

# Annual Report

Manchester Unity Friendly Society  
For the year ended 31 May 2016

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# Consolidated Statement of Comprehensive Income

## Manchester Unity Friendly Society For the year ended 31 May 2016

	NOTES	2016	2015
<b>Insurance before movement in life insurance obligations</b>			
Premiums	4	1,446,793	1,507,384
Claims paid & provided for	4	(3,767,290)	(3,384,347)
<b>Total Insurance before movement in life insurance obligations</b>		<b>(2,320,497)</b>	<b>(1,876,963)</b>
<b>Movement in life insurance contract obligations</b>			
Movement in life insurance contract obligations		2,596,158	252,128
<b>Total Movement in life insurance contract obligations</b>		<b>2,596,158</b>	<b>252,128</b>
<b>Insurance operating surplus/(deficit) before investment activities</b>		<b>275,661</b>	<b>(1,624,835)</b>
<b>Investment</b>			
Net investment income	4	3,552,904	3,976,739
Gains/(losses) from market revaluations and disposals	4	142,010	970,295
<b>Total Investment</b>		<b>3,694,913</b>	<b>4,947,034</b>
<b>Operating Expenses</b>			
Operating Expenses	5	(1,941,490)	(1,976,083)
<b>Total Operating Expenses</b>		<b>(1,941,490)</b>	<b>(1,976,083)</b>
<b>Surplus after insurance, investment activities &amp; expenses</b>		<b>2,029,084</b>	<b>1,346,116</b>
<b>Holiday Homes and Member Benefits</b>			
Net holiday homes income	6	37,167	1,267
Gains from market value revaluations and movements	6	469,565	136,512
Member Benefit Expense	6	(55,535)	(397,882)
<b>Total Holiday Homes and Member Benefits</b>		<b>451,196</b>	<b>(260,103)</b>
<b>Fraternity</b>			
Fraternal Income	7	286,764	278,382
Fraternal Operating Expenses	7	(548,202)	(506,233)
<b>Total Fraternity</b>		<b>(261,438)</b>	<b>(227,851)</b>
<b>Operating surplus/(deficit)</b>		<b>2,218,843</b>	<b>858,162</b>
<b>Other Income</b>			
Other Income	8	43,024	42,601
<b>Total Other Income</b>		<b>43,024</b>	<b>42,601</b>
<b>Total comprehensive income/(loss) for the year</b>		<b>2,261,867</b>	<b>900,763</b>

The accompanying notes form an integral part of these financial statements.

# Consolidated Statement of Changes in Equity

## Manchester Unity Friendly Society For the year ended 31 May 2016

	NOTES	2016	2015
<b>Retained Earnings</b>			
Opening Balance		5,529,626	5,273,612
Movement during the year	20	989,312	256,014
<b>Total Retained Earnings</b>		<b>6,518,939</b>	<b>5,529,626</b>
<b>Reserves</b>			
Opening Balance		14,475,880	13,831,284
Movement during the year	21	1,269,054	644,596
<b>Total Reserves</b>		<b>15,744,934</b>	<b>14,475,880</b>
<b>Total Equity</b>		<b>22,263,873</b>	<b>20,005,506</b>

The accompanying notes form an integral part of these financial statements.

# Consolidated Statement of Financial Position

## Manchester Unity Friendly Society As at 31 May 2016

	NOTES	31 MAY 2016	31 MAY 2015
<b>Assets</b>			
Cash & cash equivalents	10	1,448,022	714,250
Other financial assets designated at fair value through profit or loss	11	64,209,416	61,663,024
Trade and other receivables	12	702,348	522,747
Other assets	13	31,055	38,078
Investment property	14	16,164,350	19,469,784
Property, Plant and Equipment		38,116	63,813
Other intangible assets		3	650
<b>Total Assets</b>		<b>82,593,310</b>	<b>82,472,346</b>
<b>Liabilities</b>			
Trade and other payables	15	348,537	417,468
District & Lodge deposits	16	2,529,291	2,950,291
Member benefit fund liabilities	17	12,329,820	11,467,499
Employee entitlements	18	136,901	50,636
Member insurance contract obligations	19	44,984,888	47,580,946
<b>Total Liabilities</b>		<b>60,329,437</b>	<b>62,466,840</b>
<b>Net Assets</b>		<b>22,263,873</b>	<b>20,005,506</b>
<b>Equity</b>			
Retained earnings	20	6,518,939	5,529,626
<b>Reserves</b>			
District & Lodge relief fund	21	968,222	968,222
Society benevolent & emergency relief fund	21	568,492	587,203
Restricted reserve - Lodge reserve	21	474,250	477,750
Medical services reserve	21	2,508,453	2,489,053
Medical services fund	21	750,000	750,000
General reserve	21	10,475,517	9,203,652
<b>Total Reserves</b>		<b>15,744,934</b>	<b>14,475,880</b>
<b>Total Equity</b>		<b>22,263,873</b>	<b>20,005,506</b>

The Directors of Manchester Unity Friendly Society authorised these financial statements for issue on 21 July 2016.


On behalf of the Board:



Graham Allanson

CHAIR OF AUDIT COMMITTEE

Date:



Michael Ambrose

DEPUTY CHAIR OF AUDIT COMMITTEE

Date:

The accompanying notes form an integral part of these financial statements.

# Consolidated Statement of Cashflows

## Manchester Unity Friendly Society For the year ended 31 May 2016

	NOTES	2016	2015
<b>Cashflow</b>			
<b>Cash from Operating Activities</b>			
<b>Cash was provided from:</b>			
Insurance premiums		1,449,415	1,459,991
Interest received		3,089,108	2,951,882
Dividends received		130,695	178,729
Rental income		822,204	1,035,721
Holiday homes income		146,857	130,192
Fraternal income		219,967	211,132
Other income		109,821	110,226
Member benefit fund contributions		1,268,835	823,000
<b>Total Cash was provided from:</b>		<b>7,236,902</b>	<b>6,900,873</b>
<b>Cash was applied to:</b>			
Payments to suppliers and employees		(2,872,464)	(2,878,413)
Payments for claims		(3,767,291)	(3,383,600)
Payments to member benefit funds		(581,126)	(578,000)
Interest paid to District & Lodges		(147,943)	(156,304)
<b>Total Cash was applied to:</b>		<b>(7,368,824)</b>	<b>(6,996,317)</b>
<b>Total Cash from Operating Activities</b>		<b>(131,922)</b>	<b>(95,444)</b>
<b>Cashflow from Investing Activities</b>			
<b>Cash was provided from:</b>			
Proceeds from sale of investment properties		3,914,077	838,000
Proceeds from sale of financial assets		35,928,531	22,244,588
Repayment of mortgages & loans		240	7,000
Deposits received from District & Lodges		30,000	210,000
<b>Total Cash was provided from:</b>		<b>39,872,848</b>	<b>23,299,588</b>
<b>Cash was applied to:</b>			
Purchase of financial assets		(38,544,716)	(29,580,000)
Purchase of Property, Plant & Equipment		(11,437)	(23,600)
Mortgage & loan advances		-	(15,000)
Deposit repayments to District & Lodges		(451,000)	-
<b>Total Cash was applied to:</b>		<b>(39,007,153)</b>	<b>(29,618,600)</b>
<b>Total Cashflow from Investing Activities</b>		<b>865,695</b>	<b>(6,319,012)</b>
<b>Net Increase/Decrease in Cash Held</b>		<b>733,773</b>	<b>(6,414,456)</b>
Add Opening Cash Brought Forward		714,250	7,128,706
Closing cash & cash equivalents		1,448,022	714,250

The accompanying notes form an integral part of these financial statements.

# Notes to the Financial Statements

## Manchester Unity Friendly Society For the year ended 31 May 2016

### 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 a FMC reporting entity for the purposes of the Financial Markets Conducts Act 2013 and the Financial Reporting Act 2013 and its financial statements comply with these Acts. Its registered office is located at 142 Lambton Quay, Wellington, New Zealand.

Manchester Unity (the Parent) and Unity Limited comprise the Manchester Unity Friendly Society Group (the Group).

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

### 1. Summary of accounting policies

#### 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.

#### 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.

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.

### 2. Significant Accounting Policies

The significant accounting policies used in the preparation of these financial statements as set out below have been applied consistently to both years presented in these financial statements.

#### 2.1 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, Unity Limited.

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.

## 2.2 Premiums Revenue

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

## 2.3 Unearned Premiums

Unearned Premiums relate only to the medical services fund and include the written contribution policies, gross of commission payable to intermediaries, attributable to subsequent periods. The change in unearned premiums is taken to the statement of comprehensive income so that revenue is recognised over the period of risk.

## 2.4 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 Appendix C - "Life Insurance Entities".

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 19(c). 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 consolidated statement of comprehensive income as premiums and claims.

## 2.5 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.

## 2.6 Rental Income

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

## 2.7 Fair Value Measurements

Fair value measurements apply to both financial instrument items and non-financial instrument items. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value is an exit price regardless of whether that price is directly observable or an estimate using another valuation technique.



## 2.8 Financial Assets

Financial assets are recognised and derecognised on settlement date and are initially measured at fair value including, for those financial assets not at fair value through profit or loss, 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 profit or loss, except that interest income and dividends are shown separately. Fair value is determined in the manner described in note 25.

### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments with a maturity term of less than 90 days.

### **Loans and receivables**

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

## 2.9 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.

## 2.10 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 profit or loss in the period in which they arise.

## 2.11 Property, Plant and Equipment

Property, plant and 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 methods are 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

## 2.12 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.

## 2.13 Impairment of Assets

At each reporting date, the group reviews the carrying amount of its property, plant & equipment 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).

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.

## 2.14 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 and Lodge deposits***

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

District and Lodge 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 17.

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.

## 2.15 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 profit or loss on a straight-line basis over the term of the lease.

## 2.16 GST

Revenues, expenses and assets are recognised exclusive of GST except for receivables and payables, which are stated with the amount of GST included.

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.

## 2.17 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.

## 2.18 Taxation

Taxation is accounted for on the following basis:

### ***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 balance sheet liability 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.

## 2.19 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.

## 2.20 Reserves

Certain monies are held aside in reserves, as disclosed in note 21. Movements in these reserves are recognised as transfers to and from retained earnings.

## 2.21 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 a maturity term of less than 90 days, 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.

## 2.22 Changes in accounting policies

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

## 3. 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 ongoing 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 Note 14 - valuation of investment properties (estimation) and Note 19 - insurance contract liability valuation.

### 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 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.

<b>Standard Interpretation</b>	<b>Effective for annual reporting periods beginning on or after</b>	<b>Expected to be initially applied in the financial year ending</b>
NZ IFRS 9 'Financial Instruments'	1 January 2018	31 May 2019
NZ IFRS 15 'Revenue from Contracts with Customers'	1 January 2018	31 May 2019
NZ IFRS 16 'Leases'	1 January 2019	31 May 2020

### Comparative amounts

The presentation and classification of items have been amended for the year ended 31 May 2016 for the purpose of improving readability and the understanding of the user. The comparatives have been aligned with the current year presentation. There has been no impact on the total comprehensive income or total equity as a result of the reclassifications. It is not practical to provide a reconciliation of previously reported, to currently reported, disclosures.

#### 4. Comprehensive Income Attributable to Members

	2016	2015
<b>Insurance</b>		
<b>Increasing Assurance Benefit</b>		
Premiums	241,735	257,147
Claims	(1,979,164)	(1,534,072)
<b>Total Increasing Assurance Benefit</b>	<b>(1,737,428)</b>	<b>(1,276,925)</b>
<b>Funeral Funds</b>		
Premiums	320,336	324,452
Claims	(1,064,076)	(1,085,415)
<b>Total Funeral Funds</b>	<b>(743,740)</b>	<b>(760,963)</b>
<b>Medical Services Fund</b>		
Premiums	846,842	877,347
Claims	(657,499)	(728,546)
<b>Total Medical Services Fund</b>	<b>189,343</b>	<b>148,800</b>
<b>Society Sickness Benefit</b>		
Claims	(15,362)	(15,521)
<b>Total Society Sickness Benefit</b>	<b>(15,362)</b>	<b>(15,521)</b>
<b>Education Support Plan</b>		
Premiums	37,880	48,439
Claims	(51,189)	(20,793)
<b>Total Education Support Plan</b>	<b>(13,309)</b>	<b>27,646</b>
<b>Total Insurance before movement in life insurance obligations</b>	<b>(2,320,497)</b>	<b>(1,876,963)</b>

	2016	2015
<b>Investment Income</b>		
<b>Rental Income</b>		
Commercial Property Income	583,376	775,575
Leasehold Property Income	270,950	259,695
<b>Total Rental Income</b>	<b>854,327</b>	<b>1,035,270</b>
<b>Interest Income</b>		
Bank Deposits	628,841	712,483
Fixed Interest Investments	2,213,453	2,222,719
Mortgages & Loans	29,675	37,711
<b>Total Interest Income</b>	<b>2,871,969</b>	<b>2,972,913</b>
<b>Dividend Income</b>		
Investments	130,695	178,729
<b>Total Dividend Income</b>	<b>130,695</b>	<b>178,729</b>
<b>Total Investment Income</b>	<b>3,856,991</b>	<b>4,186,912</b>
<b>Investment Expenses</b>		
Commercial properties	206,205	122,724

Leasehold Land	7,882	3,450
Financial Investment expenses	90,000	84,000
<b>Total Investment Expenses</b>	<b>304,087</b>	<b>210,173</b>
<b>Net investment income</b>	<b>3,552,904</b>	<b>3,976,739</b>
	2016	2015

### Gains/(Losses) from Market Revaluations and Disposals

<b>Unrealised gains/(losses) from Market Revaluations and Disposals</b>		
Commercial Property Revaluation	(10,000)	(445,000)
Leasehold Land Revaluation	1,239,691	155,825
Equities Revaluations	-	466,062
Fixed Interest Investments Revaluation	292,712	653,725
<b>Total Unrealised gains/(losses) from Market Revaluations and Disposals</b>	<b>1,522,403</b>	<b>830,611</b>
<b>Realised gain on disposal of investment property</b>		
Gain/(Loss) on Sale of Leasehold Land	176,872	133,615
Gain/(Loss) on Sale of Financial Assets	(289,780)	6,070
Gain/(Loss) on Sale of Commercial Properties	(1,267,486)	-
<b>Total Realised gain on disposal of investment property</b>	<b>(1,380,394)</b>	<b>139,684</b>
<b>Gains/(Losses) from Market Revaluations and Disposals</b>	<b>142,010</b>	<b>970,295</b>

### 5. Operating Expenses

	2016	2015
<b>Operating Expenses</b>		
Audit	63,000	75,768
Commissions Expense	29,087	29,970
Communications	18,834	22,330
Computer Expenses	38,014	33,268
Depreciation of non current assets	37,780	40,525
Directors fees and expenses	269,829	256,467
Employee Expenses	742,916	821,224
Insurance	88,042	89,230
Office Administration	81,396	81,526
Operational plan for the future	8,641	8,075
Other expenses	84,009	44,109
Other fees paid to auditors	29,448	40,900
Other professional fees	317,791	289,171
Publications & Subscriptions	13,809	21,896
Rent and other occupancy expenses	109,696	107,705
Travel	9,197	13,919
<b>Total Operating Expenses</b>	<b>1,941,490</b>	<b>1,976,083</b>

**Employee expenses**

Includes contributions to Kiwisaver and a defined contribution pension plan of \$21,026 (2015: \$18,000). The Society has no other obligation to provide pension benefits to employees.

**Auditor**

The auditor of Manchester Unity is Deloitte.

In addition to the statutory audit fee Deloitte also received \$9,000 (2015: \$9,900) for the Reserve Bank solvency return assurance and \$20,448 (2015: \$31,000) for tax related advice.

**6. Holiday Homes and Member Benefits**

	2016	2015
<b>Holiday Homes</b>		
Holiday Home Income	146,857	130,192
Holiday Home Expenses	(109,691)	(128,925)
<b>Net Holiday Home Income</b>	<b>37,167</b>	<b>1,267</b>
<b>Gains from Market Revaluations and Disposals</b>		
Holiday Home Revaluation	469,565	91,304
Gain/(Loss) on Sale of Holiday Homes	-	45,208
<b>Total Gains from Market Revaluations and Disposals</b>	<b>469,565</b>	<b>136,512</b>
	2016	2015
<b>Member Benefit Expenses</b>		
Education Awards	(36,824)	(24,054)
Society Benevolent & Emergency Relief Fund Payments	(18,712)	(10,320)
Appropriations - Share Funds	-	(363,508)
<b>Total Member Benefit Expenses</b>	<b>(55,535)</b>	<b>(397,882)</b>

The share funds are pooled as part of the Society's total assets. This appropriation represents the investment return allocated to member share funds as approved by the Board. Total Society investment income (inclusive of the actual income earned on share funds) is reflected in note 4 with the exception of ring fenced funds where the amount allocated is the actual return on the ring-fenced assets.

**7. Fraternity**

	2016	2015
<b>Fraternal Income</b>		
Lodge Management Fees	219,967	211,132
Commission - Fraternal	50,536	45,249
Service Provision Income	16,261	22,000
<b>Total Fraternal Income</b>	<b>286,764</b>	<b>278,382</b>
	2016	2015
<b>Fraternal Operating Expenses</b>		
Fraternal Council - Lodge Travel	429	-

	2016	2015
Fraternal Council Meeting Costs	32,449	35,363
Fraternally Yours	37,998	24,343
Other - Fraternal	10,110	1,162
Printing, Stationery & Postage - Fraternal	30,513	38,391
Rent - Fraternal	10,339	8,200
Salaries & Wages - Fraternal	250,236	245,591
Lodge Functions, Hospitality & Other	90,209	79,660
Grandmaster - Expenses	5,087	7,158
Communications - Fraternal	11,819	9,589
Council Fees	44,798	40,229
Travel - Fraternal	17,585	16,545
Staff Training & Support - Fraternal	6,543	-
Meeting Expenses	86	-
<b>Total Fraternal Operating Expenses</b>	<b>548,202</b>	<b>506,233</b>

## 8. Other Income

	2016	2015
<b>Other Income</b>		
Commissions and Recoveries	43,024	42,601
<b>Total Other Income</b>	<b>43,024</b>	<b>42,601</b>

## 9. Income Tax Expense

	2016	2015
Net Profit (Loss) per Financial Statements	2,261,867	900,763
<b>Tax Payable at 28%</b>	<b>633,323</b>	<b>252,214</b>
<b>Deductions from Tax Payable</b>		
Movements in Tax Losses	633,323	252,214
<b>Total Deductions from Tax Payable</b>	<b>633,323</b>	<b>252,214</b>
<b>Income Tax Payable (Refund Due)</b>	<b>-</b>	<b>-</b>

The Society has \$2,698,550 (2015: \$2,981,547) unrecognised tax losses to carry forward.

In addition to the above, subsidiary Unity Limited has \$1,650,000 (2015: \$1,650,000) accumulated tax losses.

As stated in the policy on taxation, a debit balance in the deferred tax account arising from deductible temporary differences or income tax losses is only recognised if their realisation is probable. As at 31 May 2016 and 31 May 2015 this is not probable.

## 10. Cash and cash equivalents

Cash and cash equivalents include the following components;

	2016	2015
<b>Cash and cash equivalents</b>		
Cash at Bank	9,979	25,944
Short term bank deposits	1,438,044	688,306
<b>Total Cash and cash equivalents</b>	<b>1,448,022</b>	<b>714,250</b>



	2016	2015
<b>11. Other Financial Assets</b>		
<b>Other financial assets designated at fair value through profit or loss</b>		
Fixed Interest Investments	54,936,696	37,229,488
Term Deposit Investments	9,258,520	20,127,936
Equity Investments	-	4,291,400
UFS Shares	14,200	14,200
<b>Total Other financial assets designated at fair value through profit or loss</b>	<b>64,209,416</b>	<b>61,663,024</b>

	2016	2015
<b>12. Trade and other receivables</b>		
Trade and other sundry receivables	181,125	27,675
Medical Accrued Revenue	28,228	-
Interest Receivable	234	98
Mortgages	492,761	494,974
<b>Total Trade and other receivables</b>	<b>702,348</b>	<b>522,747</b>

	2016	2015
<b>13. Other Assets</b>		
Prepayments	9,804	16,256
Inventories	21,251	21,822
<b>Total Other Assets</b>	<b>31,055</b>	<b>38,078</b>

	2016	2015
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**14. Investment Property****Commercial Property****Retail****Ngaio Road, Waikanae**

Opening Fair Value	3,500,000	3,600,000
Acquisitions and Disposals	-	-
Fair Value Revaluation	-	(100,000)
<b>Total Ngaio Road, Waikanae</b>	<b>3,500,000</b>	<b>3,500,000</b>

**Lombard Street, Palmerston North**

Opening Fair Value	525,000	530,000
Acquisitions and Disposals	-	-
Fair Value Revaluation	(10,000)	(5,000)
<b>Total Lombard Street, Palmerston North</b>	<b>515,000</b>	<b>525,000</b>

**Bridge Street, Nelson**

Opening Fair Value	840,000	840,000
Acquisitions and Disposals	-	-
Fair Value Revaluation	-	-
<b>Total Bridge Street, Nelson</b>	<b>840,000</b>	<b>840,000</b>

<b>Total Retail</b>	<b>4,855,000</b>	<b>4,865,000</b>
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	2016	2015
<b>Retail Development</b>		
<b>Kent Terrace, Wellington</b>		
Opening Fair Value	2,700,000	2,800,000
Acquisitions and Disposals	-	-
Fair Value Revaluation	-	(100,000)
<b>Total Kent Terrace, Wellington</b>	<b>2,700,000</b>	<b>2,700,000</b>
<b>Total Retail Development</b>	<b>2,700,000</b>	<b>2,700,000</b>
<b>Warehouse/Office</b>		
<b>Quadrant Drive, Lower Hutt</b>		
Opening Fair Value	4,700,000	4,940,000
Acquisitions and Disposals	(4,700,000)	-
Fair Value Revaluation	-	(240,000)
<b>Total Quadrant Drive, Lower Hutt</b>	<b>-</b>	<b>4,700,000</b>
<b>Total Warehouse/Office</b>	<b>-</b>	<b>4,700,000</b>
<b>Total Commercial Property</b>	<b>7,555,000</b>	<b>12,265,000</b>
<b>Leasehold Properties</b>		
Opening Fair Value	4,170,000	4,221,000
Acquisitions and Disposals	(304,690)	(207,000)
Fair Value Revaluation	1,239,691	156,000
<b>Total Leasehold Properties</b>	<b>5,105,001</b>	<b>4,170,000</b>
<b>Holiday accommodation properties</b>		
Opening Fair Value	3,034,784	3,396,000
Acquisitions and Disposals	-	(487,216)
Fair Value Revaluation	469,565	126,000
<b>Total Holiday accommodation properties</b>	<b>3,504,349</b>	<b>3,034,784</b>
<b>Fair Value of investment property at year end</b>	<b>16,164,350</b>	<b>19,469,784</b>

**The independent valuers were:**

Darroch Limited

Quotable Value NZ Limited

J P Morgan &amp; Associates Limited

During the year there were no transfers of property between levels of fair value hierarchy. These levels are outlined below:

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

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

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

Two commercial properties with a total fair value of \$1,355,000 (2015: \$1,365,000) are held for the benefit of members of Loyal Nelson Lodge and Loyal Manawatu Lodge - refer note 21e.

The fair value of the group's investment property is determined at 31 May each year on the basis of valuations carried out at that date by independent registered valuers experienced in the New Zealand property market. These reports are based on both:

- Information provided by the Society such as lease terms and conditions, current rents etc.

- Assumptions and valuation models used by the valuers - the assumptions such as yields and discount rates are typically market related. These are based on their professional judgement and market observation.

The information provided to the valuers and the assumptions and the valuation models used by the valuers are reviewed by management. This includes a review of fair value movements over the period. On completion of this process management make a recommendation to the audit committee. The audit committee considers the valuation report as a part of their overall responsibilities.

<b>Class of Property Fair Value Hierarchy Fair Value 31 May</b>	<b>Valuation techniques used</b>	<b>Inputs used to measure fair value</b>	<b>Range of significant unobservable inputs 31 May 2016</b>	<b>Range of significant unobservable inputs 31 May 2015</b>
Retail Level 3 2016: \$4,855,000 2015: \$4,865,000	Income capitalisation approach Discounted cash flow	Net market rent \$/m2 Capitalisation rate contract rentals Capitalisation rate market rentals Discount rate Terminal capitalisation rate Rental growth rate (pa) Expenses growth rate (pa)	\$46 to \$190 8.00% - 10.00% 8.00% - 9.50% 9.25% 10.00% 2.03% 1.93%	\$95 to \$260 8.00% - 10.25% 8.00% - 9.75% 10.00% 10.50% 2.19% 2.00%
Retail/Development Potential Level 3 2016: \$2,700,000 2015: \$2,700,000	Income capitalisation approach Sales comparison approach	Net market rent \$/m2 Capitalisation rate market rentals Discount rate - rental Land value \$/m2	\$60 to \$185 5.5% - 5.75% 9.00% \$2,588	\$60 to \$185 5.5% - 5.75% 9.00% \$2,588
Leasehold Properties Level 3 2016: \$5,105,000 2015: \$4,170,000	Discounted cash flow	Site land values Discount rate Capitalisation rate initial yield Capitalisation rate effective yield	\$190,000-\$243,000 8.50% 5.94% 5.21%	\$163,000-\$205,000 9.50% 6.30% 6.27%
Holiday Accommodation Properties Level 3 2016: \$3,504,349 2015: \$3,035,000	Sales comparison approach	Sales (\$psm)	\$265,000 to \$1,588,000 (converted to square metres for valuation purposes)	\$285,000 to \$920,000 (converted to square metres for valuation purposes)

The following table shows the impact on the fair value of a change in a significant unobservable input:

<b>Fair value measurement sensitivity</b>		
<b>Significant inputs</b>	<b>Increase in input</b>	<b>Decrease in input</b>
Gross market rent per m2	Increase	Decrease
Core capitalisation rate	Decrease	Increase
Other income capitalisation rate	Decrease	Increase
Discount rate	Decrease	Increase
Terminal capitalisation rate	Decrease	Increase
Rental growth rate (per annum)	Increase	Decrease
Expenses growth rate (per annum)	Decrease	Increase
Sales (\$psm)	Increase	Decrease

## Valuation Methodologies

### *Income capitalisation approach*

The income approach (investment valuation approach) is the prime determinant of fair value for commercial properties. This approach involves capitalising the actual contract and/or potential net income at an appropriate market derived rate of return to arrive at a capitalised value. This value is then adjusted for property specific factors including inter alia: rental surplus/shortfall, vacancy, real estate agents lease commissions, inducements, refurbishment expenses, strengthening, unrecovered operating expenses and capital expenditure.

### *Discounted cashflow analysis*

The discounted cashflow (DCF) analysis calculates the market value of the subject property as the present value of the future cash flows from the property discounted using an appropriate risk adjusted rate of return (or discount rate). The DCF permits us to make allowances for such factors as vacancies, refurbishment costs and growth in rental rates over a period of time. The estimated cash flows including the reversionary value estimate in the final year of the DCF are then discounted to provide the property's net present value.

### *Sales comparison approach*

A valuation methodology whereby the subject property is compared to recently sold properties of a similar nature with fair value determined through the application of positive and negative adjustments for their differing attributes.

	2016	2015
<b>15. Trade and Other Payables</b>		
Trade creditors and accruals	257,687	333,312
Unearned Premiums	90,850	84,156
<b>Total Trade and Other Payables</b>	<b>348,537</b>	<b>417,468</b>
	2016	2015
<b>16. District &amp; Lodge Deposits</b>		
District & Lodge Funds on Deposit	2,529,291	2,950,291
<b>Total District &amp; Lodge Deposits</b>	<b>2,529,291</b>	<b>2,950,291</b>

	2016	2015
<b>17. Member Benefit Fund Liabilities</b>		
<b>Member Share Funds</b>		
Opening Balance	11,444,413	10,444,159
Contributions including transfers	1,443,448	1,214,474
Withdrawals	(581,127)	(577,727)
Appropriations - Share Funds	-	363,508
<b>Total Member Share Funds</b>	<b>12,306,735</b>	<b>11,444,414</b>
<b>Hawkes Bay Endowment Fund</b>		
Hawkes Bay Endowment Fund	23,086	23,086
<b>Total Hawkes Bay Endowment Fund</b>	<b>23,086</b>	<b>23,086</b>
<b>Total Member Benefit Fund Liabilities</b>	<b>12,329,820</b>	<b>11,467,499</b>

At 31 May 2016 the Directors have declared an appropriation of 0.0% of balances held (2015: 4.0%). 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.

#### (a) Member Share Funds

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

	2016	2015
<b>Member Share funds</b>		
Antipodean Branch	459,553	308,988
Ashburton Branch	466,423	491,644
Auckland Branch	303,192	315,877
Banks Peninsula Branch	642,981	695,821
Egmont Lodge	1,581,244	1,603,692
Hastings Lodge	828,186	870,498
Manawatu Lodge	530,372	557,341
Manchester Lodge	68,570	70,768
Masterton Lodge	677,098	717,684
Napier Lodge	1,850,008	1,908,109
Nelson Lodge	2,751,125	2,867,216
Rangiora Lodge	1,093,409	31,732
Rose of Sharon Lodge	147,844	152,315
United Westland Lodge	84,437	89,136
Wanganui Lodge	792,928	734,228
Woodville Lodge	29,365	29,365
<b>Total Member Share funds</b>	<b>12,306,735</b>	<b>11,444,414</b>

#### (b) Hawkes Bay Endowment Fund

An endowment fund held by the Society on behalf of the Hawke's Bay Lodges.

	2016	2015
<b>18. Employee Benefits</b>		
Employee entitlements (wages, annual leave, etc)	136,901	50,636
<b>Total Employee Benefits</b>	<b>136,901</b>	<b>50,636</b>

Employee Entitlements includes holiday pay and these are expected to be settled within the next financial year.

## 19. 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 B+, outlook negative, credit rating issued by Standard and Poors on 8 April 2016. 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 management's 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. This plan is closed to new members. Existing members are unable to increase their cover under this plan. Benefits include funeral cover taken plus 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. These plans are closed to new members. 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 of education polytechnic providers or other tertiary course approved by the New Zealand Ministry of Education. This plan is closed to new members. Administered by the Board of Directors under General Rule 62.
Society Sickness Benefit Fund	This fund was previously the Hawke's 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 2016.

**Fund Transactions****Medical Services Fund**

Opening balance Members' Funds	200,000	200,000
Contributions/Premiums	846,842	877,347
Withdrawals/Claims	(657,499)	(728,435)
Society management fees	(152,945)	(154,020)
Other acquisition costs	(16,997)	(17,221)
Transfers	(19,401)	22,330
<b>Total Medical Services Fund</b>	<b>200,000</b>	<b>200,000</b>

**Funeral Fund**

Opening balance Members' Funds	8,099,970	7,927,736
Contributions/Premiums	320,336	324,452
Withdrawal/Claims	(396,120)	(413,421)
Society management fees	(52,199)	(53,067)
Appropriations	-	314,269
<b>Total Funeral Fund</b>	<b>7,971,987</b>	<b>8,099,970</b>

**Increased Funeral Fund**

Opening balance Members' Funds	15,668,863	15,725,285
Withdrawals/Claims	(667,960)	(671,994)
Appropriations	-	615,572
<b>Total Increased Funeral Fund</b>	<b>15,000,903</b>	<b>15,668,863</b>

**Increasing Assurance Benefit**

Opening balance Members' Funds	22,900,778	23,307,967
Contributions/Premiums	241,735	257,147
Withdrawals/Claims	(1,979,164)	(1,534,072)
Society management fees	(21,925)	(23,458)
Other acquisition costs	(12,090)	(12,860)
Appropriations	-	906,054
<b>Total Increasing Assurance Benefit</b>	<b>21,129,334</b>	<b>22,900,778</b>

**Society Sickness Benefit Fund**

Opening balance Members' Funds	256,334	261,751
Withdrawals/Claims	(15,362)	(15,574)
Appropriations	-	10,157
<b>Total Society Sickness Benefit Fund</b>	<b>240,972</b>	<b>256,334</b>

**Education Support Plan**

Opening balance Members' Funds	455,002	410,388
Contributions/Premiums	37,880	48,439
Withdrawals/Claims	(51,189)	(20,793)
Appropriations	-	16,968
<b>Total Education Support Plan</b>	<b>441,693</b>	<b>455,002</b>

<b>Closing Balance Member Insurance Contract Obligations</b>	<b>44,984,888</b>	<b>47,580,946</b>
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### **(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 the 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 to these obligations. Refer to note 21c.

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

The valuation of member insurance contract obligations was carried out as at 31 May 2016 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:

<b>Related Product Group</b>	<b>Valuation Method</b>
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 the prior year noted, are summarised as follows:

**(i) Discount Rate**

The discount rate representing the assumed long term rate of appropriation to the funds was 3.0% per annum (2015: 4.0%).

**(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.

**(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 2010 — 2012 total population tables for males and females, adjusted for the actual experience of the Funds.

**(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 0.89% of sum assured and 1.79% of existing bonus (2015: 1.61% and 3.22%).
- For the Funeral Fund and the Increased Funeral Benefit Fund, the assumed rates of supportable additions were 0.00% of the Funeral Benefit and 0.00% of the Increased Funeral Benefit (2015: 0.57% and 1.13%)

### (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.

	2016	2015
<b>Components of member insurance contract obligations</b>		
<b>IAB</b>		
Future policy benefits	17,514,667	17,027,915
Future additions	2,950,492	5,359,608
Future expense transfers	262,725	267,782
Future contributions	(1,723,768)	(1,779,597)
Members' unvested benefit liability	2,125,219	2,025,070
<b>Total IAB</b>	<b>21,129,335</b>	<b>22,900,778</b>
<b>Funeral Funds</b>		
Future policy benefits	24,554,444	22,135,447
Future additions	-	2,573,030
Future expense transfers	529,270	511,068
Future contributions	(3,178,292)	(3,099,621)
Members' unvested benefit liability	1,067,468	1,648,908
<b>Total Funeral Funds</b>	<b>22,972,890</b>	<b>23,768,832</b>
<b>Other Funds</b>		
Accumulation method	882,663	911,335
<b>Total Other Funds</b>	<b>882,663</b>	<b>911,335</b>
<b>Total</b>	<b>44,984,888</b>	<b>47,580,945</b>

### 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.

	2016	2015
<b>Maturity profile member insurance contract obligations</b>		
Current	3,316,059	3,280,085
1 - 5 years	10,187,558	10,737,475
More than 5 years	41,754,820	43,062,688
<b>Total Maturity profile member insurance contract obligations</b>	<b>55,258,437</b>	<b>57,080,248</b>

### Solvency

Solvency has been calculated in accordance with the Solvency Standard for Life Insurers issued in December 2014 by the Reserve Bank of New Zealand under the Insurance (Prudential Supervision) Act 2010. At 31 May 2016, the Actual Solvency Capital was \$21,777,000 (2015: \$19,513,000) and the Minimum Solvency Capital was \$13,489,000 (2015: \$12,011,000) resulting in a Solvency Margin of \$8,288,000 (2015: \$7,503,000) and a Current Solvency Ratio of 1.61 (2015: 1.62).

	2016	2015
<b>20. Retained Earnings</b>		
Retained earnings/Accumulated funds	5,529,626	5,273,912
Total comprehensive income/(loss) attributable to members	2,261,867	900,763
Transfer from Society Benevolent Fund	18,712	10,320
Transfer from/(to) Medical Services Reserve	(19,400)	22,218
Transfer from/(to) Lodge Reserve	-	(21,460)
Share Fund Appropriation from Lodge Reserve	-	22,719
<b>Transfers from/(to) General Reserve</b>		
Release of Realised Gain on Disposal of Financial Assets	1,127,828	6,070
Release of Realised Gain on Disposal of Holiday Homes	-	132,000
Release of Realised Gain on Disposal of Leasehold Property	294,275	110,000
Revaluation of Investment Properties	(1,699,256)	192,871
Unrealised (Profit)/Loss on change in fair value of financial assets	(292,712)	(1,119,786)
Release of Realised Gain/(Loss) on Disposal of Commercial Property	(702,000)	-
<b>Total Transfers from/(to) General Reserve</b>	<b>(1,271,865)</b>	<b>(678,846)</b>
<b>Balance at the end of the financial year</b>	<b>6,518,939</b>	<b>5,529,626</b>

### Voting rights

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

	2016	2015
<b>21. Reserves</b>		
District and Lodge Relief Fund	968,222	968,222
Society Benevolent and Emergency Relief Fund	568,492	587,203
Medical Services Reserve	2,508,453	2,489,053
Medical Services Fund	750,000	750,000
Lodge Reserve	474,250	477,750

**General Reserve**

General Reserves	10,475,517	9,203,652
<b>Total General Reserve</b>	<b>10,475,517</b>	<b>9,203,652</b>
<b>Total Reserves</b>	<b>15,744,934</b>	<b>14,475,880</b>
	2016	2015

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

District and Lodge Relief Reserve	968,222	968,222
<b>Total (a) District and Lodge Relief Fund</b>	<b>968,222</b>	<b>968,222</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.

2016                      2015

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

SBERF Reserve	587,203	597,523
Transfer to Retained Earnings from SBERF	(18,712)	(10,320)
<b>Total (b) Society Benevolent and Emergency Relief Fund</b>	<b>568,492</b>	<b>587,203</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.

2016                      2015

**(c) Medical Services Reserve**

Medical Services Reserves	2,489,053	2,511,271
Transfer from Medical Services Fund	19,400	(22,218)
<b>Total (c) Medical Services Reserve</b>	<b>2,508,453</b>	<b>2,489,053</b>

The medical services reserve was established from historic unallocated profits.

Amounts are transferred from the reserve to retained earnings to offset liabilities incurred as and when required.

2016                      2015

**(d) Medical Services Fund**

Medical Services Fund Reserve	750,000	750,000
<b>Total (d) Medical Services Fund</b>	<b>750,000</b>	<b>750,000</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.

	2016	2015
<b>(e) Lodge Reserves</b>		
Opening balance	477,750	479,009
Transfer (to)/from Retained Earnings from Lodge Reserve	-	21,460
Share fund appropriation to Retained Earnings from Lodge Reserve	-	(22,719)
Revaluation adjustment	(3,500)	-
<b>Total (e) Lodge Reserves</b>	<b>474,250</b>	<b>477,750</b>

Two Lodges have transferred land and buildings to the Society with a requirement that all income, including capital gains and losses, on those "ring-fenced" assets be held for the benefit of their Lodge members until such a time as the Lodge Trustees agree to distribution. At balance date the fair value of these "ring-fenced" assets was \$1,355,000 (2015: \$1,365,000).

	2016	2015
<b>(f) General reserve</b>		
Balance at the beginning of financial year	9,203,652	8,524,806
Release of Realised (Gain)/Loss on Disposal of Commercial Property to Retained Earnings	702,000	-
Revaluation of Commercial Properties from Retained Earnings	(10,000)	(440,000)
Release of Realised (Gain)/Loss on Disposal of Financial Assets to Retained Earnings	(1,127,828)	(6,070)
Unrealised Profit/(Loss) on change in fair value of financial assets from Retained Earnings	292,712	1,119,786
Release of Realised (Gain)/Loss on Disposal of Holiday Homes to Retained Earnings	-	(132,000)
Revaluation of Holiday Homes from Retained Earnings	469,565	91,304
Release of Realised (Gain)/Loss on Disposal of Leasehold Property to Retained Earnings	(294,275)	(110,000)
Revaluation of Leaseholds from Retained Earnings	1,239,691	155,825
<b>Total (f) General reserve</b>	<b>10,475,517</b>	<b>9,203,652</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.

## 22. Related Parties

### Related Party Disclosures

The Directors of Manchester Unity during the financial year were:

GJ Allanson

MG Ambrose

PL Haglund

JH Lowe

B Robinson

I R Taylor

### 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 (2015: Nil).

### Other Transactions

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

During the financial year interest on deposits held was paid to Manchester Unity Districts and Lodges totalling \$147,943 (2015: \$156,000). The term of investments ranged from call to 5 years.

Interest rates paid on the call deposits are reviewed in line with the deposit rates received by Manchester Unity from financial institutions.

At balance date the weighted average annual interest rate being paid was 4.78% (2015: 5.44%).

Outstanding balances with related parties are disclosed in notes 16 and 17.

No amounts were provided for doubtful debts relating to debts due from related parties at reporting date (2015: Nil)

### Key Management Personnel Compensation

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

	2016	2015
<b>Key Management Personnel Compensation</b>		
Short-term employee benefits	517,498	507,000
<b>Total Key Management Personnel Compensation</b>	<b>517,498</b>	<b>507,000</b>

## 23. Leases

	2016	2015
<b>Leases as Lessee</b>		
Not later than one year	95,196	95,196
Later than one year and no later than five years	7,933	103,129
Later than five years	-	-
<b>Total Leases as Lessee</b>	<b>103,129</b>	<b>198,325</b>

Operating leases disclosed relate to the lease of the group's Lambton Quay offices. The current lease for a term of 4 years was signed in June 2013. There is an option to extend the lease for a further 4 years.

The lease agreement contains a clause that market rent reviews are to be carried out every 2 years.

The Society does not have the option to purchase the space at the expiry of the lease period.

	2016	2015
<b>Leases as Lessor</b>		
Not longer than one year	700,658	754,610
Longer than one year and less than five years	1,342,463	1,450,616
Longer than five years	1,034,758	467,638
<b>Total Leases as Lessor</b>	<b>3,077,879</b>	<b>2,672,864</b>

Operating leases relate to commercial investment properties and leasehold land. Commercial properties owned by the group have lease terms of between 1 and 10 years. With one exception all leases have rights of renewal, with renewal durations between 3 and 6 years. The lessees 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 in perpetuity. A rent review is conducted at the end of each lease term. The lease holders 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.

	2016	2015
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## 24. Notes to the cashflow statement

### Comprehensive Income for the period is as follows:

Total comprehensive income/(loss)	2,261,867	900,763
<b>Total Comprehensive Income for the period is as follows:</b>	<b>2,261,867</b>	<b>900,763</b>

### Add/(less) non cash items:

Revaluation of investment property	(1,699,256)	197,800
Depreciation and amortisation	37,780	40,800
Appropriations to member benefit funds	-	363,800
Changes in fair value of financial assets through profit or loss	(292,711)	(1,120,200)
Change in life insurance contract obligations	(2,596,158)	(253,200)
<b>Total Add/(less) non cash items:</b>	<b>(4,550,345)</b>	<b>(771,000)</b>

### Add/(less) change in operating assets

Increase/(decrease) in unearned premiums	6,850	(13,200)
Increase/(decrease) in interest accrued	71,970	643,200
Increase/(decrease) in accounts receivable	(178,125)	(5,200)
Increase/(decrease) in premiums in arrears	(4,228)	(8,007)
Increase/(decrease) in other assets	8,996	(1,000)
Increase/(decrease) in trade and other payables	3,406	(67,000)
Increase/(decrease) in provisions	8,708	6,000
Member benefit fund contributions less withdrawals	858,585	(595,000)
<b>Total Add/(less) change in operating assets</b>	<b>776,162</b>	<b>(40,207)</b>

### Add/(less) items reclassified as investing activities

Realised gain on disposal of financial assets at designated fair value	289,780	(6,000)
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	2016	2015
Gain on sale of investment properties	1,090,614	(179,000)
<b>Total Add/(less) items reclassified as investing activities</b>	<b>1,380,394</b>	<b>(185,000)</b>
<b>Net cash inflow/(outflow) from operating activities</b>	<b>(131,922)</b>	<b>(95,444)</b>

## 25. 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, exchange rates and equity prices

### (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 25(b).

The following tables detail the group's exposure to interest rate and liquidity risk at 31 May 2016 and 31 May 2015 and are based on undiscounted cashflows.

	2016	2015
<b>Maturity Profile of Investments</b>		
<b>Financial Assets</b>		
<b>Less than 1 year</b>		
Cash and cash equivalents	1,435,538	714,000
<b>Other financial assets designated at fair value through profit or loss:</b>		
Government stock	485,400	30,000
Local authority stock	1,352,150	896,775
Corporate stock	6,683,718	6,796,000
Bank Term Deposits	6,545,549	16,929,132
NZ Equity	-	2,696,000
Australian Equity	-	1,609,379
<b>Total Other financial assets designated at fair value through profit or loss:</b>	<b>15,066,817</b>	<b>28,957,286</b>
<b>Trade and other Receivables</b>		
Mortgages & Loans	46,554	445,208
Other Receivables	209,587	28,000
<b>Total Trade and other Receivables</b>	<b>256,141</b>	<b>473,208</b>
<b>Total Less than 1 year</b>	<b>16,758,496</b>	<b>30,144,494</b>
<b>1 - 5 years</b>		
Cash and cash equivalents	-	-

	2016	2015
<b>Other financial assets designated at fair value through profit or loss:</b>		
Government stock	2,337,874	546,356
Local authority stock	2,418,470	1,313,281
Corporate stock	22,599,632	29,331,000
Bank term deposits	2,861,816	3,713,000
NZ Equity	-	-
Australian Equity	-	-
<b>Total Other financial assets designated at fair value through profit or loss:</b>	<b>30,217,792</b>	<b>34,903,637</b>
<b>Trade and other Receivables</b>		
Mortgages & Loans	417,797	1,040
Other Receivables	-	-
<b>Total Trade and other Receivables</b>	<b>417,797</b>	<b>1,040</b>
<b>Total 1 - 5 years</b>	<b>30,635,589</b>	<b>34,904,677</b>
<b>More than 5 years</b>		
Cash and cash equivalents	-	-
<b>Other financial assets designated at fair value through profit or loss:</b>		
Government stock	12,796,255	-
Local authority stock	5,797,952	-
Corporate stock	9,127,338	3,459,000
Bank Term Deposits	-	-
NZ Equity	-	-
Australian Equities	-	-
<b>Total Other financial assets designated at fair value through profit or loss:</b>	<b>27,721,545</b>	<b>3,459,000</b>
<b>Trade and other Receivables</b>		
Mortgages & Loans	193,719	178,678
Other Receivables	-	-
<b>Total Trade and other Receivables</b>	<b>193,719</b>	<b>178,678</b>
<b>Total More than 5 years</b>	<b>27,915,264</b>	<b>3,637,678</b>
<b>Total Financial Assets</b>	<b>75,309,349</b>	<b>68,686,849</b>
<b>Financial Liabilities</b>		
<b>Less than 1 year</b>		
Trade and other payables	702,348	418,000
District, Lodge and other deposits	1,888,997	2,064,217
Member benefit fund liabilities	12,329,820	11,468,000
<b>Total Less than 1 year</b>	<b>14,921,165</b>	<b>13,950,217</b>
<b>1 - 5 years</b>		
Trade and other Payables	-	-
District, Lodges and other deposits	787,092	1,105,316
Member benefit fund liabilities	-	-
<b>Total 1 - 5 years</b>	<b>787,092</b>	<b>1,105,316</b>
<b>More than 5 years</b>		
Trade and other Payables	-	-
District, Lodge and other deposits	-	-

	2016	2015
Member benefit fund liabilities	-	-
<b>Total More than 5 years</b>	-	-
<b>Total Financial Liabilities</b>	<b>15,708,257</b>	<b>15,055,533</b>

### Weighted Average Interest Rates

	31 May 2016	31 May 2015
<b>Financial Assets</b>		
Cash and cash equivalents	2.37%	3.50%
Government stock	4.57%	6.00%
Local authority stock	4.71%	4.92%
Corporate stock	5.23%	5.95%
Bank term deposits	4.46%	4.78%
First mortgage securities	7.50%	7.50%
IAB loans and advances	9.00%	9.00%
<b>Financial Liabilities</b>		
District, Lodge and other deposits	4.82%	5.32%

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

All financial liability counterparties rank equally.

### Interest rate sensitivity

Manchester Unity invests in fixed interest securities and bank deposits 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. Each 1% movement in interest rates up or down will equate to an increase/decrease in profit or loss and equity attributable to members of \$107,000 (2015: \$203,000).

### (e) Equity price risk

The Group is not exposed to equity price risks arising from equity investments as the group disposed of all equity investments during the course of the year. Equity investments are held for strategic rather than trading purposes. Equity investments are not actively traded.

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 9 counterparties (2015: 7) where the group's investment was greater than 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	10% < 20%	20% < 30%	30% < 40%	40% < 50%
<b>31 May 2016</b>				
AA+ - AA-	4	2	-	1
A+ - A-	1	1	-	-
BBB+ - BBB-	-	-	-	-

Credit Rating	10% < 20%	20% < 30%	30% < 40%	40% < 50%
<b>31 May 2015</b>				
AA+ - AA-	1	1	1	1
A+ - A-	1	1	-	-
BBB+ - 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 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 Poor's bonds range from AA+ 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 no longer held and no foreign exchange cover is in place. A 10% movement in the exchange rate between the foreign currency and the shares denominated in and New Zealand dollars will equate to a variation in profit or loss and equity attributable to members of \$Nil (2015: \$149,000).

#### **(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.

#### **(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 designated at fair value through profit or loss 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 as at fair value through profit or loss in accordance with NZ IFRS-4: <i>Insurance Contracts</i> .
L&R:	Loans and receivables
AC:	Amortised cost

2016                      2015

#### **Financial Assets**

##### **FVTPL**

Cash and cash equivalents	1,448,022	714,250
Other financial assets designated at fair value through profit or loss	64,209,416	61,663,024
<b>Total FVTPL</b>	<b>65,657,438</b>	<b>62,377,274</b>

**L&R at AC**

Trade and other receivables	702,348	522,747
<b>Total L&amp;R at AC</b>	<b>702,348</b>	<b>522,747</b>
<b>Total Financial Assets</b>	<b>66,359,786</b>	<b>62,900,021</b>
	2016	2015

**Financial Liabilities****AC**

Trade and other payables	336,053	417,468
District Lodge and other deposits	2,529,291	2,950,291
Member benefit fund liabilities	12,329,820	11,467,499
<b>Total AC</b>	<b>15,195,165</b>	<b>14,835,258</b>
<b>Total Financial Liabilities</b>	<b>15,195,165</b>	<b>14,835,258</b>

**(k) 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:

	2016	2015
<b>Level One</b>		
Cash and Cash Equivalents	1,448,022	714,250
Bank Term Deposits	9,258,520	20,127,936
Bonds	54,936,696	37,229,488
Equity Investments	14,200	4,305,600
<b>Total Level One</b>	<b>65,657,438</b>	<b>62,377,274</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.

**(l) Solvency risk**

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

**26. 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 discrete 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 19(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.

### **27. Events after the reporting date**

There are no other matters or circumstances since the end of the reporting period, not otherwise dealt with in these financial statements that have significantly or may significantly affect the operations of the Group (2015: Nil).

### **28. Contingent assets and liabilities**

There are no contingent assets or liabilities at balance date (2015: Nil).

### **29. Commitments for expenditure**

The group had no capital commitments at balance date (2015: Nil).

#### **Lease commitments**

Non-cancellable operating lease commitments are disclosed in note 23 to the financial statements.



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

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

We have audited the accompanying consolidated financial statements of Manchester Unity Friendly Society and its subsidiary (the "Group") on pages 3 to 39, which comprise the consolidated statement of financial position as at 31 May 2016, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cashflows 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. 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 Consolidated Financial Statements**

The Board of Directors are responsible on behalf of the Society for the preparation and fair presentation of these consolidated financial statements, in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the Board of Directors determine is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 consolidated 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, the provision of tax related advice and review of the Reserve Bank of New Zealand Solvency Return, we have no relationship with or interests in Manchester Unity Friendly Society or its subsidiary UNITY Limited. These services have not impaired our independence as auditor of the Manchester Unity Friendly Society and the Group.

### **Opinion**

In our opinion, the consolidated financial statements on pages 3 to 39 present fairly, in all material respects, the financial position of the Manchester Unity Friendly Society and its subsidiary as at 31 May 2016, and their financial performance and cashflows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

**Chartered Accountants**  
21 July 2016  
Wellington, New Zealand