	4,754
Local authority stock	3,798	5,258	3,798	5,258
Corporate stock	30,067	31,279	30,067	31,279
<b>Total NZ fixed interest securities</b>	<b>38,694</b>	<b>41,291</b>	<b>38,694</b>	<b>41,291</b>
Bank term deposits	9,600	200	9,600	200
NZ equities	1,530	1,933	1,530	1,933
Australian equities	1,460	1,694	1,460	1,694
International equities	-	43	-	43
<b>Total financial assets designated at fair value through profit or loss</b>	<b>51,284</b>	<b>45,161</b>	<b>51,284</b>	<b>45,161</b>

In 2011 equities with a book value of \$478,000 were being held on behalf of the members of Nelson Lodge. This year no equities are held on behalf of any other party - see note 24.

The maturity of these assets is shown in note 23(d).

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2012

### 6. Other assets

	Note	Group		Parent	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Current:					
Inventory		23	23	23	23
Prepayments		10	124	10	124
Investment in subsidiary	17	-	-	13	13
<b>Total other assets</b>		<b>33</b>	<b>147</b>	<b>46</b>	<b>160</b>

### 7. Investment property

#### Commercial properties:

Balance at beginning of financial year	13,368	12,300	13,368	12,300
Other acquisitions and disposals	345	639	345	639
Net gain/(loss) from fair value adjustments	135	429	135	429
Balance at end of financial year	<b>13,848</b>	<b>13,368</b>	<b>13,848</b>	<b>13,368</b>

#### Leasehold properties:

Balance at beginning of financial year	4,274	4,615	4,274	4,615
Other acquisitions and disposals	(240)	(402)	(240)	(402)
Net gain/(loss) from fair value adjustments	412	61	412	61
Balance at end of financial year	<b>4,446</b>	<b>4,274</b>	<b>4,446</b>	<b>4,274</b>

#### Holiday accommodation properties:

Balance at beginning of financial year	5,272	5,454	5,272	5,454
Additions from subsequent expenditure	9	48	9	48
Other acquisitions and disposals	-	-	-	-
Net gain/(loss) from fair value adjustments	13	(230)	13	(230)
Balance at end of financial year	<b>5,294</b>	<b>5,272</b>	<b>5,294</b>	<b>5,272</b>

#### Total investment property

<b>23,588</b>	<b>22,914</b>	<b>23,588</b>	<b>22,914</b>
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The fair value of the group's investment property is determined at 31 May each year by the Directors on the basis of a valuation carried out at that date by Jon Parker, (ANZIV) of Darroch Ltd, independent registered valuers experienced in the New Zealand property market.

The independent valuation, which conforms to The Property Institute of New Zealand, New Zealand Valuation Guidance Note 1 - Valuations for use in New Zealand Financial Reports and IVS3: Valuation Reporting, was arrived at by reference to market evidence of transaction prices for similar properties.

There are two commercial properties with a total fair value of \$1,380,000 (2011: \$850,000) that are held for the benefit of members of Loyal Nelson Lodge and Loyal Manawatu Lodge - refer note 24.

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2012

### 8. Property, plant & equipment

	Plant & equipment	Leasehold improvements	Group Computer hardware	Motor vehicles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Cost:</b>					
Balance at 1 June 2010	99	396	507	35	1,037
Additions	-	-	17	-	17
Disposals	(1)	-	-	-	(1)
Balance at 31 May 2011	98	396	524	35	1,053
Additions	4	-	13	-	17
Disposals	-	-	(163)	-	(163)
Balance at 31 May 2012	102	396	374	35	907
<b>Accumulated depreciation and impairment:</b>					
Balance at 1 June 2010	(88)	(304)	(466)	(35)	(893)
Depreciation expense	(4)	(36)	(33)	-	(73)
Disposals	1	-	-	-	-
Balance at 31 May 2011	(91)	(340)	(499)	(35)	(965)
Depreciation expense	(4)	(30)	(18)	-	(52)
Disposals	-	-	163	-	163
Balance at 31 May 2012	(95)	(370)	(354)	(35)	(854)
<b>Net book value:</b>					
<b>At 31 May 2011</b>	<b>7</b>	<b>56</b>	<b>25</b>	<b>-</b>	<b>88</b>
<b>At 31 May 2012</b>	<b>7</b>	<b>26</b>	<b>20</b>	<b>-</b>	<b>53</b>

	Plant & equipment	Leasehold improvements	Parent Computer hardware	Motor vehicles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Cost:</b>					
Balance at 1 June 2010	98	396	490	35	1,019
Additions	-	-	17	-	17
Disposals	(1)	-	-	-	(1)
Balance at 31 May 2011	97	396	507	35	1,035
Additions	4	-	13	-	17
Disposals	-	-	(163)	-	(163)
Balance at 31 May 2012	101	396	357	35	889
<b>Accumulated depreciation and impairment:</b>					
Balance at 1 June 2010	(87)	(304)	(449)	(35)	(875)
Depreciation expense	(4)	(36)	(33)	-	(73)
Disposals	1	-	-	-	-
Balance at 31 May 2011	(90)	(340)	(482)	(35)	(947)
Depreciation expense	(4)	(30)	(18)	-	(52)
Disposals	-	-	163	-	163
Balance at 31 May 2012	(94)	(370)	(337)	(35)	(836)
<b>Net book value:</b>					
<b>At 31 May 2011</b>	<b>7</b>	<b>56</b>	<b>25</b>	<b>-</b>	<b>88</b>
<b>At 31 May 2012</b>	<b>7</b>	<b>26</b>	<b>20</b>	<b>-</b>	<b>53</b>

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2012

### 9. Intangible assets

	Group		Parent	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
<b>Software</b>				
<b>Cost:</b>				
Opening balance	500	479	500	479
Additions	-	21	-	21
Disposals	(232)	-	(232)	-
Closing balance	268	500	268	500
<b>Accumulated amortisation and impairment:</b>				
Opening balance	(479)	(469)	(479)	(469)
Amortisation expense	(9)	(10)	(9)	(10)
Disposals	232	-	232	-
Closing balance	(256)	(479)	(256)	(479)
<b>Net book value</b>	<b>12</b>	<b>21</b>	<b>12</b>	<b>21</b>

### 10. Trade and other payables

Trade creditors and accruals	290	453	290	453
<b>Total trade and other payables - current</b>	<b>290</b>	<b>453</b>	<b>290</b>	<b>453</b>

Payables are paid within the credit timeframe.

### 11. District, Lodge and other deposits

<b>Unsecured:</b>				
Deposits - District and Lodges	2,040	2,421	2,040	2,421
Deposits - other	12	12	12	12
<b>Total - District, Lodge and other deposits - current</b>	<b>2,052</b>	<b>2,433</b>	<b>2,052</b>	<b>2,433</b>

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2012

### 12. Member benefit fund liabilities

	Member share funds	Group and Parent Educational benefit fund	Hawke's Bay endowment fund	Total
	\$'000	\$'000	\$'000	\$'000
<b>2012</b>				
Opening balance	8,758	39	19	<b>8,816</b>
Contributions	747	1	-	<b>748</b>
Withdrawals	(430)	(6)	-	<b>(436)</b>
Appropriations	524	1	1	<b>526</b>
Closing balance - current	<b>9,599</b>	<b>35</b>	<b>20</b>	<b>9,654</b>
<b>2011</b>				
Opening balance	4,509	36	18	<b>4,563</b>
Contributions	4,219	1	-	<b>4,220</b>
Withdrawals	(482)	-	-	<b>(482)</b>
Appropriations	512	2	1	<b>515</b>
Closing balance - current	<b>8,758</b>	<b>39</b>	<b>19</b>	<b>8,816</b>

At 31 May 2012 the Directors declared an appropriation of 5.50% (2011; 7.50%) of balances held. Lodges that have consolidated with "ring-fenced" assets have the appropriation to their share fund adjusted to take account of the earnings of those "ring-fenced" assets - refer note 24.

#### (a) Member share funds

A member share fund is created when a District or Lodge votes to consolidate their surplus funds pursuant to Rule 38 and place them under the administration of Manchester Unity.

	2012	2011
	\$'000	\$'000
<b>Current:</b>		
Auckland District	314	308
Banks Peninsula Branch	748	764
Egmont Lodge	1,613	1,569
Hastings Lodge	344	361
Manawatu Lodge	667	-
Manchester Lodge	55	-
Masterton Lodge	713	704
Napier Lodge	1,898	1,868
Nelson Lodge	2,973	2,926
Rose of Sharon Lodge	145	150
United Westland Lodge	96	94
Woodville Lodge	33	14
<b>Total Member share funds</b>	<b>9,599</b>	<b>8,758</b>

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2012

### 12. Member benefit fund liabilities (cont'd)

#### (b) Educational benefit fund

This fund was established for members who wished to put aside money for their children's education. The fund is administered by the Board of Directors under Rule 61 of the General Rules.

Interest is credited to the fund annually in the form of an appropriation.

The funds become available to the beneficiary on attainment of their 20th birthday.

#### (c) Hawke's Bay endowment fund

An endowment fund held by Society on behalf of the Hawkes Bay Lodges.

### 13. Provisions

	Group		Parent	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Provision for employee entitlements	46	57	46	57
<b>Total provisions</b>	<b>46</b>	<b>57</b>	<b>46</b>	<b>57</b>

Employee entitlements includes holiday pay and is expected to be settled within the next financial year.

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2012

### 14. Member insurance contract obligations

#### (a) Details of member insurance contract products

Manchester Unity Friendly Society is a licenced insurer under the Insurance (Prudential Supervision) Act 2010.

Manchester Unity Friendly Society has a BB-, outlook stable, credit rating issued by Standard and Poors on 29 April 2012.

Manchester Unity provides a variety of discretionary and non-discretionary investment and insurance products and services to its members. Discretionary funds are policies where at managements discretion, member insurance benefits or original cover can be increased through the addition of bonuses.

Name of product	Description
Medical Services Fund (MSF)	Provides three tiers of health care insurance to members, primary, comprehensive, and surgical only.  Administered by the Board of Directors under General Rule 34.
Funeral Fund and Increased Funeral Fund (FAB, IFAB)	Provides funeral cover up to a maximum of \$10,000. Members may join this plan up until the age of 65 years. Benefits include funeral cover taken plus bonuses. Members over 65 who wish to purchase a funeral benefit may take out a single contribution policy (prepaid benefit, no bonuses). IFAB represents the bonuses accruing to the members on their FAB.  Administered by the Board of Directors under General Rules 27, 28, 29 and 30.
Increasing Assurance Benefit (IAB)	Provides short-term or long-term investment, financial protection and death cover,  There is a choice of plans: Endowment - benefits paid after the attainment of a specified age (benefits include original cover taken plus bonuses). Whole of life - benefits paid on death but partial withdrawal of bonuses is available after age 65. Term life - benefits are paid on death, no bonuses accrue.  Administered by the Board of Directors under General Rule 32.
Education Support Plan (save2learn)	The Education Support plan has been in operation since 2005. It is a pooled investment fund that permits subscribers to make provision for their children or grandchildren's education costs at secondary or tertiary level. The plan includes provision for payment of contributions in the event of death or temporary disablement of the principal contributor. Tertiary means university, college education polytechnic providers or other tertiary course approved by the New Zealand Ministry of Education.  Secondary - this policy pays out when your child enters year nine of schooling or their 13th birthday whichever is later. It is designed to help cover the cost of uniforms and extra curricular activities such as music or sports trips and equipment. Tertiary - this policy pays out at the beginning of tertiary study or your child's 18th birthday whichever is the later. It is designed to help cover the cost of fees, text books and some living expenses that are involved when studying at this level.  Both types of policy are eligible for bonuses the level of which will depend on the returns allocated to the fund by Manchester Unity and are not guaranteed.  Administered by the Board of Directors under General Rule 62.



# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2012

### 14. Member insurance contract obligations (cont'd)

#### (a) Details of member insurance contract products

Name of product	Description
Society Sickness Benefit Fund	This fund was previously the Hawkes Bay Sickness fund. It is closed to new members and is now administered by Manchester Unity Friendly Society. It provides sickness and annuity benefits to the level of funds previously contributed plus interest.
	Administered by the Board of Directors under General Rule 37.

#### (b) Fund transactions

The Society is exempt from the Insurance (Prudential Supervision) Act 2010 requirement to hold assets backing the member insurance contract obligations in a separate statutory fund. The assets supporting the member insurance contract obligations are comingled with the Society's other assets and managed as a single investment portfolio.

The following table outlines the transactions that flow through the funds as taken into consideration by the actuary in determining the member insurance contract obligation for each product at 31 May 2012.

		Medical Services Fund *	Funeral Fund	Parent and Group Increased Funeral Fund	Increasing Assurance Benefit	Society Sickness Benefit	Education Support Plan *	Total
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2012</b>	Note							
Members funds at 31 May 2011		250	7,374	15,501	25,926	269	253	49,573
Contributions		1,081	426	-	353	1	67	1,928
Withdrawals		(840)	(384)	(656)	(2,682)	(14)	(17)	(4,593)
Society management fees		(193)	-	-	(31)	-	-	(224)
Other acquisition costs		(22)	(1)	-	(21)	-	-	(44)
Transfers		(26)	(250)	250	-	-	-	(26)
Appropriations	15	-	400	841	1,360	15	15	2,631
Change in life insurance contract obligations		-	191	435	(1,021)	2	65	(328)
Members funds at 31 May 2012		250	7,565	15,936	24,905	271	318	49,245

		Medical Services Fund *	Funeral Fund	Parent and Group Increased Funeral Fund	Increasing Assurance Benefit	Society Sickness Benefit	Education Support Plan *	Total
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2011</b>	Note							
Members funds at 31 May 2010		250	7,542	14,748	26,782	265	193	49,780
Contributions		1,184	416	-	380	-	61	2,041
Withdrawals		(735)	(382)	(656)	(2,595)	(15)	(13)	(4,396)
Society management fees		(210)	-	-	(33)	-	-	(243)
Other acquisition costs		(24)	(1)	-	(19)	-	-	(44)
Transfers		(215)	(600)	600	-	-	-	(215)
Appropriation	15	-	399	809	1,411	19	12	2,650
Change in life insurance contract obligations		-	(168)	753	(856)	4	60	(207)
Members funds at 31 May 2011		250	7,374	15,501	25,926	269	253	49,573

\* These funds are not actuarially valued

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2012

### 14. Member insurance contract obligations (cont'd)

#### (c) Objectives for managing insurance risk

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if, an insured event could cause an insurer to pay significant benefits to a wide range of scenarios, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness. The insured benefit is either not linked or only partly linked to the market value of the investment held by Society, and the financial risks are substantially borne by the Society.

#### Discretionary business

Insurance risk is managed and mitigated by the following:

- The Society can adjust bonus rates and other additions to member insurance contracts, appropriation rates to member funds and surrender values where payable.
- The broad geographical spread of members means there is no concentration of insurance risk.
- For life insurance the amount of sum insured that can be issued under any policy is limited.

Having reviewed the above the Board has agreed that reinsurance is not required for the insurance portfolio.

#### Medical Services Fund

For medical products insurance risk is managed by ensuring underwriting procedures adequately identify potential risk, that claims management practices are well controlled and by limiting each policy term to one year

The Society has a Medical Services Reserve which is held for financial soundness in mitigating the Society's insurance risk with regards these obligations. Refer to note 16.

#### (d) Actuarial valuation of member insurance contract obligations

The valuation of member insurance contract obligations was carried out as at 31 May 2012 by independent actuary Charles Cahn BSc. FIAA. FNZSA. The actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine the insurance contract obligations.

#### Method of Valuation and Profit Carrier

For products valued by the projection method, the member insurance contract obligations were determined by deducting the present value of future contributions less expenses from the present value of the sums assured and supportable additions. For discretionary products, the member insurance contract obligations also includes the members' unvested benefit liability.

For products valued by the accumulation method, the member insurance contract obligations are either the fund value (discretionary products) or the value of outstanding claims (non discretionary products).

As there are no transfers of profits to retained earnings, from discretionary funds, profit carriers are not needed.

The valuation methods for the various related product groups are given below:

Related Product Group	Valuation Method
Increasing Assurance Benefit Fund (Discretionary)	Projection
Funeral Fund and the Increased Funeral Benefit Fund (Discretionary)	Projection
Sick Fund (Discretionary)	Accumulation
Education Support Plan (Discretionary)	Accumulation
Medical Services Fund (Non Discretionary)	Accumulation

#### Disclosure of Assumptions

The key assumptions used in the calculation of the member insurance contract obligations, with changes from last year noted, are summarised as follows:

##### (i) Discount Rate

The discount rate representing the assumed long term rate of appropriation to the funds was 4.0% per annum (2011; 4.50%).

##### (ii) Expenses

Expenses were assumed at rates consistent with the rules for management transfers from the funds.

##### (iii) Taxation

The Society pays no tax therefore no allowance for taxation has been made.

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2012

### 14. Member insurance contract obligations (cont'd)

#### (d) Actuarial valuation of member insurance contract obligations (cont'd)

##### (iv) Mortality

- For the Increasing Assurance Benefit Fund the mortality tables used were based on the New Zealand Insured Lives table 2005 – 2007 for males and females. This allows for the mortality to be in line with market experience.
- For the Funeral Fund and the Increased Funeral Benefit Fund, the mortality tables used were based on the New Zealand Life tables 2005 – 2007 total population tables for males and females, adjusted for the actual experience of the Funds. In 2012 90% of this table was adopted (2011; 95%).

##### (v) Discontinuance

Rates of discontinuance and lapse assumed were based on the actual experience.

##### (vi) Surrender Values

Surrender values were assumed in accordance with the current actual surrender basis.

##### (vii) Rates of future supportable additions

- For the Increasing Assurance Benefit Fund the assumed rates of supportable bonus were 1.59% of sum assured and 3.17% of existing bonus (2011; 1.75% and 3.50%).
- For the Funeral Fund and the Increased Funeral Benefit Fund, the assumed rates of supportable additions were 0.52% of the Funeral Benefit and 1.04% of the Increased Funeral Benefit (2011; 0.66% and 1.33%).

##### (viii) Crediting policy

It has been assumed that the existing approach to appropriations which is based on the average balance of the funds held over the financial year will continue.

##### Sensitivity to Changes in Assumptions

Assumption changes have no impact on the member insurance contract obligations as the member insurance contract obligations are the total values of the insurance funds.

#### Components of member insurance contract obligations

	IAB	Funeral Funds	Other Funds	Total
2012 Value of	\$'000	\$'000	\$'000	\$'000
Future policy benefits	19,275	22,508	-	41,783
Future additions	6,195	2,602	-	8,797
Future expense transfers	276	824	-	1,100
Future profit margins	-	-	-	-
Future contributions	(2,476)	(3,755)	-	(6,231)
Accumulation method	-	-	839	839
Members' unvested benefit liability	1,635	1,322	-	2,957
<b>Total</b>	<b>24,905</b>	<b>23,501</b>	<b>839</b>	<b>49,245</b>

2011 Value of				
Future policy benefits	19,849	21,097	-	40,946
Future additions	6,768	3,090	-	9,858
Future expense transfers	289	790	-	1,079
Future profit margins	-	-	-	-
Future contributions	(2,615)	(3,703)	-	(6,318)
Accumulation method	-	-	772	772
Members' unvested benefit liability	1,635	1,601	-	3,236
<b>Total</b>	<b>25,926</b>	<b>22,875</b>	<b>772</b>	<b>49,573</b>

2010 Value of				
Future policy benefits	20,994	21,001	-	41,995
Future additions	6,812	1,785	-	8,597
Future expense transfers	317	792	-	1,109
Future profit margins	-	-	-	-
Future contributions	(2,891)	(3,742)	-	(6,633)
Accumulation method	-	-	708	708
Members' unvested benefit liability	1,550	2,454	-	4,004
<b>Total</b>	<b>26,782</b>	<b>22,290</b>	<b>708</b>	<b>49,780</b>

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2012

### 14. Member insurance contract obligations (cont'd)

#### (d) Actuarial valuation of member insurance contract obligations (cont'd)

##### Maturity profile member insurance contract obligations

The following table details the estimated timing of the undiscounted net cash outflows in relation to the member insurance contract obligations.

	2012 \$'000	2011 \$'000
Current	3,115	3,734
1-5 years	10,313	11,208
More than 5 years	48,493	52,523
	<u>61,921</u>	<u>67,465</u>

##### Solvency

Solvency has been calculated in accordance with the Solvency Standard for Life Insurers issued in August 2011 by the Reserve Bank of New Zealand under the Insurance (Prudential Supervision) Act 2010. At 31 May 2012, the Actual Solvency Capital, assuming all reserves except the Lodge Reserve are available, capital was \$18,643,000 and the Minimum Solvency Capital was \$15,546,000 resulting in a Solvency Margin of \$3,097,000 and a Current Solvency Ratio of 1.20.

### 15. Retained earnings

		Group		Parent	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Balance at beginning of financial year	Note	2,692	2,433	2,689	2,431
Total comprehensive income/(loss) attributable to members		425	1,528	425	1,528
Transfer from Society Benevolent Fund	16(b)	21	23	21	23
Transfers from/(to) Medical Services Reserve	16(c)	(26)	(215)	(26)	(215)
Transfer from/(to) Lodge Reserve	16(e)	(204)	(416)	(204)	(416)
Share Fund Appropriation from Lodge Reserve	24	106	32	106	32
Transfers from/(to) the General Reserve					
- Release of realised gain on disposal of leasehold property	16(f)	224	382	224	382
- Revaluation of investment properties		(561)	(259)	(561)	(259)
- Unrealised profit/(loss) on change in fair value of financial assets		261	(816)	261	(816)
	16(f)	<u>(76)</u>	<u>(693)</u>	<u>(76)</u>	<u>(693)</u>
Balance at the end of financial year		<u>2,938</u>	<u>2,692</u>	<u>2,936</u>	<u>2,689</u>

##### Voting rights

Voting rights are allocated to Districts and Lodges on a pro-rata basis, based on membership, in accordance with the General Rules.

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2012

### 16. Reserves

		Group		Parent	
		2012	2011	2012	2011
		\$'000	\$'000	\$'000	\$'000
	Note				
District and Lodge Relief Fund	16(a)	968	968	968	968
Society Benevolent and Emergency Relief Fund	16(b)	669	690	669	690
Medical Services Reserve	16(c)	2,200	2,174	2,200	2,174
Medical Services Fund	16(d)	750	750	750	750
Lodge Reserve	16(e)	482	384	482	384
General Reserve	16(f)	11,242	11,166	11,242	11,166
<b>Total reserves</b>		<b>16,311</b>	<b>16,132</b>	<b>16,311</b>	<b>16,132</b>

#### (a) District and Lodge Relief Fund

Balance at the beginning of financial year		968	968	968	968
Distributions to members		-	-	-	-
Transfer to retained earnings	15	-	-	-	-
Balance at the end of financial year		<b>968</b>	<b>968</b>	<b>968</b>	<b>968</b>

The District and Lodge Relief Fund is administered by the Board of Directors under General Rule 39.  
The fund exists for the purpose of assisting the Districts and Lodges.

#### (b) Society Benevolent and Emergency Relief Fund

Balance at the beginning of financial year		690	713	690	713
Net payments to members		(21)	(23)	(21)	(23)
Allocation of surplus		-	-	-	-
Transfer from/(to) retained earnings	15	(21)	(23)	(21)	(23)
Balance at the end of financial year		<b>669</b>	<b>690</b>	<b>669</b>	<b>690</b>

The Society Benevolent Fund is administered by the Board of Directors under General Rule 35.  
The fund is held for the purpose of making grants to members of the Society and their families for such benevolent charitable, educational, philanthropic or cultural purposes as the Directors see appropriate.

#### (c) Medical Services Reserve

Balance at the beginning of financial year		2,174	1,959	2,174	1,959
Transfers from/(to) retained earnings	15	26	215	26	215
Balance at the end of financial year		<b>2,200</b>	<b>2,174</b>	<b>2,200</b>	<b>2,174</b>

The medical services reserve was established from prior year unallocated profits.  
Amounts are transferred from the reserve to retained earnings to offset liabilities incurred as and when required.

#### (d) Medical Services Fund

Balance at the beginning of financial year		750	750	750	750
Transfers from/(to) retained earnings	15	-	-	-	-
Balance at the end of financial year		<b>750</b>	<b>750</b>	<b>750</b>	<b>750</b>

The Medical services fund was set up under Rule 34 to provide three tiers of health care insurance to contributing members being primary, comprehensive, and surgical only.

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2012

### 16. Reserves (cont'd)

	Note	Group		Parent	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>(e) Lodge Reserves</b>					
Balance at the beginning of financial year		384	-	384	-
Transfer from/(to) retained earnings	15	204	416	204	416
Appropriation to share funds	24	(106)	(32)	(106)	(32)
Balance at the end of financial year	24	<b>482</b>	<b>384</b>	<b>482</b>	<b>384</b>

For details of this reserve refer to Note 24.

### (f) General reserve

Balance at the beginning of financial year		11,166	10,472	11,166	10,472
Release of realised gain on disposal of leasehold property	15	(224)	(382)	(224)	(382)
Revaluation of investment properties		561	259	561	259
Unrealised profit/(loss) on change in fair value of financial assets		(261)	816	(261)	816
Transfer from/(to) retained earnings	15	76	694	76	694
Balance at the end of financial year		<b>11,242</b>	<b>11,166</b>	<b>11,242</b>	<b>11,166</b>

The general reserve represents unrealised gains/losses made on Manchester Unity's investment properties, equities and fixed interest securities since acquisition of the assets. The unrealised gains/losses are not represented by cash funds. Accordingly the Directors do not consider it appropriate to make the reserve available for distribution to members' funds. When the assets are realised, gains/losses made since acquisition date are transferred from the general reserve to retained earnings.

### 17. Investment in subsidiary

UNITY Limited commenced trading on 1 June 2000 and is a 100% owned subsidiary of Manchester Unity. Manchester Unity wrote down it's investment in UNITY Limited at 31 May 2002 and 31 May 2003. Apart from website development and hosting UNITY Limited ceased trading at 30 November 2002.

#### Subsidiary owned at 31 May 2012

	Interest held	
	2012	2011
UNITY Limited	100%	100% Website development and hosting provider.
UNITY Limited is a New Zealand incorporated company.		

	2012 \$'000	2011 \$'000
<b>UNITY Limited:</b>		
Investment in UNITY Limited	500	500
Convertible notes issued 2002	1,127	1,127
Convertible notes issued 2003	296	296
Adjustment to carrying value 2002	(1,566)	(1,566)
Adjustment to carrying value 2003	(344)	(344)
	<b>13</b>	<b>13</b>

UNITY Limited convertible notes were issued on the following terms:

15% interest rate payable annually at the discretion of Manchester Unity, and is convertible into share capital at the option of Manchester Unity. The convertible notes do not confer on the holders any right to vote at any meeting of the company.

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2012

### 18. Related parties

#### Related Party Disclosures

The Directors of Manchester Unity during the financial year were:

- P J Courtney (Retired 27 October 2011)
- G J Allanson
- M G Ambrose (Appointed 27 October 2011)
- P L Haglund
- J H Lowe
- I R Taylor
- P W Schumacher

Manchester Unity Credit Union and the Wellington District Manchester Unity Credit Union are separate organisations from Manchester Unity Friendly Society.

Manchester Unity Friendly Society has no financial obligations with these credit unions other than funds held on deposit from time to time and interest paid on these funds during the year.

Manchester Unity does not guarantee the credit union member deposits.

Messrs Haglund and Lowe are on the Committee of Management of the Manchester Unity Credit Union.

#### Transactions with Directors and Director Related Entities

Since the end of the previous financial year no Director has received any benefit (other than set out below) by reason of a contract made by Manchester Unity or its subsidiary with a Director, or a firm of which the Director is a member, or with a company in which the Director has a substantial interest.

#### Other Transactions

During the financial year Manchester Unity provided accounting and administration services to the Manchester Unity Districts, Lodges and Credit Unions for no consideration.

During the financial year interest on deposits held was paid to Manchester Unity Districts and, Lodges totalling \$128,000 (2011; \$141,000). The term of investments ranged from call to 7 years. Interest rates are reviewed in line with the deposit rates received by Manchester Unity from financial institutions. At balance date the weighted average of interest being paid was 6.04 % (2011; 5.61%).

During the financial year management fees of \$17,000 were charged to subsidiary UNITY Limited (2011; \$10,000).

Outstanding balances with related parties are disclosed in notes 11 and 12.

No amounts were provided for doubtful debts relating to debts due from related parties at reporting date (2011:Nil)

#### Key Management Personnel Compensation

The compensation of the Directors and executives, being the key management personnel of Manchester Unity, is set out below:

	Group		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Short-term employee benefits	403	385	403	385
<b>Total</b>	<b>403</b>	<b>385</b>	<b>403</b>	<b>385</b>

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2012

### 19. Leases

	Group		Parent	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
<b>Leases as lessee</b>				
<b>Non-cancellable operating lease payments</b>				
No longer than one year	200	187	200	187
Longer than one year and less than five years	51	229	51	229
Longer than five years	-	-	-	-
	<b>251</b>	<b>416</b>	<b>251</b>	<b>416</b>

Operating leases disclosed relate to the lease of the group's Lambton Quay Offices and the Christchurch agency office. The Lambton Quay offices were leased in June 2004 for an initial term of 6 years, with the option to extend for two further terms of 3 years each. The lease agreement contains a clause that market rent reviews are to be carried out every 3 years. The group does not have the option to purchase the space at the expiry of the lease period.

The Christchurch agency premises were leased in February 2008 for an initial term of 3 years with two further terms of 3 years. The lease agreement contains a clause that market rent reviews are to be carried out every 2 years. The group has no right to purchase the space at the expiry of the lease period.

	Group		Parent	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
<b>Leases as lessor</b>				
<b>Non-cancellable operating lease receivables</b>				
Not longer than one year	1,152	1,240	1,152	1,240
Longer than one year and less than five years	2,805	2,433	2,805	2,433
Longer than five years	1,237	1,355	1,237	1,355
	<b>5,194</b>	<b>5,028</b>	<b>5,194</b>	<b>5,028</b>

Operating leases relate to commercial investment properties and leasehold land. Commercial properties owned by the group have lease terms of between 2 and 20 years. With one exception all leases have rights of renewal, with renewal durations between 3 and 6 years. The lessee's do not have the right to purchase the properties at the end of the lease period.

Leasehold land is leased out on 14 year terms with rights of renewal for the same period into perpetuity. A rent review is conducted at the end of each lease term. The leaseholders do not have the right to purchase the land. From time to time, the Trustees approve the freeholding of the properties at a market value set by a registered independent valuer.

### 20. Contingent liabilities and contingent assets

At balance date the group has no contingent liabilities or contingent assets (2011: Nil).

### 21. Commitments for expenditure

#### Capital expenditure commitments

The group had no capital commitments at balance date (May 2011: Nil).

#### Lease commitments

Non-cancellable operating lease commitments are disclosed in note 19 to the financial statements.

#### Other commitments

The parent has a funding commitment to its subsidiary UNITY Limited for \$295,000 in convertible notes (2011: \$295,000).



# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2012

### 22. Notes to the cash flow statement

	Group		Parent	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
<b>Reconciliation of net cash provided by operating activities to net surplus for the period is as follows:</b>				
Total comprehensive income	425	1,528	425	1,528
<b>Add/(less) non cash items:</b>				
-revaluation of investment property	(561)	(259)	(561)	(259)
-depreciation and amortisation	61	83	61	83
-appropriations to member benefit funds	526	515	526	515
-changes in fair value of financial assets through profit or loss account	261	(816)	261	(816)
-change in life insurance contract obligations	(328)	(207)	(328)	(207)
<b>Add/(less) change in operating assets:</b>				
-movement in contributions in advance	(13)	(8)	(13)	(8)
-movement in interest receivable	6	(28)	6	(28)
-movement in accounts receivable	(169)	7	(169)	7
-movement in contributions in arrears	3	(6)	3	(6)
-movement in other assets	114	(117)	114	(117)
-movement in trade and other payables	(163)	68	(163)	68
-movement in provisions	(11)	7	(11)	7
Member benefit fund contributions less withdrawals ***	(204)	88	(204)	88
<b>Add/(less) items reclassified as investing activities:</b>				
-realised loss/(gain) on disposal of financial assets designated at fair value through profit or loss	37	(91)	37	(91)
-gain on sale of investment properties	(281)	(413)	(281)	(413)
<b>Net cash inflow/(outflow) from operating activities:</b>	<b>(297)</b>	<b>351</b>	<b>(297)</b>	<b>350</b>

\*\*\* The difference between this figure and that in Note 12 is the value of non cash assets transferred by Lodges.

### 23. Financial Instruments

#### (a) Capital management objectives

The group manages its activities to ensure that the group is able to continue as a going concern while maximising the return to members through the prudent investment of funds as discussed below.

#### (b) Financial risk management objectives

Financial risk management activities are undertaken by the group as part of their investment management, in accordance with the investment policy as approved by the Board of Directors. The investment policy is reviewed by the Directors at least annually.

The group does not enter into or trade financial instruments, for speculative purposes. The group's activities expose it primarily to the financial risk of changes in interest rates.

#### (c) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, and the basis of measurement applied in respect of each class of financial asset are disclosed in note 1 to the financial statements.

#### (d) Interest rate and liquidity risk

The group is exposed to interest rate risk in that the future interest rate movement will affect the net market value of fixed interest securities, and that rates on short term deposits will drop. Risk management activities are undertaken by Manchester Unity in accordance with the investment policy as disclosed in note 23(b).

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2012

### 23. Financial Instruments (cont'd)

#### (d) Interest rate and liquidity risk management (cont'd)

##### Maturity profile of financial instruments

The following tables detail the group's exposure to interest rate and liquidity risk at 31 May 2012 and 31 May 2011 and is based on undiscounted cash flows:

	Weighted average interest rate %	Less than 1 year \$'000	1-5 years \$'000	More than 5 years \$'000	Total \$'000
<b>2012</b>					
<b>Financial assets:</b>					
Cash and cash equivalents	4.38%	4,466	-	-	4,466
Other financial assets designated at fair value through profit or loss:					
Government stock	6.28%	2,762	1,789	516	5,067
Local authority stock	6.69%	293	4,258	234	4,785
Corporate stock	7.18%	10,122	18,197	6,069	34,388
NZ Equity		1,530	-	-	1,530
Australian Equity		1,460	-	-	1,460
Trade and other receivables:					
Bank term deposits	4.73%	8,779	1,295	-	10,074
First mortgage securities	7.50%	30	460	-	490
IAB Loans and advances	8.01%	34	32	159	225
Other receivables		716	-	-	716
		<b>30,192</b>	<b>26,031</b>	<b>6,978</b>	<b>63,201</b>
<b>Financial liabilities:</b>					
Trade and other payables		290	-	-	290
District, Lodge and other deposits	6.04%	652	1,559	222	2,433
Member benefit fund liabilities		9,654	-	-	9,654
		<b>10,596</b>	<b>1,559</b>	<b>222</b>	<b>12,378</b>
<b>2011</b>					
<b>Financial assets:</b>					
Cash and cash equivalents	4.62%	11,183	-	-	11,183
Other financial assets designated at fair value through profit or loss:					
Government stock	6.28%	766	4,401	-	5,167
Local authority stock	6.82%	1,310	4,023	763	6,096
Corporate stock	7.56%	6,277	25,251	5,624	37,152
NZ Equity		1,062	-	-	1,062
Australian Equity		954	-	-	954
Trade and other receivables:					
Bank term deposits	6.50%	-	224	-	224
First mortgage securities	9.00%	414	-	-	414
IAB Loans and advances	8.03%	18	35	161	214
Other receivables		556	-	-	556
		<b>22,540</b>	<b>33,934</b>	<b>6,548</b>	<b>63,022</b>
<b>Financial liabilities:</b>					
Trade and other payables		453	-	-	453
District, Lodge and other deposits	5.61%	1,422	879	311	2,612
Member benefit fund liabilities		9,085	-	-	9,085
		<b>10,960</b>	<b>879</b>	<b>311</b>	<b>12,150</b>

Interest rate repricing is generally consistent to the maturity date for the financial instruments in the table above.

In both asset and liability tables the parent amounts are materially the same as the group reported amounts.

All financial liability counterparties rank equally.

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2012

### 23. Financial Instruments (cont'd)

#### (d) Interest rate and liquidity risk management (cont'd)

##### Interest rate sensitivity

Manchester Unity invests in fixed interest securities and bank deposits in the main and it is the intention of the Directors to hold the investments to maturity. As a consequence interest rate sensitivity is limited to changes in interest rates earned on bank deposits.

Cash and cash equivalents consist substantially of short term interest bearing bank deposits. Each 1% movement in interest rates up or down will equate to an increase/decrease in comprehensive income and equity attributable to members of \$140,000 (2011; \$111,000).

##### (e) Equity price risk

The parent and group are exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. Equity investments are not actively traded.

The equity price sensitivity analysis below has been determined based on the exposure to equity prices at 31 May. If equity prices had been 5% higher/lower, the Group and Parent's Comprehensive income for the year ended 31 December would have been \$150,000 higher/lower and "Total equity" would similarly have been \$150,000 higher/lower.

The Group and Parent's sensitivity to equity prices has not changed significantly during the year.

##### (f) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. The group has adopted a policy of only dealing with creditworthy counterparties. The group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate values of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved annually by the Board of Directors. At balance date there were 8 counterparties (2011; 5) where the group's investment was greater 10% of Total Equity. The number of counterparties, their credit rating and the level of exposure is set out in the table below:

Credit Rating	2012		2011	
	10% to <20%	20% to <30%	10% to <20%	20% to <30%
AA+	-	1	-	-
AA	1	-	1	-
AA-	-	4	4	-
A-	1	-	-	-
BBB+	1	-	-	-

The group obtains collateral to cover credit risk exposures on IAB loans and advances and mortgages and such collateral includes properties and life insurance policies. Mortgages over properties are advanced at approximately 70% of market valuation. Loans against life insurance policies are advanced at up to 90% of their surrender value. There are no financial assets that are past due or impaired, and no financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

The group has credit risk exposure to a group of counterparties having similar characteristics being New Zealand registered banks. The credit risk on liquid funds and term deposits is considered to be limited as the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. Manchester Unity invests in rated and unrated corporate bonds. The bonds rated by Standard and Poors bonds range from AAA to BBB.

The maximum exposure to credit risk on the financial assets of the group is represented by the carrying amount as recorded in the financial statements.

##### (g) Foreign exchange risk

Overseas equities are held and no foreign exchange cover is in place. A 10% movement in the exchange rate between the Foreign currency the shares are denominated in and New Zealand dollar will equate to a variation in comprehensive income and equity attributable to members of \$146,000 (2011; \$370,000).

##### (h) Liquidity risk management

Liquidity risk is the risk that the group will encounter difficulty in raising funds at short notice to meet its commitments. The group maintains sufficient funds to meet its commitments based on historical and forecasted cash flow requirements. Liquidity risk and exposure is reviewed on an on-going basis.

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2012

### 23. Financial Instruments (cont'd)

#### (i) Fair value of financial assets and liabilities within the scope of NZ IAS-39

The Directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values.

The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- Where no market price is available, a yield to maturity valuation is done based on securities of a similar type or duration.

#### (j) Financial assets and financial liabilities by measurement basis

The following table details the group's financial assets and liabilities within the scope of NZ IAS-39 by measurement basis:

Designated as FVTPL:

Financial instruments backing insurance obligations are designated at fair value through profit or loss in accordance with NZ IFRS-4: *Insurance Contracts*

L&R:

Loans and receivables

AC:

Amortised cost

	Designated as FVTPL	L&R at AC	AC	Total
	\$'000	\$'000	\$'000	\$'000
<b>2012</b>				
<b>Financial assets:</b>				
Cash and cash equivalents	4,461	-	-	<b>4,461</b>
Other financial assets designated at fair value through profit or loss	51,284	-	-	<b>51,284</b>
Trade and other receivables	-	1,239	-	<b>1,239</b>
<b>Total financial assets</b>	<b>55,745</b>	<b>1,239</b>		<b>56,984</b>
<b>Financial liabilities:</b>				
Trade and other payables	-	-	290	<b>290</b>
District, Lodge and other deposits	-	-	2,052	<b>2,052</b>
Member benefit fund liabilities	-	-	9,654	<b>9,654</b>
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>11,997</b>	<b>11,997</b>
<b>2011</b>				
<b>Financial assets:</b>				
Cash and cash equivalents	10,908	-	-	<b>10,908</b>
Other financial assets designated at fair value through profit or loss	45,161	-	-	<b>45,161</b>
Trade and other receivables	-	1,062	-	<b>1,062</b>
<b>Total financial assets</b>	<b>56,070</b>	<b>1,062</b>	-	<b>57,132</b>
<b>Financial liabilities:</b>				
Trade and other payables	-	-	453	<b>453</b>
District, Lodge and other deposits	-	-	2,433	<b>2,433</b>
Member benefit fund liabilities	-	-	8,816	<b>8,816</b>
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>11,702</b>	<b>11,702</b>

In both asset and liability tables the parent amounts are materially the same as the group reported amounts.

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2012

### 23. Financial Instruments (cont'd)

#### (j) Fair value measurements recognised in the Statement of Financial Position

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

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Group and Parent			
	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
<b>2012</b>				
Cash and cash equivalents	4,461	-	-	<b>4,461</b>
Bank term deposits	-	9,600	-	<b>9,600</b>
Government bonds	4,830	-	-	<b>4,830</b>
Local Authority bonds	3,798	-	-	<b>3,798</b>
Corporate bonds	30,067	-	-	<b>30,067</b>
Equity Investments	2,990	-	-	<b>2,990</b>
	<b>46,145</b>	-	-	<b>55,745</b>
<b>2011</b>				
Cash and cash equivalents	10,908	-	-	<b>10,908</b>
Bank term deposits	-	200	-	<b>200</b>
Government bonds	4,754	-	-	<b>4,754</b>
Local Authority bonds	5,258	-	-	<b>5,258</b>
Corporate bonds	31,279	-	-	<b>31,279</b>
Equity Investments	3,670	-	-	<b>3,670</b>
	<b>55,870</b>	-	-	<b>56,070</b>

The Society's financial instruments are Level 1 as their values have been derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. There were no transfers between Levels 1 and 2 during the year.

#### (k) Solvency risk

There is a risk that a significant adverse change could result in the Society not meeting Reserve Bank of New Zealand solvency benchmark. The most likely such change is a further reduction in the discount rate which is the 10 year mid swap rate.

At 31 May 2012 the risk free rate used by the actuary was the 10 year mid swap rate which at that time was 3.71%. It is estimated that if this rate had been approximately 0.35% lower then the current solvency ratio would have been 1.00. If the solvency ratio were to fall below 1.00 then the Society would not be in compliance with the Insurance (Prudential Supervision) Act 2010.

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2012

### 24. Lodge reserve

One Lodge, last year two, have transferred certain assets to Society with a requirement that all income, including capital gains and losses, on those "ring-fenced" assets be held for the benefit of Lodge members until such time as the Lodge Trustees agree to distribution. At balance date the fair value of the these "ring-fenced" assets was \$1,380,000 Investment Properties (2011; \$850,000) and no Equities (2011; \$478,000).

	<b>Group and Parent</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance Lodge Reserve at beginning of year	384	-
Income included in Statement of Comprehensive Income		
- Revaluation investment property	185	229
- Commercial properties rental income	61	52
- Realised gain/(loss) on sale of financial assets designated at fair value through profit or loss	(42)	56
- Dividend income	20	26
- Change in fair value of financial assets designated at fair value through profit or loss	-	61
Expenses included in Statement of Comprehensive Income		
Direct property expenses of investment properties:		
- Commercial properties	(20)	(8)
Transfer from/(to) Retained earnings (Note 15)	204	416
Appropriation to Share Funds (Notes 15)	(106)	(32)
Balance Lodge Reserve at end of year (Note 16(e))	<b>482</b>	<b>384</b>

Normal Society appropriations to Lodge share funds are adjusted to reflect this arrangement.

### Assets and liabilities transferred on consolidation under Rule 38

	<b>2012</b>	<b>2012</b>	<b>2012</b>	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
	<b>Manawatu</b>	<b>Manchester</b>	<b>Woodville</b>	<b>Total</b>	
Trade and other receivables	7	55	1	63	435
Other financial assets designated at fair value through profit or loss					1,797
Investment property	344	-	-	344	1,071
Cash and cash equivalents	324	-	16	340	994
Trade and other payables	-	-	-	-	(83)
	<b>675</b>	<b>55</b>	<b>17</b>	<b>747</b>	<b>4,214</b>
Member share funds	<b>675</b>	<b>55</b>	<b>17</b>	<b>747</b>	<b>4,214</b>

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2012

### 25. Segmental reporting

Manchester Unity operates in one geographic region being New Zealand and is organised into one operating segment being insurance and other activities for which discreet financial information is available that is monitored by the Directors. The Directors assess the underwriting results of the insurance products and monitor them to ensure that surplus reserves are held to fund underwriting losses as may be necessary. Disclosures of revenues, expenses and liabilities, as disclosed in note 14(b), are the level of detail reviewed by the Directors in regards to segmental analysis.

Assets are identified as being held to back the insurance contract obligations and other activities, and are not managed separately to other investments. Investment activity is undertaken to provide a return to the members of Manchester Unity who have purchased a financial product.

Investment returns are achieved through the investment in property, term deposits, fixed interest securities and equities.

### 26. Subsequent events

There have been no material events subsequent to balance date (2011; NIL).

### 27. Impact of restatement of comparative figures

An explanation of how the restatement of the comparative figures has affected the parent and group consolidated Statement of Comprehensive Income and Statement of Financial Position is set out in the following tables. During the year the Society *Sickness Benefit Fund* was reclassified to member insurance contract obligations as the fund is valued using actuarial assumptions.

In addition member insurance contract obligations are now valued under NZ IFRS 4 - Appendix C where the policyholder liabilities represent the share of assets notionally or otherwise allocated to the insurance contracts. For the Society this represents the actual fund value accumulated through cash flows over time. Previously the member insurance contract obligations were valued under NZ IFRS 4 - Appendix D where only the vested benefits were valued as part of the member insurance contract obligations and a risk margin was required to be held. The difference between the policyholder liability and the notional fund value attributed to the insurance contracts was recognised as a separate member policyholder surplus reserve which formed part of total equity.

#### Effect on Statement of Financial Position

	Note	31 May 2011			1 June 2010		
		Previously Reported	Adjustment	Restated Balance	Previously Reported	Adjustment	Restated Balance
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Liabilities</b>							
Other Financial Liabilities							
- Member benefit fund liabilities	1	9,085	(269)	8,816	4,828	(265)	4,563
Member insurance contract obligations	1&2	41,208	8,365	49,573	40,690	9,090	49,780
<b>Equity</b>							
Restricted Reserves							
- Member policyholder surplus reserve	2	8,096	(8,096)	-	8,825	(8,825)	-
<b>Total Equity</b>		26,919	(8,096)	18,823	26,120	(8,825)	17,295

**Note 1:** Adjustment made to reclassify the Society Sickness Benefit Fund to member insurance contract obligations.

**Note 2:** Adjustment made to reclassify the member policyholder surplus reserve to the liability for member insurance contract obligations, as required under NZ IFRS 4 - Appendix C.

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2012

### 27. Impact of restatement of comparative figures (cont'd)

#### Effect on Statement of Financial Position

	Note	31 May 2011			1 June 2010		
		Previously Reported	Adjustment	Restated Balance	Previously Reported	Adjustment	Restated Balance
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Liabilities</b>							
Other Financial Liabilities							
- Member benefit fund liabilities	1	9,085	(269)	8,816	4,828	(265)	4,563
Member insurance contract obligations	1&2	41,208	8,365	49,573	40,690	9,090	49,780
<b>Equity</b>							
Restricted Reserves							
- Member policyholder surplus reserve	2	8,096	(8,096)	-	8,825	(8,825)	-
<b>Total Equity</b>		<b>26,917</b>	<b>(8,096)</b>	<b>18,821</b>	<b>26,118</b>	<b>(8,825)</b>	<b>17,293</b>

#### Effect on Statement of Comprehensive Income

		Group and Parent		
		Previously Reported	Adjustment	Restated Balance
		\$'000	\$'000	\$'000
Appropriations to member benefit fund liabilities	3	(534)	19	(515)
Member insurance claim withdrawals	3	(4,381)	(15)	(4,396)
Change in life insurance contract obligations	4	(518)	725	207
<b>Net Surplus for the Year</b>		<b>799</b>	<b>729</b>	<b>1,528</b>

**Note 1:** Adjustment made to reclassify the Society Sickness Benefit Fund to member insurance contract obligations.

**Note 2:** Adjustment made to reclassify the member policyholder surplus reserve to the liability for member insurance contract obligations, as required under NZ IFRS 4 - Appendix C.

**Note 3:** Adjustments made to reclassify the Society Sickness Benefit Fund appropriations and claim withdrawals to member insurance contract obligations.

**Note 4:** Adjustments due to impact of the remeasurement of member insurance contract obligations under NZ IFRS 4 - Appendix C and the reclassification of the Society Sickness Benefit Fund.





## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MANCHESTER UNITY FRIENDLY SOCIETY**

### **Report on the Financial Statements**

We have audited the financial statements of Manchester Unity Friendly Society (the "Society") and Group on pages 3 to 37, which comprise the consolidated and separate statement of financial position as at 31 May 2012, and the consolidated and separate statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the Society's Members, as a body, in accordance with Section 68 of the Friendly Societies and Credit Unions Act 1982. Our audit has been undertaken so that we might state to the Society's Members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society's Members as a body, for our audit work, for this report, or for the opinions we have formed.

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

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

### ***Auditor's Responsibilities***

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

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

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

Other than in our capacity as auditor, we have no relationship with or interests in Manchester Unity Friendly Society or its subsidiary UNITY Limited.

### ***Opinion***

In our opinion, the financial statements on pages 3 to 37;

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of Manchester Unity Friendly Society and Group as at 31 May 2012, and their financial performance and cash flows for the year ended on that date.

### ***Emphasis of Matter***


We draw attention to Note 27 to the financial statements - Impact of the restatement of comparative figures, which describes the restatement of the prior year comparatives. Our opinion is not qualified in respect of this matter.

# Deloitte

## *Report on Other Legal and Regulatory Requirements*

We also report in accordance with section 16 of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 May 2012:

- we have obtained all the information and explanations we have required; and
- in our opinion proper accounting records have been kept by the Society as far as appears from our examination of those records.



**Chartered Accountants**

26 July 2012

Wellington, New Zealand