

INDEPENDENT AUDITOR'S REPORT

To the members of Education Benevolent Society Incorporated

Report on the Financial Statements

We have audited the financial statements of Education Benevolent Society Incorporated (the "Society") on pages 3 to 24, which comprise the statement of financial position as at 30 June 2015, the statement of comprehensive income, statement of changes in equity and statement of cash flows, for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board Responsibility for the Financial Statements

The board members are responsible for the preparation and fair presentation of the financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and for such internal control as the board members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Our firm performed an independent limited assurance review of the Society's Annual Solvency Return.

The firm has no other relationship with, or interests in the Society.

Opinion

In our opinion, the financial statements on pages 3 to 24 present fairly, in all material respects, the financial position of Education Benevolent Society Incorporated as at 30 June 2015, and the financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards.



Crowe Horwath New Zealand Audit Partnership
CHARTERED ACCOUNTANTS
3 November 2015

Education Benevolent Society Incorporated

Annual Financial Statements

For the Year Ended 30 June 2015

Education Benevolent Society Incorporated
Annual Financial Statements
For the Year Ended 30 June 2015

Contents

| | Page |
|-----------------------------------|-------------|
| Directory | 2 |
| Statement of Comprehensive Income | 3 |
| Statement of Financial Position | 4 |
| Statement of Changes in Equity | 5 |
| Statement of Cash Flows | 6 |
| Notes to the financial statements | 7 |

Education Benevolent Society Incorporated

Directory

For the Year Ended 30 June 2015

| | |
|--------------------|--|
| Nature of Business | Providing health insurance to the education sector. |
| Board Members | Ross Wilson -Chairman (appointed December 2014) Margaret Kinsey - Deputy Chair Darrell Ward Richard Kittelty Alison O'Connell (appointed April 2015) Samantha Stephen (appointed June 2015) Liz Patara (resigned November 2014) Marian Cadman (resigned May 2015) Bruce Kirkham (resigned November 2014) Tom McGrath (resigned November 2014) Andrew Casidy (resigned November 2014) |
| 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 2015

| | Notes | 2015 \$ | 2014 \$ |
|---|-------|------------------|------------------|
| INCOME | | | |
| Contributions | | 3,740,460 | 3,764,390 |
| Hospital cover commission | | 734,145 | 726,357 |
| Investment income | 8 | 595,029 | 672,978 |
| Other income | | 9,480 | 4,494 |
| Total income | | 5,079,114 | 5,168,219 |
| EXPENDITURE | | | |
| Benefits | | | |
| Benefits paid | 4 | 3,282,093 | 3,260,166 |
| Investment Expenses | | | |
| Amortisation of bonds | | 9,123 | 11,523 |
| Portfolio monitoring fee | | 10,858 | 9,837 |
| | | 19,981 | 21,360 |
| Professional Expenses | | | |
| Accounting fees | | 9,185 | 7,798 |
| Audit fees | | 18,270 | 17,300 |
| Consulting fees | | 32,496 | 17,307 |
| Insurance ombudsman | | 2,009 | 2,038 |
| Strategic review and implementation | 18 | 63,088 | 91,255 |
| Ratings agency | | 24,713 | 24,915 |
| | | 149,761 | 160,613 |
| Other Administration and overhead expenses | | | |
| Staff salaries & related expenses | | 637,235 | 609,347 |
| Rent & related occupancy | | 48,740 | 46,790 |
| Depreciation and amortisation | | 33,856 | 37,556 |
| Movement in IBNR provision | 15 | 65,422 | 762 |
| Bank charges | | 5,774 | 5,436 |
| Computer expenses | 17 | 69,706 | 99,086 |
| Office administration | | 61,064 | 57,039 |
| Printing, stationery, advertising | | 37,711 | 39,957 |
| | | 959,508 | 895,973 |
| Total Expenditure | | 4,411,343 | 4,338,112 |
| Surplus for the year | | 667,771 | 830,107 |
| Other Comprehensive Income | | - | - |
| Total Comprehensive Income for the year | | 667,771 | 830,107 |

These financial statements should be read in conjunction with the notes to the financial statements.



Education Benevolent Society Incorporated

Statement of Financial Position As at 30 June 2015

| | Notes | 2015 \$ | 2014 \$ |
|---|-------|-------------------|-------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 5 | 1,052,570 | 359,436 |
| Trade debtors and other receivables | | 15,693 | 12,778 |
| Prepayments | | 27,414 | 32,746 |
| Accrued interest | | 140,352 | 148,671 |
| Current investments | 7 | 5,400,000 | 6,609,123 |
| Total current Assets | | 6,636,029 | 7,162,754 |
| Non-Current Assets | | | |
| Non-current investments | 7 | 4,196,638 | 2,997,531 |
| Software | 11 | 199,750 | 225,250 |
| Property, plant and equipment | 6 | 5,365 | 12,845 |
| Total non-current Assets | | 4,401,753 | 3,235,626 |
| Total assets | | 11,037,782 | 10,398,380 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| IBNR Claims Provision | 15 | 1,296,722 | 1,231,300 |
| Trade creditors and other payables | | 79,304 | 190,332 |
| Employee entitlements | | 52,055 | 45,226 |
| Contributions received in advance | | 153,526 | 143,119 |
| Total current liabilities | | 1,581,607 | 1,609,977 |
| Total Liabilities | | 1,581,607 | 1,609,977 |
| Net Assets | | 9,456,174 | 8,788,403 |
| ACCUMULATED FUNDS AND OTHER RESERVES | | | |
| Accumulated funds | | 9,456,174 | 8,788,403 |
| Total equity | | 9,456,174 | 8,788,403 |



Chairperson

30/10/15 Date



General Manager

30/10/15 Date



Education Benevolent Society Incorporated

Statement of Changes in Equity For the year ended 30 June 2015

| | Notes | 2015 \$ | 2014 \$ |
|---|-------|------------------|------------------|
| Accumulated Funds | | | |
| Opening balance previously reported | | 8,788,403 | 7,625,717 |
| Amendment | 21 | - | 332,579 |
| Revised opening balance | | 8,788,403 | 7,958,296 |
| Surplus for the year | | 667,771 | 830,107 |
| Closing balance of Accumulated Funds | | 9,456,174 | 8,788,403 |
| Total Equity | | 9,456,174 | 8,788,403 |



Education Benevolent Society Incorporated

Statement of Cash Flows

For the year ended 30 June 2015

| | Notes | 2015 \$ | 2014 \$ |
|---|----------|------------------|------------------|
| Cash flows from operating activities | | | |
| <i>Cash was provided from/(applied to):</i> | | | |
| Contributions received | | 3,747,952 | 3,784,800 |
| Hospital cover commission | | 734,145 | 726,357 |
| Other income | | 9,480 | 772 |
| Benefits paid | | (3,282,093) | (3,260,166) |
| Other expenses | | (1,119,715) | (965,304) |
| Net cash flows from/(used in) operating activities | 9 | 89,769 | 286,459 |
| Cash flows from investing activities | | | |
| <i>Cash was provided from/(applied to):</i> | | | |
| Investment income | | 333,385 | 248,038 |
| Sale/(purchase) of investments | | 270,856 | (929,893) |
| Purchase of property, plant and equipment | | (876) | (10,171) |
| Net cash flows from/(used in) investing activities | | 603,365 | (692,026) |
| Net increase/(decrease) in cash and cash equivalents | | 693,133 | (405,567) |
| Cash and cash equivalents at the beginning of the year | | 359,436 | 765,002 |
| Cash and cash equivalents at the end of the year | | 1,052,570 | 359,436 |



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 2015.

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.

The financial statements of the Society have been prepared in accordance with the Financial Reporting Act 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 as appropriate for not-for-profit entities. 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, except for changes in the classification in financial instruments as disclosed in Note 21. The change in classification had no impact of the previously reported Net Asset position of the Society.

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 2014 financial statements where appropriate to ensure consistency with the presentation of the current year's position and performance.



Education Benevolent Society Incorporated

Notes to the financial statements

(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.

NZ IFRS 9 – Financial instruments (effective date from 1 January 2018)

The IASB and the XRB aim to replace NZ IAS 39 Financial Instruments: Recognition and Measurement in its entirety with replacement standard - NZ IFRS 9 Financial Instruments. The new standard is being issued in phases, with early adoption available as each phase is issued.

NZ IFRS 9 simplifies the classifications of financial assets into those to be carried at amortised cost and those to be carried at fair value – the 'available for sale' and 'held-to-maturity' categories no longer exists.

The new categories of financial assets are:

Amortised cost: those assets with 'basic' loan features',

Fair value through other comprehensive income: this treatment is optional for equity instruments not held for trading, although this choice is made at initial recognition and is irrevocable,

Fair Value through profit and Loss: all other financial instruments not in the previous two categories.

Management have yet to assess the impact the standard is likely to have on the recognition and measurement of financial assets held by the Society. However, they do not expect to have a significant impact on the measurement of financial assets.

NZ IFRS 15 – Revenue from Contracts with Customers (effective date from 1 January 2017)

The new standard establishes principles for reporting about the nature, amount, timing and uncertainty of revenue arising from an entity's contracts with customers. It prescribes when an entity will recognise revenue, how much revenue to recognise, and what disclosures to make about revenue.

Based on the nature of income received by the Society and current recognition principles, the new standard is not expected to have a significant impact on the timing of current revenue recognition. However management are still conducting further analysis of the impact of this new standard.

(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.



Education Benevolent Society Incorporated

Notes to the financial statements

3 Summary of significant accounting policies

The accounting policies of the Society have 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% |
| Furniture and fittings | 20% |

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.

(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 as at 30 June 2014 and 30 June 2015 have been carried out by appointed independent actuary Peter Davies (of Davies Financial and Actuarial Limited).



Education Benevolent Society Incorporated

Notes to the financial statements

Valuation and treatment of liabilities to subscribers (continued)

The IBNR provision has been determined in accordance with NZ IFRS 4 and the New Zealand Society of Actuaries Professional Standard No. 30 - 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 2015.

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.

The calculation of the IBNR Claims Provision includes 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% (2014: 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% (2014: 4.00%) has been provided for. With a coefficient of variation of 4.1% (2014: 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 15.

(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.

(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 and trade creditors and other payables.

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.



Education Benevolent Society Incorporated

Notes to the financial statements

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) financial assets at fair value through profit or loss

The investments held in managed funds is part of a portfolio of identified financial instruments that are managed together to generate returns for the Society. It was deemed appropriate that these investments be classified as "financial assets at fair value through profit or loss".

Financial assets classified as "financial assets at fair value through profit or loss" are subsequent to initial recognition, measured at fair value with gains or losses recognised in the surplus or deficit for the year.

(g) Goods & Services Tax

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

(h) 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

(g) Employee entitlements

Current entitlements

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 rates of pay.

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

(h) Intangible assets

Intangible assets consist of computer software acquired to assist in the administration of member services.

Intangible assets are measured at cost less accumulated amortisation and impairment losses.

Amortisation is recognised on a straight-line basis over the estimated useful life of the asset.

The following amortisation rates have been applied:

| | |
|-------------------|-----|
| Computer software | 10% |
|-------------------|-----|



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 | 2015 | | 2014 | |
|--|---------------|------------------|---------------|------------------|
| | Number | \$ | Number | \$ |
| Bereavement | 68 | 59,130 | 72 | 60,870 |
| Birth | 108 | 19,130 | 133 | 22,956 |
| Complementary | 4,735 | 420,784 | 4,645 | 411,925 |
| Hospital | 524 | 193,369 | 524 | 184,281 |
| Hospital Excess | 691 | 249,330 | 747 | 259,740 |
| Major Diagnostic | 294 | 86,015 | 296 | 83,921 |
| Medical | 13,879 | 1,808,669 | 13,775 | 1,768,004 |
| Medical Appliance | 285 | 34,470 | 279 | 35,181 |
| Optical | 2,791 | 353,077 | 2,911 | 371,470 |
| Orthodontic | 186 | 52,003 | 165 | 46,665 |
| Sick Leave Without Pay | 61 | 8,256 | 56 | 9,588 |
| Benefits Paid | 23,622 | 3,284,234 | 23,603 | 3,254,601 |
| Increase (decrease) in year end accruals | | (2,141) | | 5,565 |
| Total benefit expense | | 3,282,093 | | 3,260,166 |

5 Cash and cash equivalents

| | 2015 | 2014 |
|---------------|------------------|----------------|
| | \$ | \$ |
| Cash at Bank | 52,949 | 88,663 |
| Call Deposits | 999,620 | 270,773 |
| Total | 1,052,570 | 359,436 |

The carrying amount of cash and cash equivalents approximates their fair value.

Cash at bank earn interest at 0.25% (2014: 0.25%)

Call deposits earn interest at 2.75% (2014: 4.81%)

6 Property, plant and equipment

| | 2015 | 2014 |
|---------------------------------------|--------------|--------------|
| | \$ | \$ |
| Computer equipment | | |
| <u>Cost</u> | | |
| Opening | 46,565 | 36,394 |
| Additions | 424 | 10,171 |
| Disposal | (5,958) | - |
| Closing cost | 41,031 | 46,565 |
| <u>Accumulated depreciation</u> | | |
| Opening | (39,270) | (30,050) |
| Depreciation | (5,431) | (9,220) |
| Depreciation written back on disposal | 5,958 | - |
| Closing accumulated depreciation | (38,743) | (39,270) |
| Carrying value | 2,288 | 7,295 |



Education Benevolent Society Incorporated

Notes to the financial statements

| | 2015 | 2014 |
|--|--------------|---------------|
| | \$ | \$ |
| Furniture and fittings | | |
| <u>Cost</u> | | |
| Opening | 25,047 | 25,047 |
| Additions | 453 | - |
| Closing cost | 25,500 | 25,047 |
| <u>Accumulated depreciation</u> | | |
| Opening | (19,497) | (16,662) |
| Depreciation | (2,926) | (2,835) |
| Closing accumulated depreciation | (22,423) | (19,497) |
| Carrying value | 3,077 | 5,550 |
| Total property, plant and equipment | 5,365 | 12,845 |

7 Investments

| | 2015 | 2014 |
|----------------------------------|------------------|------------------|
| | \$ | \$ |
| Current | | |
| BNZ Term Deposits | 5,400,000 | 6,100,000 |
| Public Trust Insurance Deposit | - | 509,123 |
| Total current | 5,400,000 | 6,609,123 |
| Non Current | | |
| Monitored Portfolio with Spicers | 4,196,638 | 2,997,531 |
| Total non-current | 4,196,638 | 2,997,531 |
| Total investments | 9,596,638 | 9,606,654 |

| Monitored Portfolio with Spicers | 2015 | 2014 |
|---|------------------|------------------|
| <i>Nature of investments</i> | \$ | \$ |
| Cash management account | 993,214 | 57,735 |
| New Zealand equity investments | 364,933 | 288,181 |
| Overseas equity investments | 2,460,764 | 2,297,134 |
| New Zealand fixed interest investments | 216,066 | 200,153 |
| Overseas fixed interest investments | 161,660 | 154,329 |
| Total Spicers Investment Portfolio | 4,196,638 | 2,997,531 |

Public Trust Insurance Deposit

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 was 15 April 2015. The premium was amortised over the term of the bonds using the effective interest rate method. For the period to 30 June 2015, amortisation of \$9,123 (2014: \$11,523) has been recognised.

Impairment

The Society has assessed all investments for impairment as at 30 June 2015. The Society concluded that there was no impairment of any investment at 2015 balance date (2014: \$Nil impairment).



Education Benevolent Society Incorporated

Notes to the financial statements

8 Investment income

| | 2015 | 2014 |
|---|----------------|----------------|
| | \$ | \$ |
| Unrealised fair value gain/(loss) on managed fund portfolio | 269,963 | 391,804 |
| Interest on fixed interest investments | 307,518 | 260,179 |
| Interest on at call funds within cash and cash equivalents | 17,548 | 20,995 |
| Total investment income | 595,029 | 672,978 |

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

| | 2015 | 2014 |
|--|------------------|------------------|
| | \$ | \$ |
| Surplus for the year | 667,771 | 830,107 |
| <i>Less investment income classified as a financing activity</i> | <i>(333,385)</i> | <i>(248,038)</i> |
| <i>Non cash movements</i> | | |
| Unrealised fair value gain/(loss) on managed fund portfolio | (269,963) | (391,804) |
| Provisions for claims | 65,422 | 762 |
| Depreciation and amortisation | 33,856 | 37,556 |
| Amortisation of bonds | 9,123 | 11,253 |
| <i>Movements in working capital</i> | | |
| (Increase)/decrease in trade debtors and other receivables | 5,404 | (36,858) |
| (Increase)/decrease in prepayments | 5,332 | (26,851) |
| Increase/(decrease) in trade creditors and other payables | (104,199) | 89,923 |
| Increase/(decrease) in contributions received in advance | 10,407 | 20,410 |
| Net Cash Flow from Operating Activities | 89,769 | 286,459 |

10 Lease Commitments

The Society has the following lease commitments:

| | 2015 | 2014 |
|--|----------------|----------------|
| | \$ | \$ |
| Not later than one year | 46,400 | 46,400 |
| Two to five years | 132,844 | 179,244 |
| More than five years | - | - |
| Total operating lease commitments | 179,244 | 225,644 |

11 Intangibles

| | 2015 | 2014 |
|----------------------------------|----------------|----------------|
| | \$ | \$ |
| Software | | |
| <u>Cost</u> | | |
| Opening | 255,000 | 255,000 |
| Closing cost | 255,000 | 255,000 |
| <u>Accumulated depreciation</u> | | |
| Opening | (29,750) | (4,250) |
| Depreciation | (25,500) | (25,500) |
| Closing accumulated depreciation | (55,250) | (29,750) |
| Total intangible assets | 199,750 | 225,250 |



Education Benevolent Society Incorporated

Notes to the financial statements

12 Related party transactions

(i) Employees

During the 2015 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 financial year, the following Board Members (and former Board Members) of the Society were also subscribers:

Darrell Ward
Richard Kittelty
Samantha Stephen
Margaret Kinsey
Liz Parata
Marian Cadman
Bruce Kirkham
Tom McGrath
Andrew Casidy

The following fees were paid to Board Members during the year

| Board fees | | | |
|---|--------|------|----|
| 2015 | | 2014 | |
| | \$ | | \$ |
| Ross Wilson -Chairman (appointed December 2014) | 11,936 | - | - |
| Darrell Ward | 4,200 | - | - |
| Richard Kittelty | 2,800 | - | - |
| Alison O'Connell (appointed April 2015) | 2,350 | - | - |
| Samantha Stephens (appointed June 2015) | - | - | - |
| Margaret Kinsey | 2,235 | - | - |
| Liz Patara (resigned November 2014) | - | - | - |
| Marian Cadman (resigned May 2015) | 1,750 | - | - |
| Bruce Kirkham (resigned November 2014) | - | - | - |
| Tom McGrath (resigned November 2014) | - | - | - |
| Andrew Casidy (resigned November 2014) | - | - | - |
| | 25,271 | - | - |

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

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

Remuneration of fees of \$25,271 have been paid to members of the Board of Management (2014: \$Nil). Board fees in relation to Margaret Kinsey were paid to the PPTA as a reimbursement of her time.



Education Benevolent Society Incorporated

Notes to the financial statements

13 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 "financial assets at fair value through profit or loss" with fair value movements recognised in the surplus or deficit for the year.

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

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 not considered significant.

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.

Fixed interest investments within the managed fund portfolio (Note 7) have a credit rating of AA+ to BBB-.

The maximum exposure to credit risk at the end of the reporting year is the amount of financial assets stated in the statement of financial position.

(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.



Education Benevolent Society Incorporated

Notes to the financial statements

(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 value of investments. The market value of investments carried by the Society are subject to the following variables:

- interest rates
- currency rates; and
- equity prices .

Interest rate risk

Interest rate risk is the risk that cash flows from a financial instrument will fluctuate because of changes in market interest rates. The Society are exposed to interest rate risk on fixed interest investments.

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.

The Society holds the following fixed interest investments (as disclosed in Note 7):

| | | 2015 \$ | 2014 \$ |
|---|---|------------------|------------------|
| BNZ Term Deposits | Classified as loans and receivables and carried at amortised cost | 5,400,000 | 6,100,000 |
| Managed Funds, fixed interest investments | Classified as financial assets at fair value through profit or loss and carried at fair value | 377,726 | 354,482 |
| Total fixed interest investments | | 5,777,726 | 6,454,482 |

The Society's fixed interest investments pay interest at fixed rates and therefore the interest risk on cash flow fluctuation is not considered to be significant.

Sensitivity analysis on Fixed Interest Investment Market Risk

If interest rates increased by 1% it is estimated the fair value of New Zealand fixed interest investments would decrease by 3.30% and overseas fixed interest investments would decrease by 6.10% . The following analysis illustrates the sensitivity on the Society's profit as a result of a 1% movement in interest rates.

| Fixed interest investment carried at fair value | 2015 | | |
|---|--------------------------|------------------|-----------------|
| | Carrying amount of \$ | Impact on profit | |
| | | +1% \$ | -1% \$ |
| New Zealand fixed interest investments | 216,066 | 7,130 | (7,130) |
| Overseas fixed interest investments | 161,660 | 9,861 | (9,861) |
| Total | 377,726 | 16,991 | (16,991) |

| Fixed interest investment carried at fair value | 2014 | | |
|---|--------------------------|------------------|-----------------|
| | Carrying amount of \$ | Impact on profit | |
| | | +1% \$ | -1% \$ |
| New Zealand fixed interest investments | 200,153 | 6,605 | (6,605) |
| Overseas fixed interest investments | 154,329 | 9,414 | (9,414) |
| Total | 354,482 | 16,019 | (16,019) |



Currency rate risk

Currency risk is the risk that the fair value of financial instruments will fluctuate due to a change in foreign exchange rates.

Most of the Society transactions are carried out in NZD. Exposure to currency exchange rate movements arise from the Society's investments carried in foreign currencies.

All offshore investments held under the managed fund portfolio are New Zealand Dollar hedged, therefore the foreign currency risk on these investments is not significant.

Education Benevolent Society Incorporated

Notes to the financial statements

Equity price risk

Equity price risk is the risk that the fair value of financial instruments will fluctuate due to a changes in market demand for listed equities investments held.

The Society holds the following equity investments (as disclosed in Note 7):

| | 2015 | 2014 |
|--|------------------|------------------|
| | \$ | \$ |
| New Zealand equity investments | 364,933 | 288,181 |
| Overseas equity investments | 2,460,764 | 2,297,134 |
| Total investments in equity investments | 2,825,698 | 2,585,315 |

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, based on previous history of portfolio performance.

Equity investments

| 2015 | | |
|--------------------------------|----------------------------|-----------|
| Carrying amount of investments | Fair value movement impact | |
| | +10% | -10% |
| \$ | \$ | \$ |
| 2,825,698 | 282,570 | (282,570) |

Equity investments

| 2014 | | |
|--------------------------------|----------------------------|-----------|
| Carrying amount of investments | Fair value movement impact | |
| | +10% | -10% |
| \$ | \$ | \$ |
| 2,585,315 | 258,532 | (258,532) |

(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.



Education Benevolent Society Incorporated

Notes to the financial statements

14 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

| | 2015 \$ | 2014 \$ |
|--|------------------|------------------|
| Total equity as reported in the financial statements | 9,456,174 | 8,788,403 |
| Solvency calculation adjustments | (202,040) | (233,420) |
| Solvency capital | 9,254,134 | 8,554,983 |
| Calculated minimum capital requirement | 1,774,625 | 1,691,943 |
| Solvency surplus on calculated minimum | 7,479,509 | 6,863,040 |
| Overall minimum capital requirement | 3,000,000 | 3,000,000 |
| Solvency surplus on \$3 Million | 6,254,134 | 5,554,983 |

15 IBNR Claims Provision

The effective date of the actuarial report on the IBNR provision is 30 June 2015. 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.

The actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claim liability. The actuarial report contained no qualifications.

The IBNR provision at year-end for insurance claims incurred but not yet claimed as at 30 June 2015 has been estimated by the actuary as \$1,296,722 (2014: \$1,231,300).

| | 2015 \$ | 2014 \$ |
|----------------------------|------------------|------------------|
| IBNR Opening balance | 1,231,300 | 1,230,538 |
| Movement in IBNR provision | 65,422 | 762 |
| Closing balance | 1,296,722 | 1,231,300 |

IBNR Claims Provision

| | 2015 \$ | 2014 \$ |
|------------------------|------------------|------------------|
| Central estimate | 1,159,859 | 1,101,342 |
| Expense margin | 86,989 | 82,601 |
| Risk margin | 49,874 | 47,358 |
| Closing balance | 1,296,722 | 1,231,300 |



Education Benevolent Society Incorporated

Notes to the financial statements

A hindsight analysis of the IBNR Provision shows:

| | Previous Year's Estimate (June 2014) | Prior year's estimate (June 2013) |
|--|---|---|
| | \$ | \$ |
| Central Estimate determined at the time | 1,101,342 | 1,100,660 |
| Outstanding as assessed a year later | 1,036,536 | 1,059,784 |
| Surplus difference between actual claims and estimated provision | 64,806 | 40,877 |

Provision assumptions:

(i) IBNR provision has been determined in accordance with Professional Standard No. 30 - Valuation of General Insurance Claims - issued by the New Zealand Society of Actuaries for reporting under NZ IFRS with effect from 30 September 2014.

(ii) The claim handling cost rate (as required per NZ IFRS 4) assumed was 7.5% of outstanding claims (2014: 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 4.00% of outstanding claims (2014: 4.0%), which has been determined based on the past level of variability.

(iv) Future patterns of claims will be similar to historical patterns depending on the type of policy and type of claim.

(v) Processing of claims will continue to be consistent at the Society.

Sensitivity analysis

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

| | | | |
|-----------------|-----------|----------------------------------|-----------------------------------|
| Settlement time | 30-Jun-15 | Sensitivity | |
| | | Settlement time takes 10% longer | Settlement time takes 10% shorter |
| IBNR Provision | 1,296,722 | 1,897,201 | 928,086 |
| Settlement time | 30-Jun-14 | Sensitivity | |
| | | Settlement time takes 10% longer | Settlement time takes 10% shorter |
| IBNR Provision | 1,231,300 | 1,783,547 | 888,780 |
| Risk Margin | 30-Jun-15 | Sensitivity | |
| | | Risk margin + 1% | Risk margin - 1% |
| IBNR Provision | 1,296,722 | 1,309,190 | 1,284,254 |
| Risk Margin | 30-Jun-14 | Sensitivity | |
| | | Risk margin + 1% | Risk margin - 1% |
| IBNR Provision | 1,231,300 | 1,243,139 | 1,219,461 |



Education Benevolent Society Incorporated

Notes to the financial statements

16 Insurance Risk Management

The Society's insurance risk is concentrated to insurance products provided within the health insurance sector.

The Society's objectives regarding the management of risks arising from all insurance contracts is to ensure:

- there is a sufficient financial buffer, as set by the Reserve Bank, to absorb any claims volatility;
- strong underwriting that aligns with industry standards;
- a pricing strategy that covers the underlying risk of insurance products;
- strong operations through robust claims and member processes.

The Society further mitigates the risks arising from insurance contracts by structuring its investment portfolio and financial policies to allow for sufficient cash flow during periods of volatility.

Sensitivity analysis in relation to insurance risk variables is provided in Note 15.

Unexpired risk provision and liability adequacy test

A liability adequacy test was performed by the Actuary as at 30 June 2015, to determine whether the unearned premium liability is adequate to cover the present value of the expected future cash flows arising from rights and obligations under current insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate. The future cash flows are future claims, associated claim-handling costs and other administration costs related to the business.

If the present value of the expected future cash flows plus the additional risk margin to reflect the inherent uncertainty in the central estimates exceeds the unearned premium liability, the unearned premium liability is deemed to be deficient.

The calculation of the risk margin has been based on an analysis of the volatility of historical claims experience within the time period covered by the unearned premiums. A risk margin 7% of the present value of expected future cash flows has been applied as at 30 June 2015 (2014: 7%).

The resulting future claim liability is 98.5% of unearned premiums. Since this is less than 100%, the provision for premiums in advance (disclosed as contributions received in advance) is sufficient.

Key assumptions:

| | |
|--------------------------------|---------------------|
| Benefits as % of subscriptions | 87.1% (2014: 86.6%) |
| Risk margin | 7% (2014: 7%) |
| Admin Loading | 5% (2014: 5%) |

17 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.

18 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. Cost incurred for the year ended 30 June 2015 relate to the implementation of the review outcomes.

19 The Society credit rating issued by A M Best is B++ Stable as at March 2015 (2014: BB+ Stable)



Education Benevolent Society Incorporated

Notes to the financial statements

20 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 (2014: None).

21 Prior period adjustment

The classification of financial assets determines the accounting treatment of movements in the fair value of the financial instrument subsequent to initial recognition.

Previous classification of investments

The Society has previously classified its investment balances held in managed funds as "available-for-sale financial assets" for financial reporting purposes. Under this classification fair value movements are recorded in other comprehensive income and reported within the "investment fair value reserve", except for impairment losses which are recognised in the reported surplus or deficit for the year.

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".

Amended classification of investments

The investments held in managed funds is part of a portfolio of identified financial instruments that are managed together to generate returns for the Society. In the current year, it was deemed appropriate that these investments be classified as "financial assets at fair value through profit or loss".

Financial assets classified as "financial assets at fair value through profit or loss" are subsequent to initial recognition, measured at fair value with gains or losses recognised in the surplus or deficit for the year.

Impact on financial statements

The Society has accounted for investment balances in managed funds as "financial assets at fair value through profit or loss", within these financial statements from 1 April 2014.

The change in classification has had no impact on the previously reported Net Asset balance, but did impact the following previously reported balances.

Statement of Comprehensive Income

| | Previously reported | 2014 Amendment | Revised balance |
|----------------------------|------------------------|-------------------|--------------------|
| | \$ | \$ | \$ |
| Surplus for the year | 438,302 | 391,803 | 830,107 |
| Other comprehensive income | 391,804 | (391,803) | - |
| Total comprehensive income | 830,106 | - | 830,107 |

No impact on previously reported total comprehensive income.



Education Benevolent Society Incorporated

Notes to the financial statements

Statement of financial position

| | Previously reported | 2013 Amendment | Revised balance |
|---|------------------------|-------------------|--------------------|
| | \$ | \$ | \$ |
| Accumulated funds | 7,625,717 | 332,579 | 7,958,296 |
| Investment fair value revaluation reserve | 332,579 | (332,579) | - |
| Total equity | 7,958,296 | - | 7,958,296 |

Statement of financial position

| | Previously reported | 2014 Amendment | Revised balance |
|---|------------------------|-------------------|--------------------|
| | \$ | \$ | \$ |
| Accumulated funds | 8,064,019 | 724,383 | 8,788,402 |
| Investment fair value revaluation reserve | 724,383 | (724,383) | - |
| Total equity | 8,788,402 | - | 8,788,402 |

No impact on previously reported total equity.



