



# Heartland PIE Fund

2012 FINANCIAL STATEMENTS

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**HEARTLAND**

Building Society

**HEARTLAND PIE FUND  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012**

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**HEARTLAND PIE FUND  
MANAGER'S STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2012**

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**Statutory Base**

The Heartland PIE Fund (formerly known as MARAC PIE Fund) was established under the Unit Trust Act 1960 and a Master Trust Deed dated 1 December 2008 and an Establishment Deed dated 1 December 2008 (Establishment Date), in each case between The New Zealand Guardian Trust Company Limited (Trustee) as trustee and MARAC Finance Limited (MARAC or the Manager) as the manager.

**Statement by the Manager**

After due enquiry by us in relation to the period between 1 July 2011 and 30 June 2012, being the date of the accompanying financial statements there have not, in our opinion, been any material and adverse changes to the value of the Fund's assets relative to its liabilities (including contingent liabilities) and the ability of the Fund to pay its debts as they become due in the normal course of business.

For and on behalf of the Manager  
MARAC Finance Limited



Director

28 August 2012



Director

**HEARTLAND PIE FUND  
STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2012**

|  | Note | 2012<br>\$000 | 2011<br>\$000 |
|--|------|---------------|---------------|
| <b>Investment revenue</b>                                      |      |               |               |
| Interest revenue   | 5    | 346           | 357           |
| <b>Total investment revenue</b>                                |      | <b>346</b>    | <b>357</b>    |
| <b>Total operating income</b>                                  |      | <b>346</b>    | <b>357</b>    |
| <b>Profit for the year attributable to Unit Holders</b>        |      | <b>346</b>    | <b>357</b>    |
| <b>Total comprehensive income attributable to Unit Holders</b> |      | <b>346</b>    | <b>357</b>    |

The accounting policies and notes form part of, and should be read in conjunction with, these financial statements.

**HEARTLAND PIE FUND  
STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS  
FOR THE YEAR ENDED 30 JUNE 2012**

|  | Note | 2012<br>\$000 | 2011<br>\$000  |
|--|------|---------------|----------------|
| <b>Net assets attributable to Unit Holders at beginning of year</b>      | 8    | <b>6,517</b>  | <b>8,763</b>   |
| Total comprehensive income   |      | 346           | 357            |
| <b>Transactions with Unit Holders</b>                                    |      |               |                |
| Contributions  |      | 11,931        | 7,719          |
| Redemptions  |      | (6,327)       | (10,196)       |
| Unit Holder attributed taxation  | 7    | (120)         | (126)          |
| <b>Movements in net assets attributable to Unit Holders for the year</b> |      | <b>5,484</b>  | <b>(2,603)</b> |
| <b>Net assets attributable to Unit Holders at end of year</b>            | 8    | <b>12,347</b> | <b>6,517</b>   |

The accounting policies and notes form part of, and should be read in conjunction with, these financial statements.

**HEARTLAND PIE FUND  
STATEMENT OF NET ASSETS  
AS AT 30 JUNE 2012**

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|   | Note     | 2012<br>\$000 | 2011<br>\$000 |
|---|----------|---------------|---------------|
| <b>Assets</b>   |          |               |               |
| Current investment in Heartland Building Society Deposits | 10       | 12,347        | 6,517         |
| Other receivables   |          | 30            | 16            |
| <b>Total assets</b>                                       |          | <b>12,377</b> | <b>6,533</b>  |
| <b>Liabilities</b>  |          |               |               |
| Other liabilities   | 7        | 30            | 16            |
| <b>Total liabilities</b>                                  |          | <b>30</b>     | <b>16</b>     |
| <b>Net assets attributable for Unit Holders</b>           | <b>8</b> | <b>12,347</b> | <b>6,517</b>  |

The accounting policies and notes form part of, and should be read in conjunction with, these financial statements.

For and on behalf of the directors of MARAC Finance Limited as Manager who authorised these financial statements for issue on 28 August 2012.




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Director




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Director

**HEARTLAND PIE FUND  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2012**

|  | 2012<br>\$000  | 2011<br>\$000  |
|--|----------------|----------------|
| <b>Cash flows from operating activities</b>                    |                |                |
| Cash was provided from:  |                |                |
| Interest received  | 346            | 357            |
| <b>Total cash provided from operating activities</b>           | <b>346</b>     | <b>357</b>     |
| <b>Net cash flows from operating activities</b>                | <b>346</b>     | <b>357</b>     |
| <b>Cash flows from investing activities</b>                    |                |                |
| Cash was provided from:  |                |                |
| Redemption of Heartland Building Society Deposits              | 6,101          | 9,965          |
| <b>Total cash provided from investing activities</b>           | <b>6,101</b>   | <b>9,965</b>   |
| Cash was applied to:   |                |                |
| Purchase of Heartland Building Society Deposits                | 11,931         | 7,719          |
| <b>Total cash applied to investing activities</b>              | <b>11,931</b>  | <b>7,719</b>   |
| <b>Net cash flows (applied to) / from investing activities</b> | <b>(5,830)</b> | <b>2,246</b>   |
| <b>Cash flows from financing activities</b>                    |                |                |
| Cash was provided from:  |                |                |
| Unit Holders' contributions received                           | 11,931         | 7,719          |
| <b>Total cash provided from financing activities</b>           | <b>11,931</b>  | <b>7,719</b>   |
| Cash was applied to:   |                |                |
| Payment of Unit Holders' redemptions                           | 6,447          | 10,322         |
| <b>Total cash applied to financing activities</b>              | <b>6,447</b>   | <b>10,322</b>  |
| <b>Net cash flows from / (applied to) financing activities</b> | <b>5,484</b>   | <b>(2,603)</b> |
| <b>Net increase in cash held</b>                               | -              | -              |
| Add opening cash   | -              | -              |
| <b>Ending cash carried forward</b>                             | -              | -              |

**Reconciliation of net profit after taxation and before Unit Holder activities  
to net cash flows from operating activities**

|   |            |            |
|---|------------|------------|
| Net profit after taxation and before Unit Holder activities | 346        | 357        |
| <b>Net cash flows from operating activities</b>             | <b>346</b> | <b>357</b> |

The accounting policies and notes form part of, and should be read in conjunction with, these financial statements.

# HEARTLAND PIE FUND

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2012

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#### 1 Reporting entity

The Heartland PIE Fund (Fund) was established under the Unit Trusts Act 1960 and a Master Trust Deed on 1 December 2008 (the Establishment Date) between The New Zealand Guardian Trust Company Limited (Trustee) and MARAC Finance Limited (Manager). The Fund is domiciled in New Zealand and its registered office is Heartland House, 35 Teed Street, Newmarket, Auckland 1023, New Zealand.

The financial statements for the Fund comprise of the following portfolios:

- Heartland Call PIE
- Heartland Term Deposit PIE

#### 2 Basis of preparation

##### (a) Statement of compliance

These financial statements have been prepared by the Manager in accordance with the Trust Deed, the Financial Reporting Act 1993 and Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable financial reporting standards as appropriate to profit-oriented entities. The Fund is a profit-oriented entity.

The financial statements were approved and authorised for use by the directors of the Manager on 28 August 2012.

##### (b) Basis of measurement

The financial statements have been prepared on the basis of historical cost, unless stated otherwise.

##### (c) Functional and presentation currency

These financial statements are presented in New Zealand dollars which is the Fund's functional currency. Unless otherwise indicated amounts are rounded to the nearest thousand.

##### (d) Estimates and judgements

The preparation of financial statements requires the use of management judgement, estimates and assumptions that effect reported amounts. Actual results may differ from these judgements.

#### 3 Significant accounting policies

##### Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Fund and that revenue can be reliably measured. The principal source of revenue is interest income. For financial instruments measured at amortised cost, the effective interest method is used to measure the interest income recognised in profit or loss.

##### Taxation

The Fund qualifies as and has elected to be a Portfolio Investment Entity (PIE) for tax purposes. Under the PIE regime, income is effectively taxed in the hands of the Unit Holder and therefore the Fund has no tax expenses or deferred tax assets or liabilities. Accordingly, no income tax expense is recognised in profit or loss.

Under the PIE regime, the Manager attributes the taxable income of the Fund to the Unit Holders in accordance with their proportionate interest in a fund. Income attributed to each Unit Holder is taxed at the Unit Holders "prescribed investor rate" (PIR) which is capped at 28% from 1 October 2010 (30% prior to 1 October 2010), and any resident and foreign withholding taxes deducted at source.

##### Statement of Cash Flows

Cash reflects the balance of cash and liquid assets used in the day-to-day cash management of the Fund.

**HEARTLAND PIE FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012**

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**3 Significant accounting policies (continued)**

**Investments**

The valuation of investments in Heartland Building Society's Term and Call Deposits (Deposits) takes into account the accrual of interest. These investments are classified as held to maturity investments and are measured at amortised cost using the effective interest rate method. This approximates their fair value.

**Unit Holders' funds**

Unit Holders' funds are classified as equity. Units issued by the Fund provide the Unit Holders with the right to require redemption for cash at the value proportionate to the Unit Holders' share in the Fund's net asset value. The units qualify as puttable instruments.

**Changes in accounting policies**

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

**New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 June 2012, and have not been applied in preparing these financial statements. The new standards identified which may have an effect on the financial statements of the Fund are:

- NZ IFRS 9 Financial Instruments, which specifies how an entity should classify and measure financial assets, effective 1 January 2013 and expected to be applied for the year ending 30 June 2014.

These standards are not expected to have a significant impact on the financial statements of the Fund.

**4 Status of the Fund**

**Trust Deed**

The Fund was established under the Unit Trusts Act 1960 and a Master Trust Deed dated 1 December 2008 (Trust Deed) and an Establishment Deed dated 1 December 2008 (Establishment Deed).

**Trustee**

The Trustee of the Fund is The New Zealand Guardian Trust Company Limited.

**Contributions**

Contributions are made by Unit Holders of the Fund only.

**5 Related party transactions**

The Fund is controlled and managed by MARAC Finance Limited.

As at 30 June 2012 MARAC Finance Limited's immediate parent is Heartland Building Society and its ultimate parent is Heartland New Zealand Limited.

**HEARTLAND PIE FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012**

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**5 Related party transactions (continued)**

The following disclosure of related party transactions and balances is made:

- a) Directors of MARAC Finance Limited, Heartland Building Society and Heartland New Zealand Limited, their spouses and family may be Unit Holders of the Fund. All transactions with related parties are at normal commercial rates.
- b) The Fund deals with MARAC Finance Limited in the normal course of business, in its capacity as Manager of the Fund and also invests in Heartland Building Society Deposits for which MARAC Finance Limited is a guarantor.
- c) Fees and expenses, including audit fees are paid on behalf of the Fund by MARAC Finance Limited, in its capacity as the Manager of the Fund.
- d) No amounts owed to the Fund by related parties have been written off or forgiven during the year.
- e) Key management personnel, being directors of MARAC Finance Limited and those staff reporting directly to the Chief Executive Officer and their immediate relatives have transacted with the Fund during the year as follows:

|  | <b>2012</b>  | <b>2011</b>  |
|--|--------------|--------------|
|  | <b>\$000</b> | <b>\$000</b> |
| <b>Related party Unit Holders' investing</b> |              |              |
| Maximum balance                              | 43           | 205          |
| Closing balance                              | 33           | -            |
| Contributions                                | 43           | -            |
| Redemptions                                  | 10           | -            |

During the year ended 30 June 2011 an employee who previously reported directly to the Chief Executive Officer ceased being a direct report. Accordingly, the employee and the employee's immediate relatives transactions and balances with the Fund were not reported for the year ended 30 June 2011.

**6 Segmental information**

The Fund operates in one industry segment, being the financial investment sector, and in one geographic segment, being New Zealand.

**7 Income tax**

As a PIE, each Fund allocates all of its taxable income (or losses) between its investors based on the number of units held by each investor. Consequently the Fund has no liability for income tax in its own right. The Manager has calculated tax payable on such income allocated to each investor at their nominated PIR by deducting from their number of units held in the Fund.

The Manager has withheld \$120k of tax payable on income allocated to each investor (June 2011: \$126k), of which \$30k remains due to the IRD at 30 June 2012 (June 2011: \$16k).

**8 Unit Holders' Funds**

|  | <b>2012</b>   | <b>2011</b>    |
|--|---------------|----------------|
|  | <b>000</b>    | <b>000</b>     |
| <b>Units on issue</b>                          |               |                |
| <b>Units on issue at beginning of the year</b> | <b>6,517</b>  | <b>8,763</b>   |
| Units issued during the year                   | 12,277        | 8,076          |
| Units redeemed during the year                 | (6,447)       | (10,322)       |
| <b>Total movements for the year</b>            | <b>5,830</b>  | <b>(2,246)</b> |
| <b>Units on issue at end of year</b>           | <b>12,347</b> | <b>6,517</b>   |

**HEARTLAND PIE FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012**

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**9 Contingent liabilities and commitments**

At 30 June 2012 there were no material contingent liabilities or commitments (June 2011: Nil).

**10 Financial instruments**

**Credit risk**

Financial instruments which potentially subject the Fund to credit risk principally consist of investments in Heartland Building Society Deposits. The Fund has 100% concentration with Heartland Building Society which is guaranteed by MARAC Finance Limited, in its capacity as Manager of the Fund. The amount that best represents the maximum credit risk exposure is the carrying value of investments.

The credit risk stemming from Heartland Building Society is managed by Heartland Building Society's Risk Committee, which is a sub committee of the Board that has been delegated the task of overseeing a formal risk management strategy.

**Fair values**

The carrying value of investments is approximately equal to their fair value.

**Liquidity risk**

Liquidity risk is the risk that the Fund may encounter difficulty in raising funds at short notice to meet its commitments and arises from any mismatch of the maturity of monetary assets and liabilities. The Fund manages this risk by matching the term of its investments in Heartland Building Society Deposits with the term of the units issued. The Fund is reliant on Heartland Building Society repaying the Fund at the required time. Heartland Building Society manages its liquidity risk by forecasting future cash requirements, seeking a diverse and stable funding base and by maintaining credit facilities committed to Heartland Building Society by financial institutions.

**Interest rate risk**

Interest rate risk is the risk that market interest rates will change and impact on the Fund's financial results by affecting the margin between interest earning assets and interest bearing liabilities.

Interest rate risk is managed by MARAC Finance Limited in their capacity as Manager.

The interest rates on Unit Holders' contributions are determined at the time of contribution. The agreed rate is locked in by MARAC Finance Limited as Manager through simultaneous investment in Heartland Building Society Deposits. No interest rate fluctuations can occur on these investments during their term.

**Repricing and maturity analysis of investments**

The interest rate risk profile of investments that follows has been prepared on the basis of maturity which is the repricing date.

|              | 2012<br>\$000 | 2011<br>\$000 |
|--------------|---------------|---------------|
| On demand    | 4,900         | 2,887         |
| 0-6 months   | 2,099         | 1,529         |
| 6-12 months  | 5,348         | 2,101         |
| <b>Total</b> | <b>12,347</b> | <b>6,517</b>  |

The effective weighted interest rate of these investments as at 30 June 2012 is 5.38% p.a (June 2011: 5.63%).

**Currency risk**

The Fund does not have any currency risk. All assets, liabilities and transactions being denominated in New Zealand dollars.

**11 Events after reporting date**

There have been no material events subsequent to reporting date that would affect the interpretation of the financial statements or the performance of the Fund.

## **HEARTLAND PIE FUND DIRECTORY INFORMATION**

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### **Trustee**

The New Zealand Guardian Trust Company Limited  
48 Shortland Street  
Auckland 1010

### **Manager**

MARAC Finance Limited  
Heartland House  
35 Teed Street  
Newmarket  
Auckland 1023

### **Auditor**

KPMG  
KPMG Centre  
18 Viaduct Harbour Avenue  
Auckland 1010

### **All correspondence from Unit Holders may be sent to:**

The Manager  
Heartland PIE Fund  
PO Box 9919  
Newmarket  
Auckland 1149  
T 0800 85 20 20  
F +64 9 927 9321

### **Correspondence specifically for the Trustee may be sent to:**

Relationship Manager, Corporate Trusts  
The New Zealand Guardian Trust Company Limited  
PO Box 1934  
Auckland 1140  
T +64 9 377 7300  
F +64 9 969 3732

## HEARTLAND PIE FUND CONTACT DETAILS

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### Investment Enquiries

T 0800 85 20 20

F +64 9 927 9321

E [invest@heartland.co.nz](mailto:invest@heartland.co.nz)

W [www.heartland.co.nz](http://www.heartland.co.nz)



## Independent auditor's report

### To the unit holders of the Heartland PIE Fund

#### Report on the financial statements

We have audited the accompanying financial statements of the Heartland PIE Fund (the "fund") on pages 2 to 8. The financial statements comprise the statement of net assets as at 30 June 2012, the statements of comprehensive income, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### Manager's responsibility for the financial statements

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

#### Auditor's responsibility

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

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

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

Our firm has also provided other services to the fund in relation to general accounting services. Subject to certain restrictions, partners and employees of our firm may also deal with the fund on normal terms within the ordinary course of trading activities of the business of the fund. These matters have not impaired our independence as auditor of the fund. The firm has no other relationship with, or interest in, the fund.



## **Opinion**

In our opinion the financial statements on pages 2 to 8:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of the fund as at 30 June 2012 and of its financial performance and cash flows for the year then ended.

## **Report on other legal and regulatory requirements**

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

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

*KPMG*

28 August 2012

Auckland