

Directors' Report and  
Financial Statements for the Year Ended 30 September 2020  
for  
1ST CLASS CREDIT UNION LIMITED

1ST CLASS CREDIT UNION LIMITED

Contents of the Financial Statements  
for the Year Ended 30 September 2020

	Page
Credit Union Information	1
Directors' Report	2
Report of the Independent Auditors	5
Revenue Account	7
Balance Sheet	8
Statement of Changes in Retained Earnings	9
Cash Flow Statement	10
Notes to the Cash Flow Statement	11
Notes to the Financial Statements	12
Detailed Revenue Account	20

1ST CLASS CREDIT UNION LIMITED

Company Information  
for the Year Ended 30 September 2020

**DIRECTORS:**

J Coventry  
S McLarty  
G McClure  
G Green  
B Devenport  
J McNicholls  
T Higgins  
P Edwards  
D Bean  
P Kelly  
P Selby

**SECRETARY:**

S McLarty

**REGISTERED OFFICE:**

105 Bell Street  
Glasgow  
G4 0TQ

**REGISTERED NUMBER:**

213700

**SENIOR STATUTORY AUDITOR:** Robert Pollock BA CA

**AUDITORS:**

Sharles Audit Limited  
Statutory Auditor  
29 Brandon Street  
Hamilton  
ML3 6DA

# 1ST CLASS CREDIT UNION LIMITED

## Directors' Report for the Year Ended 30 September 2020

The directors present their report with the financial statements of the Credit Union for the year ended 30 September 2020.

### **PRINCIPAL ACTIVITY**

The principal activity of the company in the year under review was that of a credit union.

### **REVIEW OF BUSINESS**

The directors are satisfied with the results for the year under review. Some financial KPI's are set out in the table below to show the performance of the Credit Union over the trading year.

	Year to 30 September 2020	Year to 30 September 2019
Loan interest receivable	£1,234,915	£1,231,368
Surplus after taxation	£223,000	£285,551
Capital Asset Ratio	10.14%	10.57%
Liquidity	37%	27%

Reserves amount to £2,157,930 (2019 - £1,878,022). The directors are confident that the Credit Union has sufficient reserves to finance the anticipated levels of activity in the future.

### **DIVIDENDS**

At the AGM the Credit Union is expected to propose a dividend on members shares of 1.25% on balances up to £2,000 and 0.25% on all further balances.

If agreed, this would result in a total dividend being paid of approximately £123,000 In accordance with general accounting practice, this has not been adjusted in the accounts.

### **FUTURE DEVELOPMENTS**

The directors have considered the impact that the Covid-19 pandemic could have on the ongoing activities of the Credit Union.

This includes the potential impact of reduced levels of income for a period of time, the effect of a short-term shut-down and the availability of government assistance to businesses during this difficult period. The directors expect the Credit Union to experience a reduction in surpluses while the impact of the virus persists but with the cumulative reserves and the availability of government assistance they are confident that the Credit Union can continue operating as a going concern.

1ST CLASS CREDIT UNION LIMITED

Directors' Report  
for the Year Ended 30 September 2020

**DIRECTORS**

The directors shown below have held office during the whole of the period from 1 October 2019 to the date of this report.

J Coventry  
S McLarty  
G McClure  
G Green  
B Devenport  
J McNicholls  
T Higgins  
P Edwards  
D Bean  
P Kelly  
P Selby

**COMPLIANCE STATEMENT**

The Credit Union is required to maintain and test a single customer view (SCV) file for submission to the FSCS in the event that the Credit Union is wound up. The directors confirm that SCV records have been tested and comply with regulatory authority depositor protection rules

The directors also confirm the following as required by Section 10.1 of the PRA Credit Union Rulebook:

- the Credit Union carried out lending activity within the PRA Credit union rulebook and we can confirm that we meet the requirements for carrying out this activity.
- the Credit Union had sufficient fidelity bond insurance throughout the year.

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors and committee of management are required to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Credit Union at the end of the financial year, and of the income and expenditure of the Credit Union for that year.

In preparing these financial statements they are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; state whether accounting standards have been followed, and give details of any departures; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Credit Union will continue in business.

They are also responsible for:

- ensuring that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014 and the Credit Union Act 1979; keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the credit union; and
- comply with the rules set out within the Prudential Regulatory Authority Credit Union Rulebook; safeguarding the Credit Union's assets; and maintaining a satisfactory system of control over the accounting records and transactions;
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

**STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS**

So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

1ST CLASS CREDIT UNION LIMITED

Directors' Report  
for the Year Ended 30 September 2020

**AUDITORS**

The auditors, Charles Audit Limited, will be proposed for re-appointment at the forthcoming Annual General Meeting.

**ON BEHALF OF THE BOARD:**

  
S. McLarty (Dec 2, 2020 12:19 GMT)

.....  
S McLarty - Secretary

Date: Dec 2, 2020  
.....

Report of the Independent Auditors to the Members of  
1st Class Credit Union Limited

**Opinion**

We have audited the financial statements of 1st Class Credit Union Limited (the 'Credit Union') for the year ended 30 September 2018 which comprise the Income Statement, Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity and Notes to the Financial Statements. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Credit Union's affairs as at 30 September 2018;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Credit Union Act 1979 and the Co-operative and Community Benefits Society Act 2014.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Credit Union's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

**Other information**

The directors are responsible for the other information. The other information comprises the information in the Directors' Report, but does not include the financial statements and our Report of the Auditors thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Opinion on other matters**

In our opinion, based on the work undertaken in the course of our audit:

- the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Report of the Directors has been prepared in accordance with applicable legal requirements

Report of the Independent Auditors to the Members of  
1st Class Credit Union Limited

**Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the Credit Union and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' Report.

We have nothing to report in respect of the following matters where the Co-operative and Community Benefits Society Act 2014 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- comply with the rules set out within the Prudential Regulatory Authority Credit Union Rulebook;
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Responsibilities of directors**

As explained more fully in the Statement of Directors' Responsibilities set out on pages two and three, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

**Auditors responsibilities for the audit of the financial statements**

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our Report of the Auditors.

**Use of our report**

This report is made solely to the Credit Union's members, as a body, in accordance with Co-operative and Community Benefits Society Act 2014. Our audit work has been undertaken so that we might state to the Credit Union's members those matters we are required to state to them in a Report of the Auditors and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Credit Union and the Credit Union's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Sharles Audit Ltd*  
Sharles Audit Ltd (Dec 2, 2020 13:23 GMT)

Robert Pollock BA CA (Senior Statutory Auditor)  
for and on behalf of Sharles Audit Limited  
Statutory Auditor  
29 Brandon Street  
Hamilton  
ML3 6DA

Date: Dec 2, 2020  
Date: .....

1ST CLASS CREDIT UNION LIMITED

Revenue Account  
for the Year Ended 30 September 2020

	Notes	2020 £	2019 £
<b>LOAN INTEREST RECEIVABLE</b>		<b>1,234,915</b>	1,231,368
Administrative expenses		<u>1,049,598</u>	<u>1,032,201</u>
		<b>185,317</b>	199,167
Other operating income		<u>34,358</u>	<u>58,604</u>
<b>OPERATING SURPLUS</b>	5	<b>219,675</b>	257,771
Interest receivable and similar income		<u>9,700</u>	<u>36,563</u>
<b>SURPLUS BEFORE TAXATION</b>		<b>229,375</b>	294,334
Tax on surplus	6	<u>6,375</u>	<u>8,783</u>
<b>SURPLUS FOR THE FINANCIAL YEAR</b>		<b>223,000</b>	285,551
<b>OTHER COMPREHENSIVE INCOME</b>			
Dividends paid		<b>(183,092)</b>	(159,294)
Subordinated loan		<b>140,000</b>	113,342
Credit Union Foundation Grant		<u>100,000</u>	<u>-</u>
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX</b>		<u><b>56,908</b></u>	<u>(45,952)</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<u><b>279,908</b></u>	<u>239,599</u>

The notes form part of these financial statements

1ST CLASS CREDIT UNION LIMITED (REGISTERED NUMBER: 213700)

Balance Sheet  
30 September 2020

	Notes	2020	2019
		£	£
<b>FIXED ASSETS</b>			
Tangible assets	7	<b>215,534</b>	226,686
<b>CURRENT ASSETS</b>			
Members loans and other assets	8	<b>12,597,540</b>	13,072,530
Investments	9	<b>1,976,150</b>	-
Cash at bank	10	<b>5,467,663</b>	4,466,408
		<b>20,041,353</b>	17,538,938
<b>CREDITORS</b>			
Members shares and other liabilities	11	<b>18,098,957</b>	15,887,602
<b>NET CURRENT ASSETS</b>		<b>1,942,396</b>	1,651,336
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>2,157,930</b>	1,878,022
<b>RESERVES</b>			
Sub Ordinated Loan	13	<b>140,000</b>	-
Revenue reserve	13	<b>391,068</b>	291,068
Distribution reserve	13	<b>123,000</b>	186,553
Credit Union Foundation Reserve	13	<b>100,000</b>	-
Retained earnings	13	<b>1,403,862</b>	1,400,401
		<b>2,157,930</b>	1,878,022

The financial statements were approved by the Board of Directors and authorised for issue on Dec 2, 2020  
and were signed on its behalf by: .....

  
James Coventry (Nov 30, 2020 19:50 GMT)  
.....  
J Coventry - Director

  
S. McLarty (Dec 2, 2020 12:19 GMT)  
.....  
S McLarty - Director

  
Bj Devenport (Nov 27, 2020 14:59 GMT)  
.....  
B Devenport - Director

The notes form part of these financial statements

1ST CLASS CREDIT UNION LIMITED

Statement of Changes in Retained Earnings  
for the Year Ended 30 September 2020

	<b>Retained earnings £</b>	<b>Sub Ordinated Loan £</b>	<b>Revenue reserve £</b>
<b>Balance at 1 October 2018</b>	1,152,121	-	291,068
<b>Changes in earnings</b>			
Total comprehensive income	<u>248,280</u>	<u>-</u>	<u>-</u>
<b>Balance at 30 September 2019</b>	<u>1,400,401</u>	<u>-</u>	<u>291,068</u>
<b>Changes in earnings</b>			
Total comprehensive income	<u>3,461</u>	<u>140,000</u>	<u>100,000</u>
<b>Balance at 30 September 2020</b>	<u><u>1,403,862</u></u>	<u><u>140,000</u></u>	<u><u>391,068</u></u>
		<b>Credit Union</b>	
	<b>Distribution reserve £</b>	<b>Foundation Reserve £</b>	<b>Total earnings £</b>
<b>Balance at 1 October 2018</b>	195,234	-	1,638,423
<b>Changes in earnings</b>			
Total comprehensive income	<u>(8,681)</u>	<u>-</u>	<u>239,599</u>
<b>Balance at 30 September 2019</b>	<u>186,553</u>	<u>-</u>	<u>1,878,022</u>
<b>Changes in earnings</b>			
Total comprehensive income	<u>(63,553)</u>	<u>100,000</u>	<u>279,908</u>
<b>Balance at 30 September 2020</b>	<u><u>123,000</u></u>	<u><u>100,000</u></u>	<u><u>2,157,930</u></u>

The notes form part of these financial statements

1ST CLASS CREDIT UNION LIMITED

Cash Flow Statement  
for the Year Ended 30 September 2020

	Notes	2020 £	2019 £
<b>Cash flows from operating activities</b>			
Cash generated from operations	1	(1,269,455)	(941,504)
Tax paid		<u>(6,946)</u>	<u>(4,604)</u>
Net cash from operating activities		<u>(1,276,401)</u>	<u>(946,108)</u>
 <b>Cash flows from investing activities</b>			
Purchase of tangible fixed assets		-	(2,851)
Interest received		<u>9,700</u>	<u>36,563</u>
Net cash from investing activities		<u>9,700</u>	<u>33,712</u>
 <b>Cash flows from financing activities</b>			
Amount introduced by members		16,926,285	18,274,172
Amount withdrawn by members		(14,715,237)	(15,969,368)
Dividends paid		(183,092)	(159,294)
Subordinated loan		140,000	-
Credit Union Foundation Grant		<u>100,000</u>	<u>-</u>
Net cash from financing activities		<u>2,267,956</u>	<u>2,145,510</u>
 <b>Increase in cash and cash equivalents</b>			
<b>Cash and cash equivalents at beginning of year</b>	2	<u>4,466,408</u>	<u>3,233,294</u>
<b>Cash and cash equivalents at end of year</b>	2	<u><u>5,467,663</u></u>	<u><u>4,466,408</u></u>

The notes form part of these financial statements

1ST CLASS CREDIT UNION LIMITED

Notes to the Cash Flow Statement  
for the Year Ended 30 September 2020

1. **RECONCILIATION OF SURPLUS BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS**

	2020	2019
	£	£
Surplus before taxation	229,375	294,334
Depreciation charges	11,152	14,878
Impairment losses	206,501	279,466
Current asset investment	(1,976,150)	113,343
Finance income	(9,700)	(36,563)
	<u>(1,538,822)</u>	665,458
Decrease/(increase) in members loans and other assets	268,489	(1,617,609)
Increase in members shares and other liabilities	878	10,647
<b>Cash generated from operations</b>	<b><u>(1,269,455)</u></b>	<b><u>(941,504)</u></b>

2. **CASH AND CASH EQUIVALENTS**

The amounts disclosed on the Cash Flow Statement in respect of cash and cash equivalents are in respect of these Balance Sheet amounts:

**Year ended 30 September 2020**

	30.9.20	1.10.19
	£	£
Cash and cash equivalents	<u>5,467,663</u>	<u>4,466,408</u>

**Year ended 30 September 2019**

	30.9.19	1.10.18
	£	£
Cash and cash equivalents	<u>4,466,408</u>	<u>3,233,294</u>

3. **ANALYSIS OF CHANGES IN NET FUNDS**

	At 1.10.19	Cash flow	At 30.9.20
	£	£	£
<b>Net cash</b>			
Cash at bank	<u>4,466,408</u>	<u>1,001,255</u>	<u>5,467,663</u>
	<u>4,466,408</u>	<u>1,001,255</u>	<u>5,467,663</u>
<b>Liquid resources</b>			
Other investments	-	<u>1,976,150</u>	<u>1,976,150</u>
	-	<u>1,976,150</u>	<u>1,976,150</u>
<b>Total</b>	<b><u>4,466,408</u></b>	<b><u>2,977,405</u></b>	<b><u>7,443,813</u></b>

The notes form part of these financial statements

## 1ST CLASS CREDIT UNION LIMITED

### Notes to the Financial Statements for the Year Ended 30 September 2020

#### 1. **STATUTORY INFORMATION**

The Credit Union is registered under the Co-operative and Community Benefit Societies Act 2014 and operates as a Credit Union within the meaning of the Credit Union Act 1979. The Credit Union has registered with the Financial Conduct Authority and Prudential Regulatory Authority under the provisions of the Financial Services and Markets Act 2000.

The presentational currency of the financial statements is the Pound Sterling (£).

In accordance with the regulatory environment for credit unions, deposits from members can be made by subscription for redeemable shares, deferred shares and interest-bearing shares. At present the Credit Union has only interest-bearing shares.

#### 2. **STATEMENT OF COMPLIANCE**

These financial statements have been prepared in accordance with Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Any departures from the standard are detailed in the accounting policies.

#### 3. **ACCOUNTING POLICIES**

##### **Basis of preparing the financial statements**

The financial statements have been prepared, in accordance with the Co-operative and Community Benefit Societies Act 2014, Credit Unions Act 1979 and prepared on the historical cost basis.

##### **Going concern**

The financial statements are prepared on the going concern basis. The directors of the Credit Union believe this is appropriate despite a mismatch in the maturity analysis of subscribed capital and loans to members.

In the opinion of the directors this is due to a significant amount of subscribed capital not being redeemable at short notice unless loans with the same member have been repaid.

As explained in the directors report the Credit Union's ongoing activity is facing an impact from the Covid-19 pandemic. At this stage it is not possible to say how significant this impact will be or for how long it will be experienced. As a result of the potential fall in income the directors have taken steps to reduce costs in the short term and intend to make full use of any government assistance that is available as and when required so that the Credit Union can continue as a going concern.

##### **Income**

Loan interest receivable and similar income: Interest on both loans to members and loans to banks (i.e. cash and cash equivalents held on deposit with other financial institutions) is recognised at fair value using the effective interest rate method, and is calculated and accrued on a daily basis.

Where the loan interest rate for members loans has been reduced to zero, the credit union does not account for any loan interest on these loans, as the credit union will not seek to recover this loan interest. This policy does not meet with the requirements of FRS102. However, as a result of this policy, there is no net effect on the surplus or deficit for the year nor net assets of the credit union as an equal and opposite impairment provision would be required should this loan interest be included.

Other operating income: fees, charges and other operating income either arise in connection with a specific transaction, or accrue evenly over the year. Income relating to individual transactions is recognised when the transaction is completed.

1ST CLASS CREDIT UNION LIMITED

Notes to the Financial Statements - continued  
for the Year Ended 30 September 2020

3. **ACCOUNTING POLICIES - continued**

**Tangible fixed assets**

Depreciation is provided at the following annual rates in order to write off the cost less estimated residual value of each asset over its estimated useful life.

Freehold property	- 2% & 10% straight line
Fixtures and fittings	- Straight line over 10 years
Computer equipment	- 25% on straight line

Land value within freehold property is not depreciated.

Freehold Property improvements and refurbishment cost is not depreciated until the work is completed.

At each balance sheet date, the directors of the credit union review the carrying amounts of its tangible fixed assets to determine whether there is any indication that any item has suffered an impairment loss. If any such indication exists, the recoverable amount of an asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of the asset, the credit union estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Expenditure of £500 or more on individual tangible fixed assets is capitalised at cost. Expenditure on assets below this threshold is charged directly to the revenue account in the period it is incurred.

**Taxation**

The tax charge for the year reflects current tax payable. Current tax is the expected corporation tax payable for the year, using tax rates in force for the year. The Credit Union is not liable to corporation tax payable on its activities of making loans to members, and investing surplus funds, as these are not classified as a trade. However, corporation tax is payable on investment income.

As a result of the limited activities of the Credit Union, from which any surplus would be chargeable to corporation tax, it is unlikely that deferred tax will arise.

**Hire purchase and leasing commitments**

Rentals paid under operating leases are charged to profit or loss on a straight line basis over the period of the lease.

1ST CLASS CREDIT UNION LIMITED

Notes to the Financial Statements - continued  
for the Year Ended 30 September 2020

3. **ACCOUNTING POLICIES - continued**

**Impairment losses and provision**

Impairment losses on loans to members are provided in accordance with the guidelines issued by the Prudential Regulatory Authority. Any impairment losses are recognised in the revenue account, as the difference between the carrying value of the loan and the net present value of the expected cash flows.

The credit union assesses, at each balance sheet date, if there is objective evidence that any of its loans to members are impaired. The loans are assessed collectively in groups that share similar credit risk characteristics, because no loans are individually significant. In addition, if during the course of the year there is objective evidence that any individual loan is impaired, a specific loss will be recognised.

**Impaired loans written off and recovered**

In accordance with FRS102, the policy of the Credit Union and the requirements of the standard for impaired losses written off differ. The credit union writes off impaired loans when all methods of the recovery have been exhausted. Therefore, the impaired losses written off in the financial statements do not meet the requirements of FRS102. As a result of the above there is no net effect on the surplus or net assets of the Credit Union.

**Financial Assets - Members loans**

Loans to members are financial assets with fixed or determinable payments and are not quoted in an active market. Loans are recognised when cash is advanced to members and measured at amortised cost using the effective interest method.

Loans are derecognised when the right to receive cash flow from the asset have expired, usually when all the amounts outstanding have been repaid by the member. The credit union does not transfer loans to third parties.

**Cash and cash equivalents**

Cash and cash equivalents comprise of cash in hand along with bank and building society deposits. The credit union has access to these funds and they are readily convertible to cash.

**Financial liabilities - Subscribed capital**

Members shareholdings in the credit union are redeemable and therefore are classified as financial liabilities and described as subscribed capital. They are initially recognised as the amount of cash deposited and subsequently measured at amortised cost.

**Employee benefits**

Defined contribution plans: The amounts charged as expenditure for the defined contribution plan are the contributions payable by the credit union for the relevant period under review.

Other employee benefits: Other short and long term employee benefits, including holiday pay, are recognised as an expense over the period they are earned.

**Reserves**

Retained earnings are the accumulated surpluses to date that have not been declared as dividends returnable to members.

**Use of estimates and judgements**

The preparation of financial statements requires the use of certain accounting estimates. It also requires the Directors to exercise judgement in applying the credit union's existing accounting policies. The area requiring the highest degree of judgement or complexity and the area where significant assumptions required is impairment losses on loans to members. The directors regularly conduct impairment reviews by analysing arrears reports, credit control data and the reports from debt collecting companies.

1ST CLASS CREDIT UNION LIMITED

Notes to the Financial Statements - continued  
for the Year Ended 30 September 2020

3. **ACCOUNTING POLICIES - continued**

**Dividend**

The dividend is formally proposed by the directors after the year end and is confirmed at the following AGM. As a result, it does not represent a liability at the balance sheet date.

**Juvenile depositors**

The amount received by the Credit Union for juvenile depositors are held in trust for those depositors.

4. **SENIOR MANAGEMENT**

The average number of employees during the year was 12 (2019 - 12).

Salaries of £146,203 were paid to senior management (for four positions) during the year (2019 - £150,475).

Expenses totalling £21,949 were paid to the directors (2019 - £20,669).

5. **OPERATING SURPLUS**

The operating surplus is stated after charging:

	2020	2019
	£	£
Hire of plant and machinery	1,786	1,363
Depreciation - owned assets	11,152	14,878
Auditors' remuneration	<u>5,620</u>	<u>5,220</u>

6. **TAXATION**

**Analysis of the tax charge**

The tax charge on the surplus for the year was as follows:

	2020	2019
	£	£
Current tax:		
UK corporation tax	6,375	6,947
Under provision in prior year	<u>-</u>	<u>1,836</u>
Tax on surplus	<u>6,375</u>	<u>8,783</u>

**Tax effects relating to effects of other comprehensive income**

	Gross	2020	Net
	£	Tax	£
		£	
Dividends paid	(183,092)	-	(183,092)
Subordinated loan	140,000	-	140,000
Credit Union Foundation Grant	<u>100,000</u>	<u>-</u>	<u>100,000</u>
	<u>56,908</u>	<u>-</u>	<u>56,908</u>

1ST CLASS CREDIT UNION LIMITED

Notes to the Financial Statements - continued  
for the Year Ended 30 September 2020

6. **TAXATION - continued**

	Gross £	2019 Tax £	Net £
Dividends paid	(159,294)	-	(159,294)
PCS Credit Union Reserves	<u>113,342</u>	<u>-</u>	<u>113,342</u>
	<u>(45,952)</u>	<u>-</u>	<u>(45,952)</u>

7. **TANGIBLE FIXED ASSETS**

	Freehold property £	Fixtures and fittings £	Computer equipment £	Totals £
<b>COST</b>				
At 1 October 2019 and 30 September 2020	<u>233,209</u>	<u>73,516</u>	<u>71,931</u>	<u>378,656</u>
<b>DEPRECIATION</b>				
At 1 October 2019	21,186	60,654	70,130	151,970
Charge for year	<u>7,634</u>	<u>1,717</u>	<u>1,801</u>	<u>11,152</u>
At 30 September 2020	<u>28,820</u>	<u>62,371</u>	<u>71,931</u>	<u>163,122</u>
<b>NET BOOK VALUE</b>				
At 30 September 2020	<u>204,389</u>	<u>11,145</u>	<u>-</u>	<u>215,534</u>
At 30 September 2019	<u>212,023</u>	<u>12,862</u>	<u>1,801</u>	<u>226,686</u>

Included in cost of land and buildings is freehold land of £36,672 (2019 - £36,672) which is not depreciated.

8. **MEMBERS LOANS AND OTHER ASSETS**

	2020 £	2019 £
Unsecured members loans	13,519,592	13,850,661
General impairment provision	(116,240)	(48,612)
Specific impairment provision	(962,890)	(824,017)
Prepayments	<u>157,078</u>	<u>94,498</u>
	<u>12,597,540</u>	<u>13,072,530</u>

1ST CLASS CREDIT UNION LIMITED

Notes to the Financial Statements - continued  
for the Year Ended 30 September 2020

8. **MEMBERS LOANS AND OTHER ASSETS - continued**

**Loans to members**

	2020	2019
	£	£
As at 30 September 2019	13,850,661	12,303,888
Advanced during the year	7,238,000	8,574,546
Interest on members loans	1,235,515	1,228,408
Repaid during the year	(8,578,269)	(8,187,041)
Impaired loans	<u>(154,315)</u>	<u>(68,940)</u>
As at 30 September 2020	<u>13,591,592</u>	<u>13,850,661</u>

**Impaired losses on member's loans - Changes in the year**

	General	Specific	Total
	£	£	£
As at 30 September 2019	48,612	824,016	872,628
(Decrease)/Increase in impairment losses	<u>67,628</u>	<u>138,874</u>	<u>206,502</u>
As at 30 September 2020	<u>116,240</u>	<u>962,890</u>	<u>1,079,130</u>

**Credit risk disclosures**

The credit union does not offer mortgages and as a result all loans to members are unsecured, except that there are restrictions on the extent to which borrowers may withdraw their savings whilst loans are outstanding. Subject to the credit union's own maximum loan policy, the credit union's maximum loan limit is approximately £15,000. This complies with the credit union's internal policy and by the Prudential Regulatory Authority.

9. **CURRENT ASSET INVESTMENTS**

	2020	2019
	£	£
Other investments	<u>1,976,150</u>	<u>-</u>

10. **CASH AT BANK**

	2020	2019
	£	£
Cash and bank balances	<u>5,467,663</u>	<u>4,466,408</u>

11. **MEMBERS SHARES AND OTHER CREDITORS**

	2020	2019
	£	£
Corporation tax	6,374	6,945
Juvenile deposits	73,491	72,858
Members shares	17,996,762	15,785,714
Accrued expenses	22,330	21,693
Deferred government grants	<u>-</u>	<u>392</u>
	<u>18,098,957</u>	<u>15,887,602</u>

1ST CLASS CREDIT UNION LIMITED

Notes to the Financial Statements - continued  
for the Year Ended 30 September 2020

12. **FINANCIAL INSTRUMENTS**

**Financial risk management**

The credit union manages its subscribed capital and loans to members so that it earns income from the margin between interest receivable and interest payable. The main financial risks arising from the credit union's activities are credit risk, liquidity risk and interest rate risk. The board reviews and agrees policies for managing each of these risks, which are summarised below.

**Credit risk**

Credit risk is the risk that a borrower will default on their contractual obligations relating to repayments to the credit union, resulting in financial loss to the credit union. In order to manage this risk the board approves the credit union lending policy, and all changes to it. All loan applications are assessed with reference to the lending policy in force at the time. Subsequently loans are regularly reviewed for any factors that may indicate that the likelihood of repayment has changed. The credit union also monitors its banking arrangements closely in light of the current banking situation.

**Liquidity risk**

The credit union's policy is to maintain sufficient funds in liquid form at all times to ensure that it can meet its liabilities as they fall due. The objective of the credit union's liquidity policy is to smooth the mismatches between maturing assets and liabilities and to provide a degree of protection against any unexpected developments that may arise. Note 2 provides further details about the impact of the maturity mismatch on the going concern status of the credit union. Excluding short term other payables, as noted in the balance sheet, the credit union's financial liabilities, the subscribed capital, are repayable on demand.

**Market risk**

Market risk is generally comprised of interest rate risk, currency risk and other price risk. The credit union conducts all its transactions in sterling and does not deal in derivatives or commodity markets. Therefore, the credit union is not exposed to any form of currency risk or other price risk.

**Interest rate risk**

The credit union's main interest rate risk arises from the differences between the interest rate exposures on the receivables and payables that form an integral part of the credit union's operations. The credit union considers rates of interest receivable when deciding on the dividend rate payable on subscribed capital. The credit union does not use interest rate options to hedge its own positions. The interest rate risk is regularly monitored by the board with interest rates on members loans and interest receivable on bank deposits being regularly reviewed to ensure risk exposure is minimised.

**Interest rate risk disclosures**

The following table shows the average interest rates applicable to relevant financial assets and financial liabilities.

	2020		2019	
	Amount £	Average Int %	Amount £	Average Int %
<b>Financial Assets</b>				
Loans to members	<u>13,519,592</u>	<u>9.13</u>	<u>13,892,546</u>	<u>8.84</u>
<b>Financial liabilities</b>				
<b>Subscribed capital</b>				
Share account 1	17,693,803		15,579,306	
Share account 3	191,807		165,696	
Share account 4	5,236		8,168	
Share account 6	-		7,021	
Share account 7	105,917		25,523	
	<u>17,966,762</u>		<u>15,785,714</u>	

1ST CLASS CREDIT UNION LIMITED

Notes to the Financial Statements - continued  
for the Year Ended 30 September 2020

**Fair value of financial instruments**

The credit union does not hold any financial instruments at fair value.

13. **RESERVES**

	<b>Retained earnings £</b>	<b>Sub Ordinated Loan £</b>	<b>Revenue reserve £</b>
At 1 October 2019	<b>1,400,401</b>	-	<b>291,068</b>
Surplus for the year	<b>223,000</b>		
Application	<b>(119,539)</b>	-	-
Received	-	<b>140,000</b>	-
Transfer	<b>(100,000)</b>	-	<b>100,000</b>
	<u><b>1,403,862</b></u>	<u><b>140,000</b></u>	<u><b>391,068</b></u>
		<b>Credit Union Foundation Reserve £</b>	<b>Totals £</b>
At 1 October 2019	<b>186,553</b>	-	<b>1,878,022</b>
Surplus for the year			<b>223,000</b>
Application	<b>119,539</b>	-	-
Dividend paid	<b>(183,092)</b>	-	<b>(183,092)</b>
Received	-	<b>100,000</b>	<b>240,000</b>
	<u><b>123,000</b></u>	<u><b>100,000</b></u>	<u><b>2,157,930</b></u>

14. **CONTINGENT LIABILITIES**

The credit union participates in the Financial Services Compensation Scheme (FSCS) and therefore has a contingent liability, which cannot be quantified, in respect of contributions to the FSCS, as required by the Financial Services and Markets Act 2000. The Financial Conduct Authority (FCA) had provided details of how the calculation of next year's contribution towards the FSCS will be calculated and provision has been included for this liability. However, this is subject to future changes in interest rates and levels of deposits held by deposit takers. Therefore, there is inherent uncertainty regarding the totality of the levy that the credit union will have to pay.

15. **RELATED PARTY DISCLOSURES**

During the year, 12 members of the Board and their close family members (2019: 17 members) had loans with the credit union. These loans were approved on the same basis as loans to other members of the credit union. None of the directors or their close family members, have any preferential terms on their loans.

1ST CLASS CREDIT UNION LIMITED

Detailed Revenue Account  
for the Year Ended 30 September 2020

	2020		2019	
	£	£	£	£
<b>Loan interest receivable</b>		<b>1,234,915</b>		1,231,368
<b>Other income</b>				
Sundry receipts	630		20,995	
Annual membership fees	28,952		30,318	
Grant Income	392		2,123	
Impaired loans recovered	4,384		5,168	
Interest on bank account	33,550		36,563	
Loss on current asset investment	<u>(23,850)</u>		<u>-</u>	
		<b><u>44,058</u></b>		<u>95,167</u>
		<b>1,278,973</b>		1,326,535
<b>Expenditure</b>				
Rates and water	2,230		1,565	
Insurance	99,298		94,036	
Light and heat	5,259		4,197	
Management expenses	8,617		44,175	
Directors expenses	21,949		20,669	
Wages	259,116		284,694	
Social security	20,076		19,020	
Pension & critical illness	19,823		17,921	
Equipment leasing	1,786		1,363	
Telephone	14,559		12,920	
Printing, postage & stationery	30,160		35,613	
Office assist	975		2,582	
Computer maintenance & software	55,208		43,763	
Conference & training	14,097		10,935	
Affiliation dues	8,407		8,120	
Cornerstone affiliated costs	12,994		17,595	
Repairs and renewals	9,264		6,295	
Sundry expenses	4,780		5,441	
Regulatory fees	1,070		1,399	
Professional fees	64,969		71,369	
Auditors' remuneration	5,620		5,220	
Impaired loans written off	154,315		68,940	
Impaired loan provision	<u>206,501</u>		<u>224,033</u>	
		<b><u>1,021,073</u></b>		<u>1,001,865</u>
		<b>257,900</b>		324,670
<b>Finance costs</b>				
Bank interest & charges		<b><u>17,373</u></b>		<u>15,458</u>
Carried forward		<b>240,527</b>		309,212

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1ST CLASS CREDIT UNION LIMITED

Detailed Revenue Account  
for the Year Ended 30 September 2020

	2020		2019	
	£	£	£	£
Brought forward		<b>240,527</b>		309,212
<b>Depreciation</b>				
Freehold property	<b>7,634</b>		8,204	
Fixtures and fittings	<b>1,717</b>		1,717	
Computer equipment	<b>1,801</b>		<b>4,957</b>	
		<b><u>11,152</u></b>		<u>14,878</u>
<b>NET SURPLUS</b>		<b><u>229,375</u></b>		<u>294,334</u>

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# 1STC100 - Audit Annual-Accounts 2020

Final Audit Report

2020-12-02

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