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AUDIT REPORT

To the Members of The Education Benevolent Society Incorporated

We have audited the financial statements on pages 1 to 12. The financial statements provide information about the past financial performance and financial position of the Society as at 30 June 2009. This information is stated in accordance with the accounting policies set out on pages 6 to 8.

Board of Management Responsibilities

The Board of Management is responsible for the preparation of the financial statements which fairly reflect the financial position of the Society as at 30 June 2009 and of the results of its operations and cash flows for the year ended on that date.

Auditors' Responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Board of Management and report our opinion to you.

Basis of Opinion

An audit includes examining on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made in the preparation of the financial statements, and
- whether the accounting policies are appropriate to the Society's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards issued by the New Zealand Institute of Chartered Accountants. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditor we have no relationship with, or interests in, the Society.

Unqualified Opinion

In our opinion the financial statements fairly reflect the financial position of the Society as at 30 June 2009 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 27 October 2009 and our unqualified opinion is expressed as at that date.

WHK Wellington Partnership
Chartered Accountants

THE EDUCATION BENEVOLENT SOCIETY INCORPORATED



STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2009

	Notes	2009 \$	2008 \$
Revenue			
Contributions		3,839,317	3,865,428
Hospital Cover Commission		659,543	663,483
Dividend Income		-	31,354
Interest Income		244,432	240,853
Miscellaneous Income		-	3,450
Total Revenue		<u>4,743,292</u>	<u>4,804,568</u>
Expenses			
Accounting fees		8,897	9,476
Audit Fees		12,096	12,000
Bank Charges		8,389	10,479
Benefits	[2]	3,021,892	2,919,995
Computer Expenses		23,904	25,519
Consulting Fees		15,218	4,885
Depreciation-Computer Equipment		7,088	7,498
-Office Equipment		604	222
-Furniture & Fittings		1,154	89
Expense Provision IBNR		547	(3,703)
Lease Expense		59,144	49,594
Office Administration		79,342	87,409
Payroll Commission		48,510	50,048
Portfolio Monitoring Fee		9,053	9,730
Printing, Stationery, Advertising		19,378	20,097
Staff Costs		459,220	454,323
Total Expenses		<u>3,774,436</u>	<u>3,657,661</u>
Operating Surplus		968,856	1,146,907
Investment Income			
Unrealised gain/(loss) in Investments		(266,926)	(310,651)
Net Surplus		<u><u>701,930</u></u>	<u><u>836,256</u></u>

The accompanying notes should be read in conjunction with the Financial Statements.

THE EDUCATION BENEVOLENT SOCIETY INCORPORATED



STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2009

	Notes	2009 \$	2008 \$
Equity		<u>5,456,259</u>	<u>4,754,329</u>
This is represented by:			
Current Assets			
Cash in Bank Accounts	[3]	596,352	380,260
GST Receivable		-	8,728
Accounts Receivable		47,151	49,686
Prepayments		11,975	13,944
Interest accrued		18,431	21,035
Investments	[4]	<u>3,326,101</u>	<u>3,016,010</u>
Total Current Assets		<u>4,000,010</u>	<u>3,489,663</u>
Non-Current Assets			
Investments	[4]	2,373,717	2,498,763
Fixed Assets	[5]	<u>11,729</u>	<u>6,949</u>
Total Non-Current Assets		<u>2,385,446</u>	<u>2,505,712</u>
Total Assets		<u>6,385,456</u>	<u>5,995,375</u>
Current Liabilities			
GST Payable		10,762	-
Provision -Claims IBNR	[7]	753,241	745,856
Creditors	[7]	105,115	418,434
Contributions received in advance		<u>60,079</u>	<u>76,756</u>
Total Current Liabilities		<u>929,197</u>	<u>1,241,046</u>
Total Liabilities		<u>929,197</u>	<u>1,241,046</u>
Net Assets		<u>5,456,259</u>	<u>4,754,329</u>

PHIL DODDS (Chairperson)

Date: 22 October 2009

RUSSELL FOLEY (General Manager)

Date: 27 October 2009

The accompanying notes should be read in conjunction with the Financial Statements.

THE EDUCATION BENEVOLENT SOCIETY INCORPORATED



STATEMENT OF MOVEMENTS IN EQUITY

FOR YEAR ENDED 30 JUNE 2009

	Notes	2009	2008
		\$	\$
Equity at 1 July		4,754,329	3,918,073
Net Surplus		701,930	836,256
Equity at 30 June		<u>5,456,259</u>	<u>4,754,329</u>

The accompanying notes should be read in conjunction with the Financial Statements.



THE EDUCATION BENEVOLENT SOCIETY INCORPORATED



STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2009

Cash Flow from Operating Activities	2009	2008
	\$	\$
Cash was provided from:		
Contributions	3,827,143	3,867,456
Interest & dividend income	231,917	261,140
Net Hospital Premiums collected	659,543	663,483
Other income	-	3,450
	<u>4,718,603</u>	<u>4,795,529</u>
Cash was applied to:		
Benefits	3,014,507	2,969,987
Other expenses	<u>1,037,528</u>	<u>703,250</u>
	4,052,035	3,673,237
Net Cash Flow from Operating Activities	<u>666,568</u>	<u>1,122,292</u>
Cash Flow from Investing Activities		
Cash was applied to:		
Purchase of Fixed Assets	13,626	2,367
Purchase of Investments	<u>436,850</u>	<u>1,390,729</u>
	450,476	1,393,096
Net Cash Flows from Investing Activities	(450,476)	(1,393,096)
Net Increase / (Decrease) in cash held	216,092	(270,804)
Bank Balance at 1 July	380,260	651,064
Bank Balance at 30 June	<u><u>596,352</u></u>	<u><u>380,260</u></u>

The accompanying notes should be read in conjunction with the Financial Statements.

THE EDUCATION BENEVOLENT SOCIETY INCORPORATED



STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2009

RECONCILIATION WITH REPORTED OPERATING SURPLUS

	2009	2008
	\$	\$
Net Surplus	701,930	836,256
Add non-cash items:		
Unrealised loss / (gain) in investments	251,807	310,651
Provisions for claims	7,385	(49,992)
Depreciation	<u>8,846</u>	<u>7,809</u>
	268,038	268,468
	<u>969,968</u>	<u>1,104,724</u>
Add/(deduct) movements in Working Capital items:		
(Increase) / Decrease in Accounts Receivable/Prepayments	4,503	12,153
(Increase) / Decrease in Interest Accrued	2,604	(11,067)
Increase / (Decrease) in Creditors	(313,320)	(12,521)
(Increase) / Decrease in GST Receivable	19,490	39,128
Increase / (Decrease) in Contributions in advance	<u>(16,677)</u>	<u>(10,125)</u>
	(303,400)	17,568
 Net Cash Flow from Operating Activities	 <u><u>666,568</u></u>	 <u><u>1,122,292</u></u>

The accompanying notes should be read in conjunction with the Financial Statements.

THE EDUCATION BENEVOLENT SOCIETY INCORPORATED



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009**

Statement of Accounting Policies

The following accounting policies have been applied in the preparation of these financial statements.

Statutory Basis

The financial statements of The Education Benevolent Society Incorporated, have been prepared in accordance with the requirements of the Incorporated Societies Act 1908 and comply with the Society's Constitution.

Reporting Entity

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

Measurement Basis

The measurement base adopted is that of historical cost except for Investments which are stated at market value.

Accrual accounting is used to match revenue and expenses. All contributions and hospital cover commission income are recorded on a cash basis with the exception that at year end an apportionment is made for contributions and commissions received after balance date that relate to the year ended 30 June.

Particular Accounting Policies

The particular accounting policies that materially affect the measurement and reporting of results, cash flows and financial position have been applied as follows:

a) Fixed Assets -

All Fixed Assets are stated at cost less accumulated depreciation.

Fixed Assets have been depreciated on a straight line basis over their estimated economic lives. The annual depreciation rates applied by this policy are:

	Years	Percentage
Computer equipment	2.5 - 3	33.3% - 40%
Office equipment	3	33.3%
Furniture & fittings	5	20%



THE EDUCATION BENEVOLENT SOCIETY INCORPORATED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009**

b) Medical Services Claims –

Provision for outstanding claims (IBNR):

A provision is made for unreported claims incurred but not reported (IBNR) at 30 June 2009. The provision is based on the actuary's recommendation of 12/52nds of actual benefits paid in the current year.

c) Goods & Services Tax –

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

d) Investments –

i) Investments held by Fund Managers

Investments are valued at net market value by reference to unit and/or share prices as at balance date.

In accordance with FRS-35, Financial Reporting of Insurance Activities, changes in the market value have been taken directly to the statement of financial performance.

ii) Short Term Deposits

Short Term deposits are valued at cost

e) 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.

f) Financial Instruments –

Financial instruments carried on the statements of financial position include cash and bank balances, investments and receivables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Non-current Investments are stated at market value at balance date.

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

The fair value of investments can be influenced by changes in interest rates and to a certain extent by changes in currency values.

g) Management of Credit Risk -

Financial instruments that potentially subject the Society to credit risk consist principally of cash and short term deposits, fixed interest securities and other investments. Each investment decision is made by the Fund Managers in accordance with the investment strategy set by the EBS Board.



THE EDUCATION BENEVOLENT SOCIETY INCORPORATED



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009**

h) Management of Liquidity Risk -

The EBS Board investment policy ensures that sufficient liquidity is maintained to fully and promptly meet all required distributions.

i) Changes in accounting policies

There have been no changes in accounting policies. All policies have been applied on a consistent basis with those used in previous years.

2 Benefits expense incurred during the Year Ended 30 June 2009

The table shows the number of paid applications.

Type	2009		2008	
	Number	\$	Number	\$
Bereavement	55	48,889	47	42,667
Birth	240	41,956	261	44,089
Complementary	3,560	284,282	3,664	277,690
Hospital	747	240,374	840	248,188
Hospital Excess	732	260,610	833	290,620
Major Diagnostic	267	67,737	39	10,271
Medical	13,987	1,614,424	14,461	1,646,722
Medical Appliance	392	29,837	331	21,285
Optical	3,058	362,895	3,113	323,631
Orthodontic	255	55,392	289	64,540
Sick Leave Without Pay	119	17,933	197	25,994
Benefits Paid	23,412	3,024,330	24,075	2,995,696

Adjust for:

Increase (decrease) in provision for Claims – IBNR	6,838	(46,289)
Net change in Benefits not yet processed	(8,634)	(26,992)
Adjustments for claims returned and benefits refunded	(641)	(2,420)
Total Benefit Expense	3,021,892	2,919,995

The actuarial calculation determining the outstanding claims liability has been reviewed on an annual basis.

The reviewing actuary was satisfied with the nature and accuracy of the data, and used that data to determine the liability in accordance with the standards of the New Zealand Society of Actuaries.



THE EDUCATION BENEVOLENT SOCIETY INCORPORATED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009**

3 Cash in Bank Accounts

These consist of:

	2009	2008
	\$	\$
Bank of New Zealand Manners St Branch:		
Board Account	494	10,125
Benefits Account	546	252
Imprest Account	377	252
Subscriptions - Individuals Account	3,802	3,966
Subscriptions - Bulk Account	93,861	14,239
Treasury Account	497,272	351,426
	<u>596,352</u>	<u>380,260</u>

4 Investments

Investments are purchased with the intention of being held for the long term or until maturity. Investments have been valued at net market values at balance date.

Summary of Investments

Investment Type	2009		2008	
	Valuation		Valuation	
	\$	%	\$	%
Current				
New Zealand Cash	3,326,101	58.4	3,016,010	54.7
Non-Current				
Unit Trust-Properties	102,328	1.8	132,372	2.4
Australasian Shares	243,416	4.3	221,314	4.0
International Shares	1,255,753	22.0	1,497,077	27.1
Bonds	272,220	4.8	148,000	2.7
New Zealand Fixed Interest	500,000	8.8	500,000	9.1
	<u>2,373,717</u>	<u>41.6</u>	<u>2,498,763</u>	<u>45.3</u>
Total	<u><u>5,699,818</u></u>	<u><u>100.0</u></u>	<u><u>5,514,773</u></u>	<u><u>100.0</u></u>

Investments other than cash and debentures are held in Spicers Client Unit Trusts. Assure New Zealand Ltd is the Manager of the Trust and The New Zealand Guardian Trust Company Ltd is the Trustee of the Trust. The Manager has appointed Client Portfolio Administration Ltd as Investment Manager for the Trust with the power to invest and choose the fund manager(s) for the Trust as it determines.



THE EDUCATION BENEVOLENT SOCIETY INCORPORATED



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009**

5 Fixed Assets

Asset	2009			2008		
	Cost	Accum Depn	Net Book Value	Cost	Accum Depn	Net Book Value
Computer equipment	#####	295,116	6,135	329,674	324,110	5,564
Office equipment	23,434	22,363	1,071	23,121	21,759	1,362
Furniture and fittings	11,315	6,792	4,523	5,661	5,638	23
Total	#####	324,271	11,729	358,456	351,507	6,949

6 Operating Lease Commitments

As at 30 June commitments under operating lease in respect of rentals due to be made in the following years were:

	2009	2008
	\$	\$
Current	62,627	43,084
Non-Current	109,598	5,049
	<u>172,225</u>	<u>48,133</u>

7 a) Provision for Claims Incurred But Not Reported (IBNR)

A provision is made for unreported claims based on past 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 balance date. The present value of unreported claims is not considered to be significantly different from the gross value of the claims provision.

Claims Administration Costs - A provision is made for claims administration costs based on an assessment of the cost of processing the unreported claims

	2009	2008
	\$	\$
12 weeks (12/52nd) of total benefits paid in period		
Charged to benefits:	697,445	690,607
8% of above sum as a processing expense		
Charged to expenses:	55,796	55,249
Total Provision for IBNR	<u>753,241</u>	<u>745,856</u>



THE EDUCATION BENEVOLENT SOCIETY INCORPORATED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009**

b) Creditors

	2009	2008
Creditors comprise:	\$	\$
Hospital Cover Premiums	-	298,401
Employees	41,015	56,637
Sundry Creditors	64,100	63,396
	<u>105,115</u>	<u>418,434</u>

8 Financial Assets and Liabilities

Fair Values

The carrying amounts of all financial assets and liabilities are considered to be equivalent to their fair value. The Society's policies with regard to valuing these instruments are outlined in the accounting policies.

Investments are recorded at carrying or net market value that equates to the fair value for each class of financial instrument.

Credit Risk

	2009	2008
	\$	\$
The Society's exposure to:		
Cash at Bank	596,352	380,260
Accrued Interest	18,431	21,035
Debtors	47,151	49,686
Short Term Bank Deposits	3,194,826	2,789,652
Cash with Fund Managers	131,275	226,358
Shares & Unit Trust Investments with Fund Managers	1,873,717	1,998,763
Fixed Interest Securities	500,000	500,000
Creditors	<u>(105,115)</u>	<u>(418,434)</u>
Maximum Exposure	<u>6,256,637</u>	<u>5,547,320</u>

The Society is not required to maintain a credit rating.

THE EDUCATION BENEVOLENT SOCIETY INCORPORATED



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009**

9 Liquidity Profile

The amounts shown are due during the following periods after 30 June 2009

	2009		2008	
	Total	At call & less than 6 months	Total	At call & less than 6 months
	\$	\$	\$	\$
Assets				
Cash at Bank	596,352	596,352	380,260	380,260
Cash with Fund Manager	131,275	131,275	226,358	226,358
BNZ Term Deposit	3,194,826	3,194,826	2,789,652	2,789,652
Sundry Debtors	47,151	47,151	49,686	49,686
GST receivable	-	-	8,728	8,728
Prepayments	11,975	11,975	13,944	13,944
Interest Accrued	18,431	18,431	21,035	21,035
Fixed Interest Deposit	500,000	-	500,000	-
Shares & Unit Trust Investments with Fund Managers	1,873,717	1,873,717	1,998,763	1,998,763
	<u>6,373,727</u>	<u>5,873,727</u>	<u>5,988,426</u>	<u>5,488,426</u>
Liabilities				
Creditors	105,115	105,115	418,434	418,434
Contributions received in advance	60,079	60,079	76,756	76,756
GST payable	10,762	10,762	-	-
	<u>175,956</u>	<u>175,956</u>	<u>495,190</u>	<u>495,190</u>

The Society has no unused credit facilities available.