

## **Police Health Plan Limited**

Financial Statements For The Year Ended 30 June 2014  
Together With The Reports Of The Directors And Auditors

**POLICE HEALTH PLAN LIMITED  
DIRECTORS' REPORT  
FOR THE YEAR ENDED 30 JUNE 2014**

---

In respect of the financial year ended 30 June 2014 the Directors of Police Health Plan Limited submit the following report:

The names of the directors in office at the end of the year: Maurice Cummings, Emmet Lynch, Greg O'Connor, Craig Prior, and Luke Shadbolt.

**Principal Activities of the Company**

The principal activity of Police Health Plan Limited is a provider of health insurance.

**Results for the Year Ended 30 June 2014**

The surplus for the year transferred to shareholders equity was \$3,408,925 (2013 \$3,246,464)

**State of Affairs**

The directors are of the opinion that the state of affairs of the company is satisfactory.

**Financial Statements**

The financial statements for the year ended 30 June 2014 accompany this report.

**Directors' Interests in Contracts**

The directors have declared that since the date of the last report, pursuant to Section 140 of the Companies Act 1993, that they are to be regarded as having no interest in any contract made with the entity. No material contracts involving directors' interests were entered into after the end of the previous financial year or existing at the end of the year.

**Auditors**

BDO Wellington has indicated their willingness to continue as auditors for the next financial year.

**Directors' Insurance**

Taking advantage of recently enacted changes to legislation in accordance with the articles of association, Police Health Plan Limited have arranged policies of directors' liability insurance which, together with a deed of indemnity, ensure that directors will incur no monetary loss as a result of actions undertaken by them as directors provided they operate within the law.

**Directors' Benefits**

| Director         | Total remuneration and other benefits |               |     |
|------------------|---------------------------------------|---------------|-----|
| Maurice Cummings | Nil                                   | Craig Prior   | Nil |
| Emmet Lynch      | Nil                                   | Luke Shadbolt | Nil |
| Gregory O'Connor | \$25,734                              |               |     |

For and on behalf of the Board:

  
\_\_\_\_\_  
DIRECTOR

16 September 2014

  
\_\_\_\_\_  
DIRECTOR

**POLICE HEALTH PLAN LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2014**

Page 1

|   | Note | 2014                      | 2013                      |
|---|------|---------------------------|---------------------------|
| <b>INCOME</b>   |      |                           |                           |
| Premium Revenue   |      | 29,708,291                | 28,085,895                |
| Net Claims Expense  | 2    | <u>26,500,949</u>         | <u>24,892,975</u>         |
| <b>Underwriting Profit</b>                                    |      | 3,207,342                 | 3,192,920                 |
| Investment Income   | 3    | <u>995,495</u>            | <u>1,084,582</u>          |
| <b>Net Operating Income</b>                                   |      | 4,202,837                 | 4,277,502                 |
| <b>EXPENSES</b>   |      |                           |                           |
| Depreciation and Amortisation                                 | 5    | 34,654                    | 1,787                     |
| Administration - Other  | 8    | 42,182                    | 39,469                    |
| Administration - IT   | 9    | 69,804                    | 56,925                    |
| Professional Fees   | 10   | 115,792                   | 94,486                    |
| Property & Premise Expenses                                   | 11   | 48,060                    | 42,000                    |
| Staff Costs   | 12   | 526,122                   | 489,571                   |
| Communications Expenses                                       | 13   | 53,966                    | 43,866                    |
| District, Regional & Board Expenses                           | 14   | 19,570                    | 11,911                    |
| Finance Expenses  | 15   | 35,400                    | 34,510                    |
| Members Services  | 16   | <u>26,248</u>             | <u>34,362</u>             |
| <b>Total Expenses</b>   |      | 971,798                   | 848,887                   |
| <b>PROFIT FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS</b>       |      | <u>\$ 3,231,039</u>       | <u>\$ 3,428,615</u>       |
| <b>Other Comprehensive Income</b>                             |      |                           |                           |
| Fair Value movement in Available for Sale Investments         |      | 177,886                   | (182,151)                 |
| <b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDER</b> |      | <u><u>\$3,408,925</u></u> | <u><u>\$3,246,464</u></u> |

**POLICE HEALTH PLAN LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2014**

|  |    | Share Capital | Retained Earnings | Shares FV Reserve | Investment Reserve | Total Equity |
|--|----|---------------|-------------------|-------------------|--------------------|--------------|
| <b>2013</b>  |    |               |                   |                   |                    |              |
| Opening balance at 1 July 2012                     | 7  | 1,000         | 16,455,561        | 243,079           | 152,117            | 16,851,757   |
| Profit For the Period Attributable to Shareholders |    | -             | 3,428,615         | -                 | -                  | 3,428,615    |
| Other Comprehensive Income                         |    | -             | -                 | (74,199)          | (107,952)          | (182,151)    |
| Closing balance 30 June 2013                       |    | 1,000         | 19,884,176        | 168,880           | 44,165             | 20,098,221   |
| <b>2014</b>  |    |               |                   |                   |                    |              |
| Opening balance at 1 July 2013                     |    | 1,000         | 19,884,176        | 168,880           | 44,165             | 20,098,221   |
| Profit For the Period Attributable to Shareholders |    | -             | 3,231,039         | -                 | -                  | 3,231,039    |
| Other Comprehensive Income                         | 17 | -             | -                 | 138,072           | 39,814             | 177,886      |
| Closing balance 30 June 2014                       |    | 1,000         | 23,115,215        | 306,952           | 83,979             | 23,507,146   |

**POLICE HEALTH PLAN LIMITED**  
**BALANCE SHEET**  
**AS AT 30 JUNE 2014**

Page 2

|  | Note   | 2014                 | 2013                 |
|--|--------|----------------------|----------------------|
| <b>CURRENT ASSETS</b>                    |        |                      |                      |
| Trade and Other Receivables              | 17     | 116,758              | 102,962              |
| Cash and Cash Equivalents                | 17, 19 | 24,559,032           | 19,872,094           |
| Investments                              | 4, 17  | 4,404,510            | 2,649,997            |
| Balance due from Police Welfare Fund Ltd | 17, 20 | -                    | 98,424               |
|  |        | <u>29,080,300</u>    | <u>22,723,477</u>    |
| <b>NON-CURRENT ASSETS</b>                |        |                      |                      |
| Investments                              | 4, 17  | 777,322              | 2,257,394            |
| Property Plant & Equipment               | 5      | 944                  | 1,302                |
| Intangibles                              | 5      | 309,492              | 238,778              |
|  |        | <u>1,087,758</u>     | <u>2,497,474</u>     |
|  |        | <u>\$ 30,168,058</u> | <u>\$ 25,220,951</u> |
| <b>CURRENT LIABILITIES</b>               |        |                      |                      |
| Trade and Other Payables                 | 17     | 37,135               | 28,884               |
| Employee Benefits                        |        | 59,777               | 51,846               |
| Provision for Claims                     | 6, 18  | 6,388,000            | 4,795,000            |
| Unexpired Premiums Received              | 6c     | 176,000              | 247,000              |
|  |        | <u>6,660,912</u>     | <u>5,122,730</u>     |
| <b>EQUITY</b>                            |        |                      |                      |
| Ordinary Shares                          | 7      | 1,000                | 1,000                |
| Retained Earnings                        |        | 23,115,215           | 19,884,176           |
| Investment Shares Fair Value Reserve     | 7      | 306,952              | 168,880              |
| Investment Reserve                       | 7      | 83,979               | 44,165               |
| <b>Total Equity</b>                      |        | <u>23,507,146</u>    | <u>20,098,221</u>    |
|  |        | <u>\$ 30,168,058</u> | <u>\$ 25,220,951</u> |

For and on behalf of the Board

Director

Director

16 September 2014

Date

**POLICE HEALTH PLAN LIMITED  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2014**

Page 3

|   | Note | 2014              | 2013              |
|---|------|-------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                 |      |                   |                   |
| Cash Was Provided From:                                     |      |                   |                   |
| - Premiums From Customers                                   |      | 29,634,647        | 28,042,060        |
| - Interest Received   |      | 830,923           | 821,071           |
| - Dividends Received  |      | 39,687            | 24,158            |
|   |      | <u>30,505,257</u> | <u>28,887,289</u> |
| Cash Was Applied To:  |      |                   |                   |
| - Payments of Claims  |      | 24,907,949        | 24,427,975        |
| - Payments to Suppliers and Employees                       |      | 903,785           | 833,625           |
|   |      | <u>25,811,734</u> | <u>25,261,600</u> |
| <b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>             | 24   | <u>4,693,523</u>  | <u>3,625,689</u>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                 |      |                   |                   |
| Cash Was Provided From:                                     |      |                   |                   |
| - Repayment of Loan to Parent                               |      | 98,424            | 550,000           |
| Cash Was Applied To:  |      |                   |                   |
| - Purchase of Fixed Assets and Intangibles                  |      | 105,009           | 238,796           |
|   |      | <u>(6,585)</u>    | <u>311,204</u>    |
| <b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>             |      |                   |                   |
| <b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>             |      |                   |                   |
|   |      |                   |                   |
| <b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b> |      | 4,686,938         | 3,936,893         |
| Opening Cash and Cash Equivalents                           |      | 19,872,094        | 15,935,201        |
| <b>CLOSING CASH AND CASH EQUIVALENTS</b>                    | 17   | <u>24,559,032</u> | <u>19,872,094</u> |
| <b>COMPRISING:</b>  |      |                   |                   |
| Cash  |      | 3,634,032         | 9,272,094         |
| Short Term Deposits   |      | 20,925,000        | 10,600,000        |

**NOTE 1. Statement of Accounting Policies**

**REPORTING ENTITY**

Police Health Plan Limited (the "Company") is a company incorporated and domiciled in New Zealand, registered under the Companies Act 1993.

The Company provides health insurance to members of the New Zealand Police and their families.

The financial statements are those of the Company for the year ended 30 June 2014. The financial statements were authorised for issue by the directors on 16 September 2014.

The registered office is level 11 Willbank House, 57 Willis Street, Wellington.

**BASIS OF PREPARATION**

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial reporting standards, as appropriate for public benefit entities.

The Company is a public benefit entity as its primary objective is to provide welfare benefits to members of the New Zealand Police.

The company is a subsidiary of Police Welfare Fund Limited and is part of Police Welfare Group.

Its equity has been provided in order to serve this primary objective rather than for a financial return to equity holders.

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

**BASIS OF MEASUREMENT**

The financial statements are presented in New Zealand Dollars. The financial statements are prepared on both historical cost and fair value basis, as disclosed in the accounting policies below.

**FUNCTIONAL AND PRESENTATION CURRENCY**

These financial statements are presented in New Zealand dollars (\$), which is the Company's functional and presentation currency.

All financial information presented in New Zealand dollars has been rounded to the nearest dollar, unless otherwise stated.

**USE OF ESTIMATES AND JUDGEMENTS**

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

Information about significant areas of estimation, uncertainty and critical 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 6: Insurance contract liabilities
- Note 18: Actuarial information

The accounting policies set out below have been applied consistently by the Company to all periods presented in these financial statements.

**(i) Revenue Recognition**

*Premiums*

Health Plan premiums are recognised from the attachment date being the date on which the insurer accept the risk of the insured. Premiums are paid in advance and accordingly at reporting date, the advance portion is recorded in the Balance Sheet as an Unearned Premiums' liability.

*Investment income*

Refer to the Financial Instruments accounting policy

**NOTE 1. Statement of Accounting Policies (continued)**

**(ii) Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value and bank overdraft.

**(iii) Property, Plant and Equipment**

Property, Plant & Equipment are recognised at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that are directly attributable to the acquisition of the asset. Subsequent costs are added to the carrying amount of an item of Property, Plant & Equipment when that cost is incurred if it is probable that the future economic benefits will flow to the Company and the cost can be reliably measured.

Depreciation is calculated using the straight line method to allocate the assets cost or revalued amounts, net of any residual amounts, over their useful lives. The assets' useful lives are reviewed and adjusted if appropriate at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if it is considered that the carrying amount is greater than its recoverable amount. Depreciation rates are consistent with the previous period

|                        |           |
|------------------------|-----------|
| Furniture and Fittings | 10% - 21% |
| Computer Hardware      | 36% - 40% |

**(iv) Intangibles**

Application software is recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over the estimated useful life of the software.

|                   |           |
|-------------------|-----------|
| Computer Software | 36% - 48% |
|-------------------|-----------|

**(v) Income Tax**

The Company is a Sickness, Accident & Death Benefit Fund and is exempt from income tax under section CZ18 of the Income Tax Act 2007

**(vi) Financial Instruments**

**Financial Assets**

The Company classifies its financial assets in the following categories: held to maturity, available for sale and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

**(a) Cash and Cash Equivalents**

Cash and cash equivalents includes cash on hand, unrestricted balances held in banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risks of changes in their value. Cash and cash equivalents are carried at amortised cost in the statement of financial position. Income from Cash and Cash equivalents is recognised on an accrual basis when earned.

**(b) Held to Maturity**

Police Health Plan have government bonds which are to be held until maturity. Held to maturity investments are recognised at amortised cost using the effective interest rate method. Premiums and discounts that are an integral part of the effective yield of the investment are recognised as an adjustment to the effective interest rate of the instrument

**(c) Available for Sale**

Financial assets classified as available for sale comprise of financial assets that are either not classified in any other category or designated on initial recognition as available for sale. A financial asset is classified in this category if acquired principally for the purpose of investment. Designation by management takes place when it is necessary to eliminate or significantly reduce measurement or recognition inconsistencies or if related financial assets or liabilities are managed and evaluated on a fair value basis.

Assets classified as available for sale measured at initial recognition at fair value plus directly attributable transaction costs. Subsequently they are measured at fair value through other comprehensive income.

**NOTE 1. Statement of Accounting Policies (continued)**

**(d) Impairment**

Financial assets, are assessed for indicators of impairment at each reporting date. Financial assets are impaired when there is objective evidence that the estimated future cash flows of the asset have been impacted as a result of one or more events that occurred after the initial recognition of the financial asset.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the assets' carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

For all financial assets, other than trade receivables, the carrying amount is reduced by the impairment loss directly.

For trade receivables the carrying amount is reduced via an allowance account, against which an uncollectible trade receivable is written off.

A trade receivable is deemed to be uncollectible upon notification of insolvency of the debtor or upon receipt of similar evidence that the Group will be unable to collect the amount. Changes in the carrying amount of the allowance account are recognised in the Statement of Comprehensive Income. A previously recognised impairment loss is reversed when, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was initially recognised.

In respect of financial assets carried at amortised cost, with the exception of trade receivables, the impairment loss is reversed through the profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. Subsequent recoveries of trade receivables previously written off are credited against the allowance account.

**Financial Liabilities**

Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

**Defined contribution pension plans**

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit and loss as incurred.

**Long service and Retirement leave**

The Company's net obligation in respect of long service and retirement leave is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The long service leave obligation is made up of actual untaken service leave at balance date plus 50% of future entitlements for staff who will become entitled to long service leave within the next 12 months.

**Sick leave**

Sick leave is expensed as incurred unless accumulated sick leave likely to be taken exceeds current entitlements.

To the extent that sick leave likely to be taken exceeds current entitlements a liability is recognised.

**(viii) Goods and Services Tax (GST)**

The Statement of Comprehensive Income has been prepared so that all components are stated exclusive of GST. All items in the Balance Sheet are stated net of GST, with the exception of receivables and payables which include GST invoiced.

**(ix) Premium and Other Receivables**

Premium and other receivables are stated at amortised cost less any impairment losses. Impairment losses for uncollectable premiums are written off against premium revenue in the year in which they are incurred. Under the NZ IFRS definition of financial assets, premium and other receivables are classified as "loans and receivables".

**(x) Impairment of Non Financial Assets**

Impairment tests on non-financial assets with indefinite useful economic lives are undertaken annually at the financial year end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest group of assets to which it belongs for which there are separately identifiable cash flows; its cash generating units ('CGUs').

Impairment charges are included in profit or loss, except to the extent they reverse gains previously recognised in other comprehensive income.



**(xi) Insurance Contracts**

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the period.

The Company has determined that all health insurance policies provided to members are insurance contracts.

**(xii) Claims Expense**

The net claims expense represents payments made net of acc recoveries on claims and the movements in the outstanding claims and unexpired risk provisions (as described below).

**(xiii) Outstanding Claims Provision**

The liability for outstanding claims comprises claims incurred but not settled at the reporting date, whether reported or not. A central estimate is made of claims reported but not paid, claims incurred but not reported and claims incurred but not adequately reported. The claims provision includes expected claim payments plus associated claims handling costs. In addition a risk margin is added to reflect the inherent uncertainty in the estimates of claims.

**(xiv) Acquisition Costs**

Acquisition costs are those incurred in acquiring and recording insurance contracts that will give rise to future benefits from premiums. The Company's acquisition costs do not directly relate to future premium revenue and so are immediately expensed.

**(xv) Unexpired Risk Provision and Liability Adequacy Test**

A liability adequacy test is performed to assess whether there is any deficiency in the unearned premium liability arising from expected claims and administration costs during the period covered by the unearned premium. The test is performed on all the policies as a whole as risks are broadly similar and are managed together as a single portfolio. The central estimate of claims and administration expenses is calculated. In addition, a risk margin is added to reflect the inherent uncertainty in estimating the claims. The total is compared with the unearned premium liability. Any deficiency is recognised as an expense in determining the profit or loss after first writing down any deferred acquisition costs. The deficiency in excess of deferred acquisition costs is recognised in the Balance Sheet as an unexpired risk provision.

**(xvi) Adoption of New Accounting Standards**

There have been no new accounting standards adopted that have materially affected the financial statements.

**(xvii) Changes in Accounting Policies**

There have been no changes in accounting policy that materially effect the financial statements. All accounting policies have been applied on a consistent basis with the prior year.

**(xviii) Financial Reporting Standards Approved but not yet Effective**

The following new or amended standards and interpretations, which are applicable to the Company, are not yet effective for the year ended 30 June 2014, and have not been applied in preparing these financial statements:

**NZ IFRS 9 - Financial Instruments: Classification and Measurement**

The requirements of NZ IFRS 9 - Financial Instruments: Classification and Measurement represents a significant change from the existing requirements in NZ IAS 39 - Financial Instruments: Recognition and Measurement, in respect of financial assets. The standard is effective for annual reporting periods beginning on or after 1 January 2017. The standard contains two primary measurement categories for financial assets (amortised cost and fair value), and eliminates two existing NZ IAS 39 categories (held to maturity, and loans and receivables). Recognition and Measurement requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities, the change in credit risk is presented in other comprehensive income with the remaining change presented in profit or loss. A financial asset would be measured at amortised cost if it is held to collect contractual cash flows of principal and interest on specified dates. All other financial assets would be measured at fair value. The impact of the requirements of this standard on the Company is still to be determined.

There are a number of other amendments to accounting standards as part of the ongoing improvement process.

None of these changes is expected to impact significantly on the Group.

The Company and Group have not adopted any standards prior to their effective date.

**POLICE HEALTH PLAN LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2014**

Page 8

**NOTE 2. Claims Expense**

|   | <b>2014</b>       | <b>2013</b>       |
|---|-------------------|-------------------|
| Claims incurred relating to risks borne in current financial year   | 26,178,121        | 25,220,626        |
| Claims incurred relating to risks borne in previous financial years | 221,828           | (303,651)         |
| Movement in provision for claims handling costs                     | 45,000            | 14,000            |
| Movement in provision for ACC recoveries                            | (89,000)          | (80,000)          |
| Movement in risk margin   | 145,000           | 42,000            |
| <i>Claims incurred</i>  | <u>26,500,949</u> | <u>24,892,975</u> |

**NOTE 3. Investment Income**

|                                  | <b>2014</b>    | <b>2013</b>      |
|----------------------------------|----------------|------------------|
| <i>Fixed Interest Securities</i> |                |                  |
| Interest Income                  | 930,896        | 950,997          |
| Unrealised Gains                 | (14,536)       | 7,284            |
| <i>Equity Securities</i>         |                |                  |
| Dividend Income                  | 39,687         | 24,158           |
| <i>Other</i>                     |                |                  |
| Other Investment Income          | 39,447         | 102,143          |
| <i>Total Investment Income</i>   |                |                  |
| Total Investment Income          | 1,010,030      | 1,077,298        |
| Unrealised Gains                 | (14,536)       | 7,284            |
|                                  | <u>995,494</u> | <u>1,084,582</u> |

**NOTE 4. Investments**

|   | <b>2014</b>      | <b>2013</b>      |
|---|------------------|------------------|
| <b>Available-for-sale</b>   |                  |                  |
| Investment Bonds  | 3,763,746        | 3,612,841        |
| Acurity Health Group Ltd Shares (Prior Year: Wakefield Hospital Shares) | 905,946          | 767,874          |
| <b>Held-to-maturity</b>   |                  |                  |
| New Zealand Government Stock  | 512,140          | 526,676          |
|   | <u>5,181,832</u> | <u>4,907,391</u> |
| Current assets  | 4,404,510        | 2,649,997        |
| Non-current assets  | 777,322          | 2,257,394        |
|   | <u>5,181,832</u> | <u>4,907,391</u> |

**NOTE 5. Property, Plant and Equipment and Intangibles**

|   | <b>Property, Plant and Equipment</b> |                 |               | <b>Intangibles</b> |
|---|--------------------------------------|-----------------|---------------|--------------------|
|   | <i>Furniture &amp;</i>               | <i>Computer</i> | <i>Total</i>  | <i>Computer</i>    |
| <b>2014</b>                                     |                                      |                 |               |                    |
| <b>Cost:</b>                                    |                                      |                 |               |                    |
| Opening   | 6,624                                | 13,966          | 20,590        | 286,841            |
| Purchases                                       | -                                    | -               | -             | 105,000            |
| Disposals                                       | -                                    | 639             | 639           | 48,053             |
| Closing   | <u>6,624</u>                         | <u>13,327</u>   | <u>19,951</u> | <u>343,788</u>     |
| <b>Accumulated Depreciation and Impairment:</b> |                                      |                 |               |                    |
| Opening   | 5,322                                | 13,966          | 19,288        | 48,053             |
| Depreciation/Amortisation Expense               | 358                                  | -               | 358           | 34,296             |
| Disposals                                       | -                                    | 639             | 639           | 48,053             |
| Closing   | <u>5,680</u>                         | <u>13,327</u>   | <u>19,007</u> | <u>34,296</u>      |
| <b>Book Value</b>                               | <u>944</u>                           | <u>-</u>        | <u>944</u>    | <u>309,492</u>     |

**NOTE 5. Property, Plant and Equipment and Intangibles (continued)**

|   | <b>Property, Plant and Equipment</b> |                 |              | <b>Intangibles</b> |
|---|--------------------------------------|-----------------|--------------|--------------------|
|   | <i>Furniture &amp;</i>               | <i>Computer</i> |              | <i>Computer</i>    |
| <b>2013</b>                                     |                                      |                 |              |                    |
| <b>Cost:</b>                                    |                                      |                 |              |                    |
| Opening   | 6,624                                | 13,701          | 20,325       | 48,053             |
| Purchases                                       | -                                    | 265             | 265          | 238,788            |
| Disposals                                       | -                                    | -               | -            | -                  |
| Closing   | 6,624                                | 13,966          | 20,590       | 286,841            |
| <b>Accumulated Depreciation and Impairment:</b> |                                      |                 |              |                    |
| Opening   | 4,858                                | 12,643          | 17,501       | 48,053             |
| Depreciation/Amortisation Expense               | 464                                  | 1,323           | 1,787        | -                  |
| Closing   | 5,322                                | 13,966          | 19,288       | 48,053             |
| <b>Book Value</b>                               | <u>1,302</u>                         | <u>-</u>        | <u>1,302</u> | <u>238,788</u>     |

**NOTE 6. Insurance Contract Liabilities**

|   | <b>2014</b>      | <b>2013</b>      |
|---|------------------|------------------|
| Provision for claims (refer note 6a)          | 6,388,000        | 4,795,000        |
| Unearned premium liability (refer note 6c)    | 176,000          | 247,000          |
| Provision for unexpired risk (refer note 6d)  | -                | -                |
|   | <u>6,564,000</u> | <u>5,042,000</u> |
| Assets backing insurance contract liabilities | 20,925,000       | 10,600,000       |

*Police Health Plan hold a number of short term bank deposits as security over their insurance liabilities.*

*The carrying value of investments that back general insurance liabilities approximates the fair value of these assets.*

*Assets backing insurance liabilities have been determined as term deposits due to the similar nature of their contractual terms.*

**Note 6a Provision for outstanding claims**

|  | <b>2014</b>      | <b>2013</b>      |
|--|------------------|------------------|
| Central estimate of outstanding claims liability | 5,997,000        | 4,505,000        |
| Claims handling costs                            | 180,000          | 135,000          |
| ACC Recoveries                                   | (370,000)        | (281,000)        |
| Risk margin                                      | 581,000          | 436,000          |
| Closing balance                                  | <u>6,388,000</u> | <u>4,795,000</u> |

**Note 6b Reconciliation of movement in provision for claims**

|                                   | <b>2014</b>      | <b>2013</b>      |
|-----------------------------------|------------------|------------------|
| Opening balance                   | 4,795,000        | 4,330,000        |
| Amounts utilised during the year  | (4,726,828)      | (3,712,349)      |
| Movement in ACC Recoveries        | (89,000)         | (80,000)         |
| Movement in Risk margin           | 145,000          | 42,000           |
| Movement in Claims Handling Costs | 45,000           | 15,000           |
| Amounts provided during the year  | 6,218,828        | 4,201,349        |
| Closing balance                   | <u>6,388,000</u> | <u>4,795,000</u> |

**Note 6c Reconciliation of movement in unearned premiums liability**

|                              | <b>2014</b>    | <b>2013</b>    |
|------------------------------|----------------|----------------|
| Opening balance              | 247,000        | 294,978        |
| Premiums written during year | 29,637,291     | 28,037,917     |
| Premiums earned during year  | (29,708,291)   | (28,085,895)   |
| Closing balance              | <u>176,000</u> | <u>247,000</u> |

**Note 6d Provision for unexpired risk**

The Directors have considered the level of the Provision for Unearned Premiums and the requirement under NZ IFRS 4 to perform a liability adequacy test to determine whether there is a need for a further Provision for Unexpired Risk.

In the opinion of the Directors, no additional Provision for Unexpired Risk is required as the short-term nature of the Company's premiums means the exposure would not be material (members pay premiums on a fortnightly basis).

**NOTE 7. Total Equity**

|  | <b>2014</b> | <b>2013</b> |
|--|-------------|-------------|
| <b>Share Capital</b>                               |             |             |
| Ordinary Shares @\$1 Fully Paid                    | 1,000       | 1,000       |
| No shares have been issued or sold during the year |             |             |

**Investment shares fair value reserve**

This reserve records the movements in the fair value of share investments designated as available for sale financial assets.

**Investment reserve**

This reserve records the movements in the fair value of bond investments designated as available for sale financial assets.

|                                       | <b>2014</b>   | <b>2013</b>   |
|---------------------------------------|---------------|---------------|
| <b>NOTE 8. Administration - Other</b> |               |               |
| Depreciation                          | 34,654        | 1,787         |
| Other Administration Expenses         | 12,508        | 9,658         |
| Subscriptions                         | 28,824        | 28,398        |
| Travel                                | 850           | 1,413         |
| Total Administration - Other          | <u>76,836</u> | <u>41,256</u> |

**NOTE 9. Administration - IT**

|                           |               |               |
|---------------------------|---------------|---------------|
| IT Charge                 | 69,804        | 56,925        |
| Total Administration - IT | <u>69,804</u> | <u>56,925</u> |

**NOTE 10. Professional Fees**

|  |                |               |
|--|----------------|---------------|
| Audit Fees                                       | 20,000         | 17,751        |
| Other Fees Related to Solvency Return Compliance | 2,500          |               |
| Consultancy                                      | 37,235         | 29,515        |
| Legal Advice                                     | 1,500          | -             |
| Other Professional Fees                          | 54,557         | 47,220        |
| Total Professional Fees                          | <u>115,792</u> | <u>94,486</u> |

\* Other fees related to the audit of the company's Solvency Return provided to the Reserve Bank of New Zealand are paid to BDO Wellington, the auditor of the financial statements.

**NOTE 11. Property & Premise Expenses**

|                                   |               |               |
|-----------------------------------|---------------|---------------|
| Rent & Service Charges            | 48,060        | 42,000        |
| Total Property & Premise Expenses | <u>48,060</u> | <u>42,000</u> |

**NOTE 12. Staff Costs**

|  |                |                |
|--|----------------|----------------|
| ACC Levies                               | 1,123          | 992            |
| FBT                                      | 5,594          | 4,874          |
| Other Staff Costs                        | 3,266          | 3,293          |
| Salaries Wages                           | 497,665        | 467,922        |
| Payments to Defined Contribution Schemes | 13,401         | 11,804         |
| Staff Costs Training & Recruitment       | 5,073          | 686            |
| Total Staff Costs                        | <u>526,122</u> | <u>489,571</u> |

**NOTE 13. Communication Expenses**

|                                    |               |               |
|------------------------------------|---------------|---------------|
| Photocopying Printing & Stationery | 17,514        | 16,722        |
| Postage & Couriers                 | 17,510        | 8,477         |
| Telephone & Fax                    | 18,942        | 18,667        |
| Total Communication Expenses       | <u>53,966</u> | <u>43,866</u> |

**NOTE 14. District & Regional Expenses**

|                                     |               |               |
|-------------------------------------|---------------|---------------|
| Board of Directors Meeting Expenses | 19,570        | 11,911        |
| Total District & Regional Expenses  | <u>19,570</u> | <u>11,911</u> |

**NOTE 15. Financial Expenses**

|                            |               |               |
|----------------------------|---------------|---------------|
| Bank Charges               | 1,660         | 869           |
| Insurance                  | 13,590        | 13,491        |
| Subscription Admin Changes | 20,150        | 20,150        |
| Total Financial Expenses   | <u>35,400</u> | <u>34,510</u> |

|                                  | 2014          | 2013          |
|----------------------------------|---------------|---------------|
| <b>NOTE 16. Members Services</b> |               |               |
| Newsletter Contributions         | 1,500         | 11,000        |
| Projects Publicity & Promotions  | 15,504        | 16,659        |
| Publications                     | 9,244         | 6,703         |
| Total Members Services           | <u>26,248</u> | <u>34,362</u> |

**NOTE 17. Financial Instruments**

**The categories of financial assets and liabilities**

The carrying amount of each of the following categories of financial assets and financial liabilities are as follows:

|  | 2014           |                   | 2013              |                  |                   |                   |
|--|----------------|-------------------|-------------------|------------------|-------------------|-------------------|
|  | Gains & Losses | Carrying Value    | Fair Value        | Gains & Losses   | Carrying Value    | Fair Value        |
| <i>Held to Maturity</i>                        |                |                   |                   |                  |                   |                   |
| NZ Government Stock                            | (14,536)       | 512,140           | 512,140           | 7,284            | 526,676           | 526,676           |
|  | (14,536)       | 512,140           | 512,140           | 7,284            | 526,676           | 526,676           |
| <i>Loans and receivables</i>                   |                |                   |                   |                  |                   |                   |
| Cash at Bank                                   | -              | 3,634,032         | 3,634,032         | -                | 9,272,094         | 9,272,094         |
| Short Term Deposits                            | -              | 20,925,000        | 20,925,000        | -                | 10,600,000        | 10,600,000        |
| Total Cash and cash equivalents                | -              | 24,559,032        | 24,559,032        | -                | 19,872,094        | 19,872,094        |
| Trade receivables                              | -              | 116,758           | 116,758           | -                | 102,962           | 102,962           |
| Balance due from Police Welfare Fund Ltd       | -              | -                 | -                 | -                | 98,424            | 98,424            |
|  | -              | 116,758           | 116,758           | -                | 201,386           | 201,386           |
| <i>Available for Sale</i>                      |                |                   |                   |                  |                   |                   |
| Investment Bonds                               | 39,814         | 3,763,746         | 3,763,746         | (107,952)        | 3,612,841         | 3,612,841         |
| Acurity Health Shares                          | 138,072        | 905,946           | 905,946           | (74,199)         | 767,874           | 767,874           |
|  | 177,886        | 4,669,692         | 4,669,692         | (182,151)        | 4,380,715         | 4,380,715         |
| <b>Total Financial Assets</b>                  | <u>163,350</u> | <u>29,857,622</u> | <u>29,857,622</u> | <u>(174,867)</u> | <u>24,980,871</u> | <u>24,980,871</u> |
| <i>Financial liabilities at amortised cost</i> |                |                   |                   |                  |                   |                   |
| Cash and cash equivalents                      | -              | -                 | -                 | -                | -                 | -                 |
| Sundry Creditors                               | -              | 37,135            | 37,135            | -                | 28,884            | 28,884            |
| <b>Total Financial Liabilities</b>             |                | <u>37,135</u>     | <u>37,135</u>     |                  | <u>28,884</u>     | <u>28,884</u>     |

**NOTE 18. Actuarial Information**

The estimate of outstanding claims as at 30 June 2014 has been determined by Charles Cahn FIAA, a Fellow of the New Zealand Society of Actuaries and was presented to the directors of the Company in a report dated 1 August 2014. There were no qualifications to the report. The calculation of the provision for outstanding claims complies with both NZ IFRS 4: Insurance Contracts, and the Professional Standard No. 4: General Insurance Business, of the New Zealand Society of Actuaries. The actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine the provision.

**Outstanding claims liability**

Outstanding claims liabilities are measured as the central estimate of the present value of expected future payments for claims incurred but not settled at 30 June 2014, whether reported or not, together with related claims handling costs and an additional risk margin to allow for the inherent uncertainty in the central claims estimate. The central estimate of the outstanding claims has been calculated using historical experience to determine the pattern of claims development.

The central estimate used the Adjusted Chain Ladder method with a the Past Actual Outstanding Claims Liabilities method used for a reasonableness check.

Estimation of outstanding claims liabilities includes an allowance for claims incurred but not reported, claims incurred but not adequately reported, unpaid reported claims and future claims handling costs associated with paying claims. An explicit allowance has been made for expected ACC recoveries.

A risk margin has been added to reflect the inherent uncertainty in the central estimate.

A risk margin of 10% of the central estimate was established at 30 June 2014 (30 June 2013: 10%). The risk margin was deemed appropriate by the actuary based on Australian Experience adjusted for New Zealand's slower run off patterns.

**Key assumptions:**

1. Future patterns of claims development will be similar to historical patterns.
2. Monthly seasonality factors used for claims incurred.

**NOTE 18. Actuarial Information (continued)**

**Outstanding claims liability (continued)**

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function. Claims handling costs were determined to be approximately 3% (30 June 2013: 3%) of the underlying claims amounts based on an analysis of administration expenses.

As at 30 June 2014, the expected settlement date for claims included in the liability for outstanding claims is no more than 2 to 3 months for most claims (30 June 2013: no more than 2 to 3 months). Accordingly, expected future payments are not discounted due to the short term nature of the liabilities.

**NOTE 19. Risk Management**

The Company is exposed to a number of risks in the normal course of business. Primarily there are the risks associated with underwriting an insurance business (insurance risk). Other risks include financial risks (credit risk and liquidity risk), market risks (interest rate risk), and non-financial risks (operational risk and compliance risk). The Directors and management recognise the importance of having an effective risk management policy in place. The risks and any objectives, policies and procedures to manage these insurance and financial risks are described below:

**a. Insurance risks**

The Company assumes insurance risks through its health insurance activities. The key risk arises in respect of claims costs and, in particular, those costs varying from what was assumed in the setting of premium rates.

*(i) Risk Management Objectives, Policies and Processes for Mitigating Risk*

The primary objective in managing risk is, as far as possible, to reduce the magnitude and volatility of claims costs. A secondary objective is to ensure funds are available to pay claims and maintain the solvency of the Company if there is adverse deviation in experience. Key policies and methods for mitigating risk include:

- Underwriting policies and processes which evaluate new risks and offer terms that do not endanger the portfolio.
- Claims management procedures to ensure the payment of claims is in accordance with policy conditions.
- Pricing strategy adopted by the Board which supports pricing based on underlying risk.
- Regular monitoring of financial and operating results.
- Maintaining a target solvency margin in excess of the minimum required by the draft Reserve Bank of New Zealand Solvency Standard for Non-life Insurance Business. The solvency margin ensures the Company is able to withstand a period of adverse insurance or investment experience and still maintain a satisfactory financial position.

*(ii) Sensitivity to Insurance Risk*

The financial results of the Company are primarily affected by the level of claims incurred relative to that implicit in the premiums. The assumptions used in the valuation of the outstanding claims provision directly affect the level of estimated claims incurred. The key assumptions used are detailed in note 17.

The scope of insurance risk is managed to by the terms and conditions of the policy. The main insurance benefit involves the reimbursement of medical and surgical expenses depending upon the plan option.

The level of benefits specified in the contract is a key determinant of the amount of future claims although the exact level of claims is uncertain.

Other variables affecting the level of claims include the underlying morbidity of the lives insured, the nature of the treatment given and the costs of treatment.

*(iii) Concentration of Insurance Risk*

Management defines concentration of risk by type of insurance business and geographic region. The Company transacts health insurance business in New Zealand and, therefore, the concentration of risk by type of insurance and geographic region cannot be avoided. Insurance risks are well diversified within the health insurance portfolio with claims costs spread across many different types of surgery and medical events. There is no significant exposure to individual large claims.

**NOTE 19. Risk Management (continued)**

**b. Credit risk**

Credit risk is the risk of loss that arises from a counterparty failing to meet their contractual commitment in full and on time, or from losses arising from the change in value of a trading financial instrument as a result in changes in credit risk of that instrument. The Company's exposure to credit risk is limited to deposits and investments held with banks and other financial institutions as well as credit exposure to trade customers or other counterparties. The Company maintains a credit policy which is used to manage the exposure to credit risk. Limits on counter-party exposures have been set and are monitored on an ongoing basis. In addition, the RBNZ has issued concentration risk limits, as part of its solvency standards.

The Company has no significant exposure to credit risk. The credit exposure in respect of the Company's cash balance is AA.

**I. Credit Concentration Risk**

Concentration of credit risk exists when the Company enters into contracts or financial instruments with counterparties that are engaged in similar business activities or exposed to similar economic factors that might affect their ability to meet contractual obligations. The significant concentrations of credit risk are outlined by industry type below.

|   | 2014              | 2013              |
|---|-------------------|-------------------|
| New Zealand Government                      | 512,140           | 526,676           |
| Banks                                       | 24,559,032        | 19,872,094        |
| Financial Institutions                      | 4,669,692         | 4,380,715         |
| Other non-investment related receivable     | 116,758           | 201,386           |
| Total Financial Assets with Credit Exposure | <u>29,857,622</u> | <u>24,980,871</u> |

**II. Maximum Exposure to Credit Risk**

The maximum exposure to credit risk at the end of the reporting period is the amount of financial assets stated in the Balance Sheet. These exposures are net of any recognised allowance for impairment losses. The Company does not require any collateral or security to support financial assets due to the quality of the counter-party organisations.

**III. Credit Quality of Financial Assets**

The credit quality of investment counter parties is as follows:

|           | 2014              | 2013              |
|-----------|-------------------|-------------------|
| AAA       | -                 | -                 |
| AA        | 26,877,077        | 22,707,376        |
| A         | 1,642,839         | 810,159           |
| BBB       | 315,002           | 318,873           |
| BB        | -                 | 158,190           |
| Non-rated | 1,022,704         | 986,273           |
|           | <u>29,857,622</u> | <u>24,980,871</u> |

**c. Liquidity risk**

Financing and liquidity risk is the risk that the Group will not be able to meet its cash outflows, as they fall due, because of lack of liquid assets or access to funding on acceptable terms. The Directors set limits on the minimum proposition of maturing funds available to meet such calls to cover claims and expenses at unexpected levels of demand.

**I. Undiscounted Contractual maturities of Financial Assets**

|  | Carrying Value | On Demand | Less than one year | One to Two Years | Two to four years | Over five years |
|--|----------------|-----------|--------------------|------------------|-------------------|-----------------|
| 2014                                     |                |           |                    |                  |                   |                 |
| Cash and cash equivalents                | 24,559,032     | 3,634,032 | 20,925,000         | -                | -                 | -               |
| Trade receivables                        | 116,758        | -         | 116,758            | -                | -                 | -               |
| Investment Bonds                         | 3,747,712      | 519,888   | 2,640,100          | 152,720          | 435,004           | -               |
| NZ Government Stock                      | 512,140        | -         | 512,140            | -                | -                 | -               |
| 2013                                     |                |           |                    |                  |                   |                 |
| Cash and cash equivalents                | 19,872,094     | 9,272,094 | 10,600,000         | -                | -                 | -               |
| Balance due from Police Welfare Fund Ltd | 98,424         | 98,424    | -                  | -                | -                 | -               |
| Trade receivables                        | 102,962        | -         | 102,962            | -                | -                 | -               |
| Investment Bonds                         | 3,612,841      | 169,233   | 2,480,765          | 665,525          | -                 | 297,318         |
| NZ Government Stock                      | 526,676        | -         | -                  | 526,676          | -                 | -               |

**II. Financial liabilities and guarantees by undiscounted contractual maturity**

|                | Carrying Value | On Demand | Less than one year | One to Two Years | Two to four years | Over five years |
|----------------|----------------|-----------|--------------------|------------------|-------------------|-----------------|
| 2014           |                |           |                    |                  |                   |                 |
| Trade payables | 37,135         | -         | 37,135             | -                | -                 | -               |
| 2013           |                |           |                    |                  |                   |                 |
| Trade payables | 28,884         | -         | 28,884             | -                | -                 | -               |

**NOTE 19. Risk Management (continued)**

**d. Market risks**

*I. Foreign currency risks*

At 30 June 2014, the Company had no assets or liabilities denominated in foreign currencies. (30 June 2013:nil). The Company does not enter into foreign currency transactions and so is not exposed to foreign currency risk.

*II. Interest rate risk*

The Company invests in both fixed and variable rate financial instruments such as bonds, and bank deposits. There is a risk that any movement in interest rates can have an effect on the profitability and cash flows of the Company. The Company maintains a spread of investment types and maturity profiles to mitigate this risk.

*(i) Cash flow interest rate risk*

The cash flows from the Company's cash and cash equivalents and short term deposits are susceptible to changes in interest rates. The following analysis shows the impact of a 1.75% movement in interest rates. This sensitivity is consistent with that used in the companies disclosures to the Reserve Bank

|  | <b>2014</b> | <b>2013</b> |
|--|-------------|-------------|
| Impact of increase in interest rates by 175 basis points on cash flows | 366,200     | 344,750     |
| Impact of decrease in interest rates by 175 basis points on cash flows | (366,200)   | (344,750)   |

*(ii) Fair value risk*

The fair value of fixed rate investment bonds can fluctuate depending on changes in interest rates. Unrealised fair value changes are recognised in determining the total comprehensive income in the Statements of Comprehensive Income for each period. The following analysis shows the impact of any changes in interest rates on the fair value of fixed rate investments.

|   | <b>2014</b> | <b>2013</b> |
|---|-------------|-------------|
| Impact of increase in interest rates by 175 basis points on investments | (21,552)    | (105,329)   |
| Impact of decrease in interest rates by 175 basis points on investments | 18,352      | 145,477     |

*(iii) Fair values of financial assets and financial liabilities*

Excluding government bonds which are measured amortised cost all financial assets and financial liabilities included in the Balance Sheet are carried at amounts that approximate fair value. The table below analyses financial assets measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised.

**Definition of fair value hierarchy**

Level 1: Valuation based on quoted market prices (unadjusted) in an active market.

Level 2: Valuation techniques based on observable data, either directly (as prices) or indirectly (derived from prices).

Level 3: Valuation techniques not based on observable market data.

| <b>2014</b>            | <b>Level 1</b>   | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>     |
|------------------------|------------------|----------------|----------------|------------------|
| Accurity Health Shares | 905,946          | -              | -              | 905,946          |
| Investment Bonds       | 3,765,738        | -              | -              | 3,765,738        |
|                        | <b>4,671,684</b> | <b>-</b>       | <b>-</b>       | <b>4,671,684</b> |
| <b>2013</b>            | <b>Level 1</b>   | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>     |
| Accurity Health Shares | 767,874          | -              | -              | 767,874          |
| Investment Bonds       | 3,612,840        | -              | -              | 3,612,840        |
|                        | <b>4,380,714</b> | <b>-</b>       | <b>-</b>       | <b>4,380,714</b> |



**NOTE 19. Risk Management (continued)**

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the company is the current bid price. These instruments are included in Level 1.

**NOTE 20. Related Parties**

Members under the Police Services Group "umbrella" include New Zealand Police Association Inc and Subsidiaries (PA Frontline Limited and BlueLine Premises Limited), Police Welfare Fund Limited and subsidiaries (including Police Welfare Fund Insurances Limited, Police Welfare Fund Mortgages Limited, Police Welfare Fund General Insurances Limited, Police Welfare Fund Nominees Limited, New Zealand Police Centennial Trust) and Police and Families Credit Union. Police Health Plan is a wholly owned subsidiary of Police Welfare Fund Limited

Police Health Plan Limited paid \$48,000 (2013: \$42,000) to BlueLine Premises Limited during the year for the rental of part of 57 Willis Street.

During the year the New Zealand Police Association on-charged \$12,000 (2013: \$11,000) associated with the production of the Police News magazine to Police Health Plan Limited.

No amounts owed by related parties have been written off or forgiven during the period.

The Company has a related party relationship with its directors and executive officers.

**Transactions with Key Management personnel**  
**Remuneration**

The Group provides salaries and employee benefits in the form of long service leave and retirement leave as well as contributing to a defined contribution superannuation fund.

| Compensation paid to key management personnel comprises: | 2014    | 2013    |
|--|---------|---------|
| Short-term employee benefits                             | 158,705 | 181,536 |
| Post-employment benefits                                 | -       | -       |
| Termination benefits                                     | 17,084  | 16,608  |

**NOTE 21. Contingent Liabilities and Capital Commitments**

There were no contingent liabilities as at reporting date (2013 nil). There were no capital commitments as at reporting date (2013 - nil).

**NOTE 22. Credit Rating**

On 13 May 2014 A.M. Best Co. assigned the Company a financial strength rating of 'B++ (Stable)' and an issuer credit rating of 'bbb+'.

**NOTE 23. Solvency and Capital Adequacy**

The Company is a not-for-profit organisation. As a consequence of its legal structure the Company has no recourse to external capital and therefore internally generated capital is of paramount importance. The Company's capital of \$20.05 million (30 June 2013: \$16.85 million) is equal to the reserves as disclosed in the financial statements.

The Directors' policy for managing capital is to have strong capital base to establish security for members and enable the Company to conduct its business whilst maintaining financial soundness.

The Company calculates its capital adequacy requirements using the Capital Adequacy Standard issued by The Reserve Bank of New Zealand for non life business insurance under the Insurance (Prudential Supervision) Act 2011.

The Reserve Bank Capital Adequacy Standard has been constructed for the purpose of determining a minimum amount of capital required to support business plans and maintain financial soundness. Police Health Plan Limited are required to maintain the prescribed minimum amount of capital in order to retain their licensed insurer status.

A calculation at 30 June 2014 showed the Company had assets in excess of the level specified by the Reserve Bank of New Zealand Standard. Accordingly, the Directors consider the current level of capital is sufficient for the requirement of maintaining financial soundness.

**NOTE 24. Reconciliation of Cashflows from Operating Activities with Net Profit After Tax**

|   | <b>2014</b>      | <b>2013</b>      |
|---|------------------|------------------|
| Net Profit After Tax                                | \$3,408,925      | \$3,246,464      |
| <i>Non Cash Items</i>                               |                  |                  |
| Fair Value Movements in Investments                 | (177,886)        | 174,867          |
| Income in Investment Bonds                          | (99,588)         | (277,511)        |
| Gain on Sale  |                  | (265)            |
| Effective Interest Rate Adjustment on Govt. Stock   | (14,144)         |                  |
| Expense in Investment Bonds                         | 17,177           | 16,611           |
| Depreciation & Amortisation                         | 34,654           | 1,787            |
|   | <u>(239,787)</u> | <u>(84,511)</u>  |
| Movement in Working Capital Items                   |                  |                  |
| (Increase) Decrease in Debtors                      | (13,797)         | 49,585           |
| Increase (Decrease) in Employee Benefit Liability   | 7,931            | (8,551)          |
| Increase (Decrease) in Creditors                    | 8,251            | 5,680            |
| Increase (Decrease) in Claims Provision             | 1,593,000        | 465,000          |
| Increase (Decrease) in Unexpired Premiums           | (71,000)         | (47,978)         |
|   | 1,524,386        | 463,736          |
| Net Cash Inflow (Outflow) from Operating Activities | <u>4,693,524</u> | <u>3,625,689</u> |

**INDEPENDENT AUDITOR'S REPORT  
To the Shareholders of Police Health Plan Limited**

**Report on the Financial Statements**

We have audited the financial statements of Police Health Plan Limited ("the Company") on pages 1 to 16, which comprises the statement of financial position of Police Health Plan Limited as at 30 June 2014, the statement of changes in equity, statement of comprehensive income (single statement approach), and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Directors' Responsibility for the Financial Statements**

The directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, Police Health Plan Limited.

**Opinion**

In our opinion, the financial statements on pages 1 to 16:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of Police Health Plan Limited as at 30 June 2014, and its financial performance and cash flows for the year ended on that date.

**Report on Other Legal and Regulatory Requirements**

In accordance with the Financial Reporting Act 1993 we report that:

- We have obtained all the information and explanations that we have required.
- In our opinion, proper accounting records have been kept by Police Health Plan Limited as far as appears from our examination of those records.



BDO Wellington  
16 September 2014  
Wellington  
New Zealand

# Greystone Consulting

Greystone Consulting Ltd  
17/25 Tennyson St  
Te Aro  
Wellington  
Telephone +64 4 3853277  
Mobile +64 274330795  
Email [charliecahn@xtra.co.nz](mailto:charliecahn@xtra.co.nz)

11 November 2014

David Osborne  
Finance Manager  
New Zealand Police Association  
PO Box 12 344  
WELLINGTON

Dear David

## **Report under Sections 77 and 78 of the Insurance (Prudential Supervision) Act**

As requested, I attach my report to comply with sections 77 and 78 of the Act.

### **Reliance and Limitations**

This letter and attached report is for the use of the Police Health Plan (the Plan) for the purposes set out above. No use may be made of this letter and attached report by the Plan for any other purpose. No use may be made of this letter by any third party for any purpose.

I will not accept any liability or responsibility to any third party recipients of my letter or attached report under any circumstances.

No onwards distribution of this letter by the Plan to third parties other than as required by law is permitted. I understand that the attached report may be available as a public document.

Yours sincerely



Charles Cahn  
Appointed Actuary