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Annual Report

Manchester Unity Friendly Society

For the year ended 31 May 2018

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Consolidated Statement of Comprehensive Income

Manchester Unity Friendly Society
For the year ended 31 May 2018

	NOTES	2018	2017
Insurance before movement in life insurance obligations			
Premiums	4	1,316,292	1,370,595
Claims paid & accrued	4	(3,368,263)	(3,570,555)
Total Insurance before movement in life insurance obligations		(2,051,971)	(2,199,960)
Movement in life insurance contract obligations			
Movement in life insurance contract obligations		1,562,321	1,869,260
Total Movement in life insurance contract obligations		1,562,321	1,869,260
Insurance (deficit) before investment activities		(489,650)	(330,700)
Investment activities			
Net investment income	4	3,244,369	3,360,593
Gains from revaluations and disposals	4	1,797,023	466,102
Total Investment activities		5,041,392	3,826,695
Operating Expenses			
Operating Expenses	5	(2,012,981)	(1,969,546)
Total Operating Expenses		(2,012,981)	(1,969,546)
Surplus after insurance, investment activities & operating expenses		2,538,761	1,526,449
Holiday Homes and Member Benefits			
Net holiday homes income	6	41,611	39,497
Gains from revaluations	6	343,478	365,216
Member Benefit Expenses	6	(321,045)	(250,587)
Total Holiday Homes and Member Benefits		64,044	154,125
Fraternity			
Fraternal Income	7	284,465	275,581
Fraternal Operating Expenses	7	(497,370)	(514,644)
Total Fraternity		(212,905)	(239,063)
Operating surplus		2,389,900	1,441,511
Other Income			
Other Income			
Other Income		-	290
Commission		33,612	32,706
Total Other Income		33,612	32,996
Total Other Income		33,612	32,996
Total comprehensive income for the year		2,423,512	1,474,508

The financial statements should be read with accompanying notes on pages 7 to 38.

Consolidated Statement of Changes in Equity

Manchester Unity Friendly Society
For the year ended 31 May 2018

	NOTES	2018	2017
Retained Earnings			
Opening Balance		6,421,213	6,518,939
Movement during the year	18	(333,485)	(97,726)
Total Retained Earnings		**6,087,728**	**6,421,213**
Reserves			
Opening Balance		17,316,038	15,744,934
Movement during the year	19	2,195,897	1,571,104
Total Reserves		**19,511,935**	**17,316,038**
Total Equity		**25,599,663**	**23,737,251**

The financial statements should be read with accompanying notes on pages 7 to 38.

Consolidated Statement of Financial Position

Manchester Unity Friendly Society
As at 31 May 2018

	NOTES	2018	2017
Assets			
Cash & cash equivalents	10	3,222,901	2,755,968
Other financial assets at fair value through profit or loss	11	59,187,650	59,969,534
Trade and other receivables	12	97,205	482,146
Other assets	13	97,667	45,828
Investment property	14	20,296,044	18,019,566
Property, plant and equipment		174,793	53,809
Total Assets		**83,076,260**	**81,326,852**
Liabilities			
Trade and other payables	15	458,447	344,798
District & lodge deposits		1,424,790	1,518,911
Member benefit fund liabilities	16	13,383,798	12,476,954
Employee entitlements		207,649	133,311
Member insurance contract obligations	17	42,001,913	43,115,628
Total Liabilities		**57,476,597**	**57,589,602**
Net Assets		**25,599,663**	**23,737,251**
Equity			
Retained earnings	18	6,087,728	6,421,213
Reserves			
District & lodge relief fund	19	968,222	968,222
Society benevolent & emergency relief fund	19	537,501	552,209
Medical services reserve	19	2,598,112	2,549,704
Medical services fund	19	750,000	750,000
Restricted reserve - lodge reserve	19	487,550	481,250
Funeral Plan fund	19	24,001	8,605
General reserve	19	14,146,549	12,006,048
Total Reserves		**19,511,935**	**17,316,038**
Total Equity		**25,599,663**	**23,737,251**

The Directors of Manchester Unity Friendly Society authorised these financial statements for issue on 26 July 2018.

On behalf of the Board:

Graham Allanson

CHAIR OF AUDIT COMMITTEE

Date: 20/7/18

Michael Ambrose

DIRECTOR

Date: 26/7/18

The financial statements should be read with accompanying notes on pages 7 to 38.

Consolidated Statement of Cash Flows

Manchester Unity Friendly Society
For the year ended 31 May 2018

	NOTES	2018	2017
Cashflow			
Cash from Operating Activities			
Cash was provided from:			
Insurance premiums		1,327,810	1,376,690
Interest received		2,561,191	2,799,431
Dividends received		-	3,550
Rental income		824,416	840,174
Holiday homes income		145,943	144,266
Fraternal income		227,893	225,158
Other income		87,755	83,129
Member benefit fund contributions		1,358,755	677,921
Total Cash was provided from:		**6,533,763**	**6,150,319**
Cash was applied to:			
Payments to suppliers and employees		(2,672,433)	(2,815,765)
Payments for claims		(3,368,263)	(3,569,425)
Payments to member benefit funds		(788,374)	(532,453)
Interest paid to district & lodges		(60,860)	(94,302)
Total Cash was applied to:		**(6,889,930)**	**(7,011,945)**
Total Cash from Operating Activities	22	**(356,167)**	**(861,626)**
Cash from Investing Activities			
Cash was provided from:			
Proceeds from sale of investment properties		-	-
Proceeds from sale of financial assets		27,500,000	48,435,238
Repayment of mortgages & loans		378,268	64,107
Deposits received from district & lodges		-	-
Total Cash was provided from:		**27,878,268**	**48,499,345**
Cash was applied to:			
Purchase of financial assets		(26,801,843)	(45,272,721)
Purchase of property, plant & equipment		(159,205)	(46,672)
Deposit repayments to district & lodges		(94,120)	(1,010,380)
Total Cash was applied to:		**(27,055,168)**	**(46,329,773)**
Total Cash from Investing Activities		**823,100**	**2,169,572**
Net Increase/Decrease in Cash Held		**466,933**	**1,307,946**
Add Opening cash & cash equivalent		2,755,968	1,448,022
Closing cash & cash equivalents		**3,222,901**	**2,755,968**

The financial statements should be read with accompanying notes on pages 7 to 38.

Notes to the Consolidated Financial Statements

Manchester Unity Friendly Society
For the year ended 31 May 2018

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, administered by the registered General Rules under that Act. 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 consolidated financial statements comply with these Acts. Its registered office is located at 117 Lambton Quay, Wellington, New Zealand.

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

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 International Financial Reporting Standards (IFRS) and other applicable financial reporting standards as appropriate for profit entities.

Basis of Preparation

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

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

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 consolidated 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 PS-20, 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 17(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 designated 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 23.

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 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.

2.10 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

2.11 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 are 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 16.

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.

2.12 Leases

Group 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.

Group as lessor

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

2.13 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 consolidated statement of cash flows 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.

2.14 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.

2.15 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.

2.16 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, 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.

2.17 Reserves

Certain monies are held aside in reserves, as disclosed in note 19. Movements in these reserves are recognised as transfers to and from retained earnings.

2.18 Consolidated Statement of Cash Flows

For the purpose of the consolidated statement of cash flows, 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 consolidated statement of cash flows:

- Operating activities: are the principal revenue producing activities of the Group and other activities that are not investing 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.

2.19 Changes in Accounting Policies

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

3. Critical Accounting Estimates and Judgments

The preparation of financial statements requires management to make judgments, 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 as follows:

Area of estimate:

Valuation of insurance contract liabilities (Note 17 Member Insurance Contract Obligations)
Valuation of Investment Properties (Note 14 Investment Property)

Area of judgement:

Classification of holiday homes as investment properties (Note 14 Investment Property)

Standards or interpretations not yet effective

In the current year, the Group has applied all relevant Standards, Amendments and Interpretations to NZ IFRSs issued by the External Reporting Board ('XRB') that are mandatorily effective. The adoption of these Standards, Amendments and Interpretations have no material impact to the consolidated financial statements.

Various Standards, Amendments and Interpretations have been issued by the XRB at the date of these financial statements but have not been adopted by the Group as they are not yet effective. The table below sets out the Standards which are considered to be relevant to the Group upon their effective date. It is not practicable to determine the impact of these Standards on adoption as the Directors of the Society are in process of completing their impact assessment.

Standard Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
NZIFRS 9 'Financial Instruments'	1 January 2018	31 May 2019
NZIFRS 15 'Revenue from Contracts with Customers'	1 January 2018	31 May 2019
NZIFRS 16 'Leases'	1 January 2019	31 May 2020
NZIFRS 17 'Insurance Contracts'	1 January 2021	31 May 2022

Note

NZ IFRS 9 *Financial Instruments* was issued in September 2014 and replaces the existing guidance in NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from NZ IAS 39. NZ IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The likely impact of this standard is currently still being assessed.

NZ IFRS 15 *Revenue from Contracts with Customers* was issued in July 2014 and establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance,including NZ IAS 18 Revenue, NZ IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. NZ IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.The likely impact of this standard is currently still being assessed.

NZ IFRS 16 *Leases*, removes the classification of leases as either operating leases or finance leases - for the lessee - effectively treating all leases as finance leases. Lessor accounting remains similar to current practice - i.e. lessors continue to classify leases as finance and operating. The standard is effective for annual reporting periods beginning on or after 1 January 2019. The impact of the standard has the effect of taking the current leases that the Society are committed to (as disclosed in note 21(a)) and recognising a right of use asset and lease liability in the balance sheet for those leases the Society is committed to.

NZ IFRS 17 *Insurance Contracts* was issued by the New Zealand Accounting Standards board ('NZASB') of the XRB on the 10 August 2017. This will supersede current accounting for insurance contracts, establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts to ensure that an entity provides relevant information that faithfully represents those contracts. The likely impact of this standard is currently still being assessed.

4. Comprehensive Income Attributable to Members

	2018	2017
Insurance		
Premiums		
Increasing Assurance Benefit	196,307	209,293
Funeral Funds	292,903	302,675
Medical Services Fund	787,366	815,690
Education Support Plan	24,320	33,997
Funeral Plan	15,396	8,940
Total Premiums	**1,316,292**	**1,370,595**
Claims paid & provided for		
Increasing Assurance Benefit	(1,537,728)	(1,898,276)
Funeral Funds	(1,172,369)	(974,146)
Medical Services Fund	(579,091)	(610,083)
Education Support Plan	(54,533)	(73,804)
Funeral Plan	-	(336)
Society Sickness Benefit	(24,542)	(13,910)
Total Claims paid & provided for	**(3,368,263)**	**(3,570,555)**
Total Insurance before movement in life insurance obligations	**(2,051,971)**	**(2,199,960)**

	2018	2017
Investment Income		
Rental Income		
Commercial Property Income	559,974	562,972
Leasehold Property Income	290,479	297,742
Total Rental Income	**850,453**	**860,714**
Interest Income		
Bank Deposits	691,057	566,323
Fixed Interest Investments	1,859,003	2,060,130
Mortgages & Loans	26,134	27,160
District & Lodge Interest Received	60,860	94,302
Total Interest Income	**2,637,054**	**2,747,915**

	2018	2017
Dividend Income		
Investments	-	3,550
Total Dividend Income	-	3,550
Total Investment Income	3,487,507	3,612,179
Investment Expenses		
Investment Expenses		
Commercial properties	82,811	63,131
Leasehold Land	3,467	993
Financial Investment expenses	96,000	93,160
District & Lodge Interest Paid	60,860	94,302
Total Investment Expenses	243,138	251,586
Total Investment Expenses	243,138	251,586
Net Investment Income	3,244,369	3,360,593

Gains from Revaluations and Disposals

	2018	2017
Unrealised gains from Revaluations and Disposals		
Commercial Property Revaluation	933,000	505,000
Leasehold Land Revaluation	1,000,000	985,000
Fixed Interest Investments Revaluation	(135,977)	(98,629)
Total Unrealised gains from Revaluations and Disposals	1,797,023	1,391,371
Realised gain/(Losses)on disposal of investment property and financial assets		
Gain/(Loss) on Sale of Financial Assets	-	(925,269)
Total Realised gain/(Losses)on disposal of investment property and financial assets	-	(925,269)
Total Gains from Revaluations and Disposals	1,797,023	466,102

5. Operating Expenses

	2018	2017
Operating Expenses		
Audit Fees for financial statement audit	53,000	53,791
Communications	9,470	15,651
Computer Expenses	78,637	94,996
Depreciation of non current assets	37,727	30,693
Directors fees and expenses	285,899	266,074
Employee Expenses	787,287	770,066
Insurance	82,024	89,041
Office Administration	103,446	118,517
Society Outreach Programme	2,655	17,610
Other expenses	117,787	85,539
Other fees paid to auditor	10,904	10,500
Other professional fees	346,555	288,624
Rent and other occupancy expenses	88,289	120,084
Travel	9,301	8,360
Total Operating Expenses	2,012,981	1,969,545

Employee expenses

Includes contributions to Kiwisaver and a defined contribution pension plan of $23,399 (2017: $23,267). The Society has no other obligation to provide pension benefits to employees.

Auditor

The auditor of the Group is Deloitte Limited.

In addition to the statutory audit fee Deloitte Limited also received $5,000 (2017: $5,000) for the Reserve Bank solvency return assurance and $5,904 (2017: $5,500) for tax related compliance services.

6. Holiday Homes and Member Benefits

	2018	2017
Holiday Homes		
Holiday Home Income	145,943	144,266
Holiday Home Expenses	(104,332)	(104,770)
Net Holiday Home Income	41,611	39,497
Gains from Revaluations		
Holiday Home Revaluation	343,478	365,216
Total Gains from Revaluations	**343,478**	**365,216**

	2018	2017
Member Benefit Expenses		
Education Grants	5,106	5,000
Education Awards	32,270	33,333
Membership Privileges & Related Communications	59,613	28,214
SBERF Payments	15,084	16,282
Appropriations - Share Funds	208,972	167,758
Total Member Benefit Expenses	**321,045**	**250,587**

The share funds are pooled as part of the Group's total assets. This appropriation represents the investment return allocated to member share funds as approved by the Board. Total 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

	2018	2017
Fraternal Income		
Lodge Management Fees	227,893	225,158
Commission - Fraternal	56,572	50,423
Total Fraternal Income	**284,465**	**275,581**

	2018	2017
Fraternal Operating Expenses		
Fraternal Council Lodge Travel	7,952	13,673
Fraternal Council Meeting Costs	10,686	15,477
Other - Fraternal	9,335	4,008
Printing, Stationery & Postage - Fraternal	25,606	26,700
Rent - Fraternal	517	2,994
Salaries & Wages - Fraternal	274,688	277,945
Lodge Expenses, Functions, Hospitality & Other	96,537	87,524
Grandmaster - Expenses	3,291	3,721
Communications - Fraternal	2,718	10,988
Council Fees	40,959	44,917
Travel - Fraternal	19,250	10,742
Staff Training & Support - Fraternal	5,816	539
Celebrations	-	15,416
Meeting Expenses	15	-
Total Fraternal Operating Expenses	**497,370**	**514,644**

	2018	2017
8. Other Income		
Commission	33,612	32,706
Other Income	-	290
Total Other Income	**33,612**	**32,996**

	2018	2017
9. Income Tax Expense		
Surplus before tax	2,423,512	1,474,508
Tax at 28%	678,583	412,862
Permanent differences		
deductible differences	(840,196)	(596,057)
non deductible differences	-	-
Total Permanent differences	**(840,196)**	**(596,057)**
Tax losses utilised	(161,613)	(183,195)
Tax expense/(benefit)	-	-

The Society has $3,927,981 (2017: $3,350,792) unrecognised tax losses to carry forward.

In addition to the above, subsidiary Unity Limited has $1,650,000 (2017: $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 2018 and 31 May 2017 this is not probable because there will not be sufficient taxable profits against which to utilise the benefits of the temporary differences in the foreseeable future.

10. Cash and cash equivalents

Cash and cash equivalents include the following components;

	2018	2017
Cash and cash equivalents		
Cash at Bank	62,005	8,805
Short term bank deposits	3,160,896	2,747,164
Total Cash and cash equivalents	**3,222,901**	**2,755,968**

	2018	2017
11. Other Financial Assets		
Other financial assets designated at fair value through profit or loss		
Fixed Interest Investments	41,491,859	39,129,913
Term Deposit Investments	17,681,591	20,825,421
United Friendly Society Shares	14,200	14,200
Total Other financial assets designated at fair value through profit or loss	**59,187,650**	**59,969,534**

	2018	2017
12. Trade and other receivables		
Trade and other sundry receivables	10,785	23,310
Medical Accrued Revenue	10,236	27,998
Interest Receivable	1,369	2,184
Mortgages	74,815	428,654
Total Trade and other receivables	**97,205**	**482,146**

	2018	2017
13. Other Assets		
Prepayments	75,170	23,332
Inventories	22,497	22,497
Total Other Assets	**97,667**	**45,828**

	2018	2017
14. Investment Property		
Commercial Property		
Retail		
Ngaio Road, Waikanae		
Opening Fair Value	3,450,000	3,500,000
Acquisitions and Disposals	-	-
Fair Value Revaluation	750,000	(50,000)
Total Ngaio Road, Waikanae	**4,200,000**	**3,450,000**
Lombard Street, Palmerston North		
Opening Fair Value	510,000	515,000
Acquisitions and Disposals	-	-
Fair Value Revaluation	(25,000)	(5,000)
Total Lombard Street, Palmerston North	**485,000**	**510,000**

Bridge Street, Nelson		
Opening Fair Value	865,000	840,000
Acquisitions and Disposals	-	-
Fair Value Revaluation	43,000	25,000
Total Bridge Street, Nelson	**908,000**	**865,000**
Total Retail	**5,593,000**	**4,825,000**
Retail Development		
Kent Terrace, Wellington		
Opening Fair Value	3,235,000	2,700,000
Acquisitions and Disposals	-	-
Fair Value Revaluation	165,000	535,000
Total Kent Terrace, Wellington	**3,400,000**	**3,235,000**
Total Retail Development	**3,400,000**	**3,235,000**
Total Commercial Property	**8,993,000**	**8,060,000**
Leasehold Properties		
Opening Fair Value	6,090,001	5,105,001
Acquisitions and Disposals	-	-
Fair Value Revaluation	1,000,000	985,000
Total Leasehold Properties	**7,090,001**	**6,090,001**
Holiday accommodation properties		
Opening Fair Value	3,869,565	3,504,349
Acquisitions and Disposals	-	-
Fair Value Revaluation	343,478	365,216
Total Holiday accommodation properties	**4,213,043**	**3,869,565**
Fair Value of investment property at year end	**20,296,044**	**18,019,566**

	2018	**2017**
Investment Property Summary		
Total balance at start	18,019,566	16,164,350
Total acquisitions	-	-
Total fair value revaluation	2,276,478	1,855,216
Total investment property at year end	**20,296,044**	**18,019,566**

The Independent valuers were:

Darroch Limited

Quotable Value NZ 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); 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).

Two commercial properties with a total fair value of $1,393,000 (2017: $1,375,000) are held for the benefit of members of Loyal Nelson Lodge and Loyal Manawatu Lodge - refer note 19e.

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; and

- 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.

Holiday Homes are intended to provide annual returns and realise a capital gain upon sale, and are therefore classified as investment properties.

Class of Property Fair Value Hierarchy Fair Value 31 May	Valuation techniques used	Inputs used to measure fair value	Range of significant unobservable inputs 31 May 2018	Range of significant unobservable inputs 31 May 2017
Retail Level 3 2018: $5,593,000 2017: $4,825,000	Income capitalisation approach Discounted cash flow analysis	Net market rent $/m2	$34 to $323	$41 to $311
		Capitalisation rate contract rentals	7.00% - 9.00%	7.75% - 9.25%
		Capitalisation rate market rentals	7.25% - 9.00%	7.85% - 9.25%
		Discount rate	9.00%	9.25%
		Terminal capitalisation rate	9.50%	9.75%
		Rental growth rate (pa)	2.20%	2.20%
		Expenses growth rate (pa)	2.00%	2.00%
Redevelopment/ Retail Level 3 2018: $3,400,000 2017: $3,235,000	Income capitalisation approach Sales comparison approach	Net market rent $/psm	$58 to $203	$60 to $205
		Capitalisation rate market rentals	5.00% - 5.25%	5.00% - 5.25%
		Discount rate - rental	8.00%	8.00%
		Shortfall/Holding Income Land value $/psm	$2,900	$2,750
Leasehold Properties Level 3 2018: $7,090,000 2017: $6,090,000	Discounted cash flow	Site land values	$250,000-$305,000	$225,000-$250,000
		Discount rate	7.75%	8.00%
		Capitalisation rate initial yield	4.37%	5.00%
		Capitalisation rate effective yield	5.06%	5.10%
Holiday Accommodation Properties Level 2 2018: $4,213,043 2017: $3,869,565	Sales comparison approach	Sales ($psm)	N/A	N/A

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

Fair value measurement sensitivity

Significant inputs	Increase in input	Decrease in input
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

Valuation Methodologies

Income capitalisation approach

The income approach (investment valuation approach) is the prime determinant of fair value for commercial properties of this nature. 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). Whereas the investment approach capitalises income at a specific point in time, 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.

15. Trade and Other Payables

	2018	2017
Trade creditors and accruals	367,975	248,082
Unearned Premiums	90,472	96,715
Total Trade and Other Payables	**458,447**	**344,798**

16. Member Benefit Fund Liabilities

	2018	2017
Member Share Funds		
Opening Balance	12,453,522	12,306,735
Contributions including transfers	1,351,753	515,270
Withdrawals	(773,290)	(536,241)
Appropriations - Share Funds	327,679	167,758
Total Member Share Funds	**13,359,664**	**12,453,522**

	2018	2017
Hawkes Bay Endowment Fund		
Hawkes Bay Endowment Fund	24,134	23,432
Total Hawkes Bay Endowment Fund	24,134	23,432
Total Member Benefit Fund Liabilities	13,383,798	12,476,954

At 31 May 2018 the Directors have declared an appropriation of 3.0% of balances held (2017: 1.5%). 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.

	2018	2017
Member Share funds		
Antipodean Lodge	456,345	464,457
Ashburton Lodge	454,525	454,196
Auckland District	292,333	296,103
Banks Peninsula Branch	587,585	634,606
Britannia Lodge	353,355	301,036
City of Wellington Lodge	1,293,471	150,390
Egmont Lodge	1,512,466	1,549,902
Greytown Lodge	103,331	101,151
Hastings Lodge	802,904	806,793
Manawatu Lodge	501,313	491,012
Manchester Lodge	71,451	69,623
Masterton Lodge	577,887	625,442
Napier Lodge	1,799,644	1,808,989
Nelson Lodge	2,568,712	2,682,805
Rangiora Lodge	1,073,154	1,090,065
United Westland Lodge	80,888	84,845
Wanganui Lodge	801,261	812,302
Woodville Lodge	29,040	29,806
Total Member Share funds	13,359,665	12,453,522

During the year The Loyal City of Wellington Lodge consolidated with the society.

(b) Hawkes Bay Endowment Fund

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

17. 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 Fitch Ratings on 2 March 2018. 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 61.
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.
Funeral Plan	Provides funeral cover up to a maximum of $10,000. Administered by the Board of Directors under General Rule 62.
Medical Insurance Plan	Provides three levels of affordable medical insurance to members, Basic, Premier and Wellness. Administered by the Board of Directors under General Rule 34.

(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 2018.

	2018	2017
Fund Transactions		
Medical Services Fund		
Opening balance Members' Funds	200,000	200,000
Contributions/Premiums	787,366	815,690
Withdrawals/Claims	(579,091)	(610,083)
Society management fees	(143,799)	(147,921)
Other acquisition costs	(16,068)	(16,435)
Transfers	(48,408)	(41,251)
Total Medical Services Fund	**200,000**	**200,000**
Funeral Fund		
Opening balance Members' Funds	7,991,372	7,971,986
Contributions/Premiums	292,903	302,675
Withdrawal/Claims	(430,490)	(351,400)
Society management fees	(48,452)	(49,989)
Appropriations	236,556	118,099
Total Funeral Fund	**8,041,889**	**7,991,372**
Increased Funeral Fund		
Opening balance Members' Funds	14,593,829	15,000,903
Withdrawals/Claims	(741,879)	(622,746)
Appropriations	425,975	215,672
Total Increased Funeral Fund	**14,277,925**	**14,593,829**
Increasing Assurance Benefit		
Opening balance Members' Funds	19,701,481	21,129,335
Contributions/Premiums	196,306	209,293
Withdrawals/Claims	(1,537,728)	(1,898,276)
Society management fees	(18,362)	(19,559)
Other acquisition costs	(9,818)	(10,467)
Appropriations	569,550	291,155
Total Increasing Assurance Benefit	**18,901,429**	**19,701,481**
Education Support Plan		
Opening balance Members' Funds	401,885	441,692
Contributions/Premiums	24,320	33,997
Withdrawals/Claims	(54,533)	(73,804)
Total Education Support Plan	**371,672**	**401,885**

Funeral Plan		
Contributions/Premiums	15,396	8,941
Withdrawals/Claims	-	(336)
Transfers	(15,396)	(8,605)
Total Funeral Plan	-	-

Society Sickness Benefit Fund		
Opening balance Members' Funds	227,061	240,971
Withdrawals/Claims	(24,541)	(13,910)
Appropriations	6,478	-
Total Society Sickness Benefit Fund	**208,998**	**227,061**
Total Member Insurance Contract Obligations	**42,001,913**	**43,115,628**

	2018	**2017**
Summary of fund transactions		
Total opening balance Members' Funds	43,115,628	44,984,888
Total movement	(2,352,274)	(2,494,186)
Total appropriations	1,238,559	624,926
Total closing balance Member insurance contract obligations	**42,001,913**	**43,115,628**

(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; and
- 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 19c.

(d) Actuarial valuation of member insurance contract obligations
The valuation of member insurance contract obligations was carried out as at 31 May 2018 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 Fund (Discretionary)	Projection
Society Sickness Benefit Fund (Discretionary)	Accumulation
Education Support Plan (Discretionary)	Accumulation
Funeral Plan (Non 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 of the funds was 3.0% per annum (2017: 3.0%).

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

(iii) Taxation
The Society has no tax payable due to prior years tax losses being carried forward, 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 0.80% of sum assured and 1.60% of existing bonus (2017: 0.78% and 1.56%).
- 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 (2017: 0.00% and 0.00%)

(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		
Future policy benefits	15,509,049	16,373,609
Future additions	2,344,746	2,436,525
Future expense transfers	220,408	245,287
Future contributions	(1,418,962)	(1,592,079)
Members' unvested benefit liability	2,246,188	2,238,139
Total IAB	**18,901,429**	**19,701,481**
Funeral Funds		
Future policy benefits	23,642,821	24,038,299
Future addtions	-	-
Future expense transfers	497,590	520,062
Future contributions	(2,996,036)	(3,134,255)
Members' unvested benefit liability	1,175,439	1,161,095
Total Funeral Funds	**22,319,814**	**22,585,201**
Other Funds		
Accumulation method	780,670	828,946
Total Other Funds	**780,670**	**828,946**
Total	42,001,913	43,115,628

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.

	2018	2017
Maturity profile member insurance contract obligations		
Current	3,104,622	2,761,998
1 - 5 years	9,378,405	9,607,604
More than 5 years	38,747,018	40,839,401
Total Maturity profile member insurance contract obligations	**51,230,045**	**53,209,003**

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 2018 the Actual Solvency Capital was $25,113,000 (2017: $23,257,000) and the Minimum Solvency Capital was $14,935,000 (2017: $14,296,000) resulting in a Solvency Margin of $10,178,000 (2017: $8,961,000) and a Current Solvency Ratio of 1.68 (2017: 1.63).

	2018	2017
18. Retained Earnings		
Retained earnings	6,421,213	6,518,939
Movement for year		
Total comprehensive income for year.	2,423,512	1,474,508
Appropriations to Insurance Funds	(448,693)	-
Appropriations to Share Fund	(118,707)	(8,130)
Transfer from Society Benevolent and Emergency Relief Fund	14,708	16,282
Transfer from/(to) Medical Services Reserve	(48,408)	(41,251)
Transfer from/(to) Funeral Plan Reserve	(15,396)	(8,605)
Transfers from/(to) General Reserve		
Release of Realised Gain/(Loss) on Disposal of Financial Assets	-	226,056
Revaluation of Investment Properties	(2,276,478)	(1,855,216)
Unrealised (Profit)/Loss on change in fair value of financial assets	135,977	98,629
Total Transfers from/(to) General Reserve	**(2,140,501)**	**(1,530,531)**
Total Movement for year	**(333,485)**	**(97,726)**
Balance at the end of the financial year	**6,087,728**	**6,421,213**

Voting rights

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

	2018	2017
19. Reserves		
District and Lodge Relief Fund	968,222	968,222
Society Benevolent and Emergency Relief Fund	537,501	552,209
Medical Services Reserve	2,598,112	2,549,704
Medical Services Fund	750,000	750,000
Restricted Reserve - Lodge Reserve	487,550	481,250
Funeral Plan Reserve	24,001	8,605
General Reserve	14,146,549	12,006,048
Total Reserves	**19,511,935**	**17,316,038**

	2018	2017
Summary of Reserves		
Total opening balances	17,316,038	15,744,934
Total movement	2,195,897	1,571,104
Total closing balances	**19,511,935**	**17,316,038**

	2018	2017
(a) District and Lodge Relief Fund		
District and Lodge Relief Reserve	968,222	968,222
Total (a) District and Lodge Relief Fund	**968,222**	**968,222**

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.

	2018	2017
(b) Society Benevolent and Emergency Relief Fund		
SBERF Reserve	552,209	568,492
Transfer to Retained Earnings from SBERF	(14,708)	(16,282)
Total (b) Society Benevolent and Emergency Relief Fund	**537,501**	**552,209**

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.

	2018	2017
(c) Medical Services Reserve		
Medical Services Reserves	2,549,704	2,508,453
Transfer from Retained Earnings	48,408	41,251
Total (c) Medical Services Reserve	**2,598,112**	**2,549,704**

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.

	2018	2017
(d) Medical Services Fund		
Medical Services Fund Reserve	750,000	750,000
Total (d) Medical Services Fund	**750,000**	**750,000**

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.

	2018	2017
(e) Restricted Reserve - Lodge Reserves		
Opening balance	481,250	474,250
Revaluation adjustment	6,300	7,000
Total (e) Restricted Reserve - Lodge Reserves	**487,550**	**481,250**

Two Lodges have transferred land and buildings to the Society with a requirement that 35% of 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 $1,393,000 (2017: $1,375,000).

	2018	2017
(f) Funeral Plan Fund		
Opening Balance	8,605	-
Transfer to Funeral Plan Reserve	15,396	8,605
Total (f) Funeral Plan Fund	**24,001**	**8,605**

	2018	2017
(g) General reserve		
Balance at the beginning of financial year	12,006,048	10,475,517
Revaluation of Commercial Properties from Retained Earnings	933,000	505,000
Release of Realised (Gain)/Loss on Disposal of Financial Assets to Retained Earnings	-	(226,056)
Unrealised Profit/(Loss) on change in fair value of financial assets from Retained Earnings	(135,977)	(98,629)
Revaluation of Holiday Homes from Retained Earnings	343,478	365,216
Revaluation of Leaseholds from Retained Earnings	1,000,000	985,000
Total (g) General reserve	**14,146,549**	**12,006,048**

The general reserve represents unrealised gains/losses made on the Group'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.

20. Related Parties

Related Party Disclosures

The Directors of Manchester Unity during the financial year were:

G J Allanson

M G Ambrose

P L Haglund

J H Lowe

B Robinson

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 (2017: Nil).

Other Transactions

During the financial year Manchester Unity provided accounting and administration services to the Manchester Unity Districts and Lodges for no consideration (2017: Nil consideration).

During the financial year interest on deposits held was paid to Manchester Unity Districts and Lodges totalling $60,860 (2017: $94,302). 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 4.16% (2017: 3.91%).

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 (2017: Nil)

Key Management Personnel Compensation

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

	2018	2017
Key Management Personnel Compensation		
Key Management Personnel Compensation	580,687	538,960
Total Key Management Personnel Compensation	**580,687**	**538,960**

Key management personnel comprises board members and 1 key management.

21. Leases

	2018	2017
(a) Leases as Lessee		
Not later than one year	69,785	54,457
Later than one year and no later than five years	279,140	279,140
Later than five years	23,262	93,047
Total (a) Leases as Lessee	**372,187**	**426,644**

Operating leases disclosed relate to the lease of the Group's Lambton Quay. The current lease relating to level 10, 117 Lambton Quay is, for a term of 6 years was signed in November 2016.

The lease agreement for Level 10, 117 Lambton Quay contains a clause that market rent reviews is to be carried out on the third anniversary from commencement of the lease.

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

	2018	2017
(b) Leases as Lessor		
Not longer than one year	837,820	704,876
Longer than one year and less than five years	3,103,656	1,884,618
Longer than five years	10,512,721	2,638,792
Total (b) Leases as Lessor	**14,454,197**	**5,228,286**

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 Directors approve the freeholding of the properties at a market value set by a registered independent valuer.

	2018	2017
22. Notes to the cashflow statement		
Comprehensive Income for period is as follows:		
Total Comprehensive Income for the year	2,423,512	1,474,508
Total Comprehensive Income for period is as follows:	**2,423,512**	**1,474,508**
Add/(less) non cash items:		
Revaluation of investment property	(2,276,478)	(1,855,216)
Depreciation and amortisation	38,221	30,981
Appropriations to member benefit funds	208,972	168,888
Movement in Accounts Receivable	14,955	17,537
Changes in fair value of financial assets through profit or loss	135,977	98,629
Change in life insurance contract obligations	(1,562,321)	(1,869,260)
Total Add/(less) non cash items:	**(3,440,674)**	**(3,408,442)**

	2018	2017
Add/(less) change in operating assets		
Increase/(decrease) in unearned premiums	(6,244)	5,865
Increase/(decrease) in interest accrued	(52,250)	(53,467)
Increase/(decrease) in accounts receivable	(2,429)	239,458
Increase/(decrease) in premiums in arrears	17,762	230
Increase/(decrease) in other assets	(51,838)	(14,773)
Increase/(decrease) in trade and other payables	119,893	(4,932)
Increase/(decrease) in provisions	74,337	(3,589)
Member benefit fund contributions less withdrawals	561,764	(21,754)
Total Add/(less) change in operating assets	**660,995**	**147,038**
Total Add/(less) items reclassified as investing activities		
Realised gain on disposal of financial assets at designated fair value	-	925,269
Total Total Add/(less) items reclassified as investing activities	-	**925,269**
Net cash inflow/(outflow) from operating activities	(356,167)	(861,627)

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, 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 the Group in accordance with the investment policy as disclosed in note 23(b).

The following tables detail the group's exposure to interest rate and liquidity risk at 31 May 2018 and 31 May 2017.

	2018	2017
Maturity Profile of Investments		
Financial Assets		
Less than 1 year		
Cash and cash equivalents	3,222,901	2,755,968
Other financial assets designated at fair value through profit or loss:		
Government stock	1,022,021	-
Local authority stock	-	-
Corporate stock	6,243,085	-
Bank Term Deposits	16,804,813	20,456,176
Total Other financial assets designated at fair value through profit or loss:	**24,069,919**	**20,456,176**

	2018	2017
Trade and other Receivables		
Mortgages & Loans	42,898	39,409
Other Receivables	22,389	53,492
Total Trade and other Receivables	**65,287**	**92,901**
Total Less than 1 year	**27,358,107**	**23,305,045**
1 - 5 years		
Cash and cash equivalents	-	-
Other financial assets designated at fair value through profit or loss:		
Government stock	3,503,998	1,830,044
Local authority stock	3,277,567	1,071,140
Corporate stock	18,342,626	17,434,776
Bank term deposits	876,780	369,246
Total Other financial assets designated at fair value through profit or loss:	**26,000,971**	**20,705,206**
Trade and other Receivables		
Mortgages & Loans	31,918	7,409
Other Receivables	-	-
Total Trade and other Receivables	**31,918**	**7,409**
Total 1 - 5 years	**26,032,889**	**20,712,615**
More than 5 years		
Cash and cash equivalents	-	-
Other financial assets designated at fair value through profit or loss:		
Government stock	1,144,712	3,859,061
Local authority stock	3,894,107	5,658,658
Corporate stock	4,077,941	9,290,434
Bank Term Deposits	-	-
Total Other financial assets designated at fair value through profit or loss:	**9,116,760**	**18,808,153**
Trade and other Receivables		
Mortgages & Loans	-	381,836
Other Receivables	-	-
Total Trade and other Receivables	-	**381,836**
Total More than 5 years	**9,116,760**	**19,189,989**
Total Financial Assets	**62,507,756**	**63,207,649**
Financial Liabilities		
Less than 1 year		
Trade and other Payables	666,096	478,109
District, Lodges and other deposits	924,791	618,911
Member benefit fund liabilities	13,383,798	12,476,954
Total Less than 1 year	**14,974,685**	**13,573,974**

	2018	2017
1 - 5 years		
Trade and other Payables	-	-
District, Lodges and other deposits	200,000	600,000
Member benefit fund liabilities	-	-
Total 1 - 5 years	**200,000**	**600,000**
More than 5 years		
Trade and other Payables	-	-
District, Lodge and other deposits	300,000	300,000
Member benefit fund liabilities	-	-
Total More than 5 years	**300,000**	**300,000**
Total Financial Liabilities	**15,474,685**	**14,473,974**

Weighted Average Interest Rates

	31 May 2018	31 May 2017
Financial Assets		
Cash and cash equivalents	2.15%	2.30%
Government stock	4.64%	4.64%
Local authority stock	5.28%	5.38%
Corporate stock	5.02%	5.09%
Bank term deposits	3.66%	4.35%
First mortgage securities	NA	5.20%
IAB loans and advances	9.00%	9.00%
Financial Liabilities		
District, Lodge and other deposits	4.21%	3.91%

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 $208,425 (2017: $235,812).

(e) Equity price risk
The Group is not exposed to equity price risks arising from equity investments.

(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 (2017: 9) 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%
31 May 2018				
AA+ - AA-	5	-	-	1
A+ - A-	2	-	-	-
BBB+	1	-	-	-
31 May 2017				
AA+ - AA-	3	2	1	-
A+ - A-	1	2	-	-

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) 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.

(h) Fair value of financial assets and liabilities
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; and
- Where no market price is available, a yield to maturity valuation is done based on securities of a similar type or duration.

(i) 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: Insurance Contracts.
L&R:	Loans and receivables
AC:	Amortised cost

	2018	2017
Financial Assets		
FVTPL		
Cash and cash equivalents	3,222,901	2,755,968
Other financial assets designated at fair value through profit or loss	59,187,650	59,969,534
Total FVTPL	**62,410,551**	**62,725,503**
L&R at AC		
Trade and other receivables	97,205	482,146
Total L&R at AC	**97,205**	**482,146**
Total Financial Assets	**62,507,756**	**63,207,649**

	2018	2017
Financial Liabilities		
AC		
Trade and other payables	666,095	478,109
District Lodge and other deposits	1,424,791	1,518,911
Member benefit fund liabilities	13,383,798	12,476,954
Total AC	**15,474,684**	**14,473,974**
Total Financial Liabilities	**15,474,684**	**14,473,974**

(j) Fair value measurements recognised in the Consolidated 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:

	2018	2017
Level One		
Cash and Cash Equivalents	3,222,901	2,755,968
Bank Term Deposits	17,681,591	20,825,421
Bonds	41,491,859	39,129,913
Equity Investments	14,200	14,200
Total Level One	62,410,551	62,725,503

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.

24. 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 17(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.

25. 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 (2017 : Nil).

26. Contingent assets and liabilities

There are no contingent assets or liabilities at balance date (2017: Nil).

27. Commitments for expenditure

The Group had no capital commitments at balance date (2017: Nil).

28. Lease commitments

Non-cancellable operating lease commitments are disclosed in note 22 to the financial statements.

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Independent Auditor's Report

To the Members of Manchester Unity Friendly Society

Opinion

We have audited the consolidated financial statements of Manchester Unity Friendly Society (the 'Society') and its subsidiary (the 'Group'), which comprise the consolidated statement of financial position as at 31 May 2018, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 1 to 38, present fairly, in all material respects, the consolidated financial position of the Group as at 31 May 2018, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other assignments for the Group in the area of tax related compliance services and review of the Reserve Bank of New Zealand Solvency Return. These services have not impaired our independence as auditor of the Group. In addition to this, partners and employees of our firm deal with the Society and its subsidiaries on normal terms within the ordinary course of trading activities of the business of the Society and its subsidiaries. The firm has no other relationship with, or interest in, the Society or any of its subsidiaries.

Directors' responsibilities for the consolidated financial statements

The directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-5

This description forms part of our auditor's report.

Restriction on use

This report is made solely to the Group's members, as a body. Our audit has been undertaken so that we might state to the Group's members those matters we are required

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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 Group's members as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte Limited

Mike Hoshek, Partner
for Deloitte Limited
Christchurch, New Zealand
26 July 2018

Greystone Consulting

Manchester Unity Friendly Society

Review of Actuarial Information In, or Used In Preparation of, the Financial Statements at 31 May 2018

This report is to provide certain information and certification as required under Sections 77 and 78 of the Insurance (Prudential Supervision) Act 2010 (the Act). This information is actuarial information in, or used in, the preparation of, the financial statements as at 31 May 2018.

I have provided a "Valuation Report" dated 18 July 2018, which contains detailed advice on actuarial information for the financial statements,

The Solvency Standard for Life Insurance Business issued under the Act (the Standard) specifies which is actuarial information.

I have reviewed the following actuarial information:

- The member insurance contract liabilities (referred to in the Standard as Policy Liability.
- The members' unvested benefit liability. (referred to in the Standard as unvested policyholder benefits liability).
- Note 14(d) to the financial statements containing valuation method, disclosure of. assumptions, components of member insurance contract obligations, maturity profile of member insurance contract obligations, and solvency, and note 23(k) to the financial statements containing solvency risk.

The Society has no reinsurance and no deferred tax or deferred acquisition assets.

I can advise as follows:

- There were no limitations or restrictions placed on me in carrying out this work, and I have obtained all the information and explanation that I required.
- My relationship with or interest in the Society is limited to that of Appointed Actuary.
- It is the Society's established policy to seek my advice on actuarial information and to adopt my advice in the financial statements.
- The actuarial information provided by me has been prepared in accordance with the New Zealand Equivalent of International Financial Reporting Standard 4, and Professional Standard 3 of the New Zealand Society of Actuaries
- The actuarial information contained in, and used in the preparation of, the financial statements has been appropriately included and used.
- In my opinion, and from an actuarial perspective, the Society is maintaining, at the balance date, the solvency margin as required under the Act.
- The Society has an exemption from the requirement to maintain statutory funds.

Charles Cahn
FIAA FNZSA
Appointed Actuary
27 July 2018

COMPANIES OFFICE
17 OCT 2018
RECEIVED