



UNION MEDICAL BENEFITS SOCIETY LIMITED

# ANNUAL REPORT 2006

It's the security of knowing we're there.

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# MISSION STATEMENT

## TENET ONE

### OUR VISION

To enhance our standing as a high quality medical insurer with innovative and responsive management maintaining a close focus on the ever changing needs of the membership.

## TENET TWO

### OUR MEMBERS AND HOW WE WILL TREAT THEM

Our members will receive consistent quality, caring personal service. We shall maintain personal convenient practices to ensure our Plans are characterised by their ease of understanding with no hidden associated costs. We aim to achieve satisfactory returns from realistic premiums so that funds are reinvested back into UniMed providing members with improved benefits and a financially strong Society.

## TENET THREE

### OUR PEOPLE ARE ESSENTIAL TO OUR SUCCESS

We employ responsible, dedicated and caring people who understand the importance of their role. We offer them challenging tasks/careers, equal opportunities, satisfying work and competitive rewards. We expect their loyalty and support. We value all those who contribute to UniMed's success.

## TENET FOUR

### THE COMMUNITY

We will be a responsible Society playing our part as a member of the communities we serve.

## TENET FIVE

### OUR VALUES

We conduct our business in a caring and professional manner and will act with the highest degree of ethics and integrity at all times. We strive for excellence and will seek out new opportunities to ensure we remain financially strong and grow.

## COMPANY DIRECTORY

AS AT 30 JUNE 2006

<b>NATURE OF BUSINESS</b>	Medical Health Insurers Rest Home Owners Property Owners
<b>REGISTERED OFFICE</b>	UniMed House 163 Gloucester Street Christchurch
<b>INCORPORATION</b>	Industrial and Provident Society Act 1908
<b>MANAGEMENT COMMITTEE</b>	John Chirside (Chairman) Brian James Dorgan David William Eastlake Brian James Edgeler Dennis Bruce Emery David Bernard O'Connell Leonard Ray Potroz Robert John Todd Brian Anthony Wooller
<b>SECRETARY</b>	Robert John Todd
<b>BANKERS</b>	Bank of New Zealand Armagh Street Christchurch
<b>AUDITOR</b>	Goldsmith Fox PKF 250 Oxford Terrace Christchurch
<b>SOLICITORS</b>	Lane Neave 119 Armagh Street Christchurch
<b>ACTUARIES</b>	Davies Financial and Actuarial Limited P.O. Box 35-258 Browns Bay Auckland 10



# NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of Members of the Union Medical Benefits Society Limited will be held at the Latimer Function Centre, Latimer Hotel, 30 Latimer Square, Christchurch on Wednesday 25 October 2006 at 6.00pm.

## BUSINESS

- 1) Apologies.
- 2) To confirm the Minutes of the 2005 Annual General Meeting.
- 3) To receive and consider the annual financial statements and Auditor's report for the year ended 30 June 2006.
- 4) To elect up to three committee members. In accordance with the Society's Rules, David O'Connell (Christchurch) and Brian Wooller (Christchurch) retire by rotation and being eligible; offer themselves for re-election to the Management Committee.

Nominations for members to serve on the committee are called for and should be made to the Secretary within ten days of this notice. A nomination form is available from the Head Office of the Society and must be signed by the nominee member, the nominating member, and the seconding member.

- 5) To appoint an auditor for the ensuing year.
- 6) To fix remuneration for the Committee.
- 7) To consider and discuss proposed changes to the Rules of the Society to reflect the role of the Secretary and the powers of the Chairman and, if considered appropriate, to adopt the Rule changes necessary to reflect this.
- 8) To transact any other business that may be brought before the Meeting in accordance with the Rules of the Society.

Any members intending to bring forward a subject for discussion or to move a motion must give notice in writing to the Secretary at least seven clear days before the date fixed for the Annual General Meeting and such notice shall specify the subject or set out the motion to be moved.

Proxy – Any member who is entitled to attend and vote at a meeting is entitled to appoint a proxy to attend and vote instead of him/her. The proxy appointed must also be a member of the Society. Proxy forms are available from the Society's Head Office and must be lodged with the Secretary not later than 24 hours before the Annual General Meeting.

By order of the Committee



R.J. Todd  
Secretary  
PO Box 1721  
Christchurch

30th September 2006

# CHAIRMAN'S REPORT

JOHN CHIRNSIDE



It is my pleasure, on behalf of the Management Committee of Union Medical Benefits Society Ltd

(UniMed), to present to members and other interested parties the Society's Annual Report and Financial Statements for the year ending 30 June 2006.

## FINANCIAL REPORT

The Financial Statements for the year ending 30 June 2006, as detailed in this Annual Report, confirm that the Society has completed another successful year and maintained its strong financial base.

UniMed and its members are not immune to ever increasing costs of medical care and treatment, making it necessary to increase premiums across the various plans by up to a maximum of 9% during the year. Both the Society's senior management and the Management Committee work hard to keep required premium increases to a minimum. To this end, there was a 're-balance' between the mix of premium and investment income during the year, which reduced the required premium increase by up to 5%. This was to the obvious benefit of our membership.

Members will no doubt be aware of the problems plaguing the public health system, the most obvious being the thousands of elective operations that have been cancelled or delayed due to tight budget restraints.

The Management Committee's previous strategy of retaining Investment Managers has continued during the year and it is pleasing to report that satisfactory results have been

maintained with respect to investment income on behalf of the membership. Rising claims costs and an ageing membership profile have again made it necessary to make appropriate increases to our reserve funds.

## KOWHAI MANOR REST HOME & HOSPITAL AND GRANGER HOUSE REST HOME & RICHARD SEDDON HOSPITAL

Our two Rest Homes and Geriatric Hospitals achieved satisfactory financial results in the year under review.

It was encouraging to receive a minor increase in Government funding during the year, however, it was not sufficient to offset the increasing running costs of the two facilities. Continuing underfunding puts pressure on the homes but high quality care of our residents remains paramount.

As is common with the aged care sector throughout the country, our two homes have sometimes struggled to attract and retain the required level of Registered Nurses and other skilled staff. We hope there will be some relief over the next year as the Government appears to recognise the pressures and is indicating that additional funding for the sector will be available.

I would like to take this opportunity of thanking our Nurse Managers and their dedicated staff for their high standard of care of the residents and patients in our two homes.

## THE FUTURE

The return of the Labour Government has largely meant a status quo with regards to the funding of New Zealanders' required health care. Accordingly, the environment in which the Society operates its health insurance activities is little changed.

Your Management Committee believes that the way forward is a much stronger partnership between the public and private sectors. Irrespective of the amount of money that any Government makes available to the public sector, it will always be unable to meet the demand. Private health care provision and the financing of that via insurance is, in our view, a necessity into the future.

I note that this time last year there was much concern throughout the country about the possibility of a bird flu pandemic. Thankfully this has not eventuated to date but the Society has taken all reasonable precautions available, both with regards to its own staff and to its reserve funding, should there be an escalation in claims submitted by members in the event of a pandemic.

## ACKNOWLEDGEMENTS

On behalf of the Management Committee we thank Dermot Martin, our General Manager, and his Senior Managers along with all staff, for their high level of support and service to our members. Senior Management's input into the decision making processes is acknowledged and appreciated.

Finally, I wish to thank my fellow Management Committee members for their continued support and commitment to UniMed and our members.

John Chirnside  
Chairman

# GENERAL MANAGER'S REPORT

DERMOT MARTIN



Our balance date of 30 June 2006 marked the end of another busy and successful year for UniMed.

## QUICK HIGHLIGHTS

- Total income for the Society from all sources increased by 9.4% to \$36.866M including improved performances from our Aged Care facilities and investment income.
- Total expenditure over all activities of UniMed increased by 3.1% during the year.
- Total assets of UniMed increased by slightly in excess of 20% to \$47.585M.
- Net assets after prudent adjustments to reserve provisions increased by 23.8% to \$36.992M.
- Total members' funds, which in effect underpin the financial strength of the Society, increased by a pleasing 23.8% to \$36.992M.

## HEALTH INSURANCE

No matter how much money the current Government, or any other Government, pours into the public health system, there will never be complete and timely access for all required medical care for the population of New Zealand. This fact is far from unique to New Zealand as all developed countries around the world experience similar constraints. There are several factors driving this - the more obvious being an ageing population. The longer we all live, the more time we have to experience a whole range of medical problems that require treatment. Coupled with the general ageing of the western world's population are the specific 'epidemics' of lifestyle conditions, such as obesity along with a looming and alarming increase in the rate of diabetes, particularly among Maori and Pacific Islanders.

If you accept that the demand for medical services will always outstrip the Government's ability to provide these via the public system, a more coordinated and meaningful partnership between the public and private health sectors must be part of the solution in the longer term.

Currently, about a third of New Zealanders have some form of private health insurance. While this level of uptake has been edging up over the past five years, I do not expect that it will greatly increase until there is a far better picture of exactly what we can reasonably rely on by way of access to timely medical services. New Zealand's public health system is very good with population-based primary care initiatives. The recent and continuing roll out of increased patient subsidies for General Practitioner consultations is an example of commendable, forward thinking, and the excellent delivery of acute services within public hospitals must be congratulated.

But the continuum of care breaks down around the non urgent and elective surgical area, most readily identified in the public's mind with the culling of patients from public hospital waiting lists where treatment cannot be guaranteed by the District Health Board concerned within six months.

Members tell me that they accept that the country cannot afford to provide all medical care on an immediate basis but that they would like more transparency so they know what areas they need to plan for on an individual basis. Surely this would provide a better total health care outcome for New Zealanders and private health insurance would have its role to play.

UniMed is a strong supporter of the Health Funds Association of New Zealand (HFANZ), which is the industry body representing the interests of all medical insurers and their members and clients. The HFANZ actively introduces additional disciplines to the sector for the benefit of those entrusting their health insurance to the various member organisations. For instance, the HFANZ is well advanced in setting up and overseeing a solvency criteria for all insurers. This will enable the various members and clients of

member funds to easily gauge the financial stability of their chosen insurer. Solvency criteria is the first part of a much wider Accreditation Programme for the industry, which will include benchmarks that all HFANZ members must meet around governance structures, complaints procedures and risk management. We strongly support the Accreditation Programme and firmly believe that it can only but strengthen UniMed, which is to the obvious advantage of our members.

## DELIVERING FIRST CLASS SERVICE TO MEMBERS

UniMed is an Industrial and Provident Society. Unlike a company structure, which would have shareholders typically expecting a financial return on their shareholding, we have members. UniMed's 'members' cannot expect a shareholder type financial return but they certainly have a right to expect a high level of service from their Society.

Generally, our members want sympathetic assistance with direct funding of planned admissions to private hospital and they also, quite rightly, expect efficient reimbursement of claims.

These are perfectly reasonable expectations and ones that we work very hard to meet and surpass. With this in mind, we have weekly internal monitoring of performance benchmarks in all the principal areas of administration of the health fund. I am pleased to be able to report that all benchmarks over the past year were exceeded and our long held commitment to refunding members' routine claims within three days of receipt was met or surpassed in over 98% of occasions. We had only a short lapse from this benchmark in the depths of winter when an unusually high number of our staff were sick. We continue to be committed to maintaining staffing levels and training to ensure our trademark personalised and efficient service to our members continues.

## WHAT ARE PREMIUMS DOING?

During the year, it was necessary to introduce staged premium increases

# GENERAL MANAGER'S REPORT cont.

DERMOT MARTIN

across all plans to ensure that the premium pool, from where members' claims are paid, was 'balanced' with the demand on it.

UniMed's Management Committee and Management Team are very aware that affordability of premium is a driving issue for the Society and its members, particularly for those who are retired.

With affordability of premium very much in mind, during the year the Management Committee decided that, in light of increasing investment income, the ratio between premiums received and claims paid could prudently be narrowed. This repositioning of the various income streams of the Society meant we could limit the extent of the premium increase that would have otherwise been required.

General inflation rates over the past year have been in the order of 3.5%. The so called 'medical inflation' applying in the private health insurance sector has been assessed as about 8.5% after allowing for increased utilisation rates. Some recent work conducted by the HFANZ noted that the dollar value of claims for those insured over aged 65 has doubled in the past six years.

Since balance date, members' claiming patterns have been ahead of the same period last year. We are watching carefully to see whether this is a trend, or simply a claims 'blip'. This will, in part, determine the need for and size of any premium increase during the 2006/2007. Members should, however, be assured that we are very aware that the affordability of health insurance is a number one issue facing, not only UniMed, but the whole private health insurance sector. Any premium increase will be struck at the minimum required.

## YEAR AHEAD

Continued and steady growth of the private health insurance sector can be expected, given the public's increasing awareness of the need to seriously consider paying their own medical care costs for elective non-urgent treatment. While some recognition by central Government to those effectively 'double paying' via general taxation and health insurance premiums would be welcomed, we do not see this as likely

in the medium term. UniMed has been supportive of the HFANZ bid to raise the issue of tightly targeted premium subsidies for older people retaining health insurance as private health insurers would all concur that just when it is needed most, many older insured people relinquish long held cover because of affordability issues, which in turn adds to the burden on the Public Sector.

We are currently working on introducing additional options to some plans to reduce premium levels in exchange for a greater acceptance of shared risk between the member and the Society. We will provide more information in the coming months.

There are a number of interesting opportunities currently being worked on by Management which, if brought to a satisfactory conclusion, will underpin continuing growth for UniMed during the 2006/2007 year and beyond.

## AGED CARE FACILITIES

UniMed owns and operates two Aged Care facilities with combined bed numbers of 114.

The Aged Care sector has had its difficulties over several years now, with funding increases for subsidised residents and patients not keeping up with the actual costs of providing an appropriate and safe environment for both residents/patients and staff within the homes.

It is encouraging to note that there is increasing political acknowledgement of the underfunding, with some expectation that the next Budget will look to address this issue.

The occupancy levels in our two homes/hospitals have been at higher levels than in the previous year but the trend of residents and patients first entering the facilities in an increasingly advanced stage of ill health and disability continues. Naturally this has associated implications for staff workloads.

I would like to take the opportunity of formally acknowledging and thanking our long serving Nurse Manager, initially


of Kowhai Manor but more latterly of Granger House, Mrs Maureen Frankpitt for her dedication to the role for more than 12 years. We wish her well in her new position as a senior manager at District Health Board level.

The Aged Care sector receives a lot of bad press in the general media, much of which is ill informed. There are, of course, instances of less than ideal care of vulnerable elderly but this is very much isolated and research indicates that inappropriate care in residential settings is very rare indeed. Nevertheless, I am appreciative of the huge commitment of all our staff in both facilities towards ensuring that our residents and patients live in a safe and caring environment.

## ACKNOWLEDGEMENTS

I would like to record my appreciation of the support and wise counsel I have received from the Society's Management Committee along with our professional advisors over the past year. The Management Committee's responsibilities, in a member focused organisation such as UniMed, are never easy. In essence, they must strike a balance between commercial considerations and the real need to ensure that a sympathetic claims and service function to our members is maintained. It is my belief that the right balance has been achieved.

I would also like to take the opportunity to thank my senior management team from both our Insurance and Aged Care operations for their dedication, enthusiasm and plain hard work over the year. All played an invaluable part in achieving what has been another successful year for the Society and our members.



Dermot H Martin  
General Manager



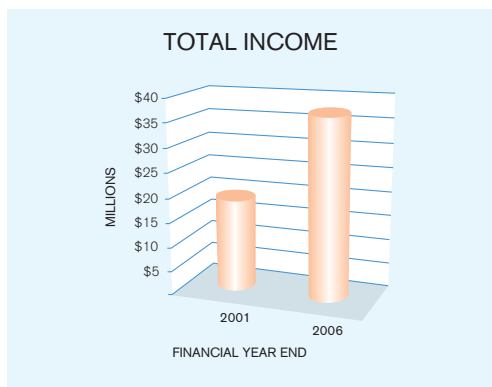
## GRAPHICAL HIGHLIGHTS FOR THE YEAR ENDED 30 JUNE 2006

### THE LAST FIVE YEARS AT UNIMED

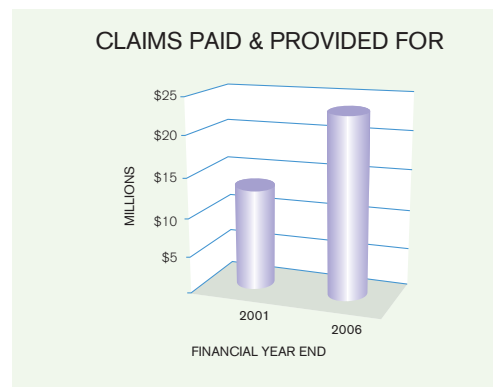
Five years is not a long time in our lives; sometimes this amount of time can fly by and we wonder where the time has gone and what have we achieved. Our members have entrusted us with their Health Insurance requirements and we are delighted to be able to repay that faith with the following results.

The last five years has been a period of huge growth for UniMed and we are very proud of what we have achieved in this relatively short time in such a competitive industry.

### STATEMENT OF FINANCIAL PERFORMANCE

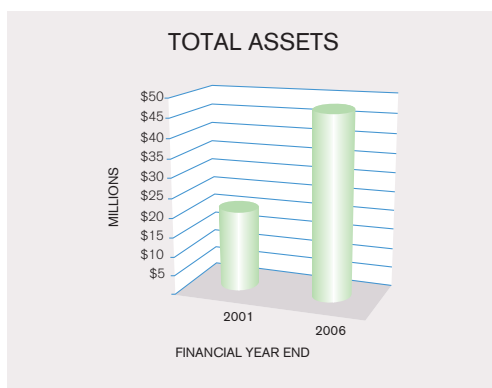


*an 85% increase in only 5 years.*

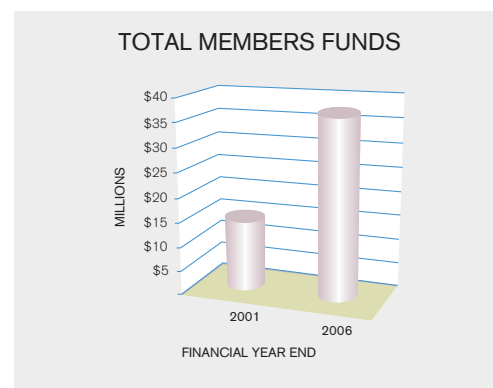


*a 93% increase in only 5 years.*

### STATEMENT OF FINANCIAL POSITION



*an 129% increase in only 5 years.*



*an 146% increase in only 5 years.*

# AUDIT REPORT

TO THE MEMBERS OF UNION MEDICAL BENEFITS SOCIETY LIMITED

**Goldsmith Fox PKF**  
Chartered Accountants



We have audited the financial statements on pages 9 to 16. The financial statements provide information about the past financial performance and financial position of Union Medical Benefits Society Limited as at 30 June 2006. This information is stated in accordance with the accounting policies set out in the notes to the financial statements.

## MANAGEMENT COMMITTEE RESPONSIBILITIES

The Management Committee is responsible for the preparation of the financial statements which gives a true and fair view of the financial position of the Society as at 30 June 2006 and of the results of operations and cash flows for the year ended 30 June 2006.

## AUDITORS' RESPONSIBILITIES

It is our responsibility to express an independent opinion on the financial statements presented by the Management Committee 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 by the Management Committee 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 generally accepted auditing standards in New Zealand. 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 give 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 auditors we have no relationship with or interests in the Society.

## UNQUALIFIED OPINION

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the Society as far as appears from our examination of those records; and
- the attached financial statements
  - complies with generally accepted accounting practice in New Zealand;
  - gives a true and fair view of the financial position of the Society as at 30 June 2006 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 30 September 2006 and our unqualified opinion is expressed as at that date.

*Goldsmith Fox PKF*

CHRISTCHURCH

## STATEMENT OF FINANCIAL PERFORMANCE

### FOR THE YEAR ENDED 30 JUNE 2006


	Note	2006 \$	2005 \$
<b>INCOME</b>			
Members Contributions		\$29,089,472	\$28,239,579
Rest Home Residents Fees		\$4,107,385	\$3,699,784
Interest		\$2,644,592	\$1,610,869
Other Income		\$1,025,210	\$141,018
<b>TOTAL INCOME</b>		<b>\$36,866,659</b>	<b>\$33,691,250</b>
<b>EXPENDITURE</b>			
Claims Paid and Provided For		\$23,229,543	\$22,604,994
Audit		\$14,088	\$14,476
Committee Member Fees		\$207,800	\$170,000
Depreciation Charges	(1)	\$257,545	\$285,694
Loss / (Gain) on Sale of Fixed Assets		\$5,205	\$2,929
Goodwill Amortised	(1)	\$265,988	\$238,038
Rent		\$58,443	\$90,011
Other Expenses		\$5,698,707	\$5,425,680
<b>TOTAL EXPENDITURE</b>		<b>\$29,737,319</b>	<b>\$28,831,822</b>
<b>NET EARNINGS FOR THE YEAR</b>		<b>\$7,129,340</b>	<b>\$4,859,428</b>
Accumulated Funds Start Of Year		\$27,037,439	\$22,178,011
<b>Accumulated Funds End Of Year</b>		<b>\$34,166,779</b>	<b>\$27,037,439</b>

*These financial statements are to be read in conjunction with the Notes to the Financial Statements.*

## STATEMENT OF FINANCIAL POSITION

### AS AT 30 JUNE 2006

	Note	2006 \$	2005 \$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash on Hand and at Banks		\$21,397,414	\$15,629,285
Sundry Debtors	(1)	\$3,801,192	\$3,261,376
<b>TOTAL CURRENT ASSETS</b>		<b>\$25,198,606</b>	<b>\$18,890,661</b>
<b>NON-CURRENT ASSETS</b>			
Fixed Assets	(2)	\$5,579,747	\$5,793,355
Investments	(3)	\$15,686,476	\$13,524,279
Goodwill	(4)	\$1,120,769	\$1,386,757
<b>TOTAL NON-CURRENT ASSETS</b>		<b>\$22,386,992</b>	<b>\$20,704,391</b>
<b>TOTAL ASSETS</b>		<b>\$47,585,598</b>	<b>\$39,595,052</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Sundry Creditors		\$1,297,442	\$913,526
Committee Members		\$0	\$86,250
Employee Entitlements		\$265,199	\$281,397
Unearned Premium Provision	(1)	\$3,330,000	\$3,150,000
Unreported Claims Provision	(1)	\$5,700,000	\$5,300,000
<b>TOTAL CURRENT LIABILITIES</b>		<b>\$10,592,641</b>	<b>\$9,731,173</b>
<b>NET ASSETS</b>		<b>\$36,992,957</b>	<b>\$29,863,879</b>
<b>REPRESENTED BY: MEMBERS FUNDS</b>			
Members Capital	(5)	\$74,178	\$74,440
General Reserves	(5)	\$2,752,000	\$2,752,000
Accumulated Funds		\$34,166,779	\$27,037,439
<b>TOTAL MEMBERS FUNDS</b>		<b>\$36,992,957</b>	<b>\$29,863,879</b>

  
J Chimside  
Chairman

  
B J Dorgan  
Committee Member

  
R J Todd  
Secretary

30th September 2006

*These financial statements are to be read in conjunction with the Notes to the Financial Statements.*

## STATEMENT OF MOVEMENTS IN EQUITY

### FOR THE YEAR ENDED 30 JUNE 2006

	2006 \$	2005 \$
EQUITY AT START OF YEAR	\$29,863,879	\$24,990,637
Total Recognised Revenues and Expenses For Period	\$7,129,340	\$4,859,428
Additions to Members Reserves During Period	(\$262)	\$13,814
<b>EQUITY AT END OF YEAR</b>	<b>\$36,992,957</b>	<b>\$29,863,879</b>

## STATEMENT OF CASH FLOWS

### FOR THE YEAR ENDED 30 JUNE 2006

	2006 \$	2005 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Was Provided From:		
Members Contributions	\$28,812,099	\$28,343,612
Rest Home Residents Fees	\$3,864,527	\$3,633,155
Rent Received	\$19,689	\$15,671
Sundry Income	\$6,455	\$32,874
Interest Received	\$3,458,583	\$1,605,036
	<b>\$36,161,353</b>	<b>\$33,630,348</b>
Cash Was Applied To:		
Payments for Claims and Expenses	\$29,434,180	\$26,783,283
Goods and Services Tax Paid (Net)	\$909,902	\$876,667
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$5,817,271</b>	<b>\$5,970,398</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash Was Applied To:		
Investment in Managed Funds	\$0	(\$2,000,000)
Purchase of Fixed Assets	(\$50,608)	(\$102,985)
Purchase of Goodwill	\$0	(\$838,490)
Cash Was Provided From:		
Sale of Fixed Assets	\$1,466	\$2,156
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(\$49,142)</b>	<b>(\$2,939,319)</b>
Net Increase/(Decrease) in Cash Held	\$5,768,129	\$3,031,079
Plus Opening Cash Brought Forward	\$15,629,285	\$12,598,206
<b>ENDING CASH CARRIED FORWARD</b>	<b>\$21,397,414</b>	<b>\$15,629,285</b>

*These financial statements are to be read in conjunction with the Notes to the Financial Statements.*

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2006

### 1 STATEMENT OF ACCOUNTING POLICIES

#### *Reporting Entity*

Union Medical Benefits Society Limited is an Incorporated Society registered under the Industrial and Provident Society Act 1908.

The financial statements of the Union Medical Benefits Society Limited have been prepared in accordance with generally accepted accounting practice in New Zealand as defined in the Financial Reporting Act 1993.

#### *Measurement Base*

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on a historical cost basis, modified by the revaluation of certain assets where stated, have been followed.

#### *Specific Accounting Policies*

The following specific accounting policies which materially affect the measurement of financial performance and the financial position have been applied:

#### DEBTORS

Sundry Debtors are stated at their estimated realisable value.

#### FIXED ASSETS

Fixed Assets are stated at cost less accumulated depreciation.

#### DEPRECIATION

Depreciation is provided at rates calculated to allocate the cost of fixed assets over their estimated useful lives.

The principal rates in use are:

Buildings and Chattels	2.0% - 13.0% SL and 2.0% - 31.2% DV
Motor Vehicles	25.0% - 31.2% DV
Fixtures and Fittings	7.5% - 60.0% DV
Office Furniture and Equipment	14.4% - 50.0% DV
Computer Equipment	14.4% - 48.0% DV

#### IMPAIRMENT

The carrying value of each asset is assessed annually. Where the estimated recoverable amount of the asset is less than its carrying amount, the asset is written down. The impairment loss is recognised in the Statement of Financial Performance.

#### INCOME RECOGNITION

Premium Revenue represents those members' contributions relating to the year under review. The premiums billed but relating to the following financial year are not included in revenue.

#### STATEMENT OF CASH FLOWS

The following are the definitions of the terms used in the Statement of Cash Flows:

Operating activities include all transactions and other events that are not investing or financing activities. Investing activities are those activities relating to the acquisition, holding and disposal of fixed assets and investments.

Investments can include securities not falling within the definition of cash.

Cash is considered to be cash on hand and current accounts in Banks and Building Societies.

As investments are held until maturity, and then reinvested, only the net purchase is disclosed in the Statement of Cash Flows.

#### TAXATION

No taxation has been provided as the Society has a tax-free status as confirmed by Inland Revenue.

#### INVESTMENTS

The Portfolio which consists of Government Stock, funds managed by the Bank of New Zealand Private Banking and Tower Financial Advisory Services are valued at market value at balance date. The surplus on original cost has been taken into income. The unrealised gain on investments for the year ended 30 June 2006 was \$1,000,486 (2005 - gain of \$92,873). Shares in quoted companies are valued at cost.

## NOTES TO THE FINANCIAL STATEMENTS cont. FOR THE YEAR ENDED 30 JUNE 2006

### GOODS AND SERVICES TAX

These accounts have been prepared on a GST exclusive basis with the exception of Sundry Debtors and Creditors which include GST invoiced.

### LIABILITIES

Current Liabilities and Provisions are stated at the expected amounts payable and include the following provisions:

#### *Provision for Unreported Claims*

This provision represents the estimated amount of benefits unclaimed as at balance date for accounts incurred by members before balance date. The time lag in the lodging of claims after members incur expenses varies.

#### *Provision for Unearned Premiums*

This provision represents the estimated amount of premiums paid by members covering periods that extend beyond the balance date. A significant number of our members pay on a weekly to monthly basis.

### FINANCIAL INSTRUMENTS

The Society has its cash invested with the Bank of New Zealand Limited, The ANZ National Bank Limited, Westpac Banking Corporation and The Southland Building Society held on short-term, in the form of Government Stock and in Managed Funds. The purposes of having its funds in Financial Institutions is for providing liquidity to meet unexpected fluctuations in operating cash flows. Financial Instruments which potentially subject the Society to concentrations of credit risk consist principally of cash and short-term investments in high quality financial institutions. Concentration of credit risk with respect to accounts receivable are limited due to the large number of clients included in the Society's client base. The Society does not require collateral or other security to support financial instruments with credit risk. The Society considers that transaction value plus accruals is indicative of fair value for all classes of financial instruments.

### GOODWILL

Goodwill represents the excess of the purchase consideration over the fair value of tangible assets acquired at the time of acquisition. The Goodwill on the purchase of Kowhai Manor Rest Home and Granger House and Richard Seddon Hospital is amortised by the straight line method over a ten year period. The Goodwill on the PSIS Ltd Healthcare members acquisition is amortised by the straight line method over a five year period. The amortisation rates have been determined by considering the useful lives that a benefit is expected to accrue. The finite periods determined will be reviewed on an annual basis.

### CHANGES IN ACCOUNTING POLICIES

Accounting Policies have been applied on a basis consistent with those used in previous years.

## 2 FIXED ASSETS

	Cost	2006 Accum Deprn	2006 Closing Book Value	Cost	2005 Accum Deprn	2005 Closing Book Value
Land	\$913,891	-	\$913,891	\$913,891	-	\$913,891
Buildings	\$5,466,605	\$1,162,952	\$4,303,653	\$5,466,605	\$1,019,460	\$4,447,145
Fixtures, Fittings & Equipment	\$1,466,256	\$1,152,262	\$313,994	\$1,602,819	\$1,212,759	\$390,060
Motor Vehicles	\$105,355	\$57,144	\$48,211	\$90,900	\$48,641	\$42,259
	\$7,952,107	\$2,372,358	\$5,579,749	\$8,074,215	\$2,280,860	\$5,793,355

The latest independent valuation of the Society's remaining land and buildings in Christchurch at net current value by Simes Limited Registered Valuers dated 30 June 2006 is \$1,520,000 (2005 - \$1,280,000). The latest independent valuation of the Society's land and buildings of Kowhai Manor Rest Home in Greymouth at net current value by Ford Baker Valuation Limited Registered Valuers is \$2,100,000 (2005 - \$1,900,000).

The latest independent valuation of the Society's land and buildings of Granger House and Richard Seddon Hospital in Greymouth at net current value by Ford Baker Valuation Limited Registered Valuers is \$3,890,000 (2005 - \$3,600,000). In the Committee's opinion the valuations obtained represent fair value. There are no restrictions on legal titles of assets.

## NOTES TO THE FINANCIAL STATEMENTS cont.

### FOR THE YEAR ENDED 30 JUNE 2006

#### 3 INVESTMENTS

	2006 \$	2005 \$
Stocks and Bonds	\$7,966,624	\$4,899,349
Listed Shares	\$10,773	\$10,773
Managed Funds at Valuation	\$7,709,079	\$8,614,157
	\$15,686,476	\$13,524,279

#### 4 GOODWILL

	2006 \$	2005 \$
Cost	\$1,821,370	\$1,821,370
Less Accumulated Amortisation	(\$700,601)	(\$434,613)
	\$1,120,769	\$1,386,757

#### 5 MEMBERS FUNDS

	2006 \$	2005 \$
Members Capital		
This represents the capital paid up by current members of the Society		
Balance at 01 July 2005	\$74,440	\$60,626
add additions (repayments) during the year	(\$262)	\$13,814
Balance at 30 June 2006	\$74,178	\$74,440
General Reserves		
This Reserve represents a Claim Fluctuation Reserve which has been created to provide for major claims arising from unusual or abnormal events. There are no restrictions on transfers within these reserves.		
Balance at 30 June 2006	\$2,752,000	\$2,752,000

#### 6 SEGMENT INFORMATION

The Society operates in two divisions conducted within New Zealand.

	2006 \$	2005 \$
Medical Insurance Segment		
Segment Assets	\$29,996,635	\$23,808,068
Revenue	\$32,326,261	\$29,782,049
Expenses	\$26,546,487	\$25,816,555
NET EARNINGS	\$5,779,774	\$3,965,494
Investment Property Segment (includes rental properties & rest homes)		
Segment Assets	\$17,588,964	\$15,786,984
Revenue	\$4,939,977	\$4,306,905
Expenses	\$3,590,411	\$3,412,971
NET EARNINGS	\$1,349,566	\$893,934
Total		
Assets	\$47,585,599	\$39,595,052
Revenue	\$37,266,238	\$34,088,954
Expenses	\$30,136,898	\$29,229,526
NET EARNINGS	\$7,129,340	\$4,859,428

## NOTES TO THE FINANCIAL STATEMENTS cont.

### FOR THE YEAR ENDED 30 JUNE 2006

#### 7 CAPITAL COMMITMENTS

Capital Commitments or contingent liabilities at balance date total \$nil. (2005 - \$nil).

#### 8 CASH FLOW RECONCILIATION

	2006	2005
	\$	\$
Reported Net Surplus / (Deficit)	\$7,129,340	\$4,859,428
Plus: Loss on Sale of Fixed Assets	\$5,205	\$2,929
Increase in Employment Entitlements	(\$16,198)	\$17,492
Increase in General Reserves	(\$262)	\$13,814
Increase in Unreported Claims Provision	\$400,000	\$1,400,000
Increase in Unearned Premium Provision	\$180,000	\$329,000
(Decrease) / Increase in Sundry Creditors	\$383,916	(\$58,177)
Less: Increase In Value of Govt Stock / Bonds	(\$2,162,197)	(\$721,592)
Increase in Debtors	(\$539,816)	(\$396,228)
(Decrease) in Committee Members Creditor	(\$86,250)	\$0
	\$5,293,738	\$5,446,666
Plus: Depreciation Charged	\$257,545	\$285,694
Goodwill Amortised	\$265,988	\$238,038
Net Cash Flow from Operating Activities as per Statement of Cash Flows	\$5,817,271	\$5,970,398

#### 9 ANALYSIS OF OPERATING LEASE COMMITMENTS

Lease commitments on non cancellable operating leases at balance date amounted to:

	2006	2005
	\$	\$
Payable no later than one year	\$3,250	\$23,070
Payable later than one year, not later than two	\$0	\$3,303
Payable later than two years, not later than three	\$0	\$0
	\$3,250	\$26,373

#### 10 ACTUARIAL REPORT

Estimates of the outstanding claims as at 30 June 2006 have been carried out by Peter Davies B.Bus.Sc., a Fellow of the New Zealand Society of Actuaries. The calculation of the provision for outstanding claims complies with FRS 35: Financial Reporting of Insurance Activities and Professional Standard No. 4 of the New Zealand Society Of Actuaries. The actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine these provisions. The provisions were determined based on past patterns of claim payments using a chain-ladder method, and include a volatility allowance and a provision for future claim processing. The Provision for Outstanding Claims has not been discounted due to the short-term nature of the claims experienced by the Society.

#### 11 PRINCIPAL ACTIVITY

The principal activity of the Society is Health Insurance Underwriting and Rest Home / Commercial Building ownership.

#### 12 CREDIT RATING

The Society has elected not to have a rating in accordance with the Insurance Companies (Rating and Inspections) Act 1994, and is not required to have a rating.

#### 13 SIGNIFICANT EVENTS AFTER BALANCE DATE

There are no events subsequent to balance date that would have or may have an effect on the operations of UniMed, the results of UniMed's operations or state of the affairs of UniMed.

## NOTES TO THE FINANCIAL STATEMENTS cont.

### FOR THE YEAR ENDED 30 JUNE 2006

#### 14 INTERNATIONAL FINANCIAL REPORTING STANDARDS

In December 2002 the New Zealand Accounting Review Board announced that International Financial Reporting Standards (IFRS) will apply to all New Zealand entities for periods commencing on or after 1 January 2007. Entities will also have the option for early adoption of the new standards for the periods beginning on or after 1 January 2005.

Since this date New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) have been issued. In complying with these, New Zealand entities will be in compliance with IFRS.

Analysis of the potential impacts from conversion to NZ IFRS has commenced. The Society considered the impacts of NZ IFRS implementation, both from a reporting and operational perspective. The objective of the Society is to ensure the conversion to NZ IFRS occurs within agreed and required timelines (under the Financial Reporting Act 1993), ensuring:

- Minimal operational impact on the Society; and
- All relevant parties are consulted.

The Society intends to adopt NZ IFRS and report for the first time under these standards for the year ending 30 June 2008 or earlier. Upon adoption of NZ IFRS, comparative information presented in the financial statements will be restated to conform to the requirements of the new standards, and the financial impact of that adoption will be disclosed.

One key difference in accounting policies has been identified to date as follows:

#### Accounting for goodwill

- Under NZ IFRS 3 goodwill will no longer be amortised. However, it will be subject to regular reviews for impairment. Currently the Society records goodwill at cost less amortisation over periods not exceeding 10 years.

Known or reliably estimable information about impacts on the financial report, had it been prepared using NZ IFRS, have not yet been determined.

The actual impact of adopting NZ IFRS may vary from the information presented, and the variation may be material.

INSURANCE  
& SAVINGS  
OMBUDSMAN



**HEALTH FUNDS ASSOCIATION  
OF NEW ZEALAND INC.**

UniMed is proud to be a participant of the Insurance & Savings Ombudsman scheme and a founding member of the Health Funds Association of New Zealand Inc.

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