

**CANTERBURY
EDUCATION SERVICES
SOCIETY LIMITED**

**ANNUAL REPORT
for the year ended
31 December 2010**

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DIRECTORY

Directors

Anthony (Tony) Deavoll (Chairperson)
John Laurenson (Principals' Representative)
Catherine Muir
Graeme McGlinn

Registered Office

89 Nazareth Avenue
Christchurch

Auditor

Deloitte on behalf of the Auditor General.

Solicitor

Goodman Tugendale Reid

Banker

Westpac Banking Corporation
Armagh Street Branch

Principal Activity

Provision of services to educational institutions in New Zealand, including accounting, secretarial, payroll and supply services

CANTERBURY EDUCATION SERVICES SOCIETY LIMITED

REPORT OF DIRECTORS

The Directors of the Society present their report for the year ended 31 December 2010, as follows :

Surplus for the year ended 31 December 2010	\$ 152,283
Retained Earnings brought forward from previous year	970,214
Retained Earnings carried forward as at 31 December 2010	<u>1,122,497</u>

Rebates

No rebates were paid to members during the year.

State of Affairs

The nature of the Society's business has not changed during the year under review.

Assets now total	\$ <u>1,534,334</u>
Financed by:	
Shareholders capital	70,000
Retained Earnings	1,122,497
Shareholders advances	14,900
Liabilities	326,937
	<u>1,534,334</u>

On behalf of the Board



A Deavoll
Director
Christchurch, 28 March 2011



G McGlenn
Director

BALANCE SHEET
as at 31 December 2010

	Note	Current Year Actual \$	Previous Year Actual \$
TOTAL FUNDS EMPLOYED		<u>1,207,397</u>	<u>1,055,114</u>
Represented by:			
Current Assets			
Cash and cash equivalents	2	227,540	84,936
Accounts receivable	3	108,195	103,952
Prepayments		2,486	1,983
Inventory		102,343	123,540
		<u>440,564</u>	<u>314,411</u>
Non-Current Assets			
Intangible assets	5	126,906	21,679
Goodwill	5	14,000	14,000
Property, plant and equipment	4	952,864	968,157
Total Assets		<u>1,534,334</u>	<u>1,318,247</u>
Current Liabilities			
Accounts payable	6	243,971	192,052
GST payable		18,418	15,938
Employee entitlements	7	64,548	55,143
Total Liabilities		<u>326,937</u>	<u>263,133</u>
NET ASSETS		<u>1,207,397</u>	<u>1,055,114</u>



A Deavoll
Director
Christchurch, 28 March 2011



G McElinn
Director

This statement is to be read in conjunction with the Notes to the Financial Statements

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2010

	Note	Fully paid shares	Shareholder advances	Retained earnings	Total
Balance at 1 January 2009		70,000	25,367	975,439	1,070,806
Total comprehensive (loss)/income for year		-	-	(15,692)	(15,692)
Transfer to retained earnings	10	-	(10,467)	10,467	-
Balance at 31 December 2009		<u>70,000</u>	<u>14,900</u>	<u>970,214</u>	<u>1,055,114</u>
Balance at 1 January 2010		70,000	14,900	970,214	1,055,114
Total comprehensive income for year		-	-	152,283	152,283
Balance at 31 December 2010	9	<u>70,000</u>	<u>14,900</u>	<u>1,122,497</u>	<u>1,207,397</u>

This statement is to be read in conjunction with the Notes to the Financial Statements

STATEMENT of COMPREHENSIVE INCOME
for the year ended 31 December 2010

	Current Year Actual \$	Previous Year Actual \$
CONTINUING OPERATIONS		
Revenue from the sale of goods	969,626	1,340,880
Revenue from the rendering of services	2,250,067	1,731,976
Interest received	9,470	10,318
Audit fees - financial statement audit	(7,000)	(6,350)
- trust accounts audit	(5,000)	(3,004)
- other fees paid to the auditor	(20,900)	(18,400)
Amortisation of intangibles	5	(18,344)
Depreciation	4	(4,996)
Directors fees	(73,522)	(86,369)
Employee benefits	(11,800)	(13,000)
Finance costs	(1,288,779)	(1,237,204)
Loss on disposal of property, plant and equipment	(250)	(2,734)
Rent	(1,977)	-
Rent	(17,171)	(17,688)
Change in inventory	21,197	(38,634)
Goods purchased for resale and consumables used	(1,235,358)	(1,182,485)
Other expenses	(417,976)	(488,002)
DEFICIT FOR THE YEAR FROM CONTINUING OPERATIONS	152,283	(15,692)
Other Comprehensive Income	-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	152,283	(15,692)

This statement is to be read in conjunction with the Notes to the Financial Statements

STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	Note	Current Year \$	Previous Year \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Receipts from customers		3,214,800	3,134,864
Interest received		9,617	10,171
		<u>3,224,417</u>	<u>3,145,035</u>
Cash was applied to:			
Payments to suppliers and employees		(2,897,786)	(2,990,219)
Interest paid		(250)	(2,734)
		<u>(2,898,036)</u>	<u>(2,992,953)</u>
Net cash inflow (outflow) from operating activities	11	<u>326,381</u>	<u>152,082</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Proceeds from sale of property, plant and equipment		444	71
Cash was applied to:			
Payment for property, plant and equipment		(60,650)	(5,734)
Payment for intangible assets		(123,571)	(17,532)
		<u>(183,777)</u>	<u>(23,195)</u>
Net cash outflow from investing activities		<u>(183,777)</u>	<u>(23,195)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Westpac loan		-	-
Cash was applied to:			
Westpac loan		-	(50,005)
Shares paid out		-	-
		<u>-</u>	<u>(50,005)</u>
Net cash inflow (outflow) from financing activities		<u>-</u>	<u>(50,005)</u>
Net change in cash and cash equivalents		<u>142,604</u>	<u>78,882</u>
Add cash and cash equivalents at beginning of year		<u>84,936</u>	<u>6,054</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	2	<u><u>227,540</u></u>	<u><u>84,936</u></u>

This statement is to be read in conjunction with the Notes to the Financial Statements

NOTES TO THE FINANCIAL STATEMENTS**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES****a. General Information**

Canterbury Education Services Society Limited, (the Society), is a society registered under the Industrial and Provident Societies Act 1908. The Society operates on a cooperative basis providing goods and services to schools. The Society is a public benefit entity and is classified as an issuer under the Securities Act.

b. Statement of Compliance

The Society is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with the Act.

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand, applying New Zealand Equivalents to International Financial Reporting Standards (NZIFRS) and other applicable financial reporting standards as appropriate for public benefit entities. The financial statements also comply with International Financial Reporting Standards (IFRS). No advantage has been taken of the available public benefit entity reporting exemptions. The financial statements were authorised for issue by the directors on 28 March 2011.

c. BASIS OF PREPARATION

The financial statements are prepared on the historical cost basis unless otherwise noted in a specific accounting policy.

Presentation Currency

These financial statements are presented in New Zealand dollars.

Specific Accounting Policies

The accounting policies used in the preparation of these financial statements are set out below. The policies have been consistently applied to all the years presented.

Critical Accounting Estimates and Assumptions

In preparing these financial statements the Society has made estimates and assumptions concerning the future in regard to asset lives, provisions and impairment of assets.

We refer to note (i) for property plant and equipment and to note (j) goodwill, for the estimates and assumptions as to asset lives and impairment.

Taxation

The Society, which was established with charitable objectives, has been granted charitable status for income tax purposes. As a result the Society does not have to provide for taxation.

d. Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable.

Sale of Goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Society has transferred to the buyer the significant risks and rewards of ownership of the goods,
- the Society retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold,
- the amount of revenue can be measured reliably,
- it is probable that the economic benefits associated with the transaction will flow to the entity,
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of Services

Services comprise financial, secretarial, asset register, property consulting and the arranging of conferences and seminars.

Revenue from financial and secretarial services is recognised monthly on completion of the work.

Revenue from asset register services are recognised according to the quoted price, half being charged after the asset count with the balance upon the completion of the register.

Revenue from property consulting services are recognised when the services are provided based on the stage of completion of the contract.

NOTES TO THE FINANCIAL STATEMENTS**Interest Revenue**

Interest revenue is accrued on a time basis using the effective interest method.

e. Operating Lease Payments

Payments made under operating leases are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

f. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short term highly liquid investments and bank overdrafts that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

g. Loans and Receivables

Trade receivables, loans and other receivables that have fixed or determinable payments and that are not quoted in an active market are classified as loans and receivables. After initial recognition these are measured at amortised cost using the effective interest method, less any impairment.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

h. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on first-in-first-out basis. Net realisable value is the estimated selling price in the ordinary course of activities less the estimated costs necessary to make the sale. The write down from cost to net realisable value is recorded as an expense in the profit or loss.

i. Property, Plant and Equipment

All property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses. Land is an exception as it is not depreciated.

Gains and losses on disposals are determined by comparing the proceeds received with the book value.

Depreciation

Depreciation is charged for all property, plant and equipment except for land. Depreciation is charged to the profit or loss so as to spread the cost of an asset over the useful life of the asset.

Depreciation has been charged at the following rates:

Buildings	2 - 5.5%	S.L.
Furniture & fittings	9.5 - 33%	D.V.
Motor vehicles	26%	D.V.
Office equipment	9.5 - 50%	D.V.

j. Goodwill

Goodwill arising on the purchase of an Auckland conference business represents the excess of the the acquisition cost of the business over the fair value of the net assets acquired. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any impairment losses.

For the purpose of impairment testing the goodwill is allocated to the cash generating conference to which it relates and is tested for impairment annually, or more frequently when there is an indication that it may be impaired. The recoverable amount is the higher of fair value less cost to sell and value in use. To determine value in use, management estimates future cash flows from the conference and determines a suitable interest rate in order to calculate the present value of the cash flows.

Any impairment loss is allocated to reduce the goodwill and is recognised immediately in profit and loss.

NOTES TO THE FINANCIAL STATEMENTS**k. Intangible Assets**

Intangible assets include software and website development costs. They are capitalised and amortised over their estimated useful lives, being reported at cost less accumulated amortisation and accumulated impairment losses.

Acquired software licences are capitalised on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software, that is expenditure relating to patches and other minor updates as well as their installation, are expensed as incurred.

Expenditure on research is expensed in the period in which it is incurred.

Costs that are directly attributable to the website development are recognised as intangible assets provided they meet the following recognition requirements:

- completion of the intangible asset is technically feasible so that it will be available for use,
- the Society intends to complete the intangible asset and use it,
- the Society has the ability to use the intangible asset,
- the intangible asset will generate probable future economic benefits,
- there are adequate technical, financial and other resources to complete the development and to use the intangible asset, and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

Development costs not meeting these criteria for capitalisation are expensed as incurred.

l. Creditors

Creditors represents liabilities for goods and services provided to the Society prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

The measurement of creditors is explained under Financial Assets and Liabilities (note n).

m. Employee Entitlements

Salary accruals reflect wages and annual leave owing to staff and are recognised in respect of employees services to balance date and are measured at the present value of the amounts expected to be paid when the liabilities are settled.

n. Financial Assets and Liabilities

The Society's financial assets comprise cash and cash equivalents, debtors and investments. All of these financial assets are categorised as "loans and receivables" for accounting purposes and are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate.

The Society's financial liabilities comprise creditors and GST payable. All of these financial liabilities are categorised as "other financial liabilities" for accounting purposes in accordance with financial reporting standards. Other financial liabilities, including borrowings, are initially measured at fair value, plus transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective interest basis.

NOTES TO THE FINANCIAL STATEMENTS**o. Goods and Services Tax (GST)**

The financial statements have been prepared exclusive of GST, with the exception of receivables and payables which are recognised inclusive of GST.

p. Standards and Interpretations on Issue not yet adopted

At the date of authorisation of these financial statements, certain new standards and interpretations have been published but are not yet effective.

<u>Name</u>	<u>Effective for annual reporting periods beginning on or after:</u>
Amendments to NZ IAS 24 Related Party Disclosures	1 January 2011
NZ IFRS 9 Financial Instruments	1 January 2013
NZ IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
Amendments to NZ IFRIC 14 Prepayments of a Minimum Funding Requirement	1 January 2011

Directors expect to adopt the above Standards and Interpretations in the period in which they become mandatory. The directors anticipate the above Standards and Interpretations will have no material impact on the financial statements of the Society in the period of initial application.

NOTES TO THE FINANCIAL STATEMENTS**2. CASH AND CASH EQUIVALENTS**

	Current Year Actual \$	Previous Year Actual \$
Cash on hand	240	240
Westpac - current accounts	16,438	19,696
Westpac - short term deposits	110,862	65,000
ASB Bank - short term deposits	100,000	-
	<u>227,540</u>	<u>84,936</u>

3. ACCOUNTS RECEIVABLE

	Current Year \$	Previous Year \$
Trade receivables	82,602	70,690
Amounts due from member schools	25,593	33,262
	<u>108,195</u>	<u>103,952</u>
 Aging of past due but not impaired receivables		
30-60 days	14	1,595
60-90 days	517	3,583
90-120 days	220	270
	<u>751</u>	<u>5,448</u>

At balance date it was deemed there was no impairment of receivables and all past due would be fully recoverable.

NOTES TO THE FINANCIAL STATEMENTS

4. PROPERTY PLANT AND EQUIPMENT

	Opening Net Book Value \$	Additions \$	Disposals \$	Depreciation \$	Closing Net Book Value \$
This Year					
Land	114,000	-	-	-	114,000
Buildings	723,229	-	-	26,524	696,705
Furniture and fittings	36,402	447	-	5,525	31,324
Office equipment	78,231	32,295	485	35,321	74,720
Motor vehicles	16,295	27,908	1,936	6,152	36,115
	<u>968,157</u>	<u>60,650</u>	<u>2,421</u>	<u>73,522</u>	<u>952,864</u>

	Cost \$	Depreciation This Year \$	Accumulated Depreciation \$	Net Book Value \$
This Year				
Land	114,000	-	-	114,000
Buildings	878,638	26,524	181,933	696,705
Furniture and fittings	108,309	5,525	76,985	31,324
Office equipment	267,106	35,321	192,386	74,720
Motor vehicles	79,714	6,152	43,599	36,115
	<u>1,447,767</u>	<u>73,522</u>	<u>494,903</u>	<u>952,864</u>

	Opening Net Book Value \$	Additions \$	Disposals \$	Depreciation \$	Closing Net Book Value \$
Last Year					
Land	114,000	-	-	-	114,000
Buildings	749,783	-	-	26,554	723,229
Furniture and fittings	42,851	0	-	6,449	36,402
Office equipment	120,209	5,734	71	47,641	78,231
Motor vehicles	22,020	-	-	5,725	16,295
	<u>1,048,863</u>	<u>5,734</u>	<u>71</u>	<u>86,369</u>	<u>968,157</u>

	Cost \$	Depreciation This Year \$	Accumulated Depreciation \$	Net Book Value \$
Last Year				
Land	114,000	-	-	114,000
Buildings	878,638	26,554	155,409	723,229
Furniture and fittings	107,862	6,449	71,460	36,402
Office equipment	265,095	47,641	186,864	78,231
Motor vehicles	65,361	5,725	49,066	16,295
	<u>1,430,956</u>	<u>86,369</u>	<u>462,799</u>	<u>968,157</u>

NOTES TO THE FINANCIAL STATEMENTS**5. INTANGIBLE ASSETS AND GOODWILL**

Intangible assets comprise of capitalised software and website development costs.

Software and website development costs :

	Current Year Actual \$	Previous Year Actual \$
Opening net book value	21,679	9,143
Additions	81,261	17,532
Disposals	-	-
Amortisation expense WIP Accounting System	(18,344) 42,310	(4,996) -
Closing net book value	<u>126,906</u>	<u>21,679</u>
Cost	207,105	83,534
Accumulated depreciation	80,199	61,855
Net book value of software and website development costs	<u>126,906</u>	<u>21,679</u>

Goodwill has arisen from the purchase of an Auckland conference business, School Management Services Ltd. The original purchase price of \$14,000 included the Company name, database of conference attendees, exhibitors and sponsors, contact details for past presenters and content of a website.

Goodwill	14,000	14,000
Less Accumulated Impairment losses	-	-
Goodwill Carrying Amount 31 December	<u>14,000</u>	<u>14,000</u>

Annual test for impairment:

During the year an assessment of the recoverable amount of the goodwill associated with the Auckland conference was carried out which determined there was no impairment (2009: nil).

The recoverable amount was assessed by reference to value in use. A discount factor of 8% (2009: 8%) was applied in the value in use model.

6. ACCOUNTS PAYABLE

Trade and other creditors	<u>243,971</u>	<u>192,052</u>
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7. EMPLOYEE ENTITLEMENTS

Holiday pay	<u>64,548</u>	<u>55,143</u>
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8. LOAN

Repayable as follows:

Payable not later than 1 year	-	-
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A Business Revolve Facility with Westpac gives flexibility with drawdown of funds up to \$350,000 with repayment as funds allow. The facility has a remaining term of 1 year. The interest rate at balance date was 8.25% (2009: 8.25%).

NOTES TO THE FINANCIAL STATEMENTS

	Current Year Actual \$	Previous Year Actual \$
9. SHARE CAPITAL		
Issued and paid up capital:		
Opening balance 68 ordinary shares (2009: 68 shares)	70,000	70,000
68 ordinary shares (2009: 68 shares)	<u>70,000</u>	<u>70,000</u>

10. SHAREHOLDERS ADVANCES

Advances from shareholders are unsecured, interest free and repayable at the option of the Society.

11. RECONCILIATION OF NET OPERATING DEFICIT WITH OPERATING CASHFLOW

	Current Year \$	Previous Year \$
Reported (deficit) / surplus	152,283	(15,692)
Add (less) non-cash items		
Amortisation of intangibles	18,344	4,996
Depreciation	73,522	86,369
Loss on disposal of property, plant and equipment	1,977	-
	<u>93,843</u>	<u>91,365</u>
	246,126	75,673
Add (less) movements in working capital items		
Decrease (Increase) in amounts owing to the Society	(4,747)	61,859
Increase (Decrease) in amounts owing by the Society	51,919	65,233
Increase (Decrease) in GST payable	2,480	(4,845)
Decrease (Increase) in stock on hand	21,197	(38,624)
(Decrease) Increase in employee entitlements	9,406	(7,214)
	<u>80,255</u>	<u>76,409</u>
Net cash (outflow) inflow from operating activities	<u>326,381</u>	<u>152,082</u>

12. CONTINGENCIES

There are no contingent liabilities and no contingent assets as at 31 December 2010 (2009: Nil)

NOTES TO THE FINANCIAL STATEMENTS**13. RELATED PARTY TRANSACTIONS**

The Society is owned by 23 secondary schools, 1 intermediate school and 10 primary schools. Income is received from services provided to these schools.

During the year the Society purchased financial accounting and consultancy services amounting to \$27,715 from Grant Thornton, a company associated with a director. The Society also purchased legal services amounting to \$2,798 from Wynn Williams & Co, a firm associated with a director. No amounts were written off or forgiven during the year. At balance date there were no amounts outstanding.

There were no further related party transactions during 2010 other than in the ordinary course of trading with the school shareholders: (2009: nil).

14. COMPENSATION OF KEY MANAGEMENT PERSONNEL

The remuneration of key management during the year which contained only short-term employee benefits amounted to \$522,914 (2009: \$489,034).

15. COMMITMENTS

There were no Capital Commitments at balance date, (2009: Nil)

Operating Commitments

As at 31 December 2010 the following contracts had been entered into:

- (a) operating lease for photocopiers
- (b) operating lease for scanner, and
- (c) operating leases for motor vehicles.

	Current Year \$	Previous Year \$
Due within one year	31,044	7,308
Due after one year but within two years	29,394	7,308
Due after two years but within five years	26,816	5,481
	87,254	20,097

16. FINANCIAL INSTRUMENT RISK

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The interest rate on the cheque account is a floating rate set by the bank. Bank deposits are invested at the best available terms when funds are invested.

Credit risk is the risk that a third party will default on its obligation to the Society, causing the Society to incur a loss. The Society's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents and accounts receivable.

The fair value of cash and cash equivalents, accounts receivable and accounts payable are approximate to their carrying amounts.

17. SUBSEQUENT EVENTS

The CES building in Christchurch sustained no major damage from the 22nd February 2011 earthquake and it has been business as normal from these premises.

