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Cover sheet – Financial statement for an incorporated society

Incorporated Societies Act 1908

Society name

Education Benevolent Society Incorporated

Society number

441954

Financial year *

30 June 2018

* For example if the financial statement is for the period 1 April 2017 to 31 March 2018, the financial year will be 31 March 2018.

Important

- An officer of the society **must certify** that the financial statement has been submitted to, and approved by, the members of the society at a general meeting.
- If your society is also registered under the **Charities Act 2005** it does not have to file an annual financial statement with the Registrar of Incorporated Societies but does need to file an annual return with Charities Services – www.charities.govt.nz.
- You do not need to supply a copy of the minutes of the annual general meeting (AGM).

Checklist

All items on the following checklist are requirements under section 23 of the Incorporated Societies Act 1908.

Your annual financial statement **must include** the following.

1. Statement of income and expenditure
2. Statement of financial position (*assets and liabilities*)
3. Details of all mortgages, charges, and securities of any description affecting any of the property of the society (*where applicable*)
4. Audit or review report (*where applicable*)
The financial statement **must** be audited or reviewed where the rules of the society specify that an auditor or reviewer must be appointed.

Enter page no(s)

3

4

n/a

21

Change of contact details

☐ Attached is a completed **Change of Contact Details**
(Form IS3) *Only if the contact details for the society have changed.*

AGM

The annual general meeting is usually held in the month of:

October

Certification

I certify that the annual financial statement has been submitted to, and approved by, the members at a general meeting held on:

Date of meeting 30 October 2018

Signed: 

Name John Seed

Position held Chief Executive

Form completed by

Name John Seed

Postal address
PO Box 11 059
Manners Street Wellington
6142

Email john@healthcareplus.org.nz

Telephone 04 915 2429

Education Benevolent Society Incorporated

Annual Financial Statements

For the Year Ended 30 June 2018

Education Benevolent Society Incorporated
Annual Financial Statements
For the Year Ended 30 June 2018

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Education Benevolent Society Incorporated

Directory

For the Year Ended 30 June 2018

| | |
|---------------------------|---|
| Nature of Business | Providing primary health insurance to the eligible Union members in the education sector and the public service association. |
| Board Members | Ross Wilson - Chair Margaret Kinsey - Deputy Chair Richard Kittelty (resigned October 2017) Alison O'Connell Erin Polaczuk (appointed October 2017) Samantha Stephen Darrell Ward |
| Incorporation | Incorporated Societies Act 1908 |
| Registered Office: | Level 5 Education House, West Block 178 Willis Street 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 2018

| | Notes | 2018 \$ | 2017 \$ |
|---|-------|------------------|------------------|
| Revenue | | | |
| Contributions | | 4,657,932 | 4,248,668 |
| Commission on Hospital cover | | 715,838 | 715,182 |
| Investment income | 8 | 486,857 | 346,882 |
| Other income | | 5,338 | 6,213 |
| Total revenue | | 5,865,965 | 5,316,945 |
| Expenses | | | |
| Benefits | | | |
| Benefits paid | 4 | 3,951,386 | 3,724,255 |
| Investment Expenses | | | |
| Portfolio monitoring fee | | 30,080 | 27,489 |
| | | 30,080 | 27,489 |
| Professional Expenses | | | |
| Accounting fees | | 59,919 | 34,213 |
| Audit fees | | 29,500 | 28,000 |
| Actuarial and Legal Services | | 43,509 | 57,679 |
| Consultants | | - | 60,249 |
| Health Funds Association New Zealand Membership | | 11,075 | 10,625 |
| Insurance ombudsman | | - | 3,713 |
| Strategic review and implementation | | 92,716 | - |
| Ratings agency | | 34,235 | 42,615 |
| | | 270,954 | 237,094 |
| Other Administration and overhead expenses | | | |
| Staff salaries & related expenses | | 806,892 | 726,198 |
| Rent & related occupancy | | 54,213 | 49,672 |
| Depreciation and amortisation | | 89,868 | 133,832 |
| Movement in IBNP provision | 15 | 127,697 | 44,056 |
| Business Transition Expense | | 480,000 | - |
| Bank charges | | 4,005 | 4,510 |
| Computer expenses | | 97,756 | 66,075 |
| Office administration | | 97,715 | 110,457 |
| Printing, stationery, advertising | | 73,194 | 60,984 |
| | | 1,831,340 | 1,195,783 |
| Total expenditure | | 6,083,760 | 5,184,620 |
| Surplus for the year | | (217,795) | 132,325 |
| Other Comprehensive Revenue and Expense | | - | - |
| Total Comprehensive Revenue and Expense for the year | | (217,795) | 132,325 |

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

Education Benevolent Society Incorporated

Statement of Financial Position As at 30 June 2018

| | Notes | 2018 \$ | 2017 \$ |
|-------------------------------------|-------|-------------------|-------------------|
| ASSETS | | | |
| Current | | | |
| Cash and cash equivalents | 5 | 1,289,522 | 1,326,926 |
| Trade debtors and other receivables | | 62,377 | 91,602 |
| Prepayments | | 54,694 | 24,461 |
| Accrued interest | | 67,423 | 59,103 |
| Current investments | 7 | 5,251,503 | 5,273,700 |
| Total current assets | | 6,725,519 | 6,775,792 |
| Non-Current | | | |
| Non-current investments | 7 | 4,843,878 | 4,314,364 |
| Software | 11 | 40,593 | 121,788 |
| Property, plant and equipment | 6 | 9,539 | 18,211 |
| Total non-current assets | | 4,894,010 | 4,454,363 |
| Total assets | | 11,619,529 | 11,230,154 |
| LIABILITIES | | | |
| Current | | | |
| IBNP Claims Provision | 15 | 1,544,273 | 1,416,576 |
| Trade creditors and other payables | | 71,740 | 82,458 |
| Employee entitlements | | 94,311 | 69,723 |
| Provision for Business Transition | 18 | 480,000 | - |
| Contributions received in advance | | 163,621 | 178,019 |
| Total current liabilities | | 2,353,945 | 1,746,776 |
| Total liabilities | | 2,353,945 | 1,746,776 |
| Net assets | | 9,265,584 | 9,483,379 |
| EQUITY | | | |
| Accumulated funds | | 9,265,584 | 9,483,379 |
| Total equity | | 9,265,584 | 9,483,379 |



Chairperson on
behalf of the Board

19/9/18 Date



Chief Executive

19/9/18 Date

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

Education Benevolent Society Incorporated

Statement of Changes in Equity For the Year Ended 30 June 2018

| | Notes | 2018 \$ | 2017 \$ |
|---|-------|------------------|------------------|
| Accumulated Funds | | | |
| Opening balance | | 9,483,379 | 9,351,054 |
| Surplus for the year | | (217,795) | 132,325 |
| Closing balance of accumulated funds | | 9,265,584 | 9,483,379 |
| Total equity | | 9,265,584 | 9,483,379 |

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

Education Benevolent Society Incorporated

Statement of Cash Flows For the Year Ended 30 June 2018

| | Notes | 2018 \$ | 2017 \$ |
|---|----------|------------------|------------------|
| Cash flows from operating activities | | | |
| <i>Cash was provided from/(applied to):</i> | | | |
| Contributions received | | 4,643,534 | 4,266,587 |
| Commission on Hospital cover & Life cover | | 721,451 | 709,034 |
| Other income | | 5,338 | 6,213 |
| Benefits paid | | (4,079,083) | (3,768,310) |
| Other expenses | | (1,299,863) | (1,408,728) |
| Net cash flows from/(used in) operating activities | 9 | (8,623) | (193,203) |
| Cash flows from investing activities | | | |
| <i>Cash was provided from/(applied to):</i> | | | |
| Investment income | | 199,023 | 215,027 |
| Sale/(purchase) of investments | | (227,804) | 826,829 |
| Purchase of property, plant and equipment | | - | (48,752) |
| Net cash flows from/(used in) investing activities | | (28,781) | 995,104 |
| Net increase/(decrease) in cash and cash equivalents | | (37,404) | 801,901 |
| Cash and cash equivalents at the beginning of the year | | 1,326,926 | 525,024 |
| Cash and cash equivalents at the end of the year | | 1,289,522 | 1,326,926 |

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

Education Benevolent Society Incorporated

Notes to the financial statements

1 Reporting entity

Education Benevolent Society Incorporated is a society incorporated under the Incorporated Societies Act 1908. Its registered office is Level 5, Education House, West Block, Te Aro, Wellington. The financial statements comprise the financial statements of Education Benevolent Society Incorporated (the "Society") For the Year Ended 30 June 2018.

The Society operates solely in New Zealand and its main activity consists of providing partial reimbursement of health care costs to its subscribers. Bereavement, birth and sick leave without pay grants are also provided. The Society was issued a full Insurance Licence by the Reserve Bank of New Zealand in April 2013.

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

The financial statements were authorised for issue by the Board of Directors on 19 September 2018.

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") and the Financial Markets Conduct (FMC) Act 2013. 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 and 30 June 2017 have been carried out by the appointed actuary Peter Davies (of Davies Financial and Actuarial Limited).

The IBNP provision has been determined in accordance with PBE IFRS 4 and the New Zealand Society of Actuaries Professional Standard No. 30 - Valuation of General Insurance Claims. The IBNP liability is determined using a conventional chain ladder calculation to derive claim payment patterns, in conjunction with the benefits paid expense for the 12 months ended 30 June 2018.

A provision, known as a "processing expense", is made for claims administration costs and charged at a rate of 7.5% (2017: 7.5%) on top of the base IBNP provision. Movements against prior year are recognised in surplus or deficit via the Statement of Comprehensive Revenue and Expense.

Education Benevolent Society Incorporated

Notes to the financial statements

Valuation and treatment of liabilities to subscribers (continued)

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

- (i) Allowance for claim handling costs - Direct and indirect claim handling costs are to be included in claim provisions. This is 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.
- (ii) 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.
- (iii) The assumptions used in the calculation of the IBNP provision are reviewed at each reporting date. A summary of the significant actuarial methods and assumptions used is set out in Note 15.

(e) Foreign currency translation

Transactions in foreign currencies are converted at the New Zealand rate of exchange at the date of the transaction. At balance sheet date any foreign monetary assets and liabilities are translated at the closing rate and variations arising from these transactions are included in the investment income as either realised or unrealised movement.

(f) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument in another entity.

Financial instruments are comprised of trade debtors and other receivables, cash and cash equivalents, other financial assets and trade creditors and other payables.

Initial recognition and measurement

Financial assets and financial liabilities are recognised initially at fair value plus transaction costs attributable to the acquisition, except for those carried at fair value through surplus or deficit, which are measured at fair value.

Financial assets and financial liabilities are recognised when the Society becomes a party to the contractual provisions of the financial instrument.

Derecognition of financial instruments

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or if the Society transfers the financial asset to another party without retaining control of substantial all risks and rewards of the asset.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Education Benevolent Society Incorporated

Notes to the financial statements

Subsequent measurement

The subsequent measurement of financial assets depends on their classification, which is primarily determined by the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition into one of four categories, and re-evaluates this designation at each reporting date.

All financial assets are subject to review for impairment at least at each reporting date. Different criteria to determine impairment are applied to each category of financial assets, which are described below.

The classification of financial instruments into one of the categories below determines the basis for subsequent measurement and whether any resulting movements in value are recognised in the reported surplus / deficit or other comprehensive revenue and expense.

The Society has categorised its financial instruments into two categories for financial reporting purposes:

(i) Loans and receivables

Loans and receivables have fixed or determinable payments. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. The Society's cash and cash equivalents, 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 is exempt under sections CZ18 of the Income Tax Act 2007 because of its recognition as a sickness, accident and death benefit fund.

(i) Employee entitlements

Current entitlements

Employee benefits, previously earned from past services, that the Society expect to be settled within 12 months of reporting date are measured based on accrued entitlements at current rates of pay.

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

(j) Intangible assets

Intangible assets consist of computer software acquired to assist in the administration of subscriber services. Intangible assets are measured at cost less accumulated amortisation and impairment losses.

Amortisation is recognised based on the estimated useful life of the asset. The amortisation rate has changed to 67% this year due to a reassessment of the remaining useful life of the asset to 31 December 2018.

The following amortisation rate has been applied:

Computer software

67% (2017: 50%)

Education Benevolent Society Incorporated

Notes to the financial statements

4 Benefits expense

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

| Type | 2018 | | 2017 | |
|-------------------------------|---------------|------------------|---------------|------------------|
| | Number | \$ | Number | \$ |
| Bereavement | 73 | 63,479 | 73 | 63,478 |
| Birth | 93 | 16,348 | 89 | 15,478 |
| Complementary | 5653 | 545,957 | 5,250 | 503,072 |
| Hospital | 556 | 234,049 | 506 | 216,511 |
| Hospital Excess | 640 | 224,418 | 692 | 253,807 |
| Major Diagnostic | 349 | 105,572 | 293 | 85,716 |
| Medical | 14691 | 1,991,631 | 13,934 | 1,915,140 |
| Medical Appliance | 324 | 54,389 | 310 | 52,559 |
| Optical | 3175 | 445,171 | 3,157 | 468,102 |
| Orthodontic | 181 | 44,002 | 146 | 42,925 |
| Sick Leave Without Pay | 76 | 10,278 | 100 | 12,042 |
| Dental | 1954 | 205,308 | 1,097 | 108,510 |
| Vaccinations | 193 | 10,785 | 155 | 9,093 |
| Benefits Paid | 27,958 | 3,951,386 | 25,802 | 3,746,432 |
| Decrease in year end accruals | | - | | (22,178) |
| Total benefit expense | | 3,951,386 | | 3,724,255 |

5 Cash and cash equivalents

| | 2018 | 2017 |
|---------------|------------------|------------------|
| | \$ | \$ |
| Cash at Bank | 64,399 | 78,689 |
| Call Deposits | 1,225,124 | 1,248,236 |
| Total | 1,289,522 | 1,326,926 |

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

Cash at bank earn interest at 0.10% (2017: 0.10%).

Call deposits earn interest at 0.10% - 2.00% (2017: 0.10% - 2.05%).

6 Property, plant and equipment

| | 2018 | 2017 |
|---------------------------------------|--------------|--------------|
| | \$ | \$ |
| Computer equipment | | |
| <u>Cost</u> | | |
| Opening | 32,683 | 57,461 |
| Additions | - | 6,439 |
| Disposal | (9,391) | (31,217) |
| Closing cost | 23,292 | 32,683 |
| <u>Accumulated depreciation</u> | | |
| Opening | (25,534) | (47,519) |
| Depreciation | (5,861) | (9,232) |
| Depreciation written back on disposal | 9,391 | 31,217 |
| Closing accumulated depreciation | (22,004) | (25,534) |
| Carrying value | 1,288 | 7,149 |

Education Benevolent Society Incorporated

Notes to the financial statements

| | 2018 | 2017 |
|--|--------------|---------------|
| | \$ | \$ |
| Furniture and fittings | | |
| <u>Cost</u> | | |
| Opening | 39,101 | 25,500 |
| Additions | - | 13,601 |
| Disposals | (25,047) | - |
| Closing cost | 14,054 | 39,101 |
| <u>Accumulated depreciation</u> | | |
| Opening | (28,039) | (25,228) |
| Depreciation | (2,811) | (2,811) |
| Depreciation written back on disposal | 25,047 | - |
| Closing accumulated depreciation | (5,803) | (28,039) |
| Carrying value | 8,251 | 11,062 |
| Total property, plant and equipment | 9,539 | 18,211 |

7 Investments

| | 2018 | 2017 |
|--------------------------------------|-------------------|------------------|
| | \$ | \$ |
| Current | | |
| BNZ Term Deposits | 5,251,503 | 5,273,700 |
| Total current | 5,251,503 | 5,273,700 |
| Non Current | | |
| Mint Asset Management - Managed Fund | 4,843,878 | 4,314,364 |
| Total non-current | 4,843,878 | 4,314,364 |
| Total investments | 10,095,381 | 9,588,064 |

Education Benevolent Society Incorporated

Notes to the financial statements

8 Investment income

| | 2018 \$ | 2017 \$ |
|--|----------------|----------------|
| Unrealised fair value gain on managed fund portfolio | 279,514 | 139,888 |
| Interest on term deposits | 206,079 | 205,330 |
| Interest on at call funds within cash and cash equivalents | 1,264 | 1,664 |
| Total investment income | 486,857 | 346,882 |

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

| | 2018 \$ | 2017 \$ |
|--|----------------|------------------|
| (Deficit) / Surplus for the year | (217,795) | 132,325 |
| <i>Less investment income classified as a financing activity</i> | (199,023) | (215,027) |
| <i>Non cash movements</i> | | |
| Unrealised fair value (gain) on managed fund portfolio | (279,514) | (139,888) |
| Provisions for claims | 127,697 | 44,056 |
| Depreciation and amortisation | 89,868 | 133,832 |
| <i>Movements in working capital</i> | | |
| (Increase)/decrease in trade debtors and other receivables | 20,905 | (21,727) |
| (Increase)/decrease in prepayments | (30,233) | 19,130 |
| Increase/(decrease) in trade creditors and other payables | 493,870 | (163,824) |
| Increase/(decrease) in contributions received in advance | (14,398) | 17,919 |
| Net Cash Flow from Operating Activities | (8,623) | (193,204) |

10 Lease Commitments

The Society has the following lease commitments:

| | 2018 \$ | 2017 \$ |
|--|------------|---------------|
| Not later than one year | - | 42,635 |
| Two to five years | - | - |
| More than five years | - | - |
| Total operating lease commitments | - | 42,635 |

The Society's lease for rental of premises expired in May 2018. The building has been sold to new owners and no lease has been signed whilst the Society reviews its options. Currently paying rent on a periodic, month by month basis, pending the final outcome of the Society's business transition.

11 Intangibles

| | 2018 \$ | 2017 \$ |
|--|---------------|----------------|
| Health Care Administration System | | |
| <u>Cost</u> | | |
| Opening | 324,326 | 297,615 |
| Additions | - | 26,711 |
| Closing cost | 324,326 | 324,326 |
| <u>Accumulated depreciation</u> | | |
| Opening | (202,538) | (80,750) |
| Depreciation | (81,195) | (121,788) |
| Closing accumulated depreciation | (283,733) | (202,538) |
| Total intangible assets | 40,593 | 121,788 |

Impairment

The Society assessed all Intangibles for impairment in the previous year. The Society concluded in 2017 that the remaining useful life of the current HCA system be reassessed to 2 years as the current system was due to be replaced by 30 June 2018. A reassessment has been made due to the decision to extend the use of the system to 31 December 2018 and the depreciation rate has been adjusted accordingly.

Education Benevolent Society Incorporated

Notes to the financial statements

12 Related party transactions

(i) Employees

During the 2018 year, employees of the Society were also subscribers. The employees' subscription fees were fully subsidised by the Society. Apart from this the Society deals with the employees on the same terms and conditions applied to all subscribers.

(ii) Board Members

During the financial year, the following Board Members of the Society were also subscribers:

Margaret Kinsey
Richard Kittelty (resigned from Board October 2017)
Samantha Stephen
Darrell Ward

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

Board fees in relation to Margaret Kinsey were paid to the 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 | |
|---------------|---------|
| 2018 | 2017 |
| \$ | \$ |
| 283,786 | 194,435 |
| 283,786 | 194,435 |
| 2.15 | 2.1 |

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 2018

Up to October 2017

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

From November 2017 onwards

| 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 received in the year ended 30th June 2018

| Name of Board Member | Total Remuneration |
|----------------------|--------------------|
| Ross Wilson | \$27,083 |
| Margaret Kinsey | \$19,550 |
| Alison O'Connell | \$18,950 |
| Darrell Ward | \$20,950 |
| Richard Kittelty | \$700 |
| Samantha Stephen | \$14,175 |
| Erin Polaczuk | \$13,125 |
| Total | \$114,533 |

Education Benevolent Society Incorporated

Notes to the financial statements

13 Financial Instruments

(a) Carrying value of financial instruments

The carrying amount of all material financial position assets and liabilities are considered to be equivalent to fair value.

Fair value is the amount for which an item could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

(b) Classification of financial instruments

All financial assets held by the Society are classified as "loans and receivables" are carried at cost less accumulated impairment losses, except for investments portfolio held with Mint (refer to note 7).

The Mint Investment Portfolio is classified as "financial assets at fair value through surplus or deficit" with fair value movements recognised in the surplus or deficit for the year.

All financial liabilities held by the Society are carried at amortised cost using the effective interest rate method.

(c) Financial instrument risk management

The Society has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Society has a series of policies to manage the risk associated with financial instruments. Policies have been established which do not allow transactions that are speculative in nature to be entered into and the Society is not actively engaged in the trading of financial instruments. As part of this policy, limits of exposure have been set and are monitored on a regular basis.

(i) Credit Risk

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

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

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. The Society is exposed to interest rate risk on fixed interest investments.

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

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

| | | 2018 | 2017 |
|---|---|------------------|------------------|
| | | \$ | \$ |
| Term Deposits | Classified as loans and receivables and carried at amortised cost | 5,251,503 | 5,273,700 |
| Total Fixed Interest Investments | | 5,251,503 | 5,273,700 |

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

Sensitivity analysis on fixed interest investments

The following analysis illustrates the sensitivity on the Society's surplus or deficit as a result of a +/- 1% movement in interest rates.

| Fixed interest investment carried at fair value | 2018 | | |
|---|---|---------------------------|-----------------|
| | Carrying amount of fixed interest investments | Impact on surplus/deficit | |
| | | +1% | -1% |
| | \$ | \$ | \$ |
| Fixed Interest Investments | 5,251,503 | 52,515 | (52,515) |
| Total | 5,251,503 | 52,515 | (52,515) |

| Fixed interest investment carried at fair value | 2017 | | |
|---|---|---------------------------|-----------------|
| | Carrying amount of fixed interest investments | Impact on surplus/deficit | |
| | | +1% | -1% |
| | \$ | \$ | \$ |
| Fixed interest Investments | 5,273,700 | 52,737 | (52,737) |
| Total | 5,273,700 | 52,737 | (52,737) |

Education Benevolent Society Incorporated

Notes to the financial statements

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):

| | | 2018 | 2017 |
|-------------------------------|---|------------------|------------------|
| | | \$ | \$ |
| Managed Fund | Classified as financial assets at fair value through surplus or deficit and carried at fair value | 4,843,878 | 4,314,364 |
| Total Unit Investments | | 4,843,878 | 4,314,364 |

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.

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

| | 2017 | | |
|------------------|--------------------------------|----------------------------|-----------|
| | Carrying amount of investments | Fair value movement impact | |
| | \$ | +10% | -10% |
| | \$ | \$ | \$ |
| Unit investments | 4,314,364 | 431,436 | (431,436) |

(d) Fair Value

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

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

(e) Maturity Analysis

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

| | 2018 | | 2017 | |
|---|------------------|--------------|------------------|--------------|
| | \$ | | \$ | |
| | <12 Months | 1 to 2 years | <12 Months | 1 to 2 years |
| The contractual maturities of investments are: | | | | |
| Term Deposits | 5,251,503 | - | 5,273,700 | - |
| Mint Asset Management Portfolio | 4,843,878 | - | 4,314,364 | - |
| In addition to the above investments, the society has on call funds | 1,289,522 | - | 1,326,926 | - |
| The contractual maturity of financial liabilities are as follows: | | | | |
| Trade creditors and other payables | 71,740 | - | 152,181 | - |
| IBNP Claims Provision | 1,544,273 | - | 1,416,576 | - |
| Contribution received in advance | 163,621 | - | 178,018 | - |
| Net Liquidity | 9,605,269 | - | 9,168,215 | - |

Education Benevolent Society Incorporated

Notes to the financial statements

14 Solvency Statement and Reserve Bank Conditions for License

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

The Society is subject to solvency margin requirements detailed in the Solvency Standard for Non-Life Insurance Business issued by the RBNZ. This standard requires the Society to retain a solvency margin of greater than zero meaning that the actual solvency capital position exceeds the minimum required under the solvency standard. During the year ended 30 June 2018 the Society complied with all externally imposed capital requirements.

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

Capital funding requirements as reported to the Reserve Bank

| | 2018 | 2017 |
|--------------------------|------------------|------------------|
| Actual Solvency Capital | 9,219,991 | 9,359,174 |
| Minimum Solvency Capital | 3,000,000 | 3,000,000 |
| Solvency Margin | 6,219,991 | 6,359,174 |
| Solvency Ratio | 307% | 312% |

15 IBNP Claims Provision

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

The IBNP provision for insurance claims incurred but not yet paid as at 30 June 2018 has been estimated by the actuary as \$1,544,273 (2017: \$1,416,576). This includes an estimate from the actuary for additional claims (including administration costs and risk margin) due to the removal of the 12 month claim limitation.

| | 2018 | 2017 |
|----------------------------|------------------|------------------|
| | \$ | \$ |
| IBNP Opening balance | 1,416,576 | 1,372,520 |
| Movement in IBNP provision | 127,697 | 44,056 |
| Closing balance | 1,544,273 | 1,416,576 |

| IBNP Claims Provision | 2018 | 2017 |
|------------------------|------------------|------------------|
| | \$ | \$ |
| Central estimate | 1,381,281 | 1,267,063 |
| Expense margin | 103,596 | 95,030 |
| Risk margin | 59,396 | 54,484 |
| Closing balance | 1,544,273 | 1,416,576 |

Education Benevolent Society Incorporated

Notes to the financial statements

A hindsight analysis of the IBNP Provision shows:

| | Previous Year's Estimate (June 2017) | Prior year's estimate (June 2016) |
|--|---|--------------------------------------|
| | \$ | \$ |
| Central Estimate determined at the time | 1,267,063 | 1,227,656 |
| Outstanding as assessed a year later | 1,207,784 | 1,074,057 |
| Surplus difference between actual claims and estimated provision | 59,279 | 153,599 |

Provision assumptions:

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

(ii) The claim handling cost rate (as required per PBE IFRS 4) assumed was 7.5% of outstanding claims (2017: 7.5%), which has been determined based on the size of the Society, its overall level of expenses, and the nature of claims incurred. This allowance has been assessed as reasonable based on the size of the Society, its overall level of expenses, the nature of claims incurred, and the experience of other similar entities.

(iii) The risk margin rate (as required per PBE IFRS 4) assumed was 4.00% of outstanding claims, including the claims handling cost rate in (ii) above (2017: 4.0%), which has been determined based on the past level of variability. With a coefficient of variation of 3.60% (2017: 2.80%), 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).

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

(v) The rate of processing of claims will continue to be consistent at the Society.

Sensitivity analysis

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

| Settlement time | 30-Jun-18 | Sensitivity | |
|-----------------|-----------|----------------------------------|-----------------------------------|
| | | Settlement time takes 10% longer | Settlement time takes 10% shorter |
| IBNP Provision | 1,544,273 | 1,991,011 | 1,184,859 |

| Settlement time | 30-Jun-17 | Sensitivity | |
|-----------------|-----------|----------------------------------|-----------------------------------|
| | | Settlement time takes 10% longer | Settlement time takes 10% shorter |
| IBNP Provision | 1,416,576 | 1,962,907 | 1,063,092 |

| Risk Margin | 30-Jun-18 | Sensitivity | |
|----------------|-----------|-----------------|-----------------|
| | | Risk margin +1% | Risk margin -1% |
| IBNP Provision | 1,544,273 | 1,559,122 | 1,529,424 |

| Risk Margin | 30-Jun-17 | Sensitivity | |
|----------------|-----------|-----------------|-----------------|
| | | Risk margin +1% | Risk margin -1% |
| IBNP Provision | 1,416,576 | 1,385,717 | 1,359,323 |

Education Benevolent Society Incorporated

Notes to the financial statements

16 Insurance Risk Management

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

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

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

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

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

Unexpired risk provision and liability adequacy test

A liability adequacy test was performed by the Actuary as at 30 June 2018, to determine whether the unearned premium liability is adequate to cover the present value of the expected future cash flows arising from rights and obligations under current insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate. The future cash flows are future claims, associated claim-handling costs and other administration costs related to the business.

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

The calculation of the risk margin has been based on an analysis of the volatility of historical claims experience within the time period covered by the unearned premiums. A risk margin of 6% of the present value of expected future cash flows has been applied as at 30 June 2018 (2017: 6%).

The resulting future claim liability is 98.3% of unearned premiums. Since this is less than 100%, the provision for premiums in advance (disclosed as contributions received in advance) is sufficient.

Key assumptions:

| | |
|--------------------------------|---------------------|
| Benefits as % of subscriptions | 88.1% (2017: 89.3%) |
| Risk margin | 6% (2017: 6%) |
| Admin Loading | 5% (2017: 5%) |

17 Credit Rating

The Society credit rating issued by A M Best, Asia-Pacific (Singapore) Pte Ltd is B++ Good as at March 2018 (2017: B++ Good)

18 Significant after balance date events

On 2 July 2018 the Education Benevolent Society Incorporated (EBS) signed a Heads of Agreement with Union Medical Benefits Society Incorporated (UniMed) for the transfer of the EBS health insurance business to UniMed. The planned date for the transfer is 1 January 2019. This transfer is subject to Reserve Bank New Zealand approval and this application is intended to be submitted shortly. (2017: None)



Independent Auditor's Report

To the members of Education Benevolent Society Incorporated

Report on the financial statements

Opinion

In our opinion, the accompanying financial statements of Education Benevolent Society Incorporated (the incorporated society) on pages 3 to 20:

- i. present fairly in all material respects the incorporated society's financial position as at 30 June 2018 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 2018;
- 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 other services to the incorporated society in relation to an IT application risk assessment and tax services. Subject to certain restrictions, partners and employees of our firm may also deal with the incorporated society on normal terms within the ordinary course of trading activities of the business of 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.



Other information

The Board, on behalf of the incorporated society, are responsible for the other information included in the entity's Financial Statements. Other information includes the entity directory. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.



In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Other matter

The financial statements of Education Benevolent Society Incorporated, for the year ended 30 June 2017, was audited by another auditor who expressed an unmodified opinion on those statements on 29 September 2017.



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-6/>

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

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

For and on behalf of

A handwritten signature in blue ink that reads 'KPMG'.

KPMG
Wellington

19 September 2018

