

**Education Benevolent Society Incorporated**

**Annual Financial Statements**

**For the Year Ended 30 June 2014**

# **Education Benevolent Society Incorporated**

## **Annual Financial Statements**

### **For the Year Ended 30 June 2014**

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# **Education Benevolent Society Incorporated**

## **Directory**

### **For the Year Ended 30 June 2014**

**Nature of Business**            Providing health insurance to the education sector.

**Board Members**            Richard Kittelty  
Darrell Ward  
Liz Patara  
Marian Cadman  
Bruce Kirkham  
Tom McGrath  
Margaret Kinsey  
Andrew Casidy

**Auditor**                      Crowe Horwath New Zealand Audit Partnership

**Bankers**                      Bank of New Zealand

# Education Benevolent Society Incorporated

## Statement of Comprehensive Income For the year ended 30 June 2014



	Notes	2014 \$	2013 \$
<b>INCOME</b>			
Contributions		3,764,390	3,622,776
Hospital cover commission		726,357	740,247
Investment income	8	281,174	275,043
Other income		4,494	-
<b>Total income</b>		<b>4,776,415</b>	<b>4,638,066</b>
<b>EXPENDITURE</b>			
<b>Benefits</b>			
Benefits paid	4	3,260,166	3,145,024
<b>Investment Expenses</b>			
Amortisation of bonds		11,253	26,079
Portfolio monitoring fee		9,837	10,439
		<b>21,090</b>	<b>36,518</b>
<b>Administration Expenses</b>			
Staff salaries & related expenses		564,016	556,318
Rent & related occupancy		46,790	42,533
Depreciation		37,556	17,814
Movement in IBNR provision	14	762	54,959
		<b>649,124</b>	<b>671,624</b>
<b>Operating Expenses</b>			
Bank charges		5,436	5,409
Computer expenses	15	99,086	34,488
Office administration		57,109	57,398
Subscription collection commission		45,532	45,055
Printing, stationery, advertising		39,957	40,527
		<b>247,120</b>	<b>182,877</b>
<b>Professional Expenses</b>			
Accounting fees		7,798	7,475
Audit fees		17,300	20,719
Consulting fees		17,307	19,656
Insurance ombudsman		2,038	2,107
Review costs	16	91,255	-
Legal fees		-	171
Ratings agency		24,915	24,504
		<b>160,613</b>	<b>74,632</b>
<b>Total Expenditure</b>		<b>4,338,113</b>	<b>4,110,675</b>
<b>Surplus for the year</b>		<b>438,302</b>	<b>527,391</b>
<b>Other Comprehensive Income</b>			
Unrealised gain (loss) on investments		391,804	295,664
<b>Total Comprehensive Income for the year</b>		<b>830,106</b>	<b>823,055</b>

# Education Benevolent Society Incorporated

## Statement of Financial Position As at 30 June 2014



	Notes	2014 \$	2013 \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	5	359,436	765,002
Trade debtors and other receivables		12,778	9,056
Prepayments		32,746	5,895
Accrued interest		148,671	115,535
Investments	7	6,609,123	5,720,645
<b>Total current Assets</b>		<b>7,162,754</b>	<b>6,616,133</b>
<b>Non-Current Assets</b>			
Investments	7	2,997,531	2,575,565
Property, plant and equipment	6	238,095	265,480
<b>Total non-current Assets</b>		<b>3,235,626</b>	<b>2,841,045</b>
<b>Total assets</b>		<b>10,398,380</b>	<b>9,457,178</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Provision - claims IBNR	14	1,231,300	1,230,538
Trade creditors and other payables		235,557	145,634
Contributions received in advance		143,119	122,709
<b>Total current liabilities</b>		<b>1,609,976</b>	<b>1,498,881</b>
<b>Total Liabilities</b>		<b>1,609,976</b>	<b>1,498,881</b>
<b>Net Assets</b>		<b>8,788,404</b>	<b>7,958,297</b>
<b>ACCUMULATED FUNDS AND OTHER RESERVES</b>			
Accumulated funds		8,064,020	7,625,717
Investment fair value revaluation reserve		724,383	332,579
<b>Total equity</b>		<b>8,788,404</b>	<b>7,958,297</b>

*Richard M Kittelty*

RICHARD KITTELTY (Chairperson)

5/6/14 Date

*Russell Foley*

RUSSELL FOLEY (General Manager)

5/11/14 Date

# Education Benevolent Society Incorporated

## Statement of Changes in Equity For the year ended 30 June 2014



	Notes	2014 \$	2013 \$
<b>Accumulated Funds</b>			
Opening		7,625,717	7,098,326
Surplus for the year		438,302	527,391
<b>Closing</b>		<b>8,064,019</b>	<b>7,625,717</b>
<b>Investment fair value revaluation reserve</b>			
Opening		332,579	36,915
Other comprehensive income - unrealised gain/(loss) on investments		391,804	295,664
<b>Closing</b>		<b>724,383</b>	<b>332,579</b>
<b>Total Equity</b>		<b>8,788,404</b>	<b>7,958,297</b>

# Education Benevolent Society Incorporated

## Statement of Cash Flows

For the year ended 30 June 2014



	Notes	2014 \$	2013 \$
<b>Cash flows from operating activities</b>			
<i>Cash was provided from/(applied to):</i>			
Contributions received		3,784,800	3,646,531
Hospital cover commission		726,357	731,191
Other income		772	-
Benefits paid		(3,260,166)	(3,145,024)
Other expenses		(965,304)	(841,351)
<b>Net cash flows from/(used in) operating activities</b>	<b>9</b>	<b>286,459</b>	<b>391,347</b>
<b>Cash flows from investing activities</b>			
<i>Cash was provided from/(applied to):</i>			
Investment income		248,038	277,490
Purchase of property, plant and equipment		(10,171)	(169,106)
Purchase of investments		(929,893)	(530,770)
<b>Net cash flows from/(used in) investing activities</b>		<b>(692,026)</b>	<b>(422,386)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(405,567)</b>	<b>(31,039)</b>
Cash and cash equivalents at the beginning of the year		765,002	796,040
<b>Cash and cash equivalents at the end of the year</b>		<b>359,436</b>	<b>765,002</b>

# Education Benevolent Society Incorporated



## Notes to the financial statements

### 1 Reporting entity

The financial statements presented are for the Education Benevolent Society Incorporated (the "Society") for the year ended 30 June 2014.

The financial statements of the Society have been prepared in accordance with the requirements of the Incorporated Societies Act 1908, the Insurance (Prudential Supervision) Act 2010, and comply with the Society's Constitution.

The Society operates solely in New Zealand and its main activity consists of providing partial reimbursement of health care costs to its subscribers. Bereavement, birth and sick leave without pay grants are also provided.

The Society was issued a full Insurance License by the Reserve Bank of New Zealand in April 2013.

### 2 Basis of Preparation

#### (a) Statement of compliance

The financial statements have been prepared in accordance with New Zealand generally accepted accounting practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), and other applicable financial reporting standards. To ensure consistency with the current period, comparative figures have been restated where appropriate.

#### (b) Measurement Basis

The financial statements have been prepared on a historical costs basis, except for assets and liabilities that have been measured at fair value.

The accrual basis of accounting has been used unless otherwise stated and the financial statements have been prepared on a going concern basis.

#### (c) Presentation currency

The financial statements are presented in New Zealand dollars, which is the Society's functional currency. All numbers presented have been rounded to the nearest dollar, unless otherwise stated.

#### (d) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year, the impact of new and amended standards and interpretations applied in the year was limited to additional note disclosures.

#### (e) Comparatives

The comparative financial period is 12 months. Comparatives have been reclassified from that reported in the 30 June 2013 financial statements where appropriate to ensure consistency with the presentation of the current year's position and performance.

#### (f) New standards and interpretations issued but not yet adopted

A number of new standards and interpretations have been issued but are not yet effective for the current year-end. The reported results and financial position of the Society is not expected to change on adoption of these pronouncements as they do not result in any significant changes to the Society's existing accounting policies. Adoption will, however, result in changes to information currently disclosed in the financial statements.

The Society does not intend to adopt any of the new pronouncements before their effective dates.



# Education Benevolent Society Incorporated

## Notes to the financial statements



### (g) Use of estimates and judgements

The preparation of financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Where material, information on significant judgements, estimates and assumptions is provided in the relevant accounting policy or note disclosure.

The estimates and underlying assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances. Estimates are subject to ongoing review and actual results may differ from these estimates. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years affected.

### 3 Summary of significant accounting policies

The accounting policies of the Society been applied consistently to all years presented in these financial statements.

The significant accounting policies used in the preparation of these financial statements are summarised below:

#### (a) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months or less.

#### (b) Property, plant and equipment

All property, plant and equipment is measured at cost, less accumulated depreciation and any impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

The following depreciation rates have been applied at each class of property, plant and equipment:

Computer equipment	10 - 40%	SL
Furniture and fittings	20%	SL

The residual value and useful life of property, plant and equipment is reassessed annually.

#### (c) Income recognition

Income is recognised in the Statement of Comprehensive Income to the extent that it is probable that the economic benefits will flow to the Society and income can be readily measured.

##### *Contributions & Hospital Cover Commission*

All contributions and hospital cover commission income is recorded on a cash basis with the exceptions that at year end an apportionment is made for contributions and commissions:

- received prior to balance date and relating to the next financial year as income in advance, and
- received after balance date that relate to the current financial year and recorded as accrued income.

##### *Interest Income & Dividends*

Interest income is recognised using the effective interest method.

Dividends are recognised when the right to receive the payment has been established.

# Education Benevolent Society Incorporated

## Notes to the financial statements



### (d) Valuation and treatment of liabilities to subscribers

A provision is made for unreported claims based on past claims history of claims paid together with an assessment of the time taken to receive and settle claims not reported, and to settle claims in progress at each reporting date.

NZ IFRS 4 *Insurance Contracts*, sets out the methodology for measuring policy liabilities. Actuarial valuation of the Society's outstanding liabilities at balance date and pertaining to the year then ended are carried out every year. The incurred benefits not reported ("IBNR") provision is included as a current liability in the Society's Statement of Financial Position, with any movements against prior year being recorded in profit or loss via the Statement of Comprehensive Income.

Actuarial valuations have been carried out by appointed independent actuary Peter Davies (of Davies Financial and Actuarial Limited).

The IBNR provision has been determined in accordance with NZ IFRS 4 and the New Zealand Society of Actuaries Professional Standard No. 4 - Valuation of General Insurance Claims.

The IBNR liability is determined using a conventional chain ladder calculation to derive claim payment patterns, in conjunction with the benefits paid expense for the 12 months ended 30 June 2014.

A provision, known as a "processing expense", is made for claims administration costs and charged at a rate of 7.5% on top of the base IBNR provision. Movements against prior year are recognised in profit or loss via the Statement of Comprehensive Income.

NZ IFRS 4 prescribes for the following additional charges:

- (i) Allowance for claim handling costs - Direct and indirect claim handling costs are to be included in claim provisions. An allowance of 7.50% (2013: 7.50%) has been provided for. This is charged on top of the base IBNR provision. Movements against prior year for this provision are recognised in profit or loss via the Statement of Comprehensive Income. This allowance has been assessed as reasonable based on the size of the company, its overall level of expenses, the nature of claims incurred, and the experience of other similar entities.
- (ii) Risk margin - A risk margin is to be included in claim provisions. An allowance of 4.00% (2013: 4.00%) has been provided for. With a coefficient of variation of 5.1%, and assuming a normal distribution of claim reserves, this produces a result which has a 75% likelihood of sufficiency (75% is the minimum margin prescribed by the RBNZ for its solvency standards). This is charged on top of the base IBNR provision. Movements against prior year for this provision are recognised in profit or loss via the Statement of Comprehensive Income.
- (iii) The assumptions used in the calculation of the IBNR provision are reviewed at each reporting date. A summary of the significant actuarial methods and assumptions used is set out in Note 14.

### (e) Foreign currency translation

Transactions in foreign currencies are converted at the New Zealand rate of exchange at the date of the transaction. At balance sheet date any foreign monetary assets and liabilities are translated at the closing rate and variations arising from these transactions are included in the investment income as either realised or unrealised movement.



## Notes to the financial statements

### (f) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument in another entity.

Financial instruments are comprised of trade debtors and other receivables, cash and cash equivalents, other financial assets, trade creditors and other payables, borrowings, and other financial liabilities.

#### Initial recognition and measurement

Financial assets and financial liabilities are recognised initially at fair value plus transaction costs attributable to the acquisition, except for those carried at fair value through profit or loss, which are measured at fair value.

Financial assets and financial liabilities are recognised when the Society becomes a party to the contractual provisions of the financial instrument.

#### Derecognition of financial instruments

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or if the Society transfers the financial asset to another party without retaining control of substantial all risks and rewards of the asset.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

#### Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification, which is primarily determined by the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition into one of four categories, and re-evaluates this designation at each reporting date.

All financial assets are subject to review for impairment at least at each reporting date. Different criteria to determine impairment are applied to each category of financial assets, which are described below.

The classification of financial instruments into one of the four categories below, determines the basis for subsequent measurement and whether any resulting movements in value are recognised in the reported surplus/ deficit or other comprehensive income.

The Society has currently categorised its financial instruments into two categories for financial reporting purposes:

##### *(i) Loans and receivables*

Loans and receivables have fixed or determinable payments. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. The Society's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

##### *(ii) Available-for-sale financial assets*

Available-for-sale financial assets are financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Society's available-for-sale financial assets include its investments.

All other available-for-sale financial assets are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within the "investment fair value revaluation reserve" within equity, except for impairment losses which are recognised in the reported surplus or deficit for the year.

# Education Benevolent Society Incorporated



## Notes to the financial statements

When the asset is disposed of or is determined to be impaired the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to the surplus or deficit and presented as a reclassification adjustment within other comprehensive income. Any associated interest income or dividends are recognised in profit or loss within "investment income".

### (g) Employee entitlements

#### Short-term employee benefits

Employee benefits, previously earned from past services, that the Society expect to be settled within 12 months of reporting date are measured based on accrued entitlements at current rate of pays.

These include salaries and wages accrued up to the reporting date and annual leave earned, but not yet taken at the reporting date.

#### Long Service Leave

Employees of the Society are entitled to an additional one week paid annual leave for every 5 years of continuous employment. The long-service leave entitlement is accrued for on a straight-line basis throughout each five year period, commencing on the start date of each individuals employment.

The week of long service leave must be taken within 12 months of being fully accrued by the employee, otherwise it will expire. In accordance with NZ IAS 19 *Employee Benefits*, the liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by the employees up to the reporting date. Consideration is given to future wage and salary levels.

### (h) Goods & Services Tax

Accounts are shown net of Goods and Services Tax, except Accounts Payable and Accounts Receivable which are stated GST inclusive.

### (i) Taxation

No taxation has been provided for on the basis that the Society is exempt under sections CZ18 of the Income Tax Act 2007 because of its recognition as a sickness, accident and death benefit fund.

# Education Benevolent Society Incorporated

## Notes to the financial statements



### 4 Benefits expense

The table below shows the number and monetary value of paid applications.

Type	2014		2013	
	Number	\$	Number	\$
Bereavement	72	60,870	53	46,087
Birth	133	22,956	166	28,570
Complementary	4,645	411,925	4,933	391,563
Hospital	524	184,281	618	201,816
Hospital Excess	747	259,740	721	256,823
Major Diagnostic	296	83,921	296	85,091
Medical	13,775	1,768,004	14,910	1,693,988
Medical Appliance	279	35,181	277	30,845
Optical	2,911	371,470	3,136	361,294
Orthodontic	165	46,665	209	35,945
Sick Leave Without Pay	56	9,588	64	10,276
<b>Benefits Paid</b>	<b>23,603</b>	<b>3,254,601</b>	<b>25,383</b>	<b>3,142,298</b>
<b>Adjust for:</b>				
Increase (decrease) in year end accruals		5,565		2,726
<b>Total benefit expense</b>		<b>3,260,166</b>		<b>3,145,024</b>

### 5 Cash and cash equivalents

	2014	2013
	\$	\$
Cash at Bank	88,663	35,782
Call Deposits	270,773	729,220
<b>Total</b>	<b>359,436</b>	<b>765,002</b>

Interest rates earned on cash and cash equivalents ranged from 0.25% to 4.81% (2013: 0.25% to 4.41%) per annum for the period to 30 June 2014. Deposits are treated as cash and cash equivalents due to their ability to convert to cash within 1-3 days. Movements in market rates will not affect the recorded value of investments.

### 6 Property, plant and equipment

	2014	2013
	\$	\$
<b>Computer equipment</b>		
<u>Cost</u>		
Opening	291,394	261,128
Additions	10,171	30,266
Closing cost	301,565	291,394
<u>Accumulated depreciation</u>		
Opening	(34,300)	(20,620)
Depreciation	(34,720)	(13,680)
Closing accumulated depreciation	(69,020)	(34,300)
<b>Carrying value</b>	<b>232,545</b>	<b>257,094</b>



# Education Benevolent Society Incorporated

## Notes to the financial statements



	2014 \$	2013 \$
<b>Furniture and fittings</b>		
<u>Cost</u>		
Opening	25,047	25,047
Additions	-	-
Closing cost	25,047	25,047
<u>Accumulated depreciation</u>		
Opening	(16,662)	(12,666)
Depreciation	(2,835)	(3,996)
Closing accumulated depreciation	(19,497)	(16,662)
Carrying value	5,550	8,385
<b>Total property, plant and equipment</b>	<b>238,095</b>	<b>265,480</b>

### 7 Investments

	2014 \$	2013 \$
<b>Current</b>		
BNZ Term Deposit	6,100,000	3,200,000
Rabo Bank Term Deposit	-	2,000,000
Public Trust Insurance Deposit	509,123	520,645
Total current	6,609,123	5,720,645
<b>Non Current</b>		
Monitored Portfolio with Spicers	2,997,531	2,575,565
Total non-current	2,997,531	2,575,565
<b>Total investments</b>	<b>9,606,654</b>	<b>8,296,210</b>

The Public Trust Insurance Deposit (Bonds) was purchased on 24 November 2011 (settlement date). The face value of the bonds is \$500,000, with a coupon rate of 6.00% per annum, with interest paid on maturity. As the coupon rate exceeded the market rate at the time of purchase, the bonds attracted a premium of \$56,344.77, resulting in a settlement amount of \$556,344.77. The maturity date of the bonds is 15 April 2015. The premium is amortised over the term of the bonds using the effective interest rate method. For the period to 30 June 2014, amortisation of \$11,523 (2013: \$26,079) has been recognised.

The Society has assessed all investments for impairment as at 30 June 2014. The Society concluded that there was no impairment of any investment at 2014 balance date (2013: \$Nil impairment).

### 8 Investment income

	2014 \$	2013 \$
Investment Income per the Statement of Comprehensive Income has been derived from:		
Interest on term deposits	270,016	260,917
Investment management fees	(9,837)	(10,439)
Interest on at call funds within cash and cash equivalents	20,995	24,565
<b>Total</b>	<b>281,174</b>	<b>275,043</b>

# Education Benevolent Society Incorporated

## Notes to the financial statements



All unrealised gains or losses returned on the Spicers Investment Portfolio have been recognised through other comprehensive income \$391,804 (2014: 295,664).

### 9 Reconciliation of net operating cash flow to surplus for the year

	2014 \$	2013 \$
Net surplus for the year	438,302	527,391
Less investment income classified as a financing activity	(281,174)	(275,043)
<u>Non cash movements</u>		
Provisions for claims	762	54,959
Depreciation	37,556	17,814
Amortisation of bonds	11,253	26,079
<u>Movements in working capital</u>		
(Increase)/decrease in trade debtors and other receivables	(3,722)	(9,056)
(Increase)/decrease in prepayments	(26,851)	9,710
Increase/(decrease) in trade creditors and other payables	89,923	15,737
Increase/(decrease) in contributions received in advance	20,410	23,755
<b>Net Cash Flow from Operating Activities</b>	<b>286,459</b>	<b>391,347</b>

### 10 Lease Commitments

The Society has the following lease commitments:

	2014 \$	2013 \$
Not later than one year	46,400	46,400
Two to five years	179,244	225,644
More than five years	-	-
<b>Total</b>	<b>225,644</b>	<b>272,044</b>

### 11 Related party transactions

#### (i) Employees

During the 2014 year, employees of the Society were also subscribers. The employees' subscription fees were fully subsidised by the Society via the payroll system. Apart from this the Society deals with the employees on the same terms and conditions applied to all subscribers.

#### (ii) Board Members

During the 2014, the following Board members of the Society were also subscribers:

Richard Kittelty  
Darrell Ward  
Liz Patara  
Marian Cadman  
Bruce Kirkham  
Tom McGrath  
Margaret Kinsey

The Society deals with the Board on the same terms and conditions applied to all subscribers.

# Education Benevolent Society Incorporated

## Notes to the financial statements



The Society has a related party relationship with its key management personnel. Key management personnel include the Board of Management.

No remuneration of fees have been paid to members of the Board of Management (2013: \$Nil).

### 12 Financial Instruments

#### (a) Carrying value of financial instruments

The carrying amount of all material financial position assets and liabilities are considered to be equivalent to fair value.

Fair value is the amount for which an item could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

#### (b) Classification of financial instruments

All financial assets held by the Society are classified as "loans and receivables" are carried at cost less accumulated impairment losses, except for investments portfolio held with Spicers (refer to note 7).

The Spicers Investment Portfolio is classified as "available for sale financial instruments" with fair value movements recognised through other comprehensive income until realised.

All financial liabilities held by the Society are carried at amortised cost using the effective interest rate method.

#### (c) Financial instrument risk management

The Society has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Currency risk

The Society has a series of policies to manage the risk associated with financial instruments. Policies have been established which do not allow transactions that are speculative in nature to be entered into and the Society is not actively engaged in the trading of financial instruments. As part of this policy, limits of exposure have been set and are monitored on a regular basis.

#### (i) Credit Risk

Credit risk is the risk that the other party to a financial transaction will fail to discharge their obligation resulting in the Society incurring a financial loss. The policy is that members are not entitled to claim payouts unless their subscriptions paid are up-to-date (subscriptions are paid in advance). Therefore, credit risk is limited.

The Society places its cash and short term investments with high credit quality financial institutions and sovereign bodies and this limits the amount of credit exposure to any one financial institution.



# Education Benevolent Society Incorporated

## Notes to the financial statements



### (ii) Liquidity risk

Liquidity risk is the risk that the Society may encounter difficulties meeting its financial obligations as they fall due.

The Society's liquidity policy is based upon ensuring significant liquid assets are held so as to meet benefit entitlements of the subscribers. Risks are managed by continuous reviewing of financial performance, maturity profiles of financial assets, and maintaining adequate reserves and liquidity support facilities.

All financial assets held can be converted into cash on a short-term basis.

The Society has no long-term liabilities or funding commitments.

### (iii) Market risk

Market risk is the risk that the carrying amount (and the ultimate amount realised upon sale) of investment portfolio financial instruments will fluctuate because of changes in market demand.

#### *Sensitivity analysis*

The following analysis illustrates the sensitivity on profit in regards to the Society's Spicers Investment Portfolio market demand price movements. It assumes a +/- 10% change in fair value of investments.

	Carrying amount of investment \$	2014 Fair value movement		
		Actual	+10%	-10%
		\$	\$	\$
Spicers Investment Portfolio	2,997,531	391,804	691,557	92,051

	Carrying amount of \$	2013 Fair value movement		
		Actual	+10%	-10%
		\$	\$	\$
Spicers Investment Portfolio	2,575,565	295,664	553,221	38,108

The Society is exposed to interest rate risk in that further rate movements will affect the market value of its fixed interest assets. Risk management activities are undertaken in respect of financial assets. There is no interest risk in respect to liabilities of the Society as it has no known borrowings and does not pay interest to subscribers.

### (iv) Currency Risk

Some financial instruments of the Society are subject to foreign currency fluctuations. 81% of the Society's financial instruments are in foreign currency denominated assets. The value of these are converted to New Zealand dollars by Spicers at each reporting date.

All liabilities are denominated in New Zealand dollars.

# Education Benevolent Society Incorporated

## Notes to the financial statements



### Sensitivity analysis

The following analysis illustrates the sensitivity of profit in regards to the Society's investments carried in foreign currencies. It assumes a +/- 5% change in the exchange rate.

	Impact on equity	
	2014	2013
	\$	\$
5% increase in NZD against foreign currencies	119,901	103,023
5% decrease in NZD against foreign currencies	(119,901)	(103,023)

### (d) Fair Value

Included in the financial assets of the Society are equities and fixed interest securities measured at fair value at each reporting date. The source of fair value inputs as defined by NZ IFRS 13 *Fair Value* is determined by reference to quoted prices in an active market for the same instrument (Tier 1). All other financial assets are carried at cost less impairment (if any), which approximates their fair value.

The fair value of investments can be influenced by changes in interest rates, currency values and market demand.

## 13 Solvency Statement and Reserve Bank Conditions for License

The Insurance (Prudential Supervision) Act 2010 ("the Act") was enacted in September 2010. The Society was granted a full license under the Act in April 2013.

At balance date the Society meets the Reserve Bank's criteria for adequate margin of solvency in excess of best estimate liabilities to subscribers.

The Board's policy for managing capital is to have a strong capital base to establish security and enable the Society to conduct its business whilst maintaining financial soundness. The policy in respect of capital management is regularly reviewed by the Board in line with the solvency requirements issued by the RBNZ.

Capital funding requirements as reported to the Reserve Bank

	2014	2013
	\$	\$
Total equity as reported in the financial statements	8,788,404	7,958,297
Solvency calculation adjustments	66,579	226,113
Solvency capital	8,854,983	8,184,410
Calculated minimum capital requirement	1,691,943	1,654,051
Solvency surplus on calculated minimum	7,163,040	6,530,359
Overall minimum capital requirement	3,000,000	3,000,000
Solvency surplus on \$3 Million	5,854,983	5,184,410

# Education Benevolent Society Incorporated

## Notes to the financial statements



### 14 Actuarial Policies and Methods

The effective date of the actuarial report on the IBNR provision is 30 June 2014. The actuarial report was prepared by Peter Davies, a Fellow of the New Zealand Society of Actuaries (of Davies Financial and Actuarial Limited), consulting actuary to the Society. The IBNR provision has been determined in accordance with the methods and assumptions disclosed in these financial statements and with the standards established by the New Zealand Society of Actuaries and the Reserve Bank of New Zealand.

#### Assumptions:

(i) IBNR provision has been determined in accordance with Professional Standard No. 4 - Valuation of General Insurance Claims - issued by the New Zealand Society of Actuaries for reporting under NZ IFRS with effect from 1 January 2007.

(ii) The claim handling cost rate (as required per NZ IFRS 4) assumed was 7.5% of outstanding claims (2013: 7.5%), which has been determined based on the size of the Society, its overall level of expenses, and the nature of claims incurred.

(iii) The risk margin rate (as required per NZ IFRS 4) assumed was 4.0% of outstanding claims (2013: 4.0%), which has been determined based on the past level of variability.

The IBNR provision at year-end for insurance claims incurred but not yet claimed as at 30 June 2014 has been estimated by the actuarial as \$1,231,300 (2013: \$1,230,538).

	2014 \$	2013 \$
IBNR Opening balance	1,230,538	1,175,579
Movement in IBNR provision	762	54,959
Closing balance	1,231,300	1,230,538

The key assumptions and sensitivities in the calculation of the provision are the risk margin rate and the duration of claim settlement.

<b>Settlement time</b>	<b>30-Jun-14</b>	<b>Sensitivity</b>	
		<b>Settlement time takes 10% longer</b>	<b>Settlement time takes 10% shorter</b>
IBNR Provision	1,231,300	1,785,547	888,780
<b>Settlement time</b>	<b>30-Jun-13</b>	<b>Sensitivity</b>	
		<b>Settlement time takes 10% longer</b>	<b>Settlement time takes 10% shorter</b>
IBNR Provision	1,230,538	1,766,305	893,054
<b>Risk Margin</b>	<b>30-Jun-14</b>	<b>Sensitivity</b>	
		<b>Risk margin + 1%</b>	<b>Risk margin +-1%</b>
IBNR Provision	1,231,300	1,243,140	1,219,460
<b>Risk Margin</b>	<b>30-Jun-13</b>	<b>Sensitivity</b>	
		<b>Risk margin + 1%</b>	<b>Risk margin +-1%</b>
IBNR Provision	1,230,538	1,242,371	1,218,705

# Education Benevolent Society Incorporated



## Notes to the financial statements

### 15 Computer expenses

The higher computer expenditure in the period ended 30 June 2014 relates to additional software development costs expensed during the 2014 financial year.

### 16 Review costs

A strategic review was conducted in the period ended 30 June 2014 to obtain professional advice on the future direction of the Society.

### 17 Significant after balance date events

There are no significant events subsequent to the balance date and up to the time of preparation of these financial statements, which materially impact on the position as it existed at that date.