

Education Benevolent Society Incorporated

Annual Report including

Financial Statements and Governance

Year ended 30th June 2017



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Education Benevolent Society Incorporated
Annual Report for the year ended 30 June 2017

Society Directory

Nature of Business:	Providing primary health insurance to eligible union members in the education and the public service sectors.
Board Members:	Ross Wilson – Chair Margaret Kinsey - Deputy Chair Richard Kittelty Alison O’Connell Samantha Stephen Darrell Ward
Incorporation:	Incorporated Societies Act 1908
Registered Office:	Level 5 Education House, West Block 178 Willis Street Wellington
Appointed Actuary:	Peter Davies B.Bus Sc FIA Davies Financial and Actuarial Limited
Auditor:	Crowe Howarth New Zealand Audit Partnership
Bankers:	Bank of New Zealand
Solicitor:	Mahony Burrowes & Horner
Rating Agency:	A.M. Best Asia-Pacific (Singapore) Pte Ltd

Education Benevolent Society Incorporated

Purpose and Operating Model

Purpose

The Education Benevolent Society Incorporated (Society) exists to enhance Union membership and align with the collective principles of Unionism. It is run by education and public services Union members, for education and PSA members, their families and whānau. The Society trades as HealthCarePlus.

Target Operating Model

The Society is a financially sustainable organisation, dedicated to the ongoing health of members their families and whānau.

Products:	The Society underwrites primary health insurance products, including: Primary Care, Primary Care Extra, and provides access to hospital cover.
Distribution:	The Society distributes products using a multi-channel approach that includes; agents, online, and union representatives.
Relationships:	The Society exists to maximise benefits to union members, their families and or their whānau. Strong, reciprocal and accountable relationships exist at governance and operational levels between the Society and the member Unions.
Members:	The Society's, differentiated products, improved access to health care services, and responsive service is valued by members, their families and whānau, all of whom have a strong and clear awareness of the relationship between Education Benevolent Society Incorporated and member Unions. There is an intention to increase the Society's policies for the 20 - 40 year old age group.
Governance:	The Society's governance is a point of difference, with clear roles and skills that match insurance market requirements. The member Unions are confident that the Society complies with Reserve Bank requirements, that key performance indicators are being measured and managed, that risks are being managed, and that key relationships are being maintained.

Statement of Corporate Governance

The Constitution is the foundation of the Society, which is registered under the Incorporated Societies Act 1908. The Society adheres to frameworks, processes and policies designed to ensure good governance in all of its operations, including, but not limited to, the provisions and requirements under the Insurance (Prudential Supervision) Act 2010, and the specific Reserve Bank of New Zealand Guidelines for licensed insurers under the Act.

The Board - Appointment and Tenure

The Society is governed by a Board of 6 Directors all appointed by the owner member Unions. The Board consists of four members appointed to represent the four largest Member Unions and two Independent Board Members. Board Members are appointed for a term of three years. The role of the Board as stated in the Constitution is “governance and management of the Society.”

Governance Framework

External

The Society is regulated by the Reserve Bank of New Zealand under the Insurance (Prudential Supervision) Act 2010. In addition, the Society operates in a complex regulatory environment and is subject to a range of regulatory acts, government bodies and industry codes. These include the Incorporated Societies Act 1908, the Financial Reporting Act 2013, the Financial Markets Authority, the Privacy Act 1993 and other regulations specific to our industry.

Internal

The Society operationalises its governance via the “Risk Management Framework, Processes and Policies.” The policies are reviewed on a scheduled basis to ensure that they are fit for purpose and, where required, are amended and updated via the appropriate governance processes.

Board Meetings

The Board meets monthly (excluding January) subject to requirements. The Board holds an annual planning meeting to agree on the strategic priorities and identify significant opportunities and threats in the short to medium term. At this year’s planning meeting there were presentations by a number of the Member Unions. The Board would like to acknowledge and thank those that attended. The presentations provided deeper insights into how the Society can better work with our Member Unions and their members.

Sub Committees of Board

The Board runs 2 Sub- Committees namely the Audit Risk and Investment Sub-Committee and the Remuneration Sub-Committee.

Audit Risk and Investment Sub-Committee (ARIC)

The objectives of ARIC are to provide assistance and advise to the Board on financial accounting and reporting, internal and external audit, the Society's risk control and compliance framework and developing, monitoring and reporting on the investment policy.

Remuneration Sub-Committee (Rem Committee)

The objectives of the Rem Sub-Committee are to assist the Board in fulfilling its responsibilities relating to employment conditions and remuneration issues; to establish and overview the Society's employment and industrial relations policy and direction, to ensure that the Society's policies related to salary or wage negotiations, including the Collective Employment Agreement with First Union are appropriate, and to ensure that the Society's organisational structure supports the provision of effective and efficient business outcomes.

Board Member names, duties, representing and attendance

Year Ended 30th June 2017

Name of Board Member	Title/ Duties	Representing	Board Meetings	AGM	Board Planning Day	ARIC	Rem Committee
Ross Wilson	Board Chair	Independent	9	1	1	5	4
Margaret Kinsey	Board Deputy Chair	PPTA	6	-	-	3	3
Alison O'Connell	Chair ARIC	Independent	8	1	1	5	-
Darrell Ward	Chair Rem Committee	NZEI	8	1	1	5	4
Richard Kittelty	Board Member	PSA	8	1	1	2	-
Samantha Stephen	Board Member	TEU	6	-	-	1	-

Board Member Profiles

Ross Wilson – Board Chair – Independent Board Member



Ross Wilson is a former President of the NZ Council of Trades Unions. He has governance experience which includes Chair and Deputy Chair of the ACC, Deputy Chair Worksafe NZ, and director of Port of Wellington, KiwiRail,

NZ Railways Corporation, and the Cooperative Bank of New Zealand. He is a lawyer with a strong interest in employment and workplace health and safety law and practice.

Ross is also Chair of the Unions Aotearoa International Development Trust (UnionAID) and spends a lot of voluntary time on international development work in the Asia Pacific Region.

He is of Scottish and Ngāi Tahu descent.

Margaret Kinsey – Deputy Chair and member of Audit, Risk and Investment Committee and Remuneration Committee – Representing PPTA



Margaret Kinsey has a Bachelor of Commerce and Administration from Victoria University and is a Chartered Accountant and a member of the Chartered Accountants Australia and New Zealand. Margaret is currently working

as the Financial Services Manager at New Zealand Post Primary Teachers' Association. Prior to joining New Zealand Post Primary Teachers' Association, Margaret was an Audit Manager at BDO, where she specialised in the Not-For-Profit Sector.

Margaret uses her qualifications and past working experience to represent the members of New Zealand Post Primary Teachers' Association on the Board

Alison O'Connell – Board member and Chair Audit, Risk and Investment Committee - Independent Board Member



Dr Alison O'Connell is an independent director and a Chartered Member of the New Zealand Institute of Directors. She is an Earthquake Commissioner and Director at the Government Superannuation Fund Authority.

Alison is an actuary with interests in longevity and retirement income policy. She was founding Director of the Pensions Policy Institute in London and has held senior positions in the financial services industry including at Swiss Re, Mercer, and McKinsey & Co.

Alison's PhD is from Victoria University, Wellington and she is a Fellow of the Institute of Actuaries in the UK and the New Zealand Society of Actuaries.

Darrell Ward – Board member and Chair Remuneration Committee and Member of Audit Risk and Investment Committee - Representing NZEI

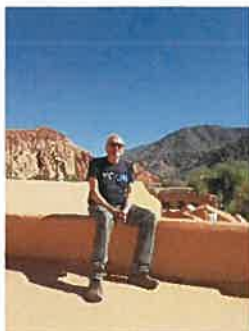


Darrell worked as a teacher and principal in various Southland schools from 1971 until 2002. He became an EBS subscriber as a trainee teacher in 1968. Darrell was an elected member of NZEI's National Executive

from 1990 until 2002. This included the role of National President and director of Education House Ltd. From 2002 until his retirement in 2012 he was employed by NZEI Te Riu Roa as Assistant Secretary at the National Office. In 2015 he was awarded Life Membership of NZEI Te Riu Roa.

Darrell has been a member of the Board since 2011. He brings to the board significant education union knowledge, leadership experience and a broad union network.

Richard Kittelty – Board Member – Representing PSA



Richard Kittelty has been involved in unions throughout his working life. He trained as a secondary school teacher after obtaining an MA in English from Victoria University. Richard has been a member of PPTA, AUS and

the PSA. He is currently the PSA representative on the board. Richard taught for 20 years in Auckland schools before moving to Auckland University as a careers adviser. He then moved to Victoria University to establish an office specifically to cater for postgraduate students. He then worked in the Education Review Office for 11 years before moving to the Ministry of Education.

Richard is the longest serving member joining the board in 1996. Richard was the Board Chair at a time when it was determined that a change of direction was needed for EBS.

Samantha Stephen – Board Member - Representing TEU



Samantha Stephen oversees the support operations of the Tertiary Education Union Te Hautu Kahurangi o Aotearoa, managing a team essential to the smooth running of the organisation.

After graduating with a Bachelor of Social Sciences from the University of Waikato, Samantha spent several years working in a

community-based role for a non-profit organisation that offered preventative and rehabilitative support to offenders and their whanāu.

Samantha went on to work in events management where for nine years she was part of a team responsible for organising an annual event attended by over 45,000 New Zealanders.

Samantha is an accomplished people manager and brings to the board a detail-oriented, problem-solving approach.

Education Benevolent Society Incorporated

Annual Financial Statements

For the Year Ended 30 June 2017

Education Benevolent Society Incorporated
Annual Financial Statements
For the Year Ended 30 June 2017

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Education Benevolent Society Incorporated

Directory For the Year Ended 30 June 2017

Nature of Business	Providing primary health insurance to the eligible Union members in the education sector and the public service association.
Board Members	Ross Wilson - Chair Margaret Kinsey - Deputy Chair Richard Kittelty Alison O'Connell Samantha Stephen Darrell Ward
Incorporation	Incorporated Societies Act 1908
Registered Office:	Level 5 Education House, West Block 178 Willis Street Wellington
Auditor	Crowe Horwath New Zealand Audit Partnership
Bankers	Bank of New Zealand
Solicitor	Mahoney Burrowes Horner Lawyers
Rating Agency	A M Best, Asia-Pacific (Singapore) Pte Ltd

Education Benevolent Society Incorporated

Statement of Comprehensive Revenue and Expense For the year ended 30 June 2017

	Notes	2017 \$	2016 \$
Revenue			
Contributions		4,248,668	3,926,432
Commission on Hospital cover		715,182	694,840
Investment income	8	346,882	189,250
Other income		6,213	16,139
Total revenue		5,316,945	4,803,462
Expenses			
Benefits			
Benefits paid	4	3,724,255	3,408,248
Investment Expenses			
Portfolio monitoring fee		27,489	17,745
		27,489	17,745
Professional Expenses			
Accounting fees		34,213	12,715
Audit fees		28,000	24,375
Auditor fees - non audit work (taxation services)		11,428	-
Actuarial and Legal Services		57,679	118,369
Consultants		48,822	-
Health Funds Association New Zealand Membership		10,625	11,825
Insurance ombudsman		3,713	1,988
Strategic review and implementation		-	59,541
Ratings agency		42,615	23,808
		237,094	252,421
Other Administration and Overhead Expenses			
Staff salaries & related expenses		726,198	801,538
Rent & related occupancy		49,672	50,937
Depreciation and amortisation		133,832	37,081
Movement in IBNP provision	15	44,056	75,798
Bank charges		4,510	5,619
Computer expenses		66,075	88,941
Office administration		110,457	101,258
Printing, stationery, advertising		60,984	68,996
		1,195,783	1,230,188
Total expenditure		5,184,620	4,908,582
Surplus / (deficit) for the year		132,325	(105,121)
Other comprehensive revenue and expense		-	-
Total comprehensive revenue and expense for the year		132,325	(105,121)


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 2017

	Notes	2017 \$	2016 \$
ASSETS			
Current			
Cash and cash equivalents	5	1,326,926	525,024
Trade debtors and other receivables		91,602	16,451
Income		24,461	44,568
Accrued interest		59,103	121,848
Current investments	7	5,273,700	6,100,529
Total current assets		6,775,792	6,808,419
Non-Current			
Non-current investments	7	4,314,364	4,174,475
Software	11	121,788	216,865
Property, plant and equipment	6	18,211	10,214
Total non-current assets		4,454,363	4,401,554
Total assets		11,230,154	11,209,973
LIABILITIES			
Current			
IBNP Claims Provision	15	1,416,576	1,372,520
Trade creditors and other payables		82,458	171,765
Employee entitlements		69,723	154,535
Contributions received in advance		178,018	160,100
Total current liabilities		1,746,775	1,858,920
Total liabilities		1,746,775	1,858,920
Net assets		9,483,379	9,351,054
EQUITY			
Accumulated funds		9,483,379	9,351,054
Total equity		9,483,379	9,351,054

 Deputy Chairperson on
behalf of the Board 28/9/17 Date

 Chief Executive 28/9/17 Date

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

Education Benevolent Society Incorporated

Statement of Changes in Equity For the year ended 30 June 2017

	Notes	2017 \$	2016 \$
Accumulated Funds			
Opening balance		9,351,054	9,456,174
Surplus / (deficit) for the year		132,325	(105,121)
Closing balance of accumulated funds		9,483,379	9,351,054
Total equity		9,483,379	9,351,054

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



Education Benevolent Society Incorporated

Statement of Cash Flows For the year ended 30 June 2017

	Notes	2017 \$	2016 \$
Cash flows from operating activities			
<i>Cash was provided from/(applied to):</i>			
Contributions received		4,266,587	3,930,008
Commission on Hospital cover & Life cover		709,034	710,608
Other income		6,213	16,139
Benefits paid		(3,768,310)	(3,484,047)
Other expenses		(1,406,726)	(1,150,592)
Net cash flows from/(used in) operating activities	9	(193,203)	22,112
Cash flows from investing activities			
<i>Cash was provided from/(applied to):</i>			
Investment income		215,027	274,362
Sale/(purchase) of investments		826,829	(764,977)
Purchase of property, plant and equipment		(46,752)	(59,045)
Net cash flows from/(used in) investing activities		995,104	(549,659)
Net increase/(decrease) in cash and cash equivalents		801,901	(527,547)
Cash and cash equivalents at the beginning of the year		525,024	1,052,570
Cash and cash equivalents at the end of the year		1,326,926	525,024

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



Education Benevolent Society Incorporated

Notes to the financial statements

1 Reporting entity

Education Benevolent Society Incorporated is a society incorporated under the Incorporated Societies Act 1908. Its registered office is Level 5, Education House, West Block, Te Aro, Wellington. The financial statements comprise the financial statements of Education Benevolent Society Incorporated (the "Society") for the year ended 30 June 2017.

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 Licence by the Reserve Bank of New Zealand in April 2013.

The Society has designated itself as a public benefit entity (PBE) for financial reporting purposes.

The financial statements were authorised for issue by the Board of Directors on 20 September 2017.

2 Basis of Preparation

(a) Statement of compliance

The financial statements have been prepared on a going concern basis, in accordance with New Zealand Generally Accepted Accounting Practices ("NZ GAAP"). They comply with Public Benefit Entity Standards ("PBE Standards") as appropriate for Tier 1 Not-For-Profit entities. The financial statements have been prepared in accordance with Tier 1 PBE Standards.

(b) Basis of measurement

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

(c) Presentation currency

The financial statements are presented in New Zealand dollars.

(d) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year.

In 2015, the External Reporting Board issued Disclosure Initiative (Amendments to PBE IPSAS 1), 2015 Omnibus Amendments to PBE Standards, and Amendments to PBE Standards and Authoritative Notice as a Consequence of XRB A1 and Other Amendments. These amendments apply to PBEs with reporting periods beginning on or after 1 January 2016. The Society has applied these amendments in preparing its 30 June 2017 financial statements. There has been no effect in applying these amendments.

(e) Use of estimates and judgements

In preparing these financial statements, the Society has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

Note 11 Assessment of useful life of intangibles

Note 15 IBNP Claims Provision

(f) Standards issued and not yet effective and not early adopted

In 2016, the External Reporting Board issued Disclosure Initiative (Amendments to PBE IPSAS 1), 2016 Omnibus Amendments to PBE Standards, and Amendments to PBE Standards and Authoritative Notice as a Consequence of XRB A1 and Other Amendments. The amendments have a range of effective dates, with the earliest being for annual periods beginning on or after 1 January 2017. The Society will consider the amendments in preparing its 30 June 2018 financial statements. The Society expects there will be minimal effect if it does apply these amendments.

PBE IFRS 9 (Financial Instruments) gives PBEs an opportunity to adopt a PBE standard based on NZ IFRS 9 Financial Instruments earlier than the adoption date. The standard is effective for annual periods beginning on or after 1 January 2021. The Society has not assessed the impact of early adoption, nor has it made a decision on whether to apply the standard early.

Education Benevolent Society Incorporated

Notes to the financial statements

3 Summary of significant accounting policies

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 straight-line 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 Revenue and Expense to the extent that it is probable that the economic benefits will flow to the Society and income can be reliably measured.

Contributions & Hospital Cover Commission

All contributions and hospital cover commission income is recorded in the period to which the cover relates. 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.

PBE IFRS 4 *Insurance Contracts* sets out the methodology for measuring policy liabilities. An Actuarial valuation of the Society's outstanding liabilities at balance date and pertaining to the year then ended is carried out every year. An incurred but not paid ("IBNP") provision is included as a current liability in the Society's Statement of Financial Position, with any movements against prior year being recorded in surplus or deficit via the Statement of Comprehensive Revenue and Expense.

Actuarial valuations as at 30 June 2016 and 30 June 2017 have been carried out by the appointed actuary Peter Davies (of Davies Financial and Actuarial Limited).

The IBNP provision has been determined in accordance with PBE IFRS 4 and the New Zealand Society of Actuaries Professional Standard No. 30 - Valuation of General Insurance Claims. The IBNP 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 2017.

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 IBNP provision. Movements against prior year are recognised in surplus or deficit via the Statement of Comprehensive Revenue and Expense.

Education Benevolent Society Incorporated

Notes to the financial statements

Valuation and treatment of liabilities to subscribers (continued)

The calculation of the IBNP 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. This is charged on top of the base IBNP provision. Movements against prior year for this provision are recognised in surplus or deficit via the Statement of Comprehensive Revenue and Expense. This allowance has been assessed as reasonable based on the size of the Society, 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. With a coefficient of variation of 2.80% (2016: 4.55%), 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 IBNP provision. Movements against prior year for this provision are recognised in surplus or deficit via the Statement of Comprehensive Revenue and Expense.
- (iii) The assumptions used in the calculation of the IBNP 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 surplus or deficit, 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.

Education Benevolent Society Incorporated

Notes to the financial statements

Subsequent measurement

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 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 revenue and expense.

The Society has 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 surplus or deficit

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 surplus or deficit".

Financial assets classified as "financial assets at fair value through surplus or deficit" 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.

(i) 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.

(j) Intangible assets

Intangible assets consist of computer software acquired to assist in the administration of subscriber 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 amortisation rate has changed to 50% this year due to a reassessment of the remaining useful life of the asset.

The following amortisation rate has been applied:

Computer software	10 - 50%
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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	2017		2016	
	Number	\$	Number	\$
Bereavement	73	63,478	60	58,261
Birth	89	15,478	107	19,130
Complementary	5,250	503,072	4,909	464,957
Hospital	506	216,511	568	221,083
Hospital Excess	692	253,807	658	243,508
Major Diagnostic	293	85,716	286	93,384
Medical	13,934	1,915,140	13,556	1,811,488
Medical Appliance	310	52,559	290	44,704
Optical	3,157	468,102	2,828	399,936
Orthodontic	146	42,925	183	34,770
Sick Leave Without Pay	100	12,042	48	8,722
Dental	1,097	108,510	122	7,108
Vaccinations	155	9,093	32	1,027
Benefits Paid	25,802	3,746,432	23,647	3,408,077
Increase (decrease) in year end accruals		(22,178)		171
Total benefit expense		3,724,255		3,408,248

5 Cash and cash equivalents

	2017	2016
	\$	\$
Cash at Bank	78,689	60,769
Call Deposits	1,248,236	464,256
Total	1,326,926	525,024

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

Cash at bank earn interest at 0.10% (2016: 0.25%).

Call deposits earn interest at 0.10% - 2.05% (2016: 0.55%).

6 Property, plant and equipment

	2017	2016
	\$	\$
Computer equipment		
<u>Cost</u>		
Opening	57,461	41,031
Additions	6,439	16,430
Disposal	(31,217)	-
Closing cost	32,683	57,461
<u>Accumulated depreciation</u>		
Opening	(47,519)	(38,743)
Depreciation	(9,232)	(8,776)
Depreciation written back on disposal	31,217	-
Closing accumulated depreciation	(25,534)	(47,519)
Carrying value	7,149	9,942

Education Benevolent Society Incorporated

Notes to the financial statements

	2017	2016
	\$	\$
Furniture and fittings		
<u>Cost</u>		
Opening	25,500	25,500
Additions	13,601	-
Closing cost	39,101	25,500
<u>Accumulated depreciation</u>		
Opening	(25,228)	(22,423)
Depreciation	(2,811)	(2,805)
Closing accumulated depreciation	(28,039)	(25,228)
Carrying value	11,062	272
Total property, plant and equipment	18,211	10,214

7 Investments

	2017	2016
	\$	\$
Current		
BNZ Term Deposits	5,273,700	5,400,000
Rabo Bank Term Deposits	-	700,529
Total current	5,273,700	6,100,529
Non Current		
Mint Asset Management - Managed Fund	4,314,364	4,174,475
Total non-current	4,314,364	4,174,475
Total investments	9,588,064	10,275,004

	2017	2016
	\$	\$
Managed Fund		
<i>Nature of investments</i>		
Cash and cash equivalents	949,160	1,210,598
New Zealand equity investments	690,298	500,937
Overseas equity investments	215,718	208,724
New Zealand fixed interest investments	1,898,320	1,628,045
Overseas fixed interest investments	560,867	628,171
Total Managed Fund	4,314,364	4,174,475

The breakdown of the nature of investments is based on the Fund's investment split and represents an estimate of the Society's share of exposure rather than a direct interest in the investment.

Impairment

The Society has assessed all investments for impairment as at 30 June 2017. The Society concluded that there was no impairment of any investment at 2017 balance date (2016: \$Nil impairment).

Education Benevolent Society Incorporated

Notes to the financial statements

8 Investment income

	2017	2016
	\$	\$
Unrealised fair value gain/(loss) on managed fund portfolio	139,888	(88,608)
Interest on fixed interest investments	205,330	249,191
Interest on at call funds within cash and cash equivalents	1,664	6,667
Total investment income	346,882	169,250

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

	2017	2016
	\$	\$
Surplus / (deficit) for the year	132,325	(105,121)
<i>Less investment income classified as a financing activity</i>	<i>(215,027)</i>	<i>(274,362)</i>
<i>Non cash movements</i>		
Unrealised fair value (gain)/loss on managed fund portfolio	(139,888)	86,608
Provisions for claims	44,056	75,798
Depreciation and amortisation	133,832	37,081
<i>Movements in working capital</i>		
(Increase)/decrease in trade debtors and other receivables	1,885	27,088
(Increase)/decrease in prepayments	19,130	(18,178)
Increase/(decrease) in trade creditors and other payables	(187,435)	184,645
Increase/(decrease) in contributions received in advance	17,919	6,574
Net Cash Flow from Operating Activities	(193,203)	22,112

10 Lease Commitments

The Society has the following lease commitments:

	2017	2016
	\$	\$
Not later than one year	42,635	46,400
Two to five years	-	86,444
More than five years	-	-
Total operating lease commitments	42,635	132,844

11 Intangibles

	2017	2016
	\$	\$
Health Care Administration System		
<u>Cost</u>		
Opening	297,615	255,000
Additions	26,711	42,615
Closing cost	324,326	297,615
<u>Accumulated depreciation</u>		
Opening	(80,750)	(55,250)
Depreciation	(121,788)	(25,500)
Closing accumulated depreciation	(202,538)	(80,750)
Total intangible assets	121,788	216,865

Impairment

The Society has assessed all Intangibles for impairment as at 30 June 2017. The Society concluded that the remaining useful life of the current HCA system be reassessed to 2 years as the current system is due to be replaced by 30 June 2018. Subsequently the HCA System will be fully depreciated over the next 2 years.

Education Benevolent Society Incorporated

Notes to the financial statements

12 Related party transactions

(i) Employees

During the 2017 year, employees of the Society were also subscribers. The employees' subscription fees were fully subsidised by the Society. 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 of the Society were also subscribers:

Margaret Kinsey
Richard Kittelty
Samantha Stephen
Darrell Ward

The following benefits were paid to key management personnel during the year.
Board fees in relation to Margaret Kinsey were paid to the PPTA, and those for Samantha Stephen to the TEU as reimbursement for their time.

Salaries & other short term benefits

Termination benefits

Post-employment benefits

Other long-term benefits

Total remuneration

Number of persons (FTEs) recognised
as key management personnel

Key Personnel	
2017	2016
\$	\$
194,435	176,944
-	86,829
-	-
-	-
194,435	263,773
2.11	1.7

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 and the Chief Executive.

Approved director remuneration in the year ended 30th June 2017

Governance Body	Position	Fees
Board	Chair	\$25,000 per annum retainer
	Deputy Chair	\$350 per meeting
	Members	\$350 per meeting
	Independent Board Member	\$2,400 per annum retainer
Audit, Investment & Risk Committee	Chair	\$700 per meeting
	Members	\$350 per meeting
Remuneration Committee	Chair	\$700 per meeting
	Members	\$350 per meeting

Director remuneration received in the year ended 30th June 2017

Name of Board Member	Annual Retainer	Board including Board Planning Day	Audit Risk & Investment Committee	Remuneration Committee	Total Remuneration
Ross Wilson	\$25,000	-	-	-	\$25,000
Margaret Kinsey	-	\$2,100	\$1,050	\$1,050	\$4,200
Alison O'Connell	\$2,400	\$3,150	\$3,500	-	\$9,050
Darrell Ward	-	\$3,150	\$1,750	\$2,800	\$7,700
Richard Kittelty	-	\$3,150	\$700	-	\$3,850
Samantha Stephen	-	\$2,100	\$350	-	\$2,450
Total	\$27,400	\$13,650	\$7,350	\$3,850	\$52,250

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 Mint (refer to note 7).

The Mint Investment Portfolio is classified as "financial assets at fair value through surplus or deficit" 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 subscribers 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 (Note 7) have a credit rating of A- 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 the Managed Fund's 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 risk

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 is exposed to interest rate risk on fixed interest investments.

The Society is exposed to interest rate risk in that rate movements will affect the market value of its fixed interest and unit investments. 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 borrowings and does not pay interest to subscribers.

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

		2017	2016
		\$	\$
Term Deposits	Classified as loans and receivables and carried at amortised cost	5,273,700	6,100,529
Managed Fund	Classified as financial assets at fair value through surplus or deficit and carried at fair value	4,314,364	4,174,475
Total Fixed Interest and Unit Investments		9,588,064	10,275,004

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 unit investment Market Risk

If interest rates and bond yields increased by 1%, it is estimated the fair value of the Managed Fund overall would decrease by 2.09%. If interest rates and bond yields decreased by 1%, it is estimated the fair value of the Managed Fund overall would increase by 2.21%. The following analysis illustrates the sensitivity on the Society's surplus or deficit as a result of the above movements. The analysis presents the Society's estimated share of the underlying fixed interest fund assets based on its proportionate ownership of the total unit investments and the mix of investments.

Fixed interest investment carried at fair value	2017		
	Carrying amount of fixed interest portion of fund	Impact on surplus/deficit	
		+1%	-1%
	\$	\$	\$
Fixed Interest Investments	2,459,187	(51,397)	54,348
Total	2,459,187	(51,397)	54,348

Fixed interest investment carried at fair value	2016		
	Carrying amount of Investments	Impact on surplus/deficit	
		+1%	-1%
	\$	\$	\$
Fixed interest Investments	2,254,217	91,922	(91,922)
Total	2,254,217	91,922	(91,922)

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 are New Zealand Dollar hedged, therefore the foreign currency risk on these investments is not significant.



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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 equity investments held.

The Society has the following exposure to equity investments based on its proportion of investments held by the Managed Fund (as disclosed in Note 7):

	2017	2016
	\$	\$
New Zealand equity investments	690,298	500,937
Overseas equity investments	215,718	208,724
Total investments in equity investments	906,016	709,661

Sensitivity analysis

The following analysis illustrates the sensitivity on surplus or deficit in regards to the Society's exposure to equity investments invested in by the Managed Fund. It assumes a +/- 10% change in the fair value of all equity holdings in the fund which would impact the fund overall by +/- 2.6% due to the diversified nature of the fund's investments. The analysis presents the Society's estimated share of the underlying equity assets of the fund based on its proportionate ownership of the total unit investments and the mix of investments.

	2017		
	Carrying amount of investments	Fair value movement impact	
		+10%	-10%
	\$	\$	\$
Equity investments	906,016	23,556	(23,556)

	2016		
	Carrying amount of investments	Fair value movement impact	
		+10%	-10%
	\$	\$	\$
Equity investments	709,661	70,966	(70,966)

(d) Fair Value

Included in the financial assets of the Society is an investment in a Managed Fund managed by Mint Asset Management. The source of fair value inputs as defined by PBE IPSAS 30 *Financial Instruments: Disclosures* is based upon unit prices calculated by the investment manager (Level 2).

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

(e) Maturity Analysis

Asset and liability maturities are matched to ensure there is always sufficient liquidity available to meet obligations as they fall due. The net liquidity and maturity matching is as follows:

	2017		2016	
	\$		\$	
	<12 Months	1 to 2 years	<12 Months	1 to 2 years
The contractual maturities of investments are:				
Term Deposits	5,273,700	-	6,100,529	-
Mint Asset Management Portfolio	4,314,364	-	4,174,475	-
In addition to the above investments, the society has on call funds of:				
	1,326,926	-	525,024	-
The contractual maturity of financial liabilities are as follows:				
Trade creditors and other payables	152,181	-	328,300	-
IBNP Claims Provision	1,416,576	-	1,372,520	-
Contribution received in advance	178,018	-	180,100	-
Net Liquidity	9,168,215	-	8,941,108	-



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.

The Society is subject to solvency margin requirements detailed in the Solvency Standard for Non-Life Insurance Business issued by the RBNZ. This standard requires the Society to retain a solvency margin of greater than zero meaning that the actual solvency capital position exceeds the minimum required under the solvency standard. During the year ended 30 June 2017 the Society complied with all externally imposed capital requirements.

The Board's policy for managing capital is to have a strong capital base consistent with regulatory requirements, the Society's risks, and the Board's risk appetite. The Board has a low appetite for risk in respect of Capital management. Capital Management is regularly reviewed by the Board in line with the Risk Management Framework and Policies.

Capital funding requirements as reported to the Reserve Bank

	2017 \$	2016 \$
Actual Solvency Capital	9,359,174	9,133,211
Minimum Solvency Capital	3,000,000	3,000,000
Solvency Margin	6,359,174	6,133,211
Solvency Ratio	312%	304%

15 IBNP Claims Provision

The effective date of the actuarial report on the IBNP provision is 30 June 2017. The actuarial report was prepared by Peter Davies, a Fellow of the New Zealand Society of Actuaries (of Davies Financial and Actuarial Limited), appointed actuary to the Society. The IBNP 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 IBNP provision for insurance claims incurred but not yet paid as at 30 June 2017 has been estimated by the actuary as \$1,416,576 (2016: \$1,372,520).

	2017 \$	2016 \$
IBNP Opening balance	1,372,520	1,296,722
Movement in IBNP provision	44,056	75,798
Closing balance	1,416,576	1,372,520

IBNP Claims Provision

	2017 \$	2016 \$
Central estimate	1,267,063	1,227,658
Expense margin	95,030	92,074
Risk margin	54,484	52,789
Closing balance	1,416,576	1,372,520

Education Benevolent Society Incorporated

Notes to the financial statements

A hindsight analysis of the IBNP Provision shows:

	Previous Year's Estimate (June 2016)	Prior year's estimate (June 2015)
	\$	\$
Central Estimate determined at the time	1,227,656	1,159,859
Outstanding as assessed a year later	1,074,057	1,077,370
Surplus difference between actual claims and estimated provision	153,599	82,489

Provision assumptions:

(i) IBNP 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 PBE IFRS with effect from 30 September 2014.

(ii) The claim handling cost rate (as required per PBE IFRS 4) assumed was 7.5% of outstanding claims (2016: 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 PBE IFRS 4) assumed was 4.00% of outstanding claims, including the claims handling cost rate in (ii) above (2016: 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-17	Sensitivity	
		Settlement time takes 10% longer	Settlement time takes 10% shorter
IBNP Provision	1,416,576	1,962,907	1,063,092

Settlement time	30-Jun-16	Sensitivity	
		Settlement time takes 10% longer	Settlement time takes 10% shorter
IBNP Provision	1,372,520	2,020,368	984,473

Risk Margin	30-Jun-17	Sensitivity	
		Risk margin + 1%	Risk margin -1%
IBNP Provision	1,416,576	1,430,197	1,402,955

Risk Margin	30-Jun-16	Sensitivity	
		Risk margin + 1%	Risk margin -1%
IBNP Provision	1,372,520	1,385,717	1,359,323

Education Benevolent Society Incorporated

Notes to the financial statements

16 Insurance Risk Management

The Society's insurance risk is from insurance products within the health insurance sector.

The Board has a low to moderate appetite for insurance risk. Insurance risk is managed through the Society's Risk Management Process by:

- writing low risk cover with benefit maxima,
- strong capital management;
- a pricing policy reviewed annually, and
- robust claims management.

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 2017, 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 of 6% of the present value of expected future cash flows has been applied as at 30 June 2017 (2016: 7%).

The resulting future claim liability is 99.4% 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	89.3% (2016: 88.3%)
Risk margin	6% (2016: 7%)
Admin Loading	5% (2016: 5%)

17 Credit Rating

The Society credit rating issued by A M Best, Asia-Pacific (Singapore) Pte Ltd is B++ Good as at March 2017 (2016: B++ Good)

18 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 (2016: None).

INDEPENDENT AUDITOR'S REPORT

To the Board Members of Education Benevolent Society Incorporated

Opinion

We have audited the financial statements of Education Benevolent Society Incorporated on pages 3 to 20, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive revenue and expense, statement of changes in net assets/equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Education Benevolent Society Incorporated as at 30 June 2017, and its financial performance and its cash flows for the year then ended in accordance with Public Benefit Entity Standards issued by the New Zealand Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Education Benevolent Society Incorporated in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, 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.

Our firm has carried out other assignments for the Education Benevolent Society Incorporated in the area of taxation advice. The firm has no other interests in the Education Benevolent Society Incorporated.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available 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.

Responsibilities of Board Members for the Financial Statements

Those charged with governance are responsible on behalf of the Education Benevolent Society Incorporated for the preparation and fair presentation of the financial statements in accordance with Public Benefit Entity Standards issued by the New Zealand Accounting Standards Board, and for such internal control as those charged with governance determine is 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, those charged with governance are responsible for assessing the Education Benevolent Society Incorporated'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 those charged with governance either intend to liquidate the Education Benevolent Society Incorporated or to cease operations, or have no realistic alternative but to do so.

Auditor's 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 an auditor's report 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 (NZ) 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 decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the members and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the members regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the members with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

A handwritten signature in blue ink that reads "Crowe Horwath".

Paolo Caccioppoli

Crowe Horwath New Zealand Audit Partnership

Wellington

29 September 2017

