



# New Zealand Gazette

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## EASTERN AND CENTRAL COMMUNITY TRUST INCORPORATED

### FINANCIAL STATEMENTS

PURSUANT TO SECTION 13 OF THE  
COMMUNITY TRUSTS ACT 1999

## EASTERN AND CENTRAL COMMUNITY TRUST INC

# STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2010

		2010 \$	2009 \$
<b>REVENUE</b>			
Gain/(Loss) from Investments	(note 4)	30,340,245	(11,065,440)
<b>LESS EXPENSES</b>			
Administrative Expenses	(note 5)	508,925	603,716
Personnel Expenses	(note 5)	577,205	613,638
Net Community Donations	(note 10)	5,249,840	5,715,702
<b>TOTAL EXPENSES</b>		<b>6,335,971</b>	<b>6,933,056</b>
<b>NET GAIN/(DEFICIT)</b>		<b>24,004,274</b>	<b>(17,998,496)</b>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD</b>		<b>24,004,274</b>	<b>(17,998,496)</b>

# STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2010

		2010 \$	2009 \$
<b>EQUITY AT START OF PERIOD</b>		<b>115,792,322</b>	<b>133,790,818</b>
Comprehensive income/(loss) for the period		24,004,274	(17,998,496)
<b>Total Recognised Revenue and Expenses</b>		<b>24,004,274</b>	<b>(17,998,496)</b>
<b>EQUITY AT THE END OF PERIOD</b>	(note 6)	<b>139,796,596</b>	<b>115,792,322</b>

## EASTERN AND CENTRAL COMMUNITY TRUST INC

**STATEMENT OF FINANCIAL POSITION  
AS AT 31 MARCH 2010**

	2010 \$	2009 \$
<b>NON-CURRENT ASSETS</b>		
Financial Assets Held for Trading (note 7)	133,488,732	112,266,126
Property, Plant & Equipment (note 8)	35,313	38,663
<b>TOTAL NON-CURRENT ASSETS</b>	<b>133,524,045</b>	<b>112,304,789</b>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents (note 9)	7,378,847	5,362,386
Accrued Income	167,368	47,723
Prepayment	46,484	-
Derivatives	809,262	-
<b>TOTAL CURRENT ASSETS</b>	<b>8,401,961</b>	<b>5,410,109</b>
<b>TOTAL ASSETS</b>	<b>141,926,006</b>	<b>117,714,898</b>
<b>EQUITY</b>		
Trust Capital (note 6)	125,934,669	115,792,322
Donation Reserve (note 6)	13,861,927	-
<b>TOTAL EQUITY</b>	<b>139,796,596</b>	<b>115,792,322</b>
<b>LIABILITIES</b>		
<b>NON-CURRENT LIABILITIES</b>	-	-
<b>CURRENT LIABILITIES</b>		
Sundry Payables	186,601	142,132
Derivatives	-	113,891
Employee Entitlements	37,879	45,803
Donations Payable (note 10)	1,904,930	1,620,750
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,129,410</b>	<b>1,922,576</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>141,926,006</b>	<b>117,714,898</b>

These Financial Statements have been authorised for issue by the Trustees on 28th May 2010



Claire Matthews  
Chair



Mere Pohatu  
Deputy Chair

The notes to the Financial Statements form part of and are to be read in conjunction with the above accounts

## EASTERN AND CENTRAL COMMUNITY TRUST INC

# STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2010

	2010 \$	2009 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash was provided from:		
Interest	4,206,947	5,045,841
Dividends	1,899,374	2,465,910
FX Hedging	3,395,344	-
Other	46	-
	<u>9,501,711</u>	<u>7,511,751</u>
Cash was applied to:		
Trustees and Employees	(483,264)	(515,528)
Suppliers of Other Goods & Services	(669,605)	(633,126)
Community Donations	(4,965,660)	(6,140,452)
FX Hedging	-	(61,278)
Other	-	(48)
	<u>(6,118,529)</u>	<u>(7,350,432)</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b> (note 11)	<b>3,383,182</b>	<b>161,319</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash was provided from:		
Disposal gains	876,868	506,740
Cash was applied to:		
Net Investment in Managed Funds	(2,236,332)	(2,574,567)
Purchase of Fixed Assets	(7,257)	(9,185)
	<u>(2,243,589)</u>	<u>(2,583,752)</u>
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(1,366,721)</b>	<b>(2,077,012)</b>
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>	<b>2,016,461</b>	<b>(1,915,693)</b>
Add Cash at 1 April	5,362,386	7,278,079
<b>CASH &amp; CASH EQUIVALENTS AT 31 MARCH</b> (note 9)	<b>7,378,847</b>	<b>5,362,386</b>

## EASTERN AND CENTRAL COMMUNITY TRUST INC

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2010****1. REPORTING ENTITY**

The Eastern and Central Community Trust Inc. is a Charitable Trust incorporated in accordance with the provisions of the Community Trusts Act 1999.

The financial statements, for the year ended 31<sup>st</sup> March 2010, have been prepared in accordance with the Financial Reporting Act 1993. The Eastern and Central Community Trust Inc is primarily involved in the management of the investment of assets and the distribution of donations to the community within a designated lower North Island region of New Zealand.

**2. BASIS OF PREPARATION****a) Statement of Compliance**

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS"), and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

The financial statements were approved by the Board of Trustees on 28<sup>th</sup> May 2010.

**b) Basis of Measurement**

The financial statements have been prepared on the historical cost basis except for financial instruments at fair value through the statement of comprehensive income, which are measured at fair value and disclosed further in note 14.

**c) Functional and Presentation Currency**

These financial statements are presented in New Zealand dollars (\$), which is the Trust's functional currency. All financial information has been rounded to the nearest dollar.

**d) Use of Key Estimates and Judgements**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of the income and expenses during the period. Actual results could differ from these estimates.

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, can not be determined with precision. Changes in assumptions could significantly affect the estimates.

**e) Standards, Amendments and Interpretations to Existing Standards that are not yet effective**

There are new or revised Accounting Standards and Interpretations on issue that are not yet effective. These include the following Standards and Interpretations that are applicable to the Trust and may have an impact on future financial statements.

**NZ IFRS 9**

NZ IFRS 9 Financial Instruments will be adopted by the Trust for the first time for its financial period ending 31 March 2015.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The following are the particular accounting policies, which have a material affect on the measurement of results and financial position. They have been applied consistently to all periods presented in these financial statements.

## EASTERN AND CENTRAL COMMUNITY TRUST INC

**a) Foreign Currency Transactions**

Foreign currency balances are converted to NZD at the year end rate of exchange. Transactions completed during the year are converted at the rate applying at the date of the transaction. Any foreign exchange gain or loss on monetary items is included within the statement of comprehensive income.

**b) Financial Instruments**

Financial instruments comprise investments in equity and debt securities, cash and cash equivalents, derivatives and trade and other payables. Investments in equity and debt securities are initially recognised at fair value, being the fair value of the consideration paid. Subsequent to initial recognition they are measured to fair value through the statement of comprehensive income. For investments that are actively traded in organised financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the balance sheet day. Cash and cash equivalents comprise cash balances, call deposits and short term deposits but do not include cash held by fund managers. Cash flow from operations includes withdrawal of income from managed funds.

A financial instrument is recognised when the Trust becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Trust's contractual right to the cash flows from the financial assets expire or if the Trust transfers the financial assets to another party without retaining control or substantially all risks and rewards of the asset.

The Trust uses financial instruments to reduce exposure to fluctuations in foreign currency denominated assets. Forward exchange contracts are entered into to hedge foreign currency denominated assets. These are converted to the New Zealand dollar rate at balance date with all realised and unrealised gains and losses being recognised in the statement of comprehensive income.

**c) Donations**

Donations are recognised as a liability of the Trust when they are approved by Trustees and notified to applicants notwithstanding that the applicants may still have to fulfil some conditions.

**d) Revenue**

Dividends are recognised as income on the date that the Trust's right to secure payment is established and recorded net of any imputation tax credits. Interest income is recognised on an accruals basis.

**e) Cash and Cash Equivalents**

Cash and cash equivalents comprise cash on hand, cash in banks and short term deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

**f) Property, Plant and Equipment**

Items of property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses. The Trust has one class of asset being office furniture and fittings.

**g) Depreciation**

Depreciation is recognised in the statement of comprehensive income on a straight line basis on all tangible fixed assets at rates calculated to allocate the assets' cost less estimated residual value, over their estimated useful lives. Depreciation methods, useful lives and residual values are reassessed at the reporting date. The estimated life of assets is between 3 and 10 years.

**h) Impairment on items of Property, Plant and Equipment**

The Trust's property, plant and equipment assets are reviewed at each balance date to determine whether there is any objective evidence of impairment. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the statement of comprehensive income.

## EASTERN AND CENTRAL COMMUNITY TRUST INC

**i) Trade and Other Payables**

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

**j) Employee Benefits**

Provision is made for salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably. Provisions in respect of employee entitlements expected to be settled within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

**k) GST**

GST inclusive accounting has been adopted, as the Trust is not registered for GST.

**l) Income Tax**

The Trust is exempt from income tax under section CW52 of the Income Tax Act 2007.

**m) Leases**

Operating lease payments are recognised in the statement of comprehensive income on a straight line basis.

**n) Cash Flows**

The cash flow statement is prepared inclusive of GST, which is consistent with the method used in the statement of comprehensive income. The following are the definitions of the terms used in the cash flow statement:

- Operating activities include all transactions and other events that are not investing or financing activities
- Investing activities include transactions relating to the acquisition, holding or disposal of investments
- Financing activities are those activities that change the equity of the Trust
- Cash means cash on deposit with banks

**4. NET INCOME FROM INVESTMENTS**

	2010 \$	2009 \$
<b>Realised Income (losses)</b>		
Dividend income on held for trading financial assets	1,899,374	2,465,910
Interest income on held for trading financial assets	4,293,093	4,948,298
Gain/(Loss) on forward currency hedging contracts	3,395,344	(61,278)
Gain on disposal on held for trading financial assets	876,868	506,740
Sundry Income	<u>33,546</u>	<u>-</u>
	<b>10,498,225</b>	<b>7,859,670</b>
<b>Unrealised Income (losses)</b>		
Foreign exchange gains/(losses)	(11,249,665)	17,179,220
Change in fair value of financial assets held for trading	<u>31,091,685</u>	<u>(36,104,330)</u>
	<b>19,842,020</b>	<b>(18,925,110)</b>
<b>Total Income from Investments</b>	<u><b>30,340,245</b></u>	<u><b>(11,065,440)</b></u>

## EASTERN AND CENTRAL COMMUNITY TRUST INC

**5. EXPENSES**

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>Administrative Expenses</b>		
Office administration	43,239	37,727
Advertising and promotion	131,457	178,824
Fees paid to the auditors for audit services	12,933	12,409
Fees paid to the auditors for NZ IFRS assistance	-	1,765
Depreciation	10,607	13,701
Rent and services	77,516	77,337
Professional expenses	44,752	93,634
Fund managers' fees	167,442	166,185
Donation expenses	5,827	6,977
Other expenses	<u>15,152</u>	<u>15,157</u>
	<b>508,925</b>	<b>603,716</b>
<b>Personnel Expenses</b>		
Trustees' remuneration	140,227	164,785
Trustees' meeting expenses & training	47,074	52,878
Trustees' liability insurance	6,885	6,561
Staff remuneration	357,688	347,416
Increase/(Decrease) in staff leave owing	(9,722)	4,251
Staff training and travel	19,287	27,054
KiwiSaver net contributions	14,236	8,525
ACC levies	<u>1,530</u>	<u>2,168</u>
	<b>577,205</b>	<b>613,638</b>
<b>Donation Expenses (note 10)</b>	<b>5,249,840</b>	<b>5,715,702</b>

**6. EQUITY****a) Trust Capital**

The initial Trust capital was set at \$90 million in 1997. The Trust capital has been increased over time as a surrogate for inflation and population growth within the region administered by the Trust. The Trustees periodically review the capital maintenance transfer. Due to the result of the previous year funds of \$3.6 million were not available to be transferred into the capital reserve. In addition there was a \$2.942 million shortfall of reserves over capital. This year the Trustees had determined to increase the capital by a further \$3.6 million plus the 2009 shortfall (in total \$10.142 million) to ensure the "real" capital of the Trust is maintained.

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Balance at the beginning of the year	115,792,322	118,834,668
Transfer from/(to) donations reserve	<u>10,142,347</u>	<u>(2,942,346)</u>
<b>Balance at the end of the year</b>	<b>125,934,669</b>	<b>115,792,322</b>

**b) Donations Reserve**

The Trustees retain all undistributed income in the donation reserve. The optimum level of the donation reserve is 25% of the capital base so that the annual donation distribution is able to be maintained when investment markets provide negative results.

Balance at the beginning of the year	-	15,056,150
Transfer (to)/from capital reserve	(10,142,347)	2,942,346
Gain/(Deficit) for the year	<u>24,004,274</u>	<u>(17,998,496)</u>
<b>Balance at the end of the year</b>	<b>13,861,927</b>	<b>-</b>



## EASTERN AND CENTRAL COMMUNITY TRUST INC

**c) Total Equity**

Trust capital	125,934,669	115,792,322
Donations reserve	<u>13,861,927</u>	<u>-</u>
<b>Equity balance at the end of the year</b>	<b>139,796,596</b>	<b>115,792,322</b>

**7. FINANCIAL ASSETS HELD FOR TRADING**

All investments in managed funds are classified as fair value through the statement of comprehensive income.

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Opening balance	112,266,126	128,616,670
Gain/(Loss) before fund manager fees	29,935,728	(11,542,678)
Withdrawals to fund donations (net)	<u>(8,713,122)</u>	<u>(4,807,866)</u>
<b>Closing Balance</b>	<b>133,488,732</b>	<b>112,266,126</b>
<i>Investments comprise:</i>		
Bonds	61,279,122	57,180,191
Equities	<u>72,209,610</u>	<u>55,085,935</u>
<b>Total Managed Funds</b>	<b>133,488,732</b>	<b>112,266,126</b>
<i>Held in: New Zealand</i>		
Bonds	50,308,893	57,180,191
Equities	<u>9,138,233</u>	<u>6,983,416</u>
	<b>59,447,126</b>	<b>64,163,607</b>
<b>Off Shore</b>		
Bonds	10,970,229	-
Equities	<u>63,071,377</u>	<u>48,102,519</u>
	<b>74,041,606</b>	<b>48,102,519</b>
	<u><b>133,488,732</b></u>	<u><b>112,266,126</b></u>

**8. PROPERTY, PLANT & EQUIPMENT**

<b>Cost</b>	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Balance at beginning of year	166,293	157,108
Additions	7,257	9,185
Disposals	-	-
Balance at end of year	<u><b>173,550</b></u>	<u><b>166,293</b></u>

**Depreciation & Impairment Losses**

Balance at beginning of year	127,630	113,929
Depreciation for the year	10,607	13,701
Impairment	-	-
Disposals	-	-
Balance at end of year	<u><b>138,237</b></u>	<u><b>127,630</b></u>

**Carrying Amounts**

At beginning of year	38,663	43,179
At end of year	<u>35,313</u>	<u>38,663</u>

## EASTERN AND CENTRAL COMMUNITY TRUST INC

**9. CASH AND CASH EQUIVALENTS**

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Current accounts	6,156	8,690
Call account	872,628	1,353,444
Petty cash	63	252
Short term deposits	<u>6,500,000</u>	<u>4,000,000</u>
<b>Total cash</b>	<b>7,378,847</b>	<b>5,362,386</b>

**10. DONATIONS**

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Standard donations	1,720,590	1,607,209
Special donations	<u>3,901,000</u>	<u>4,331,500</u>
<b>Total community donations</b>	<b>5,621,590</b>	<b>5,938,709</b>
Less donations written back	<u>371,750</u>	<u>223,007</u>
<b>Net community donations</b>	<b>5,249,840</b>	<b>5,715,702</b>

Total of donations payable at year end was \$1,904,930 (\$1,620,750 – 2009). Included in donations payable was \$1,348,400 (\$1,082,200 - 2009) of donations, which are subject to the applicants fulfilling certain conditions.

**11. RECONCILIATION OF NET SURPLUS WITH OPERATING CASH FLOWS**

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Net gain/(deficit) for the period	24,004,274	(17,998,496)
Adjust for non-cash items:		
Unrealised loss/(gain) on investments	(19,842,020)	18,925,110
Depreciation	10,607	13,700
Movements in net current assets:		
Accrued income	(119,645)	97,495
Current liabilities excluding donations	(77,347)	55,000
Donations Payable	284,180	(424,750)
Recognition of realised gains in investing activities	<u>(876,868)</u>	<u>(506,740)</u>
<b>Net operating cash flows</b>	<b>3,383,182</b>	<b>161,319</b>

**12. CONTINGENT LIABILITIES & COMMITMENTS****Commitments**

At year end the Trust had entered into an agreement with 10 other Community Trusts to contribute to the cost of new software. It is expected that the Trust will pay approximately \$110,000 during the next financial year towards this. There are no other capital commitments (nil – 2009).

**Lease commitments**

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Less than 1 year	50,209	50,209
1 – 5 years	200,836	200,836
Over 5 years	<u>62,761</u>	<u>112,970</u>
	<b>313,806</b>	<b>364,015</b>

The lease on the present Westerman's premises commenced on 1<sup>st</sup> July 2004 and expires on 30<sup>th</sup> June 2016. The rent payable has been reviewed at the conclusion of the second and fourth years and the rental was adjusted in accordance to any increase in the consumer price index. In

## EASTERN AND CENTRAL COMMUNITY TRUST INC

July 2010 the rent is market assessed but is limited to a 20% increase over the rent set in 2008. During the year ended 31 March 2010, \$50,209 was recognised as an expense in the statement of comprehensive income in respect of operating leases (\$49,555 - 2009).

**Contingencies**

There are no contingent liabilities or contingent assets at balance date (nil -2009).

**13. RELATED PARTY TRANSACTIONS**

There have been no related party transactions during the year.

Trustees update their personal register of interests at each Trust Meeting. A folder containing each Trustee's register of interests is readily available to members of the public.

In addition, a record of all declarations of interests with any donation application is maintained and is also included in the Trustees' register of interest folder. Trustees abstain from decisions regarding donations to entities in which they have an interest.

Key management personnel include the Trustees and Trust Manager. Short term benefits paid to key management personnel were \$277,681 (\$296,184 - 2009).

**14. FINANCIAL INSTRUMENTS**

The Trust has the following financial assets and liabilities which are shown at their fair value:

	2010 \$	2009 \$
<b>Financial Assets</b>		
Cash at Bank	7,378,847	5,362,386
Prepayment	46,484	-
Derivatives	809,262	-
Accrued Income	167,368	47,723
Financial Assets held for trading consisting of:		
NZ Equities	9,138,233	6,983,416
NZ Bonds	50,308,893	57,180,191
Off Shore Equities	63,071,377	48,102,519
Off Shore Bonds	<u>10,970,229</u>	<u>-</u>
	<b>141,890,693</b>	<b>117,676,235</b>
<b>Financial Liabilities</b>		
Accounts Payable & Employee Entitlements	224,480	187,935
Derivatives	-	113,891
Donations Payable	<u>1,904,930</u>	<u>1,620,750</u>
	<b>2,129,410</b>	<b>1,922,576</b>

Risks arising for the Trust's financial assets and liabilities are inherent in the nature of the Trust's activities, and are managed through an ongoing process of identification, measurement and monitoring. The Trust is exposed to credit risk, liquidity risk and market risk (including currency, interest rate and pricing risks).

The Trust's income is generated from its financial assets. Liabilities which arise from its operations are met from cash flows provided by these assets.

Information regarding the fair value of assets and liabilities exposed to risk is regularly reported to the Trust's management, the Trust's Executive sub-Committee and ultimately the Board of Trustees. The Investment Portfolio is rebalanced, as necessary, to ensure that the asset classes remain within the strategic asset allocation ranges as set out in the Trust's Statement of Investment Policies and Objectives (SIPO). The Trustees regularly review the Trust's SIPO.

The SIPO sets out the Trust's primary investment objectives. These can be summarised as to:

## EASTERN AND CENTRAL COMMUNITY TRUST INC

- ensure that the investment fund is invested prudently;
- provide inter-generational equity with regard to distribution levels over time;
- ensure money is available for distribution, as required, to meet the needs and distribution policies of the Trust;
- maintain the value of the investment fund's capital base in real terms (CPI);
- maximise the funds available for distribution.

**The Investment Portfolio**

The Trust manages its Investment Portfolio in terms of its SIPO. The SIPO is monitored and amended on a regular basis by the Board of Trustees. The Portfolio's strategic asset allocation is reviewed annually. The strategic asset allocation was last reviewed in November 2009. MCA NZ Limited assists both management and the Trustees with investment advice and the portfolio management.

**Portfolio Characteristics**

The Trust has its investments in seven different portfolios and the performance of each asset is measured against an appropriate index:

***NZ Equities***

The NZ Equity portfolio is managed by Forsyth Barr. The Investment mandate allows the Fund Manager to invest between five and twenty five percent of the portfolio in companies listed on the NZ Stock Exchange. This portfolio is measured against the NZSX40 (net Dividend) Index.

***NZ Listed Property***

The NZ Listed Property portfolio is managed by Forsyth Barr. The Investment mandate allows the Fund Manager to invest between nought and five percent of the portfolio in property companies listed on the NZ Stock Exchange. This portfolio is measured against the NZX Property Sector (net Dividend) Index.

***NZ Bonds***

The NZ Bond portfolio is managed by Esam Cushing Limited. The Investment mandate allows the Fund Manager to invest between ten and seventy percent of the portfolio in bonds. The mandate places limits on the underlying investment categories, along with credit and duration restrictions. This portfolio is measured against the NZX Corporate A Grade Index.

***Off Shore Equities***

The Off Shore portfolio is managed by State Street Global Advisors. The investment is in a pooled fund. The investment mandate allows the Fund Manager to invest between twenty and fifty-five percent of the portfolio in off shore equities. This portfolio is measured against the MSCI Gross (\$NZ) Index and the strategic policy is to be fifty percent hedged back to NZ dollars.

***Australian Listed Property***

The Australian Listed Property portfolio is managed by State Street Global Advisors. The investment is in a pooled index trust. The investment mandate allows the Fund Manager to invest between nought and five percent of the portfolio in Australian listed property equities. This portfolio is measured against the S&P/ASX200 Property Accumulation index and the strategic policy is to be fifty percent hedged back to NZ dollars.

***Off Shore Bond Securities***

The Off Shore Bond Securities portfolio is managed by Vanguard. The investment is in a pooled hedged index fund. The investment mandate allows the Fund Manager to invest between ten and seventy percent of the portfolio in bonds. This portfolio is measured against the Citigroup WGBI Index and is fully hedged to Australian dollars. The strategic policy is to be one hundred percent hedged back to NZ dollars.

***Cash***

The Cash Portfolio is managed by the Trust Manager. The mandate places limits on the underlying investment categories, along with credit and duration restrictions. The investment

## EASTERN AND CENTRAL COMMUNITY TRUST INC

mandate allows the Trust Manager to invest between five and fifty five percent of the portfolio in cash. The portfolio is measured against the NZX 90 day bank bill index.

### Performance against Policy

The following table shows the actual performance, the benchmark performance and value added for all asset classes held by the Trust for the year ended 31<sup>st</sup> March 2010:

Asset	Actual Return (%)	Benchmark Return (%)	Value Added (%)
NZ Equities	40.0	25.3	+14.7
NZ Property	10.7	14.7	-4.0
NZ Bonds	14.3	10.0	+4.3
Offshore Equities	32.1	22.2	+9.9
Aus Property	48.0	45.1	+2.9
Offshore Bonds	5.9	4.8	+1.1
Cash	4.1	2.6	+1.5
<b>TOTAL</b>	<b>26.3</b>	<b>23.9</b>	<b>+2.4</b>

### Fair Value and Impairment

As all of the financial instruments are revalued at year end to published prices there is no subjectivity as to if the assets are impaired. The fair value equals the carrying value for all financial instruments.

### Credit Risk

Credit risk represents the risk that a counterparty to a financial asset fails to discharge an obligation which will cause the Trust to incur a financial loss.

With regard to the credit risk arising for financial assets, the Trust's credit risk arises from any default by a counterparty. The current exposure at balance date is the fair value of those assets as disclosed in the statement of financial position. There is no security held over these assets.

Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty or where a number of counterparties are engaged in similar business activities, geographic regions, or similar economic features that would influence their ability to meet their contractual obligations by reason of changes in economic, political or other conditions.

The Trust manages credit concentration risks through;

- a diversified and non-correlated basket of investments
- ensuring compliance with the individual mandate requirements of each investment.

The Trust Manager, Trust's investment advisor and the Trust's Board review the portfolios for compliance against each investment mandate on a regular basis. The Fund Manager's ensure that the funds they manage comply with their mandates as defined in the SIPO.

As at 31<sup>st</sup> March 2010 the maximum exposure to credit risk for New Zealand corporate bonds is detailed in the table below. The credit quality of the Trust's NZ Bond portfolio is managed by the Trust using Standard and Poor's rating categories.

	AAA to AA	A+ to A-	BBB to BB	Unrated	2010 \$	2009 \$
Corporate Bonds	8.0%	36.4%	39.9%	5.1%	44,983,702	49,580,516
Cash	10.6%				5,325,191	7,599,675
<b>Total</b>					<b>50,308,893</b>	<b>57,180,191</b>

### Forward Foreign Exchange Contracts

The Trust manages its foreign exchange risk by using forward exchange contracts to cover varying amounts of its foreign currency exposure. Such forward exchange contracts have the economic effect of converting foreign currency denominated balances into NZ dollars. These

## EASTERN AND CENTRAL COMMUNITY TRUST INC

forward exchange contracts are not treated as hedges for accounting purposes. All contracts are with the Bank of New Zealand which has a Standard and Poor's Rating of AA.

The following table details the three-month forward foreign currency contracts outstanding as at 31<sup>st</sup> March 2010:

<b>Currencies</b>	<b>Buy Amount NZ\$</b>	<b>Deal Rate 9 February 2010</b>	<b>Valuation Rate 31 March 2010</b>	<b>Gain/(Loss) NZ\$</b>
Australian Dollars	23,200,000	0.7947	0.7767	(536,269)
Euros	8,300,000	0.4975	0.5285	486,312
British Pounds	2,000,000	0.4359	0.4701	144,807
Japanese Yen	3,100,000	60.515	66.080	260,309
US Dollars	10,800,000	0.6783	0.7082	454,103
<b>TOTAL</b>	<b>47,400,000</b>			<b>809,262</b>

The following table details the three-month forward foreign currency contracts outstanding as at 31<sup>st</sup> March 2009:

<b>Currencies</b>	<b>Buy Amount NZ\$</b>	<b>Deal Rate 12 January 2009</b>	<b>Valuation Rate 31 March 2009</b>	<b>Gain/(Loss) NZ\$</b>
Australian Dollars	2,500,000	0.8396	0.8256	(42,363)
Euros	4,500,000	0.4338	0.4285	(54,824)
British Pounds	1,000,000	0.3853	0.3968	28,926
Japanese Yen	2,000,000	52.534	55.736	114,756
US Dollars	6,500,000	0.5820	0.5680	(160,386)
<b>TOTAL</b>	<b>16,500,000</b>			<b>(113,891)</b>

### Liquidity Risk

Liquidity risk is the risk that the Trust will encounter difficulties in meeting the obligations associated with its financial liabilities. This risk is managed through the Trust's investment in a diversified portfolio of financial assets.

The Trust's investment portfolio during the year under review consisted of only listed securities which under normal market conditions are readily convertible to cash. In addition the Trust maintains sufficient cash and cash equivalents to meet normal operating requirements, as well as the timing of the commitments below.

The Trust's financial liabilities comprise trade and other payables, and committed but unpaid donations.

At balance date all trade and other payables were current, and are normally settled on the 20<sup>th</sup> of the month following invoice date.

Committed but unpaid donations are held as current liabilities pending the satisfaction of conditions under which the donations were made. At balance date committed but unpaid donations totalled \$1,904,930 (\$1,620,750 – 2009).

These committed and unpaid donations had the following profile:

<b>Financial Year Approved</b>	<b>Number of Grants Outstanding</b>	<b>Value \$</b>
2009	7	425,000
2010	115	1,479,930
<b>Total</b>	<b>122</b>	<b>1,904,930</b>

## EASTERN AND CENTRAL COMMUNITY TRUST INC

Committed but unpaid donations at 31 March 2009 had the following profile:

Financial Year Approved	Number of Grants Outstanding	Value \$
2007	4	71,500
2008	8	126,000
2009	106	1,423,250
<b>Total</b>	<b>118</b>	<b>1,620,750</b>

### Market Risk

Market risk embodies the potential for both loss and gains and includes currency risk, interest risk and price risk.

The Trust's investment strategy and the management of the investment risk are detailed in the SIPO. The Trust's investments are diversified across a range of assets including New Zealand and Overseas equities, New Zealand bonds, New Zealand and Australian property and cash. Within each asset class there are defined policies and mandates to ensure diversification, to minimise investment risk and to limit exposure to any one investment. Each asset class has a defined target allocation and is managed within a defined allocation range.

In addition, the Trust has a Risk Management Policy which includes a Tactical Asset Allocation Policy. This policy is to identify times when the Trustees should instigate a process to review the short term investment strategy of the Trust.

### a) Currency Risk

Currency risk is the risk that the fair value of, or future cash flows from financial assets will fluctuate due to changes in foreign exchange rates. The Trust has exposure to currency risk through its investments in offshore equities. The strategic investment policy requires full hedging of currency risk for overseas bonds, when held, and 50% hedging, on average, of currency risk for overseas equities. When exchange rates are at extreme levels the percentage of hedging is varied as determined by the Trust's currency policy. Currency hedging on overseas equities has been increased throughout the year as the NZD was historically low and was trending higher. Hedging decisions have been constantly reviewed. Currency risk is self managed with the Bank of New Zealand with a range of tolerance.

At balance date the Trust's exposure to currency risk was as follows:

	2010 \$	2009 \$
Foreign Currency denominated assets	74,041,605	48,102,519
Less foreign currency contracts	<u>47,400,000</u>	<u>16,500,000</u>
Unhedged currency exposure at 31 March	26,641,605	31,602,519

Geographic location of Investments:

USA/Canada	13,359,656	12,885,793
UK/Europe	13,298,964	11,299,322
Japan/Asia	17,614,771	13,083,202
Australia	<u>29,768,214</u>	<u>10,834,202</u>
	<b>74,041,605</b>	<b>48,102,519</b>

The Australian Listed Property Index Trust and the Off Shore Bond Securities Index Fund are reported in AUD. The remaining offshore equity investments are:

- Managed by State Street Global Advisors (Boston, USA).
- Invested in 24 individual country common trust funds.
- Reported in the fund's base currency of USD.

## EASTERN AND CENTRAL COMMUNITY TRUST INC

Exposure to currency risk:

Asset	Australian Dollar at 31 March 2010 \$	US Dollar at 31 March 2010 \$	Australian Dollar at 31 March 2009 \$	US Dollar at 31 March 2009 \$
Equities	11,585,597	62,456,008	416,760	47,685,759

The following NZD exchange rates applied during the year:

Currency	Average monthly Mid-Rate for 2009 - 2010	Average monthly Mid-Rate for 2008 - 2009
Australian Dollar	0.7971	0.8216
US Dollar	0.6785	0.6502

**Sensitivity Analysis for Currency:**

A 10 per cent movement of the NZD against the following currencies at 31 March would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. This analysis is performed on the same basis for 2009.

Effect in NZD:

Effect of Movements in NZD	Profit or (Loss) 31 March 2010 \$	Profit or (Loss) 31 March 2009 \$
10% fall in NZD/AUD	1,287,289	46,306
10% rise in NZD/AUD	(1,053,236)	(37,887)
10% fall in NZD/USD	6,939,556	5,298,417
10% rise in NZD/USD	(5,677,819)	(4,335,069)

**b) Interest Rate Risk**

The Trust's investments in fixed rate securities are subject to interest rate risk. The Trust's SIPO requires a fixed rate security to have a minimum of a BBB rating or equivalent grade. The maximum exposure to each fixed security is controlled by the credit rating so that the higher the credit rating, the higher the allowable exposure. The fixed rate securities mandate ensures that a high percentage of the securities are rated A or higher. Short term deposits are invested for periods up to 365 days taking into account current interest rates.

The Trust's cheque and call accounts are interest bearing. Any movement in interest rates on these accounts is minimal and not considered to be material.

At the reporting date the interest rate profile of the Trust's interest bearing financial instruments was:

	Carrying Amount 2010 \$	Carrying Amount 2009 \$
Fixed Rate Instruments	62,453,931	49,580,516
Variable Rate Instruments	6,203,976	12,962,062
<b>Total</b>	<b>68,657,907</b>	<b>62,542,578</b>

**Sensitivity Analysis for Fixed Rate Instruments:**

A change of 100 basis points (1%) in interest rates would have increased or decreased profit or loss by the amounts shown. The analysis is performed on the same basis for 2009.

Fixed Rate Instruments	Cash Flow Sensitivity 31 March 2010 \$	Cash Flow Sensitivity 31 March 2009 \$
100 basis points increase	559,539	495,805
100 basis points decrease	(559,539)	(495,805)



## EASTERN AND CENTRAL COMMUNITY TRUST INC

**Sensitivity Analysis for Variable Rate Instruments:**

A change of 100 basis points (1%) in interest rates at the reporting date would have increased (decreased) profit or loss by the amounts shown below. The analysis is performed on the same basis for 2009.

Variable Rate Instruments	Cash Flow Sensitivity 31 March 2010 \$	Cash Flow Sensitivity 31 March 2009 \$
100 basis points increase	135,598	129,621
100 basis points decrease	(135,598)	(129,621)

**c) Pricing Risk**

Pricing risk is the risk that the value of the instrument will fluctuate as a result of changes in market price (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuers or all factors affecting all instruments traded in the market. As the majority of the funds' financial instruments are carried at fair value with fair value changes recognised in the statement of comprehensive income, all changes in market conditions will directly affect investment income.

Price risk is managed by the Trust by constructing a diversified portfolio of instruments traded on various markets. The SIPO sets down the guidelines for this diversification.

The Trust's financial assets are priced at fair value. The effect on the Trust's statement of comprehensive income and balance sheet as at 31<sup>st</sup> March 2010, due to a possible change in market factors is represented in the following table:

Financial Asset	Sensitivity Range (-1 to +1 Standard Deviations)	Sensitivity Impact \$,000
NZ/Australian Equities	-10.6% to 27.6%	-2,820 to 7,325
NZ Bonds	2.7% to 12.8%	1,353 to 6,445
NZ Cash	4.4% to 7.1%	333 to 536
Overseas Equities	-9.0% to 27.0%	-4,076 to 12,237
Overseas Bonds	3.1% to 12.9%	335 to 1,382
Property	-7.9% to 23.9%	-113 to 340
<b>Total Portfolio</b>	<b>-3.5% to 19.9%</b>	<b>-1,081 to 7,112</b>

There is a 68% probability that the return in any one year will be within the range -3.5% to 19.9%.

The effect on the Trust's statement of comprehensive income and balance sheet as at 31<sup>st</sup> March 2009, due to a possible change in market factors is represented in the following table:

Financial Asset	Sensitivity Range (-1 to +1 Standard Deviations)	Sensitivity Impact \$,000
NZ/Australian Equities	-10.6% to 27.6%	-1,704 to 4,432
NZ Bonds	2.7% to 12.8%	1,573 to 7,424
NZ Cash	4.4% to 7.1%	255 to 413
Overseas Equities	-8.1% to 26.1%	-3,042 to 9,819
Property	-6.4% to 22.4%	-80 to 280
<b>Total Portfolio</b>	<b>-2.5% to 18.8%</b>	<b>-306 to 7,081</b>

There is a 68% probability that the return in any one year will be within the range -2.5% to 18.8%.

These sensitivity analyses are based on the volatility of each asset class and the investment portfolio as a whole, as measured by plus or minus one standard deviation.

The overall effect of the Trust's diversified portfolio of uncorrelated financial assets is to reduce volatility and stabilise investment returns over time.

## EASTERN AND CENTRAL COMMUNITY TRUST INC

**Fair Value Hierarchy**

The table below analyses financial instruments carried at fair value, by valuation method. All assets are categorised as level 1, these are financial instruments with quoted prices (unadjusted) in active markets.

<b>Financial Asset</b>	<b>\$</b>
Financial assets held for trading	133,488,732
Derivative financial assets	809,262
<b>Total Assets</b>	<b>134,297,994</b>

There were no transfers between levels during the year.

**15. TRUSTEES' ATTENDANCE AND REMUNERATION**

Trustees' remuneration for meeting attendance and an annual honorarium is set by the Minister of Finance. Trustees are also reimbursed for travel costs. Details of the Trustees' attendance and remuneration are:

**Attendance Record & Fees of Trustees**

<b>Trustee</b>	<b>Two Day Trust Meetings attended</b>	<b>Sub-Committee Meetings attended</b>	<b>Fees \$</b>
Barbara Cameron	3 of 3	3 of 3	4,670
Bev Edlin	3 of 3	1 of 1	5,570
Beverley Fullerton-Smith	6 of 6	18 of 18	12,790
Ron Garrod	6 of 6	12 of 13	11,470
Pamela Good	2 of 3	3 of 3	4,096
John Gordon	5 of 6	14 of 16	12,066
Shona Jones	2 of 3	3 of 5	3,290
Claire Matthews	6 of 6	19 of 20	20,246
Margaret May	3 of 3	6 of 8	7,006
Margaret Millard	2 of 3	0 of 1	3,950
Bruce Mills	3 of 3	1 of 1	5,750
Kaye McAulay	4 of 6	2 of 4	7,030
Keith Moretta	6 of 6	5 of 5	9,846
James Palmer	3 of 3	11 of 13	12,084
Jane Poa	3 of 3	1 of 1	5,570
Mere Pohatu	4 of 6	13 of 20	11,593
Robyn Rauna	2 of 3	0 of 1	3,200
<b>Total Fees</b>			<b>140,227</b>

**16. TRUSTEES' INDEMNITY LIABILITY INSURANCE**

Trustees' indemnity liability insurance of \$6,885 (\$6,561 – 2009) has been paid by the Trust as approved by the Trustees under the Community Trusts Act 1999.

## EASTERN AND CENTRAL COMMUNITY TRUST INC

**SCHEDULE OF COMMUNITY PAYMENTS  
FOR THE YEAR ENDED 31 MARCH 2010****DONATIONS BY REGION**

	<b>2010 \$</b>	<b>2009 \$</b>
Poverty Bay	533,270	650,600
Hawke's Bay	2,132,960	2,330,640
Tararua	188,250	344,000
Wairarapa	647,725	723,100
Manawatu	1,409,285	959,640
Horowhenua	368,700	582,379
Regional	341,400	348,350
<b>TOTAL DONATIONS</b>	<b>5,621,590</b>	<b>5,938,709</b>

An itemised list of all donations is available at [www.ecct.org.nz](http://www.ecct.org.nz) or free of charge, from the Trust Manager, Eastern & Central Community Trust Inc, PO Box 1058, Hastings 4156.



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 New Zealand

**AUDIT REPORT  
 TO THE TRUSTEES OF THE  
 EASTERN & CENTRAL COMMUNITY TRUST INCORPORATED**

We have audited the financial statements. The financial statements provide information about the past financial performance of the Eastern & Central Community Trust and its financial position as at 31 March 2010. This information is stated in accordance with the accounting policies set out in notes 1, 2 and 3 of the financial statements.

This report is made solely to the members of the Eastern & Central Community Trust as a body, in accordance with the requirements of Eastern & Central Community Trust's trust deed. Our audit has been undertaken so that we might state to the Eastern & Central Community Trust's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Eastern & Central Community Trust and the Trust's members as a body, for our audit work, for this report, or for the opinion we have formed.

**The Trustees' Responsibilities**

The Eastern & Central Community Trust is responsible for the preparation of the financial statements which fairly reflect the financial position of the Trust as at 31 March 2010 and the results of its operations and cash flows for the year ended on that date.

**Auditor's Responsibilities**

It is our responsibility to express to you an independent opinion on the financial statements presented by the Trustees.

**Basis of Opinion**

An audit includes examining on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Trustees in the preparation of the financial statements; and
- whether the accounting policies are appropriate to the Trust's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditors we have no other relationship with, or interests in, the Trust.

**Unqualified Opinion**

In our opinion the financial statements fairly reflect the financial position of the Eastern & Central Community Trust as at 31 March 2010 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 28 May 2010 and our unqualified opinion is expressed as at that date.

*BDO Hawkes Bay*

**BDO Hawkes Bay  
 Napier**

**PARTNERS:** D W Pearson L P Townshend M W Williams  
**ASSOCIATES:** G A Fan-Robertson H J Ryan  
**CONSULTANT:** J R Palaret

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