

**JAMAICA POLICE CO-OPERATIVE CREDIT UNION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**31 DECEMBER 2004**

**IDENTIFICATION AND PRINCIPAL ACTIVITIES:**

The Jamaica Police Co-operative Credit Union Limited is registered under the Co-operative Societies Act and has its registered office at 122 Harbour Street, Kingston. Membership is limited to present and past members of the Force; past members of the Force who were members of the Credit Union when they resigned or retired from the Force; members of the United District Constable Association; members of staff who are permanently employed to the Jamaica Police Co-operative Credit Union Limited who have successfully completed their probationary period and ex-members of staff who choose to retain membership; civilians working at Police locations; the spouses and children of members of the Society mentioned above.

Membership to the Credit Union is obtained by the holding of members' shares, which are deposits available for withdrawals on demand. Individual membership may not exceed 20% of the total of the members' shares of the Credit Union.

The main activities of the Credit Union are to promote thrift amongst its members by affording them an opportunity to accumulate their savings and to create for them a source of credit for provident or productive purpose at reasonable rates of interest.

These financial statements are expressed in Jamaican dollars.

**2. REGULATION:**

The Co-operative Societies Act requires, among other provisions, that at least 20% of the net surplus of the Credit Union be transferred annually to a reserve fund. The Credit Union is exempt from Income Tax under Section 59 (1) of the Co-operative Societies Act and Section 12 of the Income Tax Act.

**3. SIGNIFICANT ACCOUNTING POLICIES:**

**(a) Basis of preparation -**

Except as disclosed in Note 3 (j), the Credit Union's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and have been prepared under the historical cost convention as modified by the revaluation of certain financial assets.

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**3 SIGNIFICANT ACCOUNTING POLICIES: (CONT'D)**

(b) Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and any adjustments that may be necessary would be reflected in the year in which actual results are known.

**Cash and cash equivalents -**

Cash and cash equivalents are carried on the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and at bank and deposits not held to satisfy statutory requirements net of bank overdraft.

**Investments -**

Investments are classified into two categories: originated debts and available-for-sale securities. Management determines the appropriate classification of investments at the time of purchase.

Originated debt securities include those where money is provided to the issuer, either directly or through an intermediary, other than those that are originated with the intent to be sold immediately or in the short-term. They are initially recorded at cost, which is the cash given to originate the debt including any transaction costs subsequently measured at amortised cost using the effective interest rate method.

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**3. SIGNIFICANT ACCOUNTING POLICIES: (CONT'D):**

**(d) Investments (cont'd) -**

Available-for-sale securities are financial instruments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. They are subsequently re-measured at fair value based on quoted bid prices or amounts derived from cash flow models. Where fair values cannot be reliably determined, for example in situations where there is no active market, available for sale securities are carried at historical cost. Unrealised gains or losses arising from changes in fair value are recognized in equity in the fair value reserve. When the securities are disposed of or impaired, the related accumulated unrealized gains or losses included in the fair value reserve are transferred to the statement of revenue and expenditure.

A financial asset is considered impaired if its carrying amount exceeds its estimated recoverable amount. The amount of the impairment loss for assets carried at historical cost is calculated as the difference between the assets carrying amounts and the present value of expected future cash flows discounted at the original effective interest rate.

All purchases and sales of investment securities are recognised at settlement date.

**(e) Reverse repurchase transactions -**

Securities purchased under agreement to resell are treated as collateralised financing transactions. The difference between the purchase and resale price is treated as interest and accrued over the life of the agreements using the effective yield method.

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**3. SIGNIFICANT ACCOUNTING POLICIES: (CONT'D):**

**(f) Loans -**

Loans are recognized when cash is advanced to borrowers. They are initially recorded at cost, which is the cash given to originate the loan including any transaction costs and subsequently measured at amortized cost using the effective interest rate method.

An allowance for impairment is established if there is objective evidence that the Credit Union will not be able to collect all amounts due according to the original contractual terms of the loan. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of the expected cash flows, including amounts recoverable from guarantees and collateral discounted at the original effective interest rate of the loans.

A loan is classified as impaired when, in management's opinion, there has been a deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collection of the full amount of principal and interest. If the payment on a loan is contractually two months in arrears, the loan will be classified as impaired.

For impaired loans, the accrual of interest income based on the original terms of the loan is discontinued. IFRS require the increase in the present value of impaired loans due to the passage of time to be reported as interest income.

Write-offs are made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness. Write-offs are charged against previously established provisions for credit losses and reduce the principal amount of a loan. Recoveries in part or in full of amounts previously written off are credited to impairment loss expense in the statement of revenue and expenditure.

The Credit Union's impairment loss provision requirements, as stipulated by the Jamaica Co-operative Credit Union League that exceed the IFRS impairment provision are dealt with in a non-distributable loan loss reserve as an appropriation of accumulated surplus.

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**3. SIGNIFICANT ACCOUNTING POLICIES: (CONT'D):**

(g) Property, plant and equipment -

Property, plant and equipment are stated at “deemed cost” less accumulated depreciation and impairment losses. At adoption of IFRS the carrying values comprised a combination of costs and market values. These values have been deemed to be cost as allowed by IFRS.

Depreciation is charged so as to write-off the cost or valuation of assets, other than land, over the period of their estimated useful lives as follows:

	<u>Rate</u> %	<u>Method</u>
Building	2.5	Reducing balance
Furniture and equipment	10	Reducing balance
Computers	20	Straight line
Motor vehicle	20	Straight line

Property, plant and equipment are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of fixed assets are determined by reference to their carrying amount and are taken into account in determining operating surplus. Repairs and renewals are charged to the income statement when the expenditure is incurred.

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**NOTES TO THE FINANCIAL STATEMENTS**

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**3. SIGNIFICANT ACCOUNTING POLICIES: (CONT'D):**

**(h) Retirement benefit asset -**

The Credit Union participates in a defined benefit pension scheme. The pension scheme is generally funded by payments from employees and the Credit Union, taking into account the recommendation of independent qualified actuaries.

The asset or liabilities in respect of defined benefit plans is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of plan assets, adjusted for unrecognized actuarial gains/losses and past service costs. Where a pension asset arises, the amount recognised is limited to the net total of any cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefit available in the form of refunds from the plan or future reduction in future contributions to the plan. The pension plan costs are assessed using the projected unit credit method. Under this method, the cost of providing pension is charged to the income and expenditure account so as to spread the regular cost of service over the service lives of the employees in accordance with the advice of the actuaries, who carry out a full valuation of the plan every year. The pension obligation is measured at the present value of the estimated future cash outflows using discount rates based on market yields on government securities which have terms to maturity approximating the terms of the related liability.

**(i) Other assets -**

Receivables are carried at anticipated realizable value. An estimate is made for doubtful receivables based on all outstanding amounts at year-end.

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**NOTES TO THE FINANCIAL STATEMENTS**

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**3. SIGNIFICANT ACCOUNTING POLICIES: (CONT'D)**

**(j) Members' Shares -**

Members' shares represent deposit holdings of the Credit Union's members to satisfy membership requirements and to facilitate eligibility for loans and other benefits.

In accordance with industry practice, the Credit Union classifies members' shares as equity and the dividend paid on these shares as an appropriation of accumulated surplus and not as an expense. IFRS requires that voluntary shares be classified as liability and that the dividend paid on these shares be classified as an expense.

**(k) Institutional capital -**

Under the Co-operative Societies Act and Regulations, as amended in 1977, at least 20% of net income must be transferred to a statutory reserve fund. Members' entrance fees are also credited to statutory reserve. Other institutional capital reserve is established and increased from time to time, which in the opinion of the directors are necessary to support the operations of the Credit Union and thereby, protect the interest of the members. Transfers to other reserve are made on the basis of decisions taken at Annual General Meeting. These reserves are not available for distribution.

**(l) Revenue recognition -**

Interest income is recognized in the statement of revenue and expenditure for all interest-bearing instruments on an accrual basis, by reference to the principal outstanding and at the effective interest rate applicable.

Where collection of interest income is considered doubtful or payment is outstanding for 90 days or more, interest is taken into account on the cash basis. IFRS require that when loans become doubtful of collection, they are written down to their recoverable amounts, and interest income is thereafter recognized based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

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**3 SIGNIFICANT ACCOUNTING POLICIES: (CONT'D)**

**(l) Revenue recognition (cont'd) -**

Fees are recognized on an accrual basis.

Dividend income from equity investment securities are recognized when the shareholder's right to receive payment has been established.

**(m) Foreign currency -**

Balances in currencies other than the Jamaican dollar are translated at the rate of exchange ruling at balance sheet date. Transactions during the year are converted at the exchange rates prevailing at the dates of the transactions. Gains or losses on translation are dealt with in the statement of revenue and expenditure.

**(n) Financial instruments -**

Financial instruments is any contract that give rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. Financial instruments carried on the balance sheet include cash and bank balances, loans, investment, other assets, deposits, other borrowed funds and other liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

**(o) League fees and stabilization dues -**

The Jamaica Co-operative Credit Union League has fixed its league fees to 0.25% of total assets, whilst stabilization dues are set at 0.35% of total savings.

**(p) Comparative information -**

Where necessary comparative figures have been reclassified to conform with changes in presentation in the current year.

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**4. OTHER INCOME:**

	<u>2004</u>	<u>2003</u>
	<u>\$</u>	<u>\$</u>
Fees	6,081,493	5,017,598
ATM fees	256,221	294,361
Commission	170,885	1,766,073
Surplus on the sale of investments	1,471,757	-
Exchange gains from holding foreign currency deposits	100,602	904,634
Dividend - current year	359,867	457,825
prior year over provision	<u>( 414 524)</u>	
	<u>8,026,301</u>	<u>8,440,491</u>

**5. NET SURPLUS:**

The following have been charged in arriving at net surplus:

	<u>2004</u>	<u>2003</u>
	<u>\$</u>	<u>\$</u>
Auditors' remuneration (including GCT)	402,500	300,000
Depreciation of property and equipment	3,090,423	2,634,194
Staff costs (note 21)	<u>27,056,505</u>	<u>19,893,113</u>

**JAMAICA POLICE CO-OPERATIVE CREDIT UNION LIMITED**

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**6. LIQUID ASSETS:**

Comprising the following categorized by maturity dates -

	<b>Within 3 Months \$</b>	<b>3 to 12 Months \$</b>	<b>2004</b>	<b>2003</b>
<b>Earning:</b>				
Deposits -				
Certificate of deposits	68,013,290	2,807,255	70,820,545	70,999,114
CU cash deposits	41,842,655	-	41,842,655	18,153,927
Savings account	10,712,139	-	10,712,139	8,077,466
Treasury bills	<u>6,500,000</u>	<u>7,000,000</u>	<u>13,500,000</u>	-
	<u>127,068,084</u>	<u>9,807,255</u>	<u>136,875,339</u>	<u>97,230,507</u>
<b>Non-earning:</b>				
Cash in hand and at bank -				
Cash in hand	1,321,221		1,321,221	2,077,791
ATM imprest	2,459,100		2,459,100	3,654,200
Bank balances	-		-	232,387
Cash-in-transit	<u>4,535,300</u>		<u>4,535,300</u>	-
	<u>8,315,621</u>		<u>8,315,621</u>	<u>5,964,378</u>

Amounts classified as liquid assets have a term to maturity of 180 days or less at year end.

The rules of the Jamaica Co-operative Credit Union League Limited stipulates that the Credit Union must invest a minimum of 10% of members' savings and deposits in short-term deposit instruments. A minimum of 8% is to be invested with the league and a maximum of 2% with any financial institution.

**7. REVERSE REPURCHASE AGREEMENTS:**

The Credit Union enters into reverse repurchase agreements collateralised by Government of Jamaica Securities. These agreements may result in credit exposure in the event that the counterparty to the transaction is unable to fulfill its collateral obligations.

At 31 December 2004 the Credit Union held securities totaling \$42,892,334 (2003 - \$32,911,573) representing Government of Jamaica Debt Securities, as collateral for reverse repurchase agreements.

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**8. FINANCIAL INVESTMENTS:**

Comprising the following categorized by maturity dates -

	<b>Within 3 Months</b>	<b>3 to 12 Months</b>	<b>1 to 5 Years</b>	<b>Over 5 Years</b>	<u>21</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	
Available-for-sale -					
Quoted equities (at fair value)				1,809,424	1,809,424
Unquoted equities (at historical cost)				3,800,068	3,800,068
JMMB long term investment			5,341,125	-	5,341,125
VMBS share savings account	<u>          </u>	<u>          </u>	<u>2,121,045</u>		<u>2,121,045</u>
	<u>          </u>	<u>          </u>	<u>7,462,170</u>	<u>5,609,492</u>	<u>13,071,662</u>
Originated debt securities, at amortised cost -					
Jamaica Co-operative Credit Union League Ltd -					
Credit Union premium	4,316,922				4,316,922
Cuets settlement deposit	7,545,905			-	7,545,905
Mortgage fund	-			2,203,018	2,203,018
Government of Jamaica Securities -					
Debentures		3,500,000	10,500,000		14,000,000
Local registered stocks		-	-	3,018,340	3,018,340
US\$ bonds				3,070,990	3,070,990
	<u>11,862,827</u>	<u>3,500,000</u>	<u>10,500,000</u>	<u>8,292,348</u>	<u>34,155,175</u>
	<u>11,862,827</u>	<u>3,500,000</u>	<u>17,962,170</u>	<u>13,901,840</u>	<u>47,226,837</u>
					<u>11,513,619</u>

**JAMAICA POLICE CO-OPERATIVE CREDIT UNION LIMITED**

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**9. LOANS, AFTER PROVISION FOR LOAN IMPAIRMENT:**

(a) Movement in loans during the year:

	<u>2004</u>	<u>2003</u>
	<u>\$</u>	<u>\$</u>
Balance as at 1 January	615,939,731	492,977,715
Add: Loans disbursed during the year	<u>522,727,662</u>	<u>454,395,422</u>
	1,138,667,393	947,373,137
Less: Repayments and transfers	<u>( 386,643,865)</u>	<u>(331,433,405)</u>
	752,023,528	615,939,732
Less: Provision for loan impairment	<u>( 2,369,298)</u>	<u>( 2,308,340)</u>
	<u>749,654,230</u>	<u>613,631,392</u>

Loan balance includes funds received from the Jamaica Police Federation for lending to Federation members. The balance as at 31 December 2004 was \$473,549. The Credit Union receives a commission for the management of this fund.

(b) Loans are classified into:

	<u>2004</u>	<u>2003</u>
	<u>\$</u>	<u>\$</u>
Personal	210,612,718	191,127,196
Construction and real estate	157,026,876	121,587,987
Education	47,095,009	37,025,174
Business	12,179,732	8,097,142
Motor vehicle	179,634,526	149,500,978
Other	<u>145,474,667</u>	<u>108,601,255</u>
	<u>752,023,528</u>	<u>615,939,732</u>

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**9. LOANS, AFTER PROVISION FOR LOAN IMPAIRMENT (CONT'D):**

**(c) Delinquent loans:**

- (i) Non-performing loans amounted to \$3,515,804 as at 31 December 2004. The balance of non-performing loans on which interest was not being accrued amounted to \$3.09M as at 31 December 2004. Unrecognised interest on such loans amounted to \$0.89M.
- (ii) The total loan loss provision derived below is consistent with the loan loss provisioning rules of the league. The total provision for 2004 is below that required under the IFRS provisioning rules.

The following is a summary of delinquent loans at 31 December 2004 -

<u>Months in Arrears</u>	<u>Total Number of Loans</u>	<u>Total Delinquent Loans</u> \$	<u>Savings Held Against Loans</u> \$	<u>Exposure</u> \$	<u>Provision</u> \$	<u>%</u>
Under 2	8	236,478	299,453	-	-	-
2-3	2	190,233	22,616	167,617	19,023	10%
4-6		844,327	14,114	830,213	253,298	30%
7-12	24	1,075,808	38,290	1,037,518	645,485	60%
12 mths & over	<u>36</u>	<u>1,168,958</u>	<u>34,505</u>	<u>1,134,453</u>	<u>1,168,958</u>	<u>100%</u>
	<u>81</u>	<u>3,515,804</u>	<u>408,978</u>	<u>3,169,801</u>	<u>2,086,764</u>	

**(d) Provision for impairment:**

	<u>2004</u> \$	<u>2003</u> \$
Provision for impairment at beginning of year (IFRS)	2,308,340	2,726,103
Charged against revenue during year	1,216,020	684,754
Recovery of bad debt	<u>37,484</u>	-
	3,561,844	3,410,857
Bad debts written off	<u>(1,192,546)</u>	<u>(1,102,517)</u>
Provision for impairment at end of year (IFRS)	<u>2,369,298</u>	<u>2,308,340</u>

A total of thirty four loans were written off during the year and one recovered.

**JAMAICA POLICE CO-OPERATIVE CREDIT UNION LIMITED**

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**10. RETIREMENT BENEFIT ASSET:**

The Credit Union provides for post retirement benefit through a defined benefit pension scheme, managed by the Jamaica Co-operative Credit Union League Limited. The scheme is funded by contributions from the Credit Union and permanent employees in accordance with the rules of the scheme. Under the plan, employees are entitled to retirement benefits based on 1.66% of their final 3-year average salary per year of contributory service. No other post-retirement benefits are provided. The scheme is valued by independent actuaries annually using the Projected Unit Credit Method. The latest actuarial valuation was carried out as at 31 December 2004.

The amounts recognized in income in respect of the defined benefit plan are as follows:

	<u>2004</u>	<u>2003</u>
	<u>\$</u>	<u>\$</u>
Current service cost	(220,000)	( 62,000)
Interest cost	(101,000)	85,000
Expected return on plan assets	( 8,000)	(174,000)
Net actuarial loss recognized in year	<u>28,000</u>	
	<u>(301,000)</u>	<u>(151,000)</u>

The amount included in the balance sheet in respect of the Credit Union's defined benefit plan is as follows:

	<u>2004</u>	<u>2003</u>
	<u>\$</u>	<u>\$</u>
Present value of funded obligation	( 672,000)	( 228,000)
Unrecognized actuarial losses	705,000	1,020,000
Fair value of plan assets	<u>2,258,000</u>	<u>750,000</u>
Net asset in balance sheet	<u>2,291,000</u>	<u>1,542,000</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**31 DECEMBER 2004**

**10. RETIREMENT BENEFIT ASSET (CONT'D):**

Movements in the net retirement benefit asset in the year were as follows:

	<u>2004</u>	<u>2003</u>
	\$	\$
Asset at beginning of year	1,542,000	1,166,000
Amounts charged to income	301,000	151,000
Contributions paid	<u>448,000</u>	<u>225,000</u>
Asset at end of year	<u>2,291,000</u>	<u>1,542,000</u>
The principal actuarial assumptions are as follows:		
Discount rate	14%	14%
Expected return on plan assets	9.5%	8.0%
Average remaining working lives of employees	34.27 yrs	33.14 yrs

**11 OTHER ASSETS:**

	<u>2004</u>	<u>2003</u>
	\$	\$
Receivables -		
Security deposit - Mandeville	19,067	19,067
CUNA receivables - deceased members	2,252,391	838,260
Accrued investment income	2,424,477	7,539,498
Interest on members' loans outstanding	1,348,543	1,216,102
Miscellaneous	1,343,934	1,709,097
Prepayments	<u>741,585</u>	<u>480,653</u>
	<u>8,129,997</u>	<u>11,802,677</u>

## JAMAICA POLICE CO-OPERATIVE CREDIT UNION LIMITED

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## 12. PROPERTY, PLANT AND EQUIPMENT:

	<u>Freehold Land</u> \$	<u>Buildings</u> \$	<u>Leasehold Improve- ments</u> \$	<u>Office Furniture and Equipment</u> \$	<u>Motor Vehicle</u> \$	<u>Total</u> \$
At cost -						
1 January 2004	4,500,000	11,048,716	886,641	17,858,816	-	34,294,173
Additions	-	51,099	-	702,043	2,307,066	3,060,208
Disposal		-		( 77,189)	-	( 77,189)
	<u>4,500,000</u>	<u>11,099,815</u>	<u>886,641</u>	<u>18,483,670</u>	<u>2,307,066</u>	<u>37,277,192</u>
At valuation -						
1 January 2004	<u>900,000</u>					<u>900,000</u>
	<u>5,400,000</u>	<u>11,099,815</u>	<u>886,641</u>	<u>18,483,670</u>	<u>2,307,066</u>	<u>38,177,192</u>
Depreciation -						
1 January 2004		1,063,651	162,389	5,032,414	-	6,258,454
Charge for the year		251,919	72,425	2,304,666	461,413	3,090,423
Eliminated on disposal		-	-	( 21,613)	-	( 21,613)
		<u>1,315,570</u>	<u>234,814</u>	<u>7,315,467</u>	<u>461,413</u>	<u>9,327,264</u>
Net Book Value -						
31 December 2004	<u>5,400,000</u>	<u>9,784,245</u>	<u>651,827</u>	<u>11,168,203</u>	<u>1,845,653</u>	<u>28,849,928</u>
31 December 2003	<u>5,400,000</u>	<u>9,985,065</u>	<u>724,252</u>	<u>12,826,402</u>		<u>28,935,719</u>

At adoption of IFRS the carrying values comprised a combination of costs and market values. These values have been deemed to be cost as allowed by IFRS. The properties were appraised by independent valuers. The surplus on revaluation was credited to revaluation reserve.

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**13 MEMBERS' DEPOSITS:**

	<u>2004</u>	<u>2003</u>
	<u>\$</u>	<u>\$</u>
Balance at 1 January	79,327,469	59,740,135
Add: Savings	<u>774,447,405</u>	<u>650,042,902</u>
	853,774,874	709,783,037
Less: Withdrawals and transfers	<u>(756,326,218)</u>	<u>(630,455,568)</u>
	97,448,656	79,327,469
Golden Harvest Plan	103,277,487	72,204,938
Term deposits	<u>139,021,820</u>	<u>120,318,450</u>
	<u>339,747,963</u>	<u>271,850,857</u>

**14. EXTERNAL CREDITS:**

	<u>2004</u>	<u>2003</u>
	<u>\$</u>	<u>\$</u>
Jamaica Co-operative Credit Union League Limited	30,000,000	4,150,154
USAID Loan	362,404	566,486
Bank overdraft	<u>2,740,460</u>	-
	<u>33,102,864</u>	<u>4,716,640</u>

The JCCUL loan is secured by promissory notes. Interest on external credits is repayable at rates ranging from 16-21%.

**15. ACCRUALS:**

	<u>2004</u>	<u>2003</u>
	<u>\$</u>	<u>\$</u>
Audit fees	452,500	250,000
Professional fees	-	200,000
Vacation leave	<u>341,232</u>	<u>155,504</u>
	<u>793,732</u>	<u>605,504</u>

**JAMAICA POLICE CO-OPERATIVE CREDIT UNION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**31 DECEMBER 2004**

**16. PAYABLES:**

	<u>2004</u>	<u>2003</u>
	<u>\$</u>	<u>\$</u>
JPBIS Trust Fund Payables	782	782
Unallocated Collections	( 74,418)	138,861
Withholding Tax	5,986,233	89,891
Payroll taxes	711,789	582,116
Estate Deceased Members	2,872,566	2,137,411
Police Federation Loan Fund	1,214,550	1,434,115
Welfare fund	493,244	411,973
Interest on deposits	1,879,359	2,553,166
Accounts payable	<u>5,343,336</u>	<u>823,544</u>
	<u>18,427,441</u>	<u>8,171,859</u>

**7. MEMBERS' SHARE CAPITAL:**

	<u>2004</u>	<u>2003</u>
	<u>\$</u>	<u>\$</u>
Balance at January 1	420,646,517	344,606,453
Add: Savings and dividends	<u>330,927,312</u>	<u>263,765,888</u>
	751,573,829	608,372,341
Less: Withdrawals and transfers	<u>(269,483,370)</u>	<u>(187,707,824)</u>
	<u>482,090,459</u>	<u>420,664,517</u>

## JAMAICA POLICE CO-OPERATIVE CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2004

## 18. INSTITUTIONAL CAPITAL:

	<u>2004</u>	<u>2003</u>
	<u>\$</u>	<u>\$</u>
Statutory reserves	83,596,316	61,434,141
Entrance fees	-	3,202
Transferred from retained earnings		8,900,000
Transferred from net surplus - 20% of net surplus	11,646,436	10,682,379
Additional	<u>7,518,765</u>	<u>2,576,594</u>
	<u>102,761,517</u>	<u>83,596,316</u>

As required by the Co-operative Societies Act and the rules of the Jamaica Police Co-operative Credit Union Limited, a minimum of twenty (20%) of the annual surplus and amounts collected for entrance fees are transferred to the statutory reserve. An additional amount was transferred to capital reserve to meet the capital requirement of 10%.

## 19. NON- INSTITUTIONAL CAPITAL:

	<u>2004</u>	<u>2003</u>
	<u>\$</u>	<u>\$</u>
Undistributed surplus	38,317,981	39,776,920
Retained earnings reserve	3,066,011	1,590,569
Retirement benefit asset reserve	2,291,000	1,542,000
Fair value reserve	1,050,709	702,542
Revaluation reserve	584,000	584,000
Other reserves -		
Basic School Fund	168,900	134,692
Leslie McDonald Scholarship	200,000	100,000
Building reserve	950,000	-
Northern Caribbean University Scholarship	100,000	50,000
Special reserve	320,000	1,321
Donation reserve	<u>262,709</u>	<u>1,097</u>
	<u>47,311,310</u>	<u>44,483,141</u>

**JAMAICA POLICE CO-OPERATIVE CREDIT UNION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**31 DECEMBER 2004**

**19. NON- INSTITUTIONAL CAPITAL (CONT'D):**

(a) Retirement Benefit Asset Reserve:

This reserve was created to match the value of the retirement benefit asset of the Credit Union. Movement on this reserve passes through accumulated surplus.

(b) Fair Value Reserve:

This represents the unrealised surplus or deficit on the revaluation of available-for-sale investments.

(c) Revaluation reserve:

This represents unrealised gain on revaluation of land and building.

(d) Other reserves:

These represents appropriations for scholarships, donations and other miscellaneous purposes.

**20. APPROPRIATIONS AND DECREASE IN OTHER RESERVES:**

(a) The following amounts were appropriated from net surplus:

	<u>2004</u>	<u>2003</u>
	\$	\$
Dividends - 9% (2003 - 7.5%)	33,451,480	22,806,130
Patronage Refund - 5%	-	<u>4,819,312</u>
	<u>33,451,480</u>	<u>27,625,442</u>
Other -		
Leslie McDonald Scholarship	100,000	100,000
Bursaries	300,000	240,000
Donations	850,000	850,000
Special restoration reserve	1,200,000	2,000,000
Special reserve	1,000,000	1,550,000
Honoraria	1,250,000	1,250,000
Basic School	100,000	100,000
Scholarship to Northern Caribbean University	50,000	50,000
Retained Earnings Reserves	<u>1,475,441</u>	<u>2,854,636</u>
	<u>6,325,441</u>	<u>8,994,636</u>
	<u>39,776,921</u>	<u>36,620,078</u>

**JAMAICA POLICE CO-OPERATIVE CREDIT UNION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**31 DECEMBER 2004**

**20. APPROPRIATIONS AND DECREASE IN OTHER RESERVES (CONT'D):**

(b) The following payments were made from reserves during the year:

	<u>\$</u>
Honoraria	,250,000
Hurricane relief grants	555,000
Contribution to Hanover Street Basic School during the year	85,790
Donation to 2004 Police Athletic Championship	250,000
Scholarships	100,000
Bursaries	298,000
Other donations:	
Community relations	90,000
District Constable Association	16,000
Chaplaincy Unit - Area 2	25,000
Commissioner's Office	45,000
Jamaica Rifle Association	35,000
Flying Squad	22,540
Portmore Moravian Church	20,000
Ministry Staff - Dinner	49,000
Miscellaneous donations	<u>294,169</u>
	<u>3,135,499</u>

**21 STAFF COSTS:**

	<u>2004</u>	<u>2003</u>
	<u>\$</u>	<u>\$</u>
Wages and salaries	14,874,238	11,826,541
Statutory contributions	5,645,190	3,054,374
Pension - Defined benefit plan	( 301,000)	( 151,000)
Allowance and benefits	<u>6,866,077</u>	<u>5,163,198</u>
	<u>27,084,505</u>	<u>19,893,113</u>

The number of persons employed at December 31

Full-time	25	21
Part-time	2	1
Contract	3	6
Trainees	<u>1</u>	<u>2</u>
	<u>31</u>	<u>30</u>

**JAMAICA POLICE CO-OPERATIVE CREDIT UNION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**31 DECEMBER 2004**

**22. FINANCIAL RISK MANAGEMENT:**

The Credit Union accepts deposits from members at fixed rates of interest and seeks to earn above average interest margins by investing these funds in high-quality assets, as well as lending for longer periods at higher rates while maintaining sufficient liquidity to meet all claims that might fall due.

**(a) Liquidity risk -**

The Credit Union is exposed to daily calls on its cash resources from various accounts. The Credit Union does not maintain cash resources to meet all of these needs as experience shows that a minimum level of maturing investments can be predicted with a significant level of certainty.

The Credit Union's policy is to hold a high proportion of liquid assets to cover withdrawals at unexpected levels of demand. Liquid assets are held with a number of reputable financial institutions; these are monitored by the Credit Union's management on a regular basis, and are protected by way of Fidelity Insurance Coverage.

The following table analyses assets and liabilities of the Credit Union into relevant maturity grouping based on the remaining period, at balance sheet date, to the contractual maturity date.

JAMAICA POLICE CO-OPERATIVE CREDIT UNION LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2004

## 22. FINANCIAL RISK MANAGEMENT (CONT'D)

## (a) Liquidity Risk (Cont'd):

As at 31 December 2004

	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	No Specific Maturity	Total
	\$	\$	\$	\$	\$	\$
<b>Assets:</b>						
<b>Earning -</b>						
Liquid assets	127,068,084	9,807,255		-		136,875,339
Reverse repurchase agreement	42,892,334	-	-	-		42,892,334
Financial investments	11,862,827	3,500,000	17,962,170	13,901,840		47,226,837
Loans after allowances for impairment	3,369,234	74,933,607	646,095,462	25,255,927	-	749,654,230
<b>Non-Earning -</b>						
Liquid assets	8,315,621	-	-	-	-	8,315,621
Other assets	-	-	-	-	8,129,997	8,129,997
Property and equipment	-	-	-	-	28,849,928	28,849,928
Retirement benefit plan	-	-	-	-	2,291,000	2,291,000
<b>Total Assets</b>	<b>193,508,100</b>	<b>88,240,862</b>	<b>664,057,632</b>	<b>39,157,767</b>	<b>39,270,925</b>	<b>1,024,235,286</b>
<b>Liabilities and Members Equity:</b>						
Members' deposit	232,248,010	23,224,004	42,907,931	41,368,018	-	339,747,963
External credit	2,740,460	30,000,000	362,404	-	-	33,102,864
Other liabilities	19,221,173	-	-	-	-	19,221,173
Members' equity	-	-	-	-	632,163,286	632,163,286
<b>Total Liabilities and Equity</b>	<b>254,209,643</b>	<b>53,224,004</b>	<b>43,270,335</b>	<b>41,368,018</b>	<b>632,163,286</b>	<b>1,024,235,286</b>
<b>Total liquidity Gap</b>	<b>(60,701,543)</b>	<b>35,016,858</b>	<b>620,787,297</b>	<b>(2,210,251)</b>	<b>(592,892,361)</b>	<b>-</b>
<b>Cummulative Liquidity Gap</b>	<b>(60,701,543)</b>	<b>(25,684,685)</b>	<b>595,102,612</b>	<b>592,892,361</b>	<b>-</b>	<b>-</b>
<b>As at 31 December 2003 -</b>						
<b>Total liquidity Gap</b>	<b>(67,833,622)</b>	<b>51,350,357</b>	<b>507,213,269</b>	<b>17,569,740</b>	<b>(508,299,744)</b>	<b>-</b>
<b>Cummulative liquidity Gap</b>	<b>(67,833,622)</b>	<b>(16,483,265)</b>	<b>490,730,004</b>	<b>508,299,744</b>	<b>-</b>	<b>-</b>

**JAMAICA POLICE CO-OPERATIVE CREDIT UNION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**31 DECEMBER 2004**

**22. FINANCIAL RISK MANAGEMENT (CONT'D):**

**(b) Interest rate risk -**

The Credit Union is exposed to the effects of fluctuations in the prevailing levels of market interest rate on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. The board of directors sets limits on the level of mismatch of interest rate re-pricing that may be undertaken.

The Credit Union is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on their financial position and cash flows. The table below summarises the Credit Union's exposure to interest rate risk. Included in the table are the Credit Union's assets and liabilities at carrying amounts categorized by the earlier of contractual repricing or maturity dates.

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NOTES TO THE FINANCIAL STATEMENTS  
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## 22. FINANCIAL RISK MANAGEMENT (CONT'D):

(b) Interest Rate (Cont'd) -  
As at 31 December 2004

	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non Interest Rate Bearing	Total
	\$	\$	\$	\$	\$	\$
<b>Assets:</b>						
<b>Earnings Assets -</b>						
Liquid assets	127,068,084	9,807,255	-			136,875,339
Reverse repurchase agreement	42,892,334	-	-	-		42,892,334
Financial investments	11,862,827	3,500,000	17,962,170	13,901,840		47,226,837
Loans after allowances for impairment	3,369,234	74,933,607	646,095,462	25,255,927		749,654,230
<b>Non-Earning Assets -</b>						
Liquid assets	-	-	-	-	8,315,621	8,315,621
Other assets	-	-	-	-	8,129,997	8,129,997
Property and equipment	-	-	-	-	28,849,928	28,849,928
Retirement benefit plan	-	-	-	2,291,000	-	2,291,000
<b>Total assets</b>	<b>185,192,479</b>	<b>88,240,862</b>	<b>664,057,632</b>	<b>41,448,767</b>	<b>45,295,546</b>	<b>1,024,235,286</b>
<b>Liabilities and Members Equity:</b>						
Members' deposit	232,248,010	23,224,004	42,907,931	41,368,018	-	339,747,963
External credit	2,740,460	30,000,000	362,404	-	-	33,102,864
Other liabilities	-	-	-	-	19,221,173	19,221,173
Members' equity	-	-	-	-	632,163,286	632,163,286
<b>Total Liabilities and Equity</b>	<b>234,988,470</b>	<b>53,224,004</b>	<b>43,270,335</b>	<b>41,368,018</b>	<b>651,384,459</b>	<b>1,024,235,286</b>
<b>Total interest rate sensitivity gap</b>	<b>(49,795,991)</b>	<b>35,016,858</b>	<b>620,787,297</b>	<b>80,749</b>	<b>(606,088,913)</b>	<b>-</b>
<b>Cummulative gap</b>	<b>(49,795,991)</b>	<b>(14,779,133)</b>	<b>606,008,164</b>	<b>606,088,913</b>	<b>-</b>	<b>-</b>
<b>As at 31 December 2003</b>						
<b>Total interest rate sensitivity gap</b>	<b>(74,132,878)</b>	<b>45,713,414</b>	<b>520,108,287</b>	<b>19,111,740</b>	<b>(510,800,563)</b>	<b>-</b>
<b>Cummulative gap</b>	<b>(74,132,878)</b>	<b>(28,419,464)</b>	<b>491,688,823</b>	<b>510,800,563</b>	<b>-</b>	<b>-</b>

**JAMAICA POLICE CO-OPERATIVE CREDIT UNION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**31 DECEMBER 2004**

**22. FINANCIAL RISK MANAGEMENT (CONT'D):**

(b) Interest rate risk (cont'd) -

Average effective yields by earlier of the contractual repricing or maturity dates.

	<u>Within 3 Months</u>	<u>3 to 12 Months</u>	<u>1 to 5 Years</u>	<u>Over 5 Years</u>	<u>Weighted Average</u>
Earning assets -					
Liquid assets	13.39%	15.40%			13.50%
Reverse repurchase agreement	13.39%	-	-	-	13.39%
Financial investments	13.91%	25.00%	14.74%	1.83%	14.30%
Loans, after allowances for impairment losses	19.93%	15.89%	19.46%	19.09%	19.10%
Liabilities -					
Members' deposits	9.44%	13.75%	14.55%	12.60%	10.74%
External credit	<u>20.5%</u>	<u>17.24%</u>	<u>16.00%</u>	-	<u>17.50%</u>

(c) Currency risk -

The Credit Union incurs foreign currency risk on transactions that are denominated in a currency other than the Jamaican dollar. The main currency giving rise to this risk is the United States dollar.

The Credit Union's foreign currency assets as at 31 December 2004 was US\$102,293 (2003 – US\$94,761).

(d) Credit risk

The credit union takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay in full when due. The risk is managed by review of the financial status of each counterparty. The credit union structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to any one borrower. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review. Loans to members are protected by Fidelity and Loan Protection and Life Savings Insurance Coverage.

**JAMAICA POLICE CO-OPERATIVE CREDIT UNION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**31 DECEMBER 2004**

**22. FINANCIAL RISK MANAGEMENT (CONT'D):**

(d) Credit risk (cont'd) -

The following table summarises the exposure of the Credit Union by sector.

	<u>2004</u>	<u>2003</u>
Personal	210,612,718	191,127,196
Construction and real estate	157,026,876	121,587,987
Education	47,095,009	37,025,174
Business	12,179,732	8,097,142
Motor vehicle	179,634,526	149,500,978
Other	<u>145,474,667</u>	<u>108,601,255</u>
	<u>752,023,528</u>	<u>615,939,732</u>

(e) Market risk -

The Credit Union has minimal exposure to market risk. Market risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security of its issuer, or factors affecting all securities traded in the market.

(f) Cash flow risk -

The Credit Union is affected by cash flow risk. Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. The Credit Union manages this risk by ensuring, as far as possible, that financial assets and liabilities are matched to mitigate any significant adverse cash flows.

**JAMAICA POLICE CO-OPERATIVE CREDIT UNION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**31 DECEMBER 2004**

**23. FAIR VALUES OF FINANCIAL INSTRUMENTS:**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Market price is the best evidence to determine fair value where an active market exists. However, since many of the Credit Union's financial instruments lack an available trading market, these instruments have been valued using present values or other valuation techniques.

Fair values are determined as follows:

- (a) The fair values of liquid assets, other receivables, members' deposits, payables and other liabilities maturing within twelve months are assumed to approximate to their carrying values, due to their short term to maturity.
- (b) The fair values of quoted equity investment securities are determined by reference to their market prices.
- (c) The fair values of debt and unquoted equity investment securities are estimated on the basis of pricing models or other recognized valuation techniques. These are assumed to approximate to their carrying amounts.
- (d) The fair values of loans to members, members' deposits having a fixed maturity, and other borrowed funds are estimated by comparing market interest rates when the loans were granted with current rates offered on similar loans. These are also assumed to approximate its carrying amount.
- (e) The fair value of members' deposits with no specific maturity is assumed to be the amount payable on demand at the balance sheet date.

**JAMAICA POLICE CO-OPERATIVE CREDIT UNION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**31 DECEMBER 2004**

**24. FIDELITY INSURANCE:**

(i) Fidelity Insurance -

During the year, the Credit Union had fidelity insurance coverage with BCIC Limited. The total premium for the year was \$55,660 (2003 - \$25,620).

Life Savings and Loan Protection Insurance -

During the year, the Credit Union had life savings and loan protection insurance coverage with CUNA Mutual Insurance Company Limited. The total premium for the year was \$9,285,653 (2003 - \$7,520,526).

Golden Harvest Premium Insurance Coverage -

During the year, the Credit Union had insurance coverage with Cuna Mutual Insurance Company Limited. The total premium for the year was \$3,092,817.

**25. RELATED PARTY TRANSACTIONS:**

Year-end balances of Board, Staff and Committee members of the Credit Union were as follows:

	<u>Number</u>	<u>Loans</u>	<u>Shares</u>
Staff	22	10,299,135	2,313,346
Directors	8	9,667,613	2,366,059
Supervisory committee	5	2,751,514	944,696
Credit committee	<u>5</u>	<u>4,416,449</u>	<u>1,033,444</u>
	<u>40</u>	<u>27,134,711</u>	<u>6,657,545</u>

Two waivers were granted during the year to one member of the Board and one member of the Credit Committee. At 31 December 2004, all loans owing by Directors, Committee Members and staff were being repaid in accordance with their loan agreements.

**JAMAICA POLICE CO-OPERATIVE CREDIT UNION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**31 DECEMBER 2004**

**26. COMPARISON OF LEDGER BALANCES:**

	<b><u>Share Capital</u></b>	<b><u>Members' Deposits</u></b>	<b><u>Loan to Members</u></b>
	<b><u>\$</u></b>	<b><u>\$</u></b>	<b><u>\$</u></b>
General ledgers	482,090,459	339,747,963	752,023,528
Personal ledgers	<u>482,090,459</u>	<u>339,769,835</u>	<u>752,023,528</u>
Difference 2004		<u>21,872</u>	
Difference 2003			