

**THE EDUCATION BENEVOLENT SOCIETY  
INCORPORATED**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
30 JUNE 2013**

**THE EDUCATION BENEVOLENT SOCIETY INCORPORATED**  
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THE EDUCATION BENEVOLENT SOCIETY INCORPORATED

DIRECTORY  
FOR THE YEAR ENDED 30 JUNE 2013

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

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

**Auditor** Crowe Horwath New Zealand Audit Partnership  
Chartered Accountants

**Bankers** Bank of New Zealand



THE EDUCATION BENEVOLENT SOCIETY INCORPORATED

STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2013

	Notes	2013 \$	2012 \$
<b>INCOME</b>			
Contributions		3,622,776	3,638,121
Hospital Cover Commission		740,247	746,331
Investment Income		275,043	243,968
Other Income		-	8,585
		<u>4,638,066</u>	<u>4,637,005</u>
<b>EXPENDITURE</b>			
<b>Benefits</b>			
Benefits Paid	2	3,145,024	3,176,363
<b>Investment Expenses</b>			
Amortisation of bonds		26,079	9,620
Portfolio Monitoring Fee		10,439	9,806
		<u>36,518</u>	<u>19,426</u>
<b>Administration Expenses</b>			
Staff Salaries & Related Expenses		556,318	524,551
Rent & Related Occupancy		42,533	58,689
Depreciation		17,814	16,454
Movement in IBNR provision		54,959	77,661
<b>Operating -</b>			
Bank Charges		5,409	5,335
Computer Expenses		34,488	20,590
Office Administration		57,398	50,249
Payroll Commission		45,055	41,247
Printing, Stationery, Advertising		40,527	30,418
		<u>182,877</u>	<u>147,839</u>
<b>Professional -</b>			
Accounting fees		7,475	7,975
Audit Fees		20,719	13,805
Consulting Fees		19,656	14,473
Insurance Ombudsman		2,107	2,132
Legal Fees		171	466
Ratings Agency		24,504	23,440
		<u>74,632</u>	<u>62,291</u>
<b>Total Expenditure</b>		4,110,675	4,083,274
<b>Net Surplus for the year</b>		527,391	553,731



The accompanying notes form part of these financial statements.  
**THE EDUCATION BENEVOLENT SOCIETY INCORPORATED**

**STATEMENT OF COMPREHENSIVE INCOME (Cont.)  
FOR THE YEAR ENDED 30 JUNE 2013**

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	<b>Notes</b>	<b>2013</b>	<b>2012</b>
		\$	\$
<b>Other Comprehensive Income</b>			
Unrealised gain (loss) on Investments		295,664	( 139,558)
<b>Total Comprehensive Income for the year</b>		<u><u>823,055</u></u>	<u><u>414,173</u></u>

The accompanying notes form part of these financial statements.



THE EDUCATION BENEVOLENT SOCIETY INCORPORATED

STATEMENT OF MOVEMENTS IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2013

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	Notes	2013 \$	2012 \$
Equity at 1 July		7,135,241	6,721,068
Total Comprehensive Income for the year		823,055	414,173
Equity at 30 June		<u>7,958,296</u>	<u>7,135,241</u>

The accompanying notes form part of these financial statements.



THE EDUCATION BENEVOLENT SOCIETY INCORPORATED

STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2013

	Notes	2013 \$	2012 \$
<b>Equity</b>		<u>7,958,296</u>	<u>7,135,241</u>
This is represented by:			
<b>Current Assets</b>			
Cash and Cash Equivalents	3	765,002	796,040
Trade Receivables		9,056	-
Prepayments		5,895	15,605
Interest accrued		115,535	117,982
Investments	4	<u>5,200,000</u>	<u>4,700,000</u>
<b>Total Current Assets</b>		<u>6,095,488</u>	<u>5,629,627</u>
<b>Non-Current Assets</b>			
Investments	4	3,096,210	2,795,855
Fixed Assets	6	<u>265,480</u>	<u>114,188</u>
<b>Total Non-Current Assets</b>		<u>3,361,689</u>	<u>2,910,043</u>
<b>Total Assets</b>		<u>9,457,177</u>	<u>8,539,670</u>
<b>Current Liabilities</b>			
GST Payable		-	3,537
Provision - claims IBNR	14	1,230,538	1,175,579
Creditors and Accruals		145,634	126,359
Contributions received in advance		<u>122,709</u>	<u>98,954</u>
<b>Total Current Liabilities</b>		<u>1,498,881</u>	<u>1,404,429</u>
<b>Total Liabilities</b>		<u>1,498,881</u>	<u>1,404,429</u>
<b>Net Assets</b>		<u>7,958,296</u>	<u>7,135,241</u>

RICHARD KITTELTY (Chairperson)

27/11/13 Date

RUSSELL FOLEY (General Manager)

27/11/13 Date

The accompanying notes form part of these financial statements.



THE EDUCATION BENEVOLENT SOCIETY INCORPORATED

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2013

	2013	2012
	\$	\$
<b>Cash flows from operating activities</b>		
<i>Cash was provided from:</i>		
Contributions	3,621,351	3,633,197
Hospital Premiums Collected	742,694	746,331
Other Income	-	8,585
	<u>4,364,045</u>	<u>4,388,113</u>
<i>Cash was applied to:</i>		
Benefits	3,145,024	3,176,363
Other Expenses	799,148	843,948
	<u>3,944,172</u>	<u>4,020,311</u>
Net cash inflow from operating activities	419,873	367,802
<b>Cash flows from investing activities</b>		
<i>Cash was provided from:</i>		
Investment Income	544,628	213,854
	<u>544,628</u>	<u>213,854</u>
<i>Cash was applied to :</i>		
Purchase of Fixed Assets	195,184	122,859
Purchase of Investments	800,355	1,077,867
	<u>995,539</u>	<u>1,200,726</u>
Net cash inflow from investing activities	( 450,911)	( 986,872)
Net decrease in cash held	( 31,038)	( 619,070)
Cash Brought Forward	796,040	1,415,111
Cash Carried Forward	765,002	796,040
Represented by:		
Cash at Bank	35,782	25,270
Call Deposits	729,220	770,770
	<u>765,002</u>	<u>796,040</u>

The accompanying notes form part of these financial statements.





## THE EDUCATION BENEVOLENT SOCIETY INCORPORATED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

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#### NOTE 1: GENERAL ACCOUNTING POLICIES

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

##### **Statutory Basis**

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

##### **Reporting Entity**

The financial statements presented here are for the reporting entity The Education Benevolent Society Incorporated ("the Society").

The Society 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. The Society has a provisional insurance license from the Reserve Bank of New Zealand - see Note 12.

##### **Basis of Preparation**

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

##### **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.

##### **Functional & Presentation Currency**

These financial statements are presented in New Zealand dollars because that is the currency of the economic environment in which the Society operates.

##### **Goods & Services Tax**

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

##### **Fixed Assets**

All Fixed Assets are stated at cost less accumulated depreciation and any impairment losses.

##### **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.

##### **Changes in Accounting Policies**

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



THE EDUCATION BENEVOLENT SOCIETY INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2013

NOTE 1.2: PARTICULAR ACCOUNTING POLICIES

a) Income & Expenses Recognition

i) **Income**

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

*Contributions & Hospital Cover Commission*

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

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

*Interest Income & Dividends*

Interest income is recognised using the effective interest method.

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

ii) **Expenses**

*Depreciation*

Depreciation is provided for computer equipment, office equipment, and furniture and fittings. Fixed assets are depreciated on a straight line basis over their estimated economic lives. The annual depreciation rates are as follows:

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

b) 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 balance date.

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

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



## THE EDUCATION BENEVOLENT SOCIETY INCORPORATED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

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#### **b) Valuation and treatment of liabilities to Subscribers (Cont.)**

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

The IBNR liability is determined using a conventional chain ladder calculation to derive claim payment patterns, in conjunction with the benefits paid expense for the 14 months ended 31 August 2013. The use of July 2013 and August 2013 benefits paid data is utilised with the aim of reducing the level of uncertainty in the calculations.

A provision, known as a "processing expense", is made for claims administration costs and charged at a rate of 8% on top of the base IBNR provision. Movements against prior year are recognised in profit or loss via the Statement of Comprehensive Income.

NZ IFRS 4 prescribes for the following additional charges:

- i) i) Allowance for claim handling costs - Direct and indirect claim handling costs are to be included in claim provisions. An allowance of 7.50% (2012: 7.50%) has been provided for. This is charged on top of the base IBNR provision. Movements against prior year for this provision are recognised in profit or loss via the Statement of Comprehensive Income. This allowance has been assessed as reasonable based on the size of the company, its overall level of expenses, the nature of claims incurred, and the experience of other similar entities.
- ii) ii) Risk margin - A risk margin is to be included in claim provisions. An allowance of 4.00% (2012: 4.00%) has been provided for. With a coefficient of variation of 4.96%, and assuming a normal distribution of claim reserves, this produces a result which has a 75% likelihood of sufficiency (75% is the minimum margin prescribed by the RBNZ for its solvency standards). This is charged on top of the base IBNR provision. Movements against prior year for this provision are recognised in profit or loss via the Statement of Comprehensive Income.
- iii) iii) The assumptions used in the calculation of the IBNR provision are reviewed at each reporting date. A summary of the significant actuarial methods and assumptions used is set out in Note 13.

#### **c) Cash and Cash Equivalents**

Cash and Cash Equivalents include cash in hand and deposits held at call with banks.

#### **d) Financial Assets**

- i) *Loans and receivables*  
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Society's cash and cash equivalents, trade debtors and most other receivables fall into this category of financial instruments.



## THE EDUCATION BENEVOLENT SOCIETY INCORPORATED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

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#### d) Financial Assets (Cont.)

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to shared credit risk characteristics. The impairment loss estimate is based on recent historical counterparty default rates for each identified group.

#### ii) *Held-to-maturity investments*

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as held-to-maturity if the Society has the intention and ability to hold them until maturity. The Society currently holds listed bonds designated into this category.

Held-to-maturity investments are measured subsequently at amortised cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognised in the reported surplus or deficit.

#### iii) *Available-for-sale financial assets*

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

All other available-for-sale financial assets are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within reserves in equity, except for impairment losses and foreign exchange differences on monetary assets, which are recognised in the reported surplus or deficit.

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

All financial assets except for those classified as fair value through profit or loss 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 category determines subsequent measurement and whether any resulting income and expense is recognised in the surplus or deficit or in other comprehensive income.

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.



THE EDUCATION BENEVOLENT SOCIETY INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2013

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**e) Foreign Currency**

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) Statement of Cash Flows**

The Statement of Cash Flows is prepared using the direct approach.

Definition of terms used in the Statement of Cash Flows:

"Cash" includes coins and notes, demand deposits and other highly liquid investments readily convertible into cash and includes at call borrowings such as bank overdrafts, used by the Society as part of its day-to-day cash management.

"Investing Activities" are those activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets.

"Financing Activities" are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

**g) Long Service Leave**

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

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



THE EDUCATION BENEVOLENT SOCIETY INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2013

**NOTE 2: BENEFITS EXPENSE INCURRED DURING THE YEAR**

The table shows the number of paid applications.

Type	2013		2012	
	Number	\$	Number	\$
Bereavement	53	46,087	56	47,826
Birth	166	28,570	193	32,870
Complementary	4,933	391,563	4,453	384,923
Hospital	618	201,816	591	197,726
Hospital Excess	721	256,823	792	289,607
Major Diagnostic	296	85,091	263	76,598
Medical	14,910	1,693,988	14,023	1,698,780
Medical Appliance	277	30,845	272	29,097
Optical	3,136	361,294	2,876	372,363
Orthodontic	209	35,945	190	45,939
Sick Leave Without Pay	64	10,276	80	13,060
<b>Benefits Paid</b>	<b>25,383</b>	<b>3,142,298</b>	<b>23,789</b>	<b>3,188,790</b>
<b>Adjust for:</b>				
Increase (decrease) in year end accruals		2,726		( 12,427)
<b>Total Benefit Expense</b>		<b>3,145,024</b>		<b>3,176,363</b>

**NOTE 3: CASH AND CASH EQUIVALENTS**

	2013	2012
	\$	\$
Cash at Bank	35,782	25,270
Call Deposits	729,220	770,770
	<u>765,002</u>	<u>796,040</u>

Interest rates earned on cash and cash equivalents ranged from 0.25% to 4.41% (2012yr: 0.25% to 4.74%) per annum for the period to 30 June 2013. Deposits are treated as cash and cash equivalents due to their ability to convert to cash within 1-3 days. Movements in market rates will not affect the recorded value of investments.



THE EDUCATION BENEVOLENT SOCIETY INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2013

**NOTE 4: INVESTMENTS**

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.

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

	2013	2012
<b>Current</b>	<b>\$</b>	<b>\$</b>
BNZ Term Deposit	3,200,000	3,700,000
Rabo Bank Term Deposit	2,000,000	1,000,000
	<u>5,200,000</u>	<u>4,700,000</u>
	2013	2012
<b>Non Current</b>	<b>\$</b>	<b>\$</b>
Public Trust Insurance Deposit	520,645	546,725
Monitored Portfolio with Spicers	2,575,565	2,249,130
	<u>3,096,210</u>	<u>2,795,855</u>

The Public Trust Insurance Deposit (Bonds) was purchased on 24 November 2011 (settlement date). The face value of the bonds is \$500,000, with a coupon rate of 6.00% per annum, with interest paid on maturity. As the coupon rate exceeded the market rate at the time of purchase, the bonds attracted a premium of \$56,344.77, resulting in a settlement amount of \$556,344.77. The maturity date of the bonds is 15 April 2015. The premium is amortised over the term of the bonds using the effective interest rate method. For the period to 30 June 2015, amortisation of \$26,079 (2012yr: \$9,620) has been recognised.

Equities investments experienced an unrealised gain of \$295,664 (2012yr: \$139,558 loss) for the 12 months ended 30 June 2013. This has been recognised as a gain on investments in the Statement of Comprehensive Income in accordance with NZ IAS 39.

- i) Impairment of Assets  
The Society has assessed all investments for impairment as at 30 June 2013. The Society concluded that there was no impairment of any investment at 2013 balance date.

**NOTE 5: INVESTMENT REVENUE ACCOUNT**

	2013	2012
	<b>\$</b>	<b>\$</b>
Investment Income Per Statement of Comprehensive Income	275,043	243,968
Derived from:		
Equities, Bonds, Debentures & Term Deposits	260,917	224,237
Less: Portfolio Management Fees	(10,439)	(9,806)
Bank Interest from Non-Term Deposit Accounts	24,565	29,537



THE EDUCATION BENEVOLENT SOCIETY INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2013

NOTE 6: FIXED ASSETS

	2013		
	Cost	Accum Dep	Net Book Value
Computer equipment	581,497	324,403	257,094
Office equipment	30,266	30,266	-
Furniture and fittings	25,492	17,107	8,386
Work In Progress - Elmbrook	-	-	-
	<u>637,225</u>	<u>371,776</u>	<u>265,480</u>

  

	2012		
	Cost	Accum Dep	Net Book Value
Computer equipment	322,392	310,723	11,669
Office equipment	30,266	30,099	167
Furniture and fittings	25,492	13,141	12,352
Work In Progress - Elmbrook	90,000	-	90,000
	<u>468,150</u>	<u>353,963</u>	<u>114,188</u>

NOTE 7: RECONCILIATION OF NET OPERATING CASH FLOW TO SURPLUS

	2013	2012
	\$	\$
Net Surplus	527,391	553,731
<b>Less: Interest Income</b>	( 248,964)	( 213,854)
<b>Add: Non-Cash Items</b>		
Provisions for claims	54,959	77,661
Depreciation & Amortisation	43,893	16,454
	<u>377,279</u>	<u>433,992</u>
<b>Add/(Deduct) movements in balance sheet items</b>		
(Increase)/Decrease in Accounts Receivable	( 9,056)	-
(Increase)/Decrease in Prepayments	9,710	( 13,995)
(Increase)/Decrease in Interest Accrued	2,447	( 39,920)
Increase/(Decrease) in Creditors	19,275	12,380
Increase/(Decrease) in GST Payable	( 3,537)	( 19,731)
Increase/(Decrease) in Contributions Received in Advance	23,755	( 4,924)
	<u>23,755</u>	<u>( 4,924)</u>
<b>Net Cash Flow from Operating Activities</b>	<b>419,873</b>	<b>367,802</b>





THE EDUCATION BENEVOLENT SOCIETY INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2013

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**NOTE 8: LEASE COMMITMENTS**

The Society has the following lease commitments:

	2013	2012
	\$	\$
Not later than one year	46,400	48,057
Two to five years	96,252	96,252
More than five years	-	-

**NOTE 9: CONTINGENT LIABILITIES AND ASSETS**

The Society had no contingent liabilities as at 30 June 2013 (30 June 2012: Nil)

The Society had no contingent assets as at 30 June 2013 (30 June 2012: Nil)

**NOTE 10: RELATED PARTY TRANSACTIONS**

- i) Employees  
During the 2013 yr, employees of the Society were also subscribers. The employees subscription fees were fully subsidised by the Society via the payroll system, however apart from this the Society deals with the employees on the same terms and conditions applied to all subscribers.
  
- ii) Board Members  
During the 2013yr, the following Board members of the Society were also subscribers:  
Richard Kittelty  
Darrell Ward  
Liz Patara  
Marian Cadman  
Bruce Kirkham  
Tom McGrath

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

**NOTE 11: SEGMENT INFORMATION**

The Education Benevolent Society operates in one industry, being non-life insurance. All operations are based in New Zealand.



THE EDUCATION BENEVOLENT SOCIETY INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2013

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NOTE 12: RISK

i) *Credit Risk*

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

ii) *Fair Value*

The fair value of financial assets and liabilities is considered to be materially equivalent to book value as reflected in the balance sheet. In the case of financial liabilities, fair value has been determined on the basis of the present value of expected future cash outflows. For financial assets, fair value has been determined on the basis of the amount for which the asset could be sold for in an arms length transaction within an active market while taking into account the terms and conditions of each financial asset.

Included in the financial assets of the Society are equities and fixed interest securities measured at fair value at each reporting date. The source of fair value inputs as defined by NZ IFRS 7 - Financial Instruments: Disclosures - is determined by reference to quoted prices in an active market for the same instrument. All other financial assets are carried at cost less impairment (if any), which approximates their fair value.

iii) *Interest Risk*

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

iv) *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. As the subscribers are from throughout New Zealand the funding of the Society is not dependent on any one geographic sector. Risks are managed by continuous reviewing of financial performance, maturity profiles of financial assets, and maintaining adequate reserves and liquidity support facilities.



THE EDUCATION BENEVOLENT SOCIETY INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2013

**NOTE 12: RISK (Cont.)**

The liquidity profile is as follows:

	2013					
	Total	0-6 months	6-12 months	12-18 months	18-24 months	24+ months
<b>Monetary Assets</b>						
Cash/Cash Equivalents	765,002	765,002				
Financial Assets	8,296,210	5,775,565	2,000,000			520,645
Interest/Commission Accrued	115,535	115,535				
	9,176,747	6,656,102	2,000,000	-	-	520,645

	2013					
	Total	0-6 months	6-12 months	12-18 months	18-24 months	24+ months
<b>Monetary Liabilities</b>						
Trade Payables	28,363	28,363	-	-	-	-
Accrued Expenses	124,911	124,911	-	-	-	-
Subscriptions Paid In Advance	122,709	122,709	-	-	-	-
	275,983	275,983	-	-	-	-

	2012					
	Total	0-6 months	6-12 months	12-18 months	18-24 months	24+ months
	\$	\$	\$	\$	\$	\$
<b>Monetary Assets</b>						
Cash/Cash Equivalents						
Financial Assets	7,495,855	5,949,130	1,000,000	-	-	546,725
Interest/Commission Accrued	117,982	117,982				
	7,613,837	6,067,112	1,000,000	-	-	546,725

	2012					
	Total	0-6 months	6-12 months	12-18 months	18-24 months	24+ months
<b>Monetary Liabilities</b>						
Trade Payables	40,647	40,647	-	-	-	-
Accrued Expenses	85,712	85,712	-	-	-	-
Subscriptions Paid In Advance	98,954	98,954	-	-	-	-
	225,313	225,313	-	-	-	-



THE EDUCATION BENEVOLENT SOCIETY INCORPORATED

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**NOTE 12: RISK (Cont.)**

v) *Currency Risk*

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

The Society's management manages currency risk by monitoring the cross rate between New Zealand and foreign currencies. Society does not enter into hedging contracts. Management does not believe volatility of fluctuations in the cross rate of exchange between New Zealand and other countries is a significant risk given the amounts involved as a percentage of New Zealand denominated assets, and can be managed by rebalancing the investment portfolio with greater New Zealand denominated investments.

The Society has \$2,575,564 (2012yr \$2,249,130) invested in instruments quoted on public securities exchanges. These financial instruments are subject to price fluctuations.

**NOTE 13: SOLVENCY STATEMENT AND RESERVE BANK CONDITIONS FOR LICENSE**

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

The Society will be subject to new solvency requirements issued by the RBNZ. In the interim the Society will be subject to new solvency margin requirements issued by the RBNZ.

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

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

**NOTE 14: ACTUARIAL POLICIES AND METHODS**

The effective date of the actuarial report on the IBNR provision is 30 June 2013. The actuarial report was prepared by Peter Davies, a Fellow of the New Zealand Society of Actuaries (of Davies Financial and Actuarial Limited), consulting actuary to the Society. The IBNR provision has been determined in accordance with the methods and assumptions disclosed in these financial statements and with the standards established by the New Zealand Society of Actuaries and the Reserve Bank of New Zealand.



THE EDUCATION BENEVOLENT SOCIETY INCORPORATED

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**NOTE 14: ACTUARIAL POLICIES AND METHODS (Cont.)**

*Assumptions:*

- i) IBNR provision has been determined in accordance with Professional Standard No. 4 - Valuation of General Insurance Claims - issued by the New Zealand Society of Actuaries for reporting under NZ IFRS with effect from 1 January 2007.
- ii) The claim handling cost rate (as required per NZ IFRS 4) assumed was 7.5% of outstanding claims (2012: 7.5%), which has been determined based on the size of the Society, its overall level of expenses, and the nature of claims incurred.
- iii) The risk margin rate (as required per NZ IFRS 4) assumed was 4.0% of outstanding claims (2012: 4.0%), which has been determined based on the past level of variability.

**NOTE 15: SIGNIFICANT EVENTS AFTER BALANCE DATE**

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.

**NOTE 16: USE OF ESTIMATES AND JUDGEMENTS**

The preparation of financial statements requires management to make judgments, estimates and assumptions that impact on the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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 judgments 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 13: Actuarial Policies and Methods

**NOTE 17: NEW FINANCIAL REPORTING STANDARDS APPROVED BUT NOT YET EFFECTIVE**

The External Reporting Board (XRB) has introduced a revised Accounting Standards Framework. The revised framework intends to introduce Public Benefit Accounting Standards (PAS) comprising International Public Sector Accounting Standards (IPSAS), modified as appropriate for New Zealand circumstances.

The Financial Reporting Bill 2012 was introduced into parliament on 31 July 2012 and once enacted will bring the revised framework into law. This means the financial reporting requirements for public benefit entities are frozen in the short-term and that all NZ IFRS with a mandatory effective date for annual reporting commencing on or after 1 January 2012 are not applicable to public benefit entities. Accordingly no disclosure has been made about new or amended NZ IFRS that exclude public benefit entities from their scope.