

Education Benevolent Society Incorporated

Annual Report including

Financial Statements and Governance

Year ended 30th June 2019

A screenshot of the HealthCarePlus website banner. The banner features a close-up photograph of a young child with curly hair, looking down. The text 'It's good to belong' is prominently displayed in a green font. Below this, a smaller line of text reads 'to the health-care scheme that gives union members a better deal'. At the bottom of the banner, there are four green buttons with white icons and text: 'Better cover', 'Genuine benefits', 'Non-for-profit provider', and 'Supporting your sector'. The HealthCare logo is in the top left corner, and a 'MyHCP login' button is in the top right corner.

HealthCarePlus was created by the
unions who protect your rights at work -
to protect your health, in life.

We give eligible union members (and their families) the chance to be part of a uniquely generous and affordable health care scheme that's designed to benefit you in everyday life, not just when you're sick... and can often save typical families hundreds of dollars more than it costs, each year.



NZEI
TE Kaitiaki

PPTA

PSA

ASA

isea

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Education Benevolent Society Incorporated
Annual Report for the year ended 30 June 2019

Society Directory

Nature of Business: Providing eligible union members, their families and whānau with access to high quality and affordable health insurance products and services, and the provision of charitable education grants to members of the New Zealand public.

Board Members:

Ross Wilson – Chair Independent Board Member
Darrell Ward – Deputy Chair NZEI Member Board Member
Erin Polaczuk – PSA Member Board Member
Samantha Stephen – TEU Member Board Member
Allan Vester –PPTA Member Board Member (appointed October 2018)
Linda Sissons – Independent Board Member (appointed July 2019)

Margaret Kinsey - PPTA Member Board Member (resigned October 2018)
Alison O’Connell - Independent Board Member (resigned March 2019)

Incorporation: Incorporated Societies Act 1908

Registered Office: Level 5
50 Manners Street
Te Aro
Wellington

Appointed Actuary: Peter Davies B.Bus Sc FIA
Davies Financial and Actuarial Limited

Auditor: KPMG

Bankers: Bank of New Zealand

Solicitor: Rainey Collins Lawyers

Education Benevolent Society Incorporated

Purpose and Operating Model

Purpose

The principal purpose for which the Society exists is foremost for the advancement of education through the annual distribution of the Fund's Surplus for the purposes of providing educational grants and scholarships, provision and facilitation of professional development and training, and the facilitation of conferences. For the avoidance of doubt, all of the above opportunities will be made available to all members of the public in New Zealand. The Society trades as HealthCarePlus.

Target Operating Model

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

Insurance Products: The Society via the arrangement with UniMed arranges HealthCarePlus branded primary health insurance products, including: Primary Care, Primary Care Extra, #care4U and Hospital Select. In addition, the Society provides access to hospital cover and other insurance products via other licenced insurers The Society distributes insurance products using a multi-channel approach that includes; agents, online, and union representatives.

Charitable Education Grants: During 2020 the Society will commence the distribution of charitable education grants in accordance with the requirements of Charities Services and the Constitution. All New Zealanders are eligible to apply for these grants. The Society has the power to apply a preference in the determination of the receiver of the grants

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 regulatory and best practice requirements. The member Unions are confident that the Society complies with regulatory 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 Incorporated Societies Act 1908, the Charities Act 2005 and consumer related regulations.

The Board - Appointment and Tenure

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

Governance Framework

External

As a licensed insurer, the Society was regulated by the Reserve Bank of New Zealand under the Insurance (Prudential Supervision) Act 2010 and the Financial Markets Authority. The Society operated in a complex regulatory environment and was subject to a range of regulatory acts, government bodies and industry codes.

On the 31st December 2019 the Society ceased to be a licenced insurer. This has significantly reduced the regulatory risks and obligations on the Society. On the 4th October 2019 Charities Services NZ confirmed registration of the Society as a charitable entity. This has returned the Society to a tax-exempt entity. Registration with Charities Services will introduce the Society to new regulatory requirements and restrictions. The Society continues to be subject to a range of regulatory acts, government bodies and industry codes. These include the Incorporated Societies Act 1908, the Charities Act 2005, the Financial Reporting Act 2013, the Privacy Act 1993 and other regulations and codes 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 every two months 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.

The Board's focus during this year was on the successful execution of the transfer of the insurance business to UniMed and the establishment of the new Insurance Marketing and Charitable Grants Businesses. This was a complex process especially for a small entity with limited internal resources and was executed as planned and on time.

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

Financial Year Ended 30th June 2019

Name of Board Member	Title/ Duties	Representing	Board Meetings	AGM	Board Planning Day	ARIC	Rem Committee
Ross Wilson	Independent Board Member - Board Chair	n/a	10	1	1	4	3
Darrell Ward	Member Board Member - Deputy Chair Chair Rem Committee	NZEI	10	1	1	4	5
Erin Polaczuk	Member Board Member	PSA	6	1	1	1	n/a
Samantha Stephen	Member Board Member	TEU	7	1	0	n/a	5
Allan Vester (appointed October 2018)	Member Board Member	PPTA	5	1	1	n/a	1
Linda Sissons (appointed July 2019)	Independent Board Member	n/a	n/a	n/a	n/a	n/a	n/a
Margaret Kinsey (resigned September 2018)	Member Board Member - Deputy Chair	PPTA	2	n/a	n/a	1	2
Alison O'Connell (resigned March 2019)	Independent Board Member - Chair ARIC	Independent	9	1	1	4	n/a

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 of the ACC and Worksafe NZ, and as 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.

Ross is of Scottish and Ngāi Tahu descent.

Darrell Ward – Member Board Member, Deputy Chair, Chair Remuneration Sub-Committee and Member of Audit Risk and Investment Sub-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.

Samantha Stephen – Member Board Member – and member of the Remuneration Sub-Committee - 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.

Erin Polaczuk –Member Board Member, and member of Audit, Risk and Investment Sub-Committee - Representing New Zealand Public Service Association Te Pūkenga Here Tikanga Mahi



Erin joined the PSA's secretariat in 2014 after working at the Post Primary Teachers' Association as Deputy General Secretary and she has held roles in organising and advocacy, policy, education, governance and management within the union movement. Erin believes unions are the most effective

vehicle for progressive change and social justice in society.

Erin is currently involved in progressing the PSA's strategic goals, including its campaign on pay and employment equity- 'Worth 100%' and her union has a particular focus on the health, community and public sectors. The PSA now has over 67,000 members and 40% of recent recruits to the union are under the age of 35.

Erin is an experienced leader and brings to the Society a wealth of experience in using digital marketing and social media to attract new members.

**Allan Vester – Member Board Member and member of the Remuneration Sub-Committee
– Representing PPTA (appointed October 2018)**



Allan Vester recently retired as being Principal of Edgewater Colleague a role that he held for 23 years.

Allan continues to be a strong supporter of the PPTA and has been a member of EBS now

HealthCarePlus since 2000. Allan believes that HealthCarePlus provides the members of PPTA with a very valuable service.

By being on the Board, Allan sees the opportunity to contribute to ensuring that the work that HealthCarePlus does, and the benefit that work confers on members is maximised. The Board does this by ensuring effective corporate governance and by ensuring we operate in a professional yet cost effective way.

Linda Sissons – Independent Board Member (appointed July 2019)



Linda has been involved in management and governance roles with a learning flavour, for most of her career. Linda is currently CE of the Primary ITO, the organisation which sets

standards and supports apprenticeship and training throughout the primary industries.

Current governance roles include being Chair of the Board of Governors of the Commonwealth of Learning, one of only two pan-Commonwealth organisations, dedicated to furthering economic and social development through technology-enabled education; and a Board member of Education New Zealand, the agency that promotes NZ education for overseas students and offshore.

Prior to that, Linda was Chief Executive of the Wellington Institute of Technology for fifteen years.

Education Benevolent Society Incorporated

Annual Financial Statements

For the Year Ended 30 June 2019

Education Benevolent Society Incorporated
Annual Financial Statements
For the Year Ended 30 June 2019

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Education Benevolent Society Incorporated

Directory

For the Year Ended 30 June 2019

Nature of Business	Providing primary health insurance to the eligible Union members in the education sector and the public service association (ceased 31 December 2018)
Board Members	Ross Wilson - Chair Margaret Kinsey (resigned - October 2018) Allan Vester (appointed - November 2018) Alison O'Connell (resigned March 2019) Erin Polaczuk Samantha Stephen Darrell Ward
Incorporation	Incorporated Societies Act 1908
Registered Office:	Level 5, 50 Manners Street Manners Street Te Aro Wellington
Auditor	KPMG
Bankers	Bank of New Zealand
Solicitor	Rainey Collins
Rating Agency	A M Best, Asia-Pacific (Singapore) Pte Ltd

Education Benevolent Society Incorporated

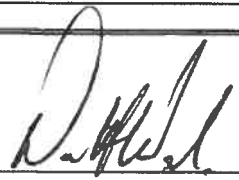
Statement of Comprehensive Revenue and Expense For the Year Ended 30 June 2019

	Notes	2019 \$	2018 \$
Revenue			
Contributions		2,451,505	4,657,932
Commission on Hospital cover		716,270	715,838
Investment income	8	518,727	486,857
Other income		2,136	5,338
Total revenue		3,688,638	5,865,965
Expenses			
Benefits			
Benefits paid	4	2,209,972	3,951,386
Investment Expenses			
Portfolio monitoring fee		31,297	30,080
		31,297	30,080
Professional Expenses			
Accounting fees		42,003	59,919
Audit fees		25,000	29,500
Actuarial and Legal Services		19,266	43,509
Health Funds Association New Zealand Membership		10,975	11,075
Insurance ombudsman		1,790	-
Strategic review and implementation		302,909	92,716
Ratings agency		18,024	34,235
		419,967	270,954
Other Administration and overhead expenses			
Staff salaries & related expenses		773,466	806,892
Rent & related occupancy		54,364	54,213
Depreciation and amortisation		44,691	89,868
Movement in IBNP provision	15	431,745	127,697
Business Transition Expense		-	480,000
Bank charges		2,648	4,005
Computer expenses		78,920	97,756
Office administration		85,491	97,715
Printing, stationery, advertising		69,439	73,194
		1,540,764	1,831,340
Total expenditure		4,202,000	6,083,760
Deficit for the year		(513,362)	(217,795)
Other Comprehensive Revenue and Expense		-	-
Total Comprehensive Revenue and Expense for the year		(513,362)	(217,795)

Education Benevolent Society Incorporated

Statement of Financial Position As at 30 June 2019

	Notes	2019 \$	2018 \$
ASSETS			
Current			
Cash and cash equivalents	5	3,681,088	1,289,522
Trade debtors and other receivables		66,429	62,377
Prepayments		7,500	54,694
Accrued interest		1,437	67,423
Current investments	7	-	5,251,503
Total current assets		3,756,454	6,725,519
Non-Current			
Non-current investments	7	5,238,015	4,843,878
Software	11	-	40,593
Property, plant and equipment	6	11,549	9,539
Total non-current assets		5,249,564	4,894,010
Total assets		9,006,018	11,619,529
LIABILITIES			
Current			
IBNP Claims Provision	15	-	1,544,273
Trade creditors and other payables		194,038	71,740
Employee entitlements		59,758	94,311
Provision for Business Transition	18	-	480,000
Contributions received in advance		-	163,621
Total current liabilities		253,796	2,353,945
Total liabilities		253,796	2,353,945
Net assets		8,752,222	9,265,584
EQUITY			
Accumulated funds		8,752,222	9,265,584
Total equity		8,752,222	9,265,584


Deputy Chairperson on
behalf of the Board

24.10.2019 Date


Chief Executive

24/10/2019 Date

Education Benevolent Society Incorporated

Statement of Changes in Equity For the Year Ended 30 June 2019

	Notes	2019 \$	2018 \$
Accumulated Funds			
Opening balance		9,265,584	9,483,379
(Deficit) for the year		(513,362)	(217,795)
Closing balance of accumulated funds		8,752,222	9,265,584
Total equity		8,752,222	9,265,584

Education Benevolent Society Incorporated

Statement of Cash Flows For the Year Ended 30 June 2019

	Notes	2019 \$	2018 \$
Cash flows from operating activities			
<i>Cash was provided from/(applied to):</i>			
Contributions received		2,287,885	4,643,534
Commission on Hospital cover & Life cover		712,219	721,451
Other income		2,136	5,338
Benefits paid		(2,209,972)	(4,079,083)
Other expenses		(1,866,763)	(1,299,863)
Net cash flows from/(used in) operating activities	9	(1,074,495)	(8,623)
Cash flows from investing activities			
<i>Cash was provided from/(applied to):</i>			
Investment income		190,576	199,023
Sale/(purchase) of investments		5,251,503	(227,804)
Purchase of property, plant and equipment		-	-
Payment of IBNR Provision to UniMed		(1,976,018)	-
Net cash flows from/(used in) investing activities		3,466,061	(28,781)
Net increase/(decrease) in cash and cash equivalents		2,391,566	(37,404)
Cash and cash equivalents at the beginning of the year		1,289,522	1,326,926
Cash and cash equivalents at the end of the year		3,681,088	1,289,522

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, 50 Manners Street, Te Aro, Wellington. The financial statements comprise the financial statements of Education Benevolent Society Incorporated (the "Society") for the Year Ended 30 June 2019.

The Society operated solely in New Zealand and its main activity consisted of providing partial reimbursement of health care costs to its subscribers. Bereavement, birth and sick leave without pay grants were also provided up until 31 December 2018. The Society was issued a full Insurance Licence by the Reserve Bank of New Zealand in April 2013. This Licence was voluntarily revoked with effect from 31 December 2018 following the transfer of its insurance business to the Union Medical Benefits Society Incorporated (UniMed).

With effect from 1 January 2019 the Society operates as an organisation that generates insurance marketing leads as a fund raising activity to support Society's charitable endeavours. The principle purpose for which the Society exists is foremost for the advancement of education through the annual distribution of education grants and scholarships, provision and facilitation of professional development and training, and facilitation of conference and education research. From 31 December 2018 the Society is no longer regulated by the RBNZ and or the FMA and all financial advice is provided via an agreement with the Society's distribution partner Monument, a division of Crombie Lockwood (NZ) Ltd.

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

The Society is registered as a charitable organisation from 4 October 2019.

The financial statements were authorised for issue by the Board of Directors on 24 October 2019.

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.

(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

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	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

Interest income is recognised using the effective interest method.

(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 2018 have been carried out by the appointed actuary Peter Davies (of Davies Financial and Actuarial Limited). No valuation has been carried out as at 30 June 2019 due to the Society no longer being an insurer.

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 2018.

A provision, known as a "processing expense", is made for claims administration costs and charged at a rate of 7.5% (2018: 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.

The calculation of the IBNP Claims Provision includes the following additional charges:

- Allowance for claim handling costs - Direct and indirect claim handling costs are to be included in claim provisions. This is assessed 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.
- Risk margin - A risk margin is 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.
- 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.

Education Benevolent Society Incorporated

Notes to the financial statements

(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 substantial control of 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 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, term deposits, 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 was exempt under sections CZ18 of the Income Tax Act 2007 because of its recognition as a sickness, accident and death benefit fund up until 31 December 2018.

The Society applied to Charities Services NZ for Charitable Status in February 2019 and charitable status was granted effective from 4 October 2019. This has resulted in the Society being a tax paying entity between 1 January 2019 and 3 October 2019. The Society has undertaken a review of the income and expenditure during this period and ascertained that a tax loss has been incurred over this period so no tax provision is required to be provided for in these financial statements. No deferred tax asset has been recognised in respect of the tax loss as it will not be recoverable due to the Society's charitable status.

Education Benevolent Society Incorporated

Notes to the financial statements

(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 based on the estimated useful life of the asset.

The following amortisation rate has been applied:

Computer software 67% (2018: 67%)

4 Benefits expense

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

Type	2019		2018	
	Number	\$	Number	\$
Bereavement	45	39,130	73	63,479
Birth	35	5,739	93	16,348
Complementary	3289	317,145	5,653	545,957
Hospital	332	137,186	556	234,049
Hospital Excess	360	120,532	640	224,418
Major Diagnostic	161	50,020	349	105,572
Medical	8094	1,072,954	14,691	1,991,631
Medical Appliance	197	36,664	324	54,389
Optical	1792	251,409	3,175	445,171
Orthodontic	116	28,590	181	44,002
Sick Leave Without Pay	34	5,144	76	10,278
Dental	1346	139,441	1,954	205,308
Vaccinations	104	6,018	193	10,785
Benefits Paid	15,905	2,209,972	27,958	3,951,386
Decrease in year end accruals		-		
Total benefit expense		2,209,972		3,951,386

5 Cash and cash equivalents

	2019	2018
	\$	\$
Cash at Bank	97,076	64,398
Call Deposits	3,584,012	1,225,124
Total	3,681,088	1,289,522

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

Cash at bank earn interest at 0.10% (2018: 0.10%).

Call deposits earn interest at 0.10% - 1.91% (2018: 0.10% - 2.00%).

Education Benevolent Society Incorporated

Notes to the financial statements

6 Property, plant and equipment

	2019	2018
Cost		
Opening	23,292	32,683
Additions	-	-
Disposal	-	(9,391)
Closing cost	23,292	23,292
Accumulated depreciation		
Opening	(22,004)	(25,534)
Depreciation	(1,288)	(5,861)
Depreciation written back on disposal	-	9,391
Closing accumulated depreciation	(23,292)	(22,004)
Carrying value	-	1,288

	2019 \$	2018 \$
Furniture and fittings		
Cost		
Opening	14,054	39,101
Additions	6,108	-
Disposals	-	(25,047)
Closing cost	20,162	14,054
Accumulated depreciation		
Opening	(5,803)	(28,039)
Depreciation	(2,811)	(2,811)
Depreciation written back on disposal	-	25,047
Closing accumulated depreciation	(8,614)	(5,803)
Carrying value	11,548	8,251
Total property, plant and equipment	11,548	9,539

7 Investments

	2019 \$	2018 \$
Current		
BNZ Term Deposits	-	5,251,503
Rabo Bank Term Deposits	-	-
Total current	-	5,251,503
Non Current		
Mint Asset Management - Managed Fund	5,238,015	4,843,878
Total non-current	5,238,015	4,843,878

8 Investment income

	2019 \$	2018 \$
Unrealised fair value gain on managed fund portfolio	394,137	279,514
Interest on term deposits	123,545	206,079
Interest on at call funds within cash and cash equivalents	1,045	1,264
Total investment income	518,727	486,857

Education Benevolent Society Incorporated

Notes to the financial statements

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

	2019 \$	2018 \$
(Deficit) / Surplus for the year	(513,362)	(217,795)
Less investment income classified as a financing activity	(190,576)	(199,023)
Movement of provision classified as an investing activity	1,976,018	-
<i>Non cash movements</i>		
Unrealised fair value (gain) on managed fund portfolio	(394,137)	(279,514)
Provisions for claims	(1,544,273)	127,697
Depreciation, amortisation and losses on disposal	44,692	89,868
<i>Movements in working capital</i>		
(Increase)/decrease in trade debtors and other receivables	61,935	20,905
(Increase)/decrease in prepayments	47,194	(30,233)
Increase/(decrease) in trade creditors and other payables	(392,257)	493,870
Increase/(decrease) in contributions received in advance	(163,621)	(14,398)
Net Cash Flow from Operating Activities	(1,068,386)	(8,623)

10 Lease Commitments

The Society has the following lease commitments:

	2019 \$	2018 \$
Not later than one year	24,675	-
Two to five years	53,463	-
More than five years	-	-
Total operating lease commitments	78,138	-

The Society entered into a new Agreement to Lease on 28 June 2019 to lease premises at Level 5, 50 Manners Street, Wellington commencing 1 July 2019 for a period of 3 years and 2 months. The annual rental is \$24,675 per annum.

11 Intangibles

	2019 \$	2018 \$
Health Care Administration System		
<u>Cost</u>		
Opening	324,326	324,326
Additions	-	-
Disposals	(324,326)	-
Closing cost	-	324,326
<u>Accumulated depreciation</u>		
Opening	(283,733)	(202,538)
Depreciation	(40,593)	(81,195)
Depreciation written back on disposal	324,326	-
Closing accumulated depreciation	-	(283,733)
Total intangible assets	-	40,593

Impairment

All intangibles were fully depreciated by 31 December 2018 when the insurance business was transferred to UniMed and the HCA system was no longer considered useful.

Education Benevolent Society Incorporated

Notes to the financial statements

12 Related party transactions

(i) Employees

During the 2019 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 (resigned October 2018)
Samantha Stephen
Darrell Ward
Allan Vester

The following benefits were paid to key management personnel during the year.

Board fees in relation to Margaret Kinsey were paid to the New Zealand Post Primary Teachers' Association / Te Wehengarua (PPTA), and those for Samantha Stephen to the Tertiary Education Union Te Hautū Kahurangi o Aotearoa (TEU) and those for Erin Polaczuk to the The New Zealand Public Service Association - Te Pūkenga Here Tikanga Mahi (PSA) as reimbursement for their time.

Salaries & other short term benefits

Total remuneration

Number of persons (FTEs) recognised
as key management personnel

Key Personnel	
2019	2018
\$	\$
455,661	283,786
455,661	283,786
2.15	2.15

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 and the Chief Executive.

Approved director remuneration in the year ended 30th June 2019

Governance Body	Position	Fees
Board	Chair	\$28,125 per annum
	Deputy Chair	\$22,500 per annum
	Members	\$18,750 per annum
Committee	Chair/Member	\$22,500 per annum

Director remuneration paid in the year ended 30th June 2019

Name of Board Member	Total Remuneration
Ross Wilson	\$28,125
Darrell Ward	\$22,500
Alison O'Connell	\$16,875
Allan Vester	\$14,063
Erin Polaczuk	\$22,500
Margaret Kinsey	\$7,500
Samantha Stephen	\$22,500
Total	\$134,063

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

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 Society places its cash and short term investments with high credit quality financial institutions with a minimum financial strength rating of AA- as outlined in the Risk Management Framework.

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
- market 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.

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.

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.

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

		2019 \$	2018 \$
Term Deposits	Classified as loans and receivables and carried at amortised cost	-	5,251,503
Total Fixed Interest Investments		-	5,251,503

Market price risk

The Society is exposed to market price risk arising from uncertainties about future prices of the financial instruments.

The Society's market price risk is affected by actual changes in market prices. As the Society invests in units in a managed fund, any change to the fund's unit price will result in a corresponding change in the assets held at fair value through profit or loss.

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

		2019 \$	2018 \$
Managed Fund	Classified as financial assets at fair value through surplus or deficit and carried at fair value	5,238,015	4,843,878
Total Unit Investments		5,238,015	4,843,878

Sensitivity analysis

The following analysis illustrates the sensitivity on surplus or deficit in regards to the Society's exposure to unit investments held in the Managed Fund. It assumes a +/- 10% change in the fair value of a unit holding in the fund.

	2019		
	Carrying amount of	Fair value movement impact	
	\$	+10%	-10%
Unit investments	5,238,015	523,802	(523,802)

	2018		
	Carrying amount of	Fair value movement impact	
	\$	+10%	-10%
Unit investments	4,843,878	484,388	(484,388)

(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.

Education Benevolent Society Incorporated

Notes to the financial statements

(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:

	2019 \$		2018 \$	
	<12 Months	1 to 2 years	<12 Months	1 to 2 years
The contractual maturities of investments are:				
Term Deposits	-	-	5,251,503	-
Mint Asset Management Portfolio	5,238,015	-	4,843,878	-
In addition to the above investments, the society has on call funds	3,681,088	-	1,289,522	-
The contractual maturity of financial liabilities are as follows:				
Trade creditors and other payables	253,795	-	71,740	-
IBNP Claims Provision	-	-	1,544,273	-
Contribution received in advance	-	-	163,621	-
Net Liquidity	8,665,307	-	9,605,268	-

14 IBNP Claims Provision

The effective date of the actuarial report on the IBNP provision is 30 December 2018. 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.

Under the Insurance (Prudential Supervision) Act 2010, when an insurance portfolio is transferred to a new insurer, the regulator RBNZ requires the IBNP to be calculated at the higher rate of 99.5% sufficiency rather than the normal requirements as detailed in the Solvency Standard for Non-Life Insurance Business issued by the RBNZ. This enhanced IBNP provision was on paid to UniMed to fund the EBS claims tail and administration costs. At 31 December 2019, the actual claims and administration costs paid by UniMed on behalf of EBS will be reviewed by the Appointed Actuary against the Provision paid. Any surplus will be refunded to EBS and if there is a shortfall, EBS will be liable for the shortfall. The appointed actuary has estimated as at 30 June 2019 a surplus of \$794,403 refundable to EBS.

	2019 \$	2018 \$
IBNP Opening balance	1,544,273	1,416,576
Education Benevolent Society Incorporated	431,745	127,697
Claims Provision onpaid to UniMed	(1,976,018)	-
Closing balance	-	1,544,273

	2019 \$	2018 \$
IBNP Claims Provision		
Central estimate	-	1,381,281
Expense margin	-	103,596
Risk margin	-	59,396
Closing balance	-	1,544,273

15 Significant after balance date events

The Society was granted charitable status by Charities Services NZ on 4 October 2019.

There were no other significant events after balance date to report.

Independent Auditor's Report

To the members of Education Benevolent Society Incorporated

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of Education Benevolent Society Incorporated (the 'incorporated society') on pages 3 to 16:

- i. present fairly in all material respects the incorporated society's financial position as at 30 June 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with Public Benefit Entity Standards (Not For Profit).

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 30 June 2019;
- the statements of comprehensive revenue and expense, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the incorporated society 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 the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided tax advisory services to the incorporated society. These matters have not impaired our independence as auditor of the incorporated society. The firm has no other relationship with, or interest in, the incorporated society.



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the members as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements



The key audit matter

How the matter was addressed in our audit

Business Transformation – deregistration as licenced insurer

Refer to Note 14 to the Financial Statements.

On 31 December 2018 the incorporated society transferred its policyholders to UniMed and cancelled its insurance license with the Reserve Bank of New Zealand.

The incorporated society paid UniMed \$1.98 million, being the estimated value of outstanding claims. On 31 December 2019 this estimate will be reviewed against actual claims and any surplus or deficit is contractually receivable or payable by the incorporated society respectively.

The business transformation and transfer had a significant impact on the incorporated society's financial statements. Specifically, significant judgement was required to calculate the transferred amount and, as at 30 June 2019, to determine the accounting treatment of the transferred amount compared to actual claims received to date.

Our audit procedures included:

- Evidencing that the RBNZ accepted the cancellation of the incorporated society's insurance license
- Utilising KPMG actuarial specialists to assess whether key assumptions in the transferred claims provision were reasonable based on historic claims data and whether it was accurately calculated
- Sighting bank statements evidencing the transfer of funds to UniMed
- Assessing whether the impact of actual claims incurred by UniMed for the six months to 30 June 2019 was appropriately disclosed within the financial statements



Use of this independent auditor's report

This independent auditor's report is made solely to the members as a body. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.



Responsibilities of The Board for the financial statements

The Board, on behalf of the incorporated society, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being Public Benefit Entity Standards (Not For Profit));
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objective is:

- 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 independent 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. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Sonia Isaac.

For and on behalf of

KPMG
Wellington

24 October 2019