



Te Uniana Whakanama Pirihimana

POLICE HELPING POLICE

# Financial Statements

## 2020





# Contents

Statement of Comprehensive Revenue and Expense	3
Statement of Changes in Net Assets/Equity	3
Statement of Financial Position	4
Statement of Cash Flows	5
Notes to the Financial Statements	6
1. Corporate Information	6
2. Financial Performance	7
3. Deposits and Liquidity	8
4. Loans to Members	10
5. Other Financial Position Notes	13
6. Other Notes	17
7. Other Accounting Policies	18
8. Credit Rating	18
9. Financial Risk Mangement Objectives and Policies	18
10 Impact of COVID-19	23



## Statement of Comprehensive Revenue and Expense

For the year ended 30 June 2020

	Note	2020 \$000	2019 \$000
<b>REVENUE</b>			
Interest Revenue	2.1	6,853	7,316
Interest Expenditure	2.1	1,995	2,246
<b>Net Interest Revenue</b>		<b>4,858</b>	<b>5,070</b>
<b>Other Income</b>	<b>2.2</b>	<b>156</b>	<b>173</b>
		<b>5,014</b>	<b>5,243</b>
<b>EXPENDITURE</b>			
Operating Expenses	2.3	2,527	2,456
Employee Benefits	2.3	1,317	1,229
Loan Impairment Expenses		29	13
Depreciation	5.1	62	72
Amortisation Expenses	5.2	194	176
Occupancy		91	96
Share of Surplus/Deficit of an Equity Accounted Associate		-	-
<b>Total Operating Expenditure</b>		<b>4,220</b>	<b>4,042</b>
<b>Surplus for the Year Attributable to Members</b>		<b>794</b>	<b>1,201</b>
Other Comprehensive Revenue and Expense		-	-
<b>Total Comprehensive Revenue and Expense for the Year</b>		<b>794</b>	<b>1,201</b>

## Statement of Changes in Net Assets/Equity

For the year ended 30 June 2020

	Note	Accumulated Revenue and Expense \$000	Total \$000
<b>Balance as at 30 June 2018</b>		<b>24,374</b>	<b>24,374</b>
Total Comprehensive Revenue and Expense for the Year		1,201	1,201
<b>Balance as at 30 June 2019</b>		<b>25,575</b>	<b>25,575</b>
Total Comprehensive Revenue and Expense for the Year		794	794
<b>Balance as at 30 June 2020</b>		<b>26,369</b>	<b>26,369</b>

## Statement of Financial Position

For the year ended 30 June 2020

	Note	2020 \$000	2019 \$000
<b>MEMBERS' FUNDS</b>			
Accumulated Revenue and Expense		26,369	25,575
<b>Total Members' Funds</b>		<b>26,369</b>	<b>25,575</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	3.1	4,636	6,734
Term Deposits	3.2	93,209	75,879
Loans to Members	4.1	42,401	48,333
Prepayments		604	354
Property, Plant and Equipment	5.1	73	113
Intangible Assets	5.2	390	515
Investment in Associate	5.5	3,012	-
<b>Total Assets</b>		<b>144,325</b>	<b>131,927</b>
<b>LIABILITIES</b>			
Trade and Other Payables	5.4	278	241
Employee Benefits		73	70
Members' Deposits	5.6	117,605	106,041
<b>Total Liabilities</b>		<b>117,956</b>	<b>106,352</b>
<b>Net Assets/Equity</b>		<b>26,369</b>	<b>25,575</b>

These financial statements are authorised for and on behalf of the Board by:



Director, Richard Middleton  
Date: 11 September 2020



Director, Lane Todd  
Date: 11 September 2020

## Statement of Cash Flows

For the year ended 30 June 2020

Note	2020 \$000	2019 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest Received	6,489	6,999
Fees, Commissions and Other Income	156	173
Interest Paid	(2,086)	(2,244)
Payments to Suppliers and Employees	(4,123)	(4,169)
Net Movement in Members' Loans	5,931	5,367
Net Increase in Member Deposits	11,655	2,798
<b>Net Cash Provided by Operating Activities</b>	<b>18,022</b>	<b>8,924</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for Property, Plant, Equipment	(22)	(44)
Payments for Intangibles	(110)	(114)
Increase in Term Deposits	(16,976)	(8,571)
Payments for Purchase of Equity Accounted Investment	(3,012)	-
<b>Net Cash Used in Investing Activities</b>	<b>(20,120)</b>	<b>(8,729)</b>
Total Net Increase (Decrease) in Cash and Cash Equivalents	(2,098)	195
Cash and Cash Equivalents at the Beginning of the Period	6,734	6,539
<b>Cash and Cash Equivalents at the End of the Period</b>	<b>4,636</b>	<b>6,734</b>
<b>Reconciliation of Cash Flow from Operating Activities with Operating Surplus</b>		
<b>Surplus for the Year Attributable to Members</b>	<b>794</b>	<b>1,201</b>
<b>NON CASH ITEMS</b>		
Depreciation and assets written off	297	248
Impairment Allowance	12	13
	<b>309</b>	<b>261</b>
<b>CHANGES IN ASSETS AND LIABILITIES</b>		
Movement in Prepayments	(252)	(300)
Movement in Accounts Payable	36	(81)
Movement in Employee Benefits	3	(6)
Movement in Loans	5,931	5,367
Movement in Member Deposits	11,655	2,798
Movement in Accrued Interest Receivable	(364)	(317)
Movement in Accrued Interest Payable	(91)	1
	<b>16,919</b>	<b>7,462</b>
<b>Net Operating Cash Flows</b>	<b>18,022</b>	<b>8,924</b>

# Notes to the Financial Statements

For the year ended 30 June 2020

## 1. Corporate Information

### 1.1 Reporting Entity

These financial statements are for the reporting entity the Police and Families Credit Union Incorporated ("PCU"), a Credit Union registered in New Zealand under the Friendly Societies and Credit Unions Act 1982 (FSCU Act). PCU is an FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013 (FMC Act).

### 1.2 Nature of Business

The purpose of PCU is two-fold. Firstly to promote savings among its members and secondly to provide affordable lending for members. As a mutual, PCU exists to use any surplus from these activities for the benefit of members.

### 1.3 Trust Deed

As at 1 January 2020, PCU was incorporated by the Registrar of Credit Unions and, as such our assets are no longer held by the Trustees of PCU but are held by the incorporated body. Accordingly a revised Trust Deed was issued on the same date. The Public Trust is appointed as the Supervisor of the shares on the terms and conditions of the Deed and in accordance with the requirements of the FMC Act, the FMC Regulations and the Financial Markets Supervisors Act 2011. The Trust Deed grants an assignment by way of security to the Supervisor, which can be enforced if certain material events occur. The Trust Deed also sets out on behalf of members, certain reporting obligations and contains financial covenants which are designed to ensure PCU is able to meet its financial obligations to members at all times.

### 1.4 Basis of Preparation

#### Statement of Compliance

For the purposes of complying with New Zealand Generally Accepted Accounting Practice (NZ GAAP), PCU is a not-for-profit public benefit entity. PCU complies with Public Benefit Entity Accounting Standards (PBE Standards) as appropriate for Tier 1 not for profit/public benefit entities. The financial statements are:

- prepared in accordance with the statutory requirements of the FMC ACT
- prepared in accordance with NZ GAAP
- in compliance with Public Benefit Entity Accounting Standards (PBE Standards)
- presented in New Zealand dollars (\$) rounded to the nearest thousand
- stated inclusive of GST as PCU is treated as an end user, and not required to be registered for GST
- prepared in accordance with the historical cost convention except for certain assets, which are stated at fair value

#### Use of 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 amounts of assets, liabilities, income and expenses.

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 in any future periods affected. In particular, information about significant areas of estimation uncertainty in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in notes 4.1 and 4.2 for the measurement of loans to customers; note 5.1 for the fair value of property, plant and equipment; and note 5.5 for the carrying value of the investment in associate.

These financial statements were authorised for issue by the Directors on the date set out in the Statement of Financial Position.

## 2. Financial Performance

<b>2.1 Net Interest Revenue</b>	<b>2020 \$000</b>	<b>2019 \$000</b>
<b>Interest Revenue – Interest on Loans and Receivables</b>		
Interest on Loans to Members	4,310	4,784
Interest on Term Deposits	2,504	2,444
Interest on Cash and Cash Equivalents	39	88
<b>Total Interest Revenue</b>	<b>6,853</b>	<b>7,316</b>
<b>Interest Expenditure – Liabilities at Amortised Cost</b>		
Interest on Members Call Shares	405	566
Interest on Members Term Shares	1,590	1,680
<b>Total Interest Expenditure</b>	<b>1,995</b>	<b>2,246</b>

### RECOGNITION AND MEASUREMENT

Except as described below, revenue is recognised to the extent that it is probable that the economic benefits will flow to PCU and the revenue can be reliably measured. Revenues are recognised at fair value of the consideration received.

#### Interest on Loans to Members

Loan interest is calculated on the daily loan balance outstanding and is charged in arrears to the members loan account at the end of each fortnight or in line with the repayment frequency. Loan interest is recognised in the surplus or deficit using the effective interest method.

#### Interest on Term Deposits

Investment interest revenue is recognised on an accrual basis using the effective interest method which allocates the interest over the period that it relates to.

#### Interest Expense

Interest on members' shares is recognised as an expense in the period that it relates to using the effective interest method, which allocates the interest expense over the term of the members' shares to which they relate.

<b>2.2 Other Income</b>	<b>2020 \$000</b>	<b>2019 \$000</b>
ATM/Eftpos Card Recoveries	34	31
Costs Recovered and Other Fees Charged	108	125
Bad Debts Recovered	1	6
Other Income	12	11
<b>Total Other Income</b>	<b>156</b>	<b>173</b>

## RECOGNITION AND MEASUREMENT

Fees and other income are recognised in the accounting period in which the services are rendered.

<b>2.3 Expenditure</b>	<b>Note</b>	<b>2020 \$000</b>	<b>2019 \$000</b>
<b>Operating Expenses includes:</b>			
External Audit of Financial Statements		49	45
Directors Fees		112	139
Employee Benefits includes:			
Wages and Salaries		1,168	1,142
Defined Contribution Expense		43	42

An accrual is made for the liability for employee benefits arising from services rendered by employees to the reporting date. Employee benefits that are expected to be settled within one year have been measured at amounts expected to be paid when the liability settles, on an undiscounted basis. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made. Present values are discounted using the 5 year rates for government stock. Future increases in remuneration rates are taken into account in estimating future cash outflows.

## 3. Deposits and Liquidity

<b>3.1 Cash and Cash Equivalents</b>	<b>Interest Rates</b>	<b>2020 \$000</b>	<b>2019 \$000</b>
<b>Bank Balances – on Call</b>	<b>0.15%</b>	<b>4,636</b>	<b>6,734</b>

## RECOGNITION AND MEASUREMENT

Cash and cash equivalents comprise call deposits at other financial institutions. Under PBE standards definition of financial assets, cash and cash equivalents are classified as loans and receivables.

Refer to section 9 for further information on Credit Risk and details about PCU's Financial Risk Management Objectives and Policies.



<b>3.2 Term Deposits</b>	<b>Interest Rates</b>	<b>2020 \$000</b>	<b>2019 \$000</b>
Westpac Bank		11,725	14,924
ANZ		44,321	47,027
Kiwibank		-	6,111
BNZ		6,049	7,817
Heartland Bank		31,114	-
<b>Total Term Deposits</b>	<b>1.75% to 3.50%</b>	<b>93,209</b>	<b>75,879</b>
Current		78,814	59,550
Non-Current		14,395	16,329
<b>Total Term Deposits</b>		<b>93,209</b>	<b>75,879</b>

## RECOGNITION AND MEASUREMENT

All term deposits are measured at amortised cost using the effective interest method, less any impairment losses. All term deposits mature within the next 24 months. Under PBE standards definition of financial assets, term deposits are classified as loans and receivables.

Refer to section 9 for further information on Credit Risk and details about PCU's Financial Risk Management Objectives and Policies.

## 3.3 Reconciliation of Cash Flows from Operating Activities

### RECOGNITION AND MEASUREMENT

The Statement of Cash Flows is prepared using the direct approach.

Certain cash flows have been netted in order to provide more meaningful disclosure as many of the cash flows are received and disbursed on behalf of members and reflect the activities of the members rather than those of PCU. These include members' loans and borrowings and members shares.



## 4. Loans to Members

4.1 Loans to Members	Note	2020 \$000	2019 \$000
Mortgages		3,673	3,865
Personal Loans		38,844	44,572
<b>Gross Loans to Members</b>		<b>42,517</b>	<b>48,437</b>
Less: Allowance for Impairment		(116)	(104)
<b>Net Loans to Members</b>		<b>42,401</b>	<b>48,333</b>
Current		6,719	7,290
Non-Current		35,682	41,043
		<b>42,401</b>	<b>48,333</b>

### RECOGNITION AND MEASUREMENT

Under PBE standards definition of financial assets, loans to members are classified as loans and receivables. Loans to Members are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not available for sale. They arise when PCU provides funds directly to a member with no intention of trading the receivable. Loans are recognised when cash is advanced to the borrowers. Loans include mortgages and personal loans.

Subsequent to initial recognition Loans to Members are recorded at amortised cost using the effective interest method less impairment.

4.1.a Credit Quality - Security Dissection	2020 \$000	2019 \$000
Secured by Mortgage Over Real Estate with LVR <70%	3,673	3,865
Partially Secured by Motor Vehicles or Other Collateral	5,874	7,159
Secured by Police Superannuation or Government Superannuation	32,694	36,958
Unsecured	276	455
<b>Credit Quality of Gross Loans to Members</b>	<b>42,517</b>	<b>48,437</b>

PCU holds security against Loans to Members in the form of mortgage interests over property, or for personal loans, security can include motor vehicles, Police Superannuation balances, Government Superannuation balances or be unsecured. Security is obtained if, based on an evaluation of the Members credit worthiness, it is considered necessary for the members overall borrowing facility. All loan value ratios are written within the parameters of the credit policy at the time a loan is advanced.

	2020 \$000	2019 \$000
<b>4.1.b Asset Quality of Loans to Members</b>		
<b>Performing Loans</b>		
<i>Neither Past Due Nor Impaired</i>	41,906	47,981
<i>Past Due But Not Impaired</i>		
1 to 30 days	275	289
31 to 90 days	288	91
over 90 days	48	76
<b>Total Performing Loans</b>	<b>42,517</b>	<b>48,437</b>
Impaired loans		
Specifically Impaired	29	17
Collectively Impaired	87	87
<b>Gross Loans</b>	<b>42,401</b>	<b>48,333</b>
<b>Interest Revenue Recognised on Impaired Loans</b>	-	<b>3</b>

Loans to Members are initially stated at fair value plus directly attributable transaction costs and thereafter at amortised cost using the effective interest rate method, less any impairment losses. PCU's maximum credit exposure, without taking into account the value of any collateral or other security, in the event other parties fail to perform their obligations under the financial instruments in relation to each class of recognised asset, is the carrying amount of those loans to members. Refer to section 9 for further information on Credit Risk and details about PCU's Financial Risk Management Objectives and Policies.

## 4.2 Provision for Impairment of Financial Assets

### Impairment of Loans and Advances

	2020 \$000	2019 \$000
<b>Total doubtful debts and bad debt expense for the year was:</b>		
Provision for Impairment – Increase/(decrease) in the Year	12	(7)
Bad Loans written off	17	20
<b>Loan Impairment Expenditure</b>	<b>29</b>	<b>13</b>

	Specifically Impaired \$000	Collectively Impaired \$000	Restructured \$000	2020 Total \$000	2019 Total \$000
<b>Opening Balance</b>	17	87	-	104	111
Increase/(Decrease) in the Provision	19	-	-	19	13
Transfer to Bad Debts Written Off	(7)	-	-	(7)	(20)
<b>Closing Balance</b>	<b>29</b>	<b>87</b>	-	<b>116</b>	<b>104</b>

## RECOGNITION AND MEASUREMENT

Loans are assessed at each reporting date to determine whether there is objective evidence of impairment. A loan is impaired if there has been an event, or events, subsequent to the initial recognition of the asset that has impacted the asset's future cash flows. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered objective evidence of impairment.

Individually significant loans are individually assessed for impairment; debts which are known to be uncollectible are written off and impaired loans are written down to their impaired amount.

Following the impairment assessment of individually significant loans, those individually significant loans that are not impaired, and all other loans, are collectively assessed for impairment by grouping together loans with similar risk characteristics. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Impairment, which is the difference between the asset's carrying amount and the present value of its estimated future cash flows, discounted at the original effective interest rate, is recognised in surplus or deficit.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed and the reversal is recognised in surplus or deficit.

Subsequent recoveries of amounts written off are recognised in surplus or deficit.

## 5. Other Financial Position Notes

### 5.1 Property, Plant and Equipment

	Computer Equipment \$000	Furniture & Fittings \$000	Leasehold Improvements \$000	Total
<b>Cost or Valuation</b>				
<b>Opening Balance 1 July 2019</b>	<b>203</b>	<b>116</b>	<b>249</b>	<b>568</b>
Additions	21	1	-	22
Disposals or Written Off	(159)	-	-	(159)
<b>Closing Balance 30 June 2020</b>	<b>65</b>	<b>117</b>	<b>249</b>	<b>431</b>
<b>Accumulated Depreciation</b>				
<b>Opening Balance 1 July 2019</b>	<b>173</b>	<b>107</b>	<b>175</b>	<b>455</b>
Depreciation for the Period	19	7	36	62
Disposals or Written Off	(159)	-	-	(159)
<b>Closing Balance 30 June 2020</b>	<b>33</b>	<b>114</b>	<b>211</b>	<b>358</b>
<b>Net Book Value at 30 June 2020</b>	<b>32</b>	<b>3</b>	<b>38</b>	<b>73</b>
<b>Opening Balance 1 July 2018</b>				
<b>Opening Balance 1 July 2018</b>	<b>201</b>	<b>115</b>	<b>208</b>	<b>524</b>
Additions	2	1	41	44
<b>Closing Balance 30 June 2019</b>	<b>203</b>	<b>116</b>	<b>249</b>	<b>568</b>
<b>Accumulated Depreciation</b>				
<b>Opening Balance 1 July 2018</b>	<b>152</b>	<b>92</b>	<b>139</b>	<b>383</b>
Depreciation for the Period	21	15	36	72
<b>Closing Balance 30 June 2019</b>	<b>173</b>	<b>107</b>	<b>175</b>	<b>455</b>
<b>Net Book Value at 30 June 2019</b>	<b>30</b>	<b>9</b>	<b>74</b>	<b>113</b>

### RECOGNITION AND MEASUREMENT

Items of property, plant and equipment are measured at cost less accumulated depreciation and any impairment losses.

Historical cost includes expenditure directly attributable to the acquisition of the asset and is recognised only when it is probable that future benefits associated with the item will flow to PCU and the cost of the item can be measured reliably

Subsequent costs are included in the assets carrying amount or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to PCU and the cost of the item can be measured reliably. All other repairs and maintenance are charged to surplus and deficit during the financial period in which they are incurred.

## Depreciation

All assets other than leasehold improvements are depreciated to their residual value over their estimated useful lives from the time the asset is ready for use. Depreciation on leasehold improvements is calculated based on the term of the building lease.

The following rates have been used in the current and prior period:

Computer Equipment	30-33%
Furniture & Fittings	20-30%
Leasehold Improvements	10-20%

The residual value, depreciation methods and useful lives are reviewed, and adjusted if appropriate, annually. Depreciation is calculated on a straight line basis.

## 5.2 Intangible Assets

### Computer Software \$000

#### Cost or Valuation

<b>Opening Balance 1 July 2019</b>	<b>1,784</b>
Additions	110
Disposals or Written Off	(274)
<b>Closing Balance 30 June 2020</b>	<b>1,620</b>

#### Accumulated Amortisation

<b>Opening Balance 1 July 2019</b>	<b>1,269</b>
Amortised During the Year	194
Disposals or Written Off	(233)
<b>Closing Balance 30 June 2020</b>	<b>1,230</b>

**Intangible Assets Net Book Value at 30 June 2020** **390**

<b>Opening Balance 1 July 2018</b>	<b>1,670</b>
Additions	114
<b>Closing Balance 30 June 2019</b>	<b>1,784</b>

#### Accumulated Amortisation

<b>Opening Balance 1 July 2018</b>	<b>1,093</b>
Amortised During the Year	176
<b>Closing Balance 30 June 2019</b>	<b>1,269</b>

**Intangible Assets Net Book Value at 30 June 2019** **515**

Intangible assets comprise Computer Software. Computer Software is capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their expected lives on a straight line basis of 20-30% amortisation

### 5.3 Impairment Testing of Non Financial Assets

The carrying amounts of PCU's non-financial assets (Property, Plant and Equipment, Intangibles and Investment in Associate) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount, being the higher of the asset's fair value less costs to sell and the value in use, is compared to the asset's carrying value.

Value in use is determined by estimating future cash flows from the use and ultimate disposal of the asset and discounting these to their present value using a discount rate that reflects the current market rates and the risks specific to the asset.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Any excess of the asset's carrying value over its recoverable amount is expensed.

5.4 Payables	2020 \$000	2019 \$000
Trade Payables	78	73
Sundry Creditors and Accrued Expenses	170	129
Resident Withholding Tax	30	39
<b>Total Trade and Other Payables</b>	<b>278</b>	<b>241</b>

### RECOGNITION AND MEASUREMENT

Payables represent liabilities for goods and services provided to PCU prior to the end of the financial period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Payables are initially recognised at fair value net of transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

5.5 Investment in Associate	Voting Rights %	Cost of Investment 2020 \$000	Cost of Investment 2019 \$000
<b>Finzsoft Solutions Limited</b>	<b>29.6</b>	<b>3,012</b>	-

### RECOGNITION AND MEASUREMENT

In 2020 PCU acquired a 29.6% shareholding in Finzsoft Solutions Limited (Finzsoft). Finzsoft is a key supplier to PCU, providing the core banking system and as such Finzsoft is considered a strategic investment that will secure ongoing provision of that key system. Finzsoft was a publicly listed company prior to the purchase of shares by PCU however on 1 May 2020 Finzsoft was de-listed from the New Zealand Stock Exchange and is now a privately owned company registered in New Zealand.

Finzsoft is considered an Associate for accounting and reporting purposes. Associates are those entities in which PCU has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when PCU holds between 20% and 50% of the voting power of another entity. The investment in Finzsoft has been accounted for using the equity method and is recognised initially at cost, including directly attributable transaction costs.

The financial statements of PCU do not include a share of the surplus or deficit and other comprehensive revenue and expense of Finzsoft, as at the time PCU completed our financial statements Finzsoft were not completed. The indicative surplus/deficit is not considered material to PCU and has therefore been reporting as nil.

Finzsoft has the same reporting date as PCU.

There are no significant restrictions regarding the distribution of dividends.

<b>5.6 Members' Deposits</b>	<b>2020 \$000</b>	<b>2019 \$000</b>
Call Shares	64,556	55,373
Term Shares	53,049	50,668
<b>Total Members' Deposits</b>	<b>117,605</b>	<b>106,041</b>
Current	113,210	101,430
Non-Current	4,395	4,611
	<b>117,605</b>	<b>106,041</b>

## RECOGNITION AND MEASUREMENT

For the purpose of financial reporting, members' deposits are recognised as debt instruments. They are recorded initially at fair value and subsequently at amortised cost.

Members contribute to the Credit Union by way of shares. Members' shares are classified as financial liabilities of PCU, as they have the characteristics of debt instruments as opposed to equity.

To be a member, a person must hold a minimum of one \$1.00 fully paid-up share. All shares are of one class, rank equally with each other, are of a fixed amount of \$1.00 denomination and cannot be allotted to a member until fully paid-up in cash.

Subject to the provisions of the Friendly Societies and Credit Unions Act 1982, members operate their share account in a similar manner to savings and withdrawals in a savings account and term deposit account. While shares are usually available to be withdrawn at call, the Rules of the Credit Union provide that 60 days notice for withdrawal may be required. Withdrawals may not be available where such withdrawal of shares would reduce a member's paid-up shareholding in the Credit Union to less than the member's total liability (including any contingent liability) to the Credit Union.

Shares in the Credit Union are not transferable and the Credit Union may not issue to a member a certificate denoting ownership of a share. The Credit Union reserves the right to decline any new application for a share subscription without giving any reason.

On every matter determined by a vote of members of the Credit Union, each member aged 16 or over is entitled to vote, however that member has one vote only, irrespective of the number of shares held by that member. Interest expense is recognised on an accruals basis for shares.

Members' shares are secured by an equitable assignment by way of security over the whole of the Credit Union's present and future undertaking, property, assets and revenues, including the proceeds received for the subscription of shares and unpaid share capital (if any).

The equitable assignment by way of security has been granted in favour of Public Trust ("Supervisor").



## 6. Other Notes

### 6.1 Commitments

#### Outstanding Loan Commitments

Loans and credit facilities approved but not funded or drawn at the end of the reporting period.

	2020 \$000	2019 \$000
Loans Approved but not Funded	173	341
Undrawn Overdraft and Line of Credit	5,592	5,215
<b>Total Outstanding Loan Commitments</b>	<b>5,765</b>	<b>5,556</b>

Operating lease payments are included in Surplus or Deficit on a straight line basis over the period of the lease.

### 6.2 Contingent Liabilities

PCU has no contingent liabilities as at 30 June 2020 (2019 nil).

### 6.3 Related Parties

#### Remuneration of Directors and Key Management Personnel (KMP)

	2020 Directors \$000	2020 KMP \$000	2019 Directors \$000	2019 KMP \$000
Short-Term Employee Benefits	112	511	139	502

## RECOGNITION AND MEASUREMENT

#### Remuneration of Directors and Key management Personnel (KMP)

Key Management Personnel (KMP) are those people having authority and responsibility for planning, directing and controlling the activities of PCU, directly or indirectly, including any Director (whether executive or otherwise) of PCU

Directors/KMP has been taken to comprise the seven Directors and two executive managers.

Connected Parties are defined as the immediate relatives of Directors and Key Management Personnel

#### Short-Term Employee Benefits

In the above table, remuneration shown as short-term employee benefits means (where applicable) directors fees, wages, salaries, paid annual leave and sick leave, bonuses, kiwisaver and value for fringe benefits received, but excludes out of pocket reimbursements. There are no post-employment benefits.

#### Related Party Holdings

	2020 Shares \$000	2020 Loans \$000	2019 Shares \$000	2019 Loans \$000
	\$ 000	\$ 000	\$ 000	\$ 000
Directors	145	92	114	85
KMP	1	-	2	-
Connected Parties	53	-	22	-
<b>Related Party Holdings</b>	<b>199</b>	<b>92</b>	<b>138</b>	<b>85</b>

## RECOGNITION AND MEASUREMENT

There are no loans to executive managers. PCU Rules state that the Chief Executive Officer and Treasurer (executive managers) cannot become borrowers from PCU. Other than this exclusion all KMP and other employees have available to them all the services under normal members terms and conditions.

There are no loans that are impaired in relation to the loan balances with Directors.

During the year PCU purchased a shareholding in Finssoft Solutions Limited see note 5.5. Finssoft is also a provider of the PCU core banking system and as such is now considered a related party. All expenses incurred with Finssoft relating to the core banking system are conducted on normal commercial terms and at standard commercial rates. Total expenditure on Finssoft services for the year was \$1,282,016. Finssoft is also considered a related party by way of commonality of Directors.

In addition, during the year PCU paid \$85,291 (2019: \$84,527) to Blueline Premises Ltd. for lease of the premises. Blueline Premises Ltd. is related to PCU by virtue of Craig Tickelpenny being as director at Blueline Premises Ltd and a past director of PCU.

### 6.4 Events Occurring After Reporting Date

There have been no events subsequent to reporting date that would materially impact the financial statements.

## 7. Other Accounting Policies

### 7.1 Changes to Accounting Policies

There were no significant changes to accounting policies during the reporting period.

### 7.2 New Accounting Standards Issued but not yet Effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2020, and have not been applied in preparing these financial statements.

Those standards with the most significant potential impact on the financial statements that have been issued but are not yet effective are outlined below:

- PBE IPSAS 41 – Financial Instruments effective 1 January 2022
- PBE FRS 48 – Service Performance Reporting effective 30 June 2022

The impact of these standards is yet to be assessed.

## 8. Credit Rating

PCU has been rated by Equifax. Equifax gives ratings from AAA through to C. PCU has a long-term issuer default (IDR) rating of BBB with a negative outlook, issued on 10 June 2020 (2019 BBB with a stable outlook).

## 9. Financial Risk Management Objectives and Policies

The Board has endorsed a policy of compliance and risk management to suit the risk profile of PCU. PCU has developed policies as part of a strategy to minimise the risks arising from financial instruments. These include:

- Market risk policy
- Credit risk management
- Liquidity risk management
- Capital adequacy management

## 9.1 Market Risk

Market risk is the risk that changes in market prices, such as interest rates, will affect PCU's cash flows or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within the acceptable parameters, while optimising the return. PCU's exposure to interest risk is set out below detailing the contractual interest change profile based on the next contractual repricing or maturity date (whichever is earlier) as at the reporting date.

	Weighted average effective interest rate*	Floating Interest Rate \$000	Within 6 months \$000	Repricing period at 30 June 2020 Fixed Interest Rate Maturing:			
				6 months to 1 Year \$000	1 to 5 Years \$000	Non-interest sensitive \$000	Total \$000
<b>Monetary Assets</b>							
Cash and Cash Equivalents	0.15%	4,636	-	-	-	-	4,636
Term Deposits	2.69%	-	40,253	38,764	14,192	-	93,209
Loans to Members – Fixed	3.75%	-	681	628	-	-	1,309
Loans to Members – Floating	9.47%	41,092	-	-	-	-	41,092
<b>Total Monetary Assets</b>		<b>45,728</b>	<b>40,934</b>	<b>39,392</b>	<b>14,192</b>	<b>-</b>	<b>140,246</b>
<b>Monetary Liabilities</b>							
Members' Deposits	1.34%	64,556	35,640	13,036	4,373	-	117,605
Trade and Other Payables	n/a	-	-	-	-	278	278
<b>Total Monetary Liabilities</b>		<b>64,556</b>	<b>35,640</b>	<b>13,036</b>	<b>4,373</b>	<b>278</b>	<b>117,884</b>

	Weighted average effective interest rate*	Floating Interest Rate \$000	Within 6 months \$000	Repricing period at 30 June 2019 Fixed Interest Rate Maturing:			
				6 months to 1 Year \$000	1 to 5 Years \$000	Non-interest sensitive \$000	Total \$000
<b>Monetary Assets</b>							
Cash and Cash Equivalents	1.25%	6,734	-	-	-	-	6,734
Term Deposits	3.35%	-	59,550	16,329	-	-	75,879
Loans to Members – Fixed	6.17%	-	454	569	-	-	1,023
Loans to Members – Floating	10.07%	47,310	-	-	-	-	47,310
<b>Total Monetary Assets</b>		<b>54,044</b>	<b>60,004</b>	<b>16,898</b>	<b>-</b>	<b>-</b>	<b>130,946</b>
<b>Monetary Liabilities</b>							
Members' Deposits	2.15%	55,776	32,161	13,493	4,611	-	106,041
Trade and Other Payables	n/a	-	-	-	-	241	241
<b>Total Monetary Liabilities</b>		<b>55,776</b>	<b>32,161</b>	<b>13,493</b>	<b>4,611</b>	<b>241</b>	<b>106,282</b>

### Interest Rate Sensitivity

PCU is exposed to interest rate risk. The policy of PCU to manage the risk is to maintain a balanced 'on book' strategy by ensuring the net interest rate gaps between members loans (i.e. interest rate on loans) and members shares (the cost of borrowing from members paid out in the form of interest) are not excessive. As 30 June 2020 it is estimated that a general increase of one percentage point in interest rates on bank deposits, loan receivables and Members' deposits would increase PCUs surplus before income tax and equity by \$224,751 (30 June 2019: \$239,582).

A decrease in interest rates would have the opposite impact on surplus than that described above.

The Board and Management consider that even in the current uncertain economic environment in New Zealand a 1% movement in interest rate risk is within prudent guidelines.

Through the COVID 19 period PCU received an increase in Member deposits and an increase in loan repayments. This changed the balance of the port-folio resulting in pressure on interest rate margins. PCU did not however change the way in which it measures market risk in this reporting period.

## 9.2 Credit Risk

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

### RECOGNITION AND MEASUREMENT

PCU has established policies and procedures over the:

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

Regular reviews of compliance are conducted as part of the internal audit process. The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security held. The credit policy is that loans and investments are only made to members that are credit worthy.

Daily reports monitor the loan repayments to detect delays in repayments and recovery is undertaken after 7 days if not rectified. For personal loans where repayments become doubtful PCU has internal processes in place to conduct recovery action once the loan is over 30 days in arrears. Debt recovery policies allow PCU to reset the maturity date of a loan where regular and consistent repayments have been resumed by the loan holder. These loans are considered to be past due loans. The exposures to losses arise predominantly in the personal loans and facilities.

Impairment of Loans and Advances – refer to Note 4.2

For term investments, the Board policy is to place its investments with registered trading banks.

All trading banks used have Fitch or Standard and Poor's credit ratings of no less than BBB

Other Credit Risks Comprise of the Following Items:

#### (a) Large Counterparties

PCU has exposure to counter-parties in excess of 10% of equity as follows:

	Number of counterparties 2020	Number of counterparties 2019
Over 100%	2	1
Between 60% and 80% of equity	-	1
Between 40% and 60% of equity	1	-
Between 20% and 40% of equity	1	2

Counterparty Exposure	2020 \$000	2019 \$000
ANZ	44,425	47,327
Heartland Bank	30,500	-
Kiwibank	-	6,000
Westpac	15,046	20,221
BNZ	6,143	7,687

### (b) Loans to Members

Loans can only be made to Credit Union members. Loan interest rates range from 2.99% to 17.55% p.a. (2019 4.15% to 17.55%).

PCU has a lending policy that allows for various levels and types of security, and loans may be secured over the borrowing members shares. The Friendly Societies and Credit Unions Act 1982 limits the risk of any one member and provides, along with the loan agreement that any and all shares might be used to offset an individual loan to the limit of their liability.

Credit Unions are required to lend within their rules and policies.

The key elements of PCU lending policy are as follows:

- Personal loans can be approved for a period up to 20 years with adequate security but are usually scheduled to be repaid within 5 years;
- Mortgages can be approved for a period up to 30 years but are usually to be repaid within 20 to 25 years;
- Arrears in loan payments may be reset after a period of up to 90 days in consultation with the borrower.

	2020 \$000	2019 \$000
Proportion of Loans with Repayments in Arrears in Excess of 90 Days:	0.11%	0.17%
Proportion of Loans owed in Aggregate by the Six Largest Debtors	4.22%	3.99%
Weighted Average Maturity of Loans (in Months) Is:	93	96

Other than loans, there are no other financial assets in arrears. Loans are for varying terms but the standard loan contract includes an "on demand" clause.

PCU offers an overdraft facility.

	2020 \$000	2019 \$000
The Amounts Drawn Down are as follows:	51	53

### Fair Value of Assets and Liabilities

The values for financial assets and liabilities, per the carrying amounts shown in the Statement of Financial Position, are equal to their fair values as they are short-term in nature or are receivable on demand.

**Mortgages and Loans** – the carrying value of the mortgages and loans receivable is net of any specific or collective impairment provision. The carrying amount is considered a reasonable estimate of net fair value.

**Members Share Accounts** – The carrying amounts of member share accounts repriced within 12 months is a reasonable estimate of net fair value. For Term shares repriced past 12 months the Credit Union's current interest rates are compared to the contracted interest rates. The current rates are comparable to the market rates for term deposits of a similar term. The carrying amount is considered a reasonable estimate of net fair value.

**Other** – the Directors consider that the fair value of all other financial assets and liabilities is approximately equal to the book value. All of the financial instruments except the loans receivable and Investment in Associate are at call or able to be recovered or settled in the short term.

### 9.3 Liquidity Risk

Liquidity risk is the risk that PCU may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g., borrowing repayments. It is the policy of the Board of Directors that PCU maintains adequate cash reserves so as to meet the member withdrawal demands when requested.

Financial assets and liabilities have differing maturity profiles depending on the contractual term, and in the case of loans, the repayment amount and frequency. The associated table shows the period in which different financial assets and liabilities held will mature and be eligible for renegotiation or withdrawal.

	On Call	Within 6 Months \$000	6 Months to 1 Year \$000	1 to 5 Years \$000	Over 5 Years \$000	No Maturity \$000	Total \$000
<b>Monetary Assets</b>							
Cash and Cash Equivalents	4,636	-	-	-	-	-	4,636
Term Deposits	-	40,549	39,520	14,549	-	-	94,618
Loans to Members	-	5,263	5,084	30,810	17,314	-	58,471
<b>Total Financial Assets 30 June 2020</b>	<b>4,636</b>	<b>45,812</b>	<b>44,604</b>	<b>45,359</b>	<b>17,314</b>	<b>-</b>	<b>157,725</b>
<b>Total Financial Assets 30 June 2019</b>	<b>6,734</b>	<b>48,317</b>	<b>23,393</b>	<b>51,861</b>	<b>21,888</b>	<b>-</b>	<b>152,193</b>
<b>Monetary Liabilities</b>							
Trade and Other Payables	-	278	-	-	-	-	278
Members Call Accounts	64,556	-	-	-	-	-	64,556
Members Share Accounts	-	35,459	13,613	4,566	-	-	53,638
<b>Total Financial Liabilities 30 June 2020</b>	<b>64,556</b>	<b>35,737</b>	<b>13,613</b>	<b>4,566</b>	<b>-</b>	<b>-</b>	<b>118,472</b>
<b>Total Financial Liabilities 30 June 2019</b>	<b>55,373</b>	<b>32,609</b>	<b>14,222</b>	<b>4,889</b>	<b>-</b>	<b>-</b>	<b>107,093</b>
<b>Liquidity (Shortfall)/Surplus 30 June 2020</b>	<b>(59,920)</b>	<b>10,075</b>	<b>30,991</b>	<b>40,793</b>	<b>17,314</b>	<b>-</b>	<b>39,253</b>
<b>Liquidity (Shortfall)/Surplus 30 June 2019</b>	<b>(48,639)</b>	<b>15,708</b>	<b>9,171</b>	<b>46,972</b>	<b>21,888</b>	<b>-</b>	<b>45,100</b>

## RECOGNITION AND MEASUREMENT

PCU manages liquidity risk by:

- Monitoring cash flows
- Reviewing the maturity profiles of financial assets and liabilities
- Maintaining adequate reserves and liquidity

PCU's policy is to maintain at least 30% of total assets as liquid assets capable of being converted to cash within 90 days. Should the liquidity ratio fall below this level, management and Directors are to address the matter to ensure that liquid funds are obtained from new deposits or borrowing facilities. PCU has maintained the policy level throughout the financial period under review.

In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained.

Future interest receivable and future interest payable represent the expected future interest cash flows arising from the contractual obligations of the underlying financial assets and liabilities respectively.

PCU has a term deposit of \$500,000 that is used as security by Westpac for the guarantee that Westpac has made to PayMark on behalf of PCU.

## 9.4 Capital Adequacy

PCU is regulated under the Friendly Societies and Credit Union Act 1982. There is a statutory requirement over the minimum capital requirements as prescribed by the Reserve Bank of New Zealand to maintain a minimum capital ratio of 8%. PCU Trust Deed requires a minimum capital ratio of 10%. PCUs Risk Weighted Capital Ratio as at 30 June 2020 is 23.3% (2019: 25.92%), as calculated under the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposure) Regulations 2017.

PCU has, throughout the year, complied with all regulatory requirements pursuant to the Reserve Bank of New Zealand's "Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposure) Regulations 2017".

To manage PCUs capital, which can be affected by excessive growth and by changes in total assets PCU reviews the capital adequacy ratio monthly and monitors major movements in the asset levels. Policies have been implemented to require reporting to the Board and the Supervisor if the capital ratio falls below 10%. Further, an annual capital budget projection of the capital level is maintained to address how strategic decisions or trends may impact on the capital level

## 10 Impact of COVID-19

The COVID-19 outbreak (also known as 2019 Novel Coronavirus infection or Coronavirus) poses a serious global public health threat and has had a major impact on the movement of people and goods throughout the world. The extent and duration to which Coronavirus will continue to disrupt and depress economic activity is difficult to predict.

The main possible effects that we have identified on PCU as a result of the COVID-19 pandemic are the impact on interest rates we are paid on term deposits and the interest rates we are able to pay our members. Our Net Interest Margin will be reduced affecting our annual surplus. We have a balanced budget for 2020/21 in anticipation of the impact on interest rates.

While it is difficult to determine the full effect of the COVID 19 Pandemic, PCU continues to operate and the Board believe that they have the ability to manage quite significant fluctuations in trading conditions with a strong balance sheet (One Month Mis-match ratio of 31.25% and no significant debt). The Board have therefore assessed there is no going concern impact on PCU as at the date of these financial statements.

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF POLICE AND FAMILIES CREDIT UNION

### Opinion

We have audited the financial statements of the Police & Families Credit Union (“the Credit Union”), which comprise the statement of financial position as at 30 June 2020, and the statement of comprehensive revenue and expense, statement of changes in net assets/equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Credit Union as at 30 June 2020, and its financial performance and its cash flows for the year then ended in accordance with Public Benefit Entity Standards (“PBE Standards”) issued by the New Zealand Accounting Standards Board

### Basis for Opinion

We conducted our audit in accordance with 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 Financial Statements section of our report. We are independent of the Credit Union 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 we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor, we have no other relationship with, or interests in, the Credit Union.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Credit Union financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### Impairment of Loans to Members

Key Audit Matter	How The Matter Was Addressed in Our Audit
The Credit Union’s loan to members balance was \$42.4million for the year ended 30 June 2020. The Credit Union’s impairment allowance was \$116k for the year ended 30 June 2020. We considered this to be a key audit matter based on the materiality of the loans to members balance.	We gained an understanding of the design and implementation of the control environment in regard to loans to members and assessment of impairment. We tested a sample of loans and verified that they were appropriately authorised and approved. We obtained a loan portfolio listing and reconciled this to the members loan balance included in the financial statements. We tested a sample of loans, from the loan portfolio listing, which had not been identified as impaired. We agreed a sample of loan details to source documentation including verification of collateral held, original loan balance and whether repayment terms are being met.

### Other Information

The directors are responsible for the other information. The other information comprises the information included in the Annual Review report, but does not include the financial



statements and our auditor's report thereon. The Annual Review report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

### Directors' Responsibilities for the Financial Statements

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

In preparing the financial statements, the directors are responsible on behalf of the Credit

Union for assessing the Credit Union'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 Credit Union or to cease operations, or have no realistic alternative but to do so.

### Auditor's Responsibilities for the Audit of the Financial Statements

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Our objectives are to obtain reasonable assurance about whether the 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 (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 decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at: <https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1/>.

This description forms part of our auditor's report.

### Who we Report to

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This report is made solely to the Credit Union's members, as a body. Our audit work has been undertaken so that we might state those matters which 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 Credit Union and the Credit Union's members, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Henry McClintock.

*BDO Wellington Audit Limited*

**BDO WELLINGTON AUDIT LIMITED**

Wellington

New Zealand

11 September 2020



Te Uniana Whakanama Pirihimana  
POLICE HELPING POLICE

Police Credit Union  
Level 11, 57 Willis Street  
Wellington 6011  
New Zealand

0800 429 000  
[policecu.org.nz](http://policecu.org.nz)