



POLICE HEALTH PLAN LIMITED
FINANCIAL STATEMENTS
30 June 2019



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POLICE HEALTH PLAN LIMITED
STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE
FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019	2018
UNDERWRITING ACTIVITIES (EXCHANGE TRANSACTIONS)			
Premium Revenue		39,435,568	35,605,075
Claims Expense	2	36,486,766	35,024,486
UNDERWRITING SURPLUS		2,948,802	580,589
REVENUE FROM EXCHANGE TRANSACTIONS			
Investment Income	3	2,343,289	1,661,301
INVESTMENT INCOME PLUS UNDERWRITING ACTIVITIES		5,292,091	2,241,890
EXPENDITURE			
Depreciation and Amortisation		64,982	62,744
Administration - Other		40,689	32,117
Administration - IT		145,724	124,354
Audit Fees	11	29,327	26,961
Professional Fees		228,104	183,845
Property & Premise Expenses		45,600	45,600
Staff Costs	12	692,723	583,801
Communications Expenses		202,707	203,667
District, Regional & Board Expenses		27,133	22,417
Finance Expenses		52,229	52,145
Members Services		95,881	122,775
TOTAL EXPENDITURE		1,625,100	1,460,426
SURPLUS/(DEFICIT) FOR THE YEAR		3,666,991	781,464
OTHER COMPREHENSIVE REVENUE AND EXPENSE			
Fair Value Movement in Investment Reserve		-	47,806
TOTAL COMPREHENSIVE REVENUE AND EXPENSE		3,666,991	829,270

The attached notes form part of and must be read in conjunction with the financial statements

POLICE HEALTH PLAN LIMITED
STATEMENT OF CHANGES IN NET ASSETS/EQUITY
FOR THE YEAR ENDED 30 JUNE 2019

	Accumulated Revenue and Expense	Share Capital	Investment Reserve	Total Equity
2019				
Opening balance at 1 July 2018	31,380,710	1,000	340,816	31,722,526
Total Surplus/(Deficit) for the Year	3,666,991	-		3,666,991
Fair Value Movement in Investment Reserve	340,816		(340,816)	-
Closing balance 30 June 2019	35,388,517	1,000	-	35,389,517
2018				
Opening balance at 1 July 2017	30,599,246	1,000	293,010	30,893,256
Total Surplus/(Deficit) for the Year	781,464	-		781,464
Fair Value Movement in Investment Reserve			47,806	47,806
Closing balance 30 June 2018	31,380,710	1,000	340,816	31,722,526

The attached notes form part of and must be read in conjunction with the financial statements

POLICE HEALTH PLAN LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	Note	2019	2018
CURRENT ASSETS			
Trade & Other Receivables from exchange transactions	9	95,710	78,284
Cash and Cash Equivalents	9, 10	4,812,007	3,180,379
Investments	4	39,479,055	37,275,940
		<u>44,386,771</u>	<u>40,534,603</u>
NON-CURRENT ASSETS			
Investments	4	-	-
Property Plant & Equipment	5	14,668	15,928
Intangibles	5	362,103	364,029
		<u>376,771</u>	<u>399,957</u>
TOTAL ASSETS		<u><u>44,763,543</u></u>	<u><u>40,934,560</u></u>
CURRENT LIABILITIES			
Trade & other Payables under exchange transactions	9	84,649	67,891
Employee Benefits		45,377	25,146
Provision for Claims	6	8,082,000	7,971,000
Unearned Premium Liability	6	1,030,000	976,997
Provision for Unexpired Risk	6	132,000	171,000
		<u>9,374,026</u>	<u>9,212,034</u>
NET ASSETS/EQUITY			
Accumulated Revenue and Expense		35,388,517	31,380,710
Share Capital	8	1,000	1,000
Investment Reserve	8	-	340,816
TOTAL NET ASSETS/EQUITY		<u><u>35,389,517</u></u>	<u><u>31,722,526</u></u>
TOTAL NET ASSETS/EQUITY AND LIABILITIES		<u><u>44,763,543</u></u>	<u><u>40,934,560</u></u>

For and on behalf of the Board

Director

Director

11 September 2019
Date

The attached notes form part of and must be read in conjunction with the financial statements

POLICE HEALTH PLAN LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Was Provided From:			
- Premiums From Members		39,418,142	35,544,150
- Other Income		-	180
- Investment Income		70,827	75,800
		<u>39,488,968</u>	<u>35,620,130</u>
Cash Was Applied To:			
- Payments of Claims		36,361,763	33,207,554
- Payments to Suppliers and Employees		1,523,129	1,419,918
		<u>37,884,892</u>	<u>34,627,472</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	17	<u>1,604,076</u>	<u>992,658</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Was Provided From:			
- Sale of Investments		2,506,731	1,791,928
		<u>2,506,731</u>	<u>1,791,928</u>
Cash Was Applied To:			
- Purchase of PPE and Intangibles		41,797	90,446
- Purchase of Investments		2,437,382	1,765,278
		<u>2,479,179</u>	<u>1,855,724</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES		<u>27,552</u>	<u>(63,796)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		<u>1,631,628</u>	<u>928,862</u>
Opening Cash and Cash Equivalents		3,180,379	2,251,517
CLOSING CASH AND CASH EQUIVALENTS		<u>4,812,007</u>	<u>3,180,379</u>
Closing cash and cash equivalents consists of the following:			
- Cash held in Cheque Accounts		6,327	538
- Cash held in Call Accounts		4,805,680	3,179,841
		<u>4,812,007</u>	<u>3,180,379</u>

The attached notes form part of and must be read in conjunction with the financial statements

POLICE HEALTH PLAN LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

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 2019. The financial statements were authorised for issue by the directors on 12 September 2018. The registered office is level 11 Willbank House, 57 Willis Street, Wellington. For the purposes of complying with generally accepted accounting practice in New Zealand ("NZ GAAP"), the Company is a public benefit entity as its primary objective is to provide health insurance to members of the New Zealand Police. The Company is a subsidiary of Police Welfare Fund Limited and is part of New Zealand Police Association 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 an FMC Reporting Entity for the purposes of the Financial Markets Conduct Act 2013, and the financial statements are compliant with this act. The financial report is a general purpose financial report which has been prepared in accordance with the Financial Reporting Act 2013. The Company is required to be fully licensed under section 19 of the Insurance (Prudential Supervision) Act 2010. The Company was licensed by the Reserve Bank of New Zealand on the 7th of May 2013.

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 Public Benefit Entity Accounting Standards ("PBE Standards").

Financial Reporting Standards not yet Effective

At the date of authorisation of the financial statements of the Company for the year ended 30 June 2019, the following PBE Standards were in issue but not yet effective:

Standard	Effective Date
PBE IPSAS 39 - Employee Benefits	1 January 2019
PBE IFRS 9 - Financial Instruments	1 January 2021
PBE FRS 48 - Service Performance Reporting	1 January 2021

PBE IPSAS 39 Employee benefits

This standard will be adopted by the Company for the first time for its financial reporting period ended 30 June 2020.

PBE IPSAS 39 supersedes PBE IPSAS 25 Employee Benefits.

PBE IPSAS 39 amends the definition of short-term employee benefits to only include those benefits that are expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service.

PBE IFRS 9 - Financial Instruments

This standard will be adopted by the Company for the first time for its financial reporting period ended 30 June 2022. This standard replaces PBE IPSAS 29 Financial Instruments: Recognition and Measurement. Adoption of this standard will align PBE Standards for Financial Instruments with the changes that for-profit entities will encounter on the adoption of NZ IFRS 9 Financial Instruments.

PBE FRS 48 - Service Performance Reporting

This standard will be adopted by the Company for the first time for its financial reporting period ended 30 June 2022. This standard establishes requirements for Tier 1 and Tier 2 public benefit entities to select and present service performance information. Service information is information about what the entity has done during the reporting period in working towards its broader aims and objectives, together with supporting contextual information.

The impact of adoption of the above standards is still being assessed but is not expected to have a significant impact on the financial statements, other than PBE FRS 9 and PBE FRS 48.

PBE IFRS 9 will change the classifications of financial instruments held by the Company.

PBE FRS 48 will require the Company to prepare a statement of service performance as part of its financial statements.

BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets and liabilities as identified in specific accounting policies below.

FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are presented in New Zealand Dollars, rounded to the nearest dollar.

The attached notes form part of and must be read in conjunction with the financial statements

POLICE HEALTH PLAN LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1. STATEMENT OF ACCOUNTING POLICIES (continued)

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 7: 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

Revenue is recognised on an accruals basis only when the amount thereof can be determined accurately and when the significant risks and rewards have passed to the members.

Revenue from exchange transactions

Premiums

Health Plan premiums are recognised from the attachment date being the date on which the insurer accepts the risk of the insured and is spread over the period of the insurance cover. Premiums are paid in advance and accordingly at reporting date, the advance portion is recorded in the statement of financial position as an Unearned Premium Liability.

Investment income

Investment income comprises interest income on financial assets, gains on the disposal of available-for-sale financial assets, and fair value gains on financial assets at fair value through surplus or deficit. Interest income is recognised as it accrues in surplus or deficit, using the effective interest method.

(ii) PROPERTY, PLANT & 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, residual values and depreciation methods 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

Category	Useful Economic Life	Valuation Method
Furniture and Fittings	5-10 Years	Cost
Computer Hardware	2-3 Years	Cost

(iii) EXTERNALLY ACQUIRED INTANGIBLES

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives less any impairment. The assets useful lives residual values and depreciation methods are reviewed and adjusted if appropriate at each reporting date. The significant intangibles recognised by the Company and their useful economic lives are as follows:

Intangible Asset	Useful Economic Life	Valuation Method
Blueine 360 CRM System	10 Years	Cost

(iv) 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.

(v) FINANCIAL INSTRUMENTS

Financial Assets

The Company classifies its financial assets in the following categories: loans and receivables, fair value through surplus or deficit and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The attached notes form part of and must be read in conjunction with the financial statements

POLICE HEALTH PLAN LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1. STATEMENT OF ACCOUNTING POLICIES (continued)

(v) FINANCIAL INSTRUMENTS (continued)

(a) Loans & Receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially measured at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method less any impairment losses.

The Company's loans and receivables comprise cash and cash equivalents and trade and other receivables from exchange transactions. Cash and cash equivalents represent highly liquid investments that are readily convertible into a known amount of cash with an insignificant risk of changes in value, with maturities of 3 months or less.

(b) 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. Assets classified as available for sale are measured at initial recognition at fair value plus directly attributable transaction costs. Subsequently they are measured at fair value with gains or losses recognised in other comprehensive revenue and expense and presented in the AFS fair value reserve within net assets/equity, less impairment.

Financial assets included within this category include Investment Bonds.

These are included in the Investments line on the statement of financial position, see note 4 for breakdown.

(c) Fair value through surplus or deficit

A financial instrument is classified as fair value through surplus or deficit if it is:

- Held-for-trading: This includes derivatives where hedge accounting is not applied.
- Designated at initial recognition: If the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy.

Those fair value through surplus or deficit instruments sub-classified as held-for-trading comprise the ANZ Investment Portfolio (included within Investments - refer to note 4 for breakdown).

There are no assets designated at initial recognition.

Financial instruments classified as fair value through surplus or deficit are subsequently measured at fair value with gains or losses being recognised in surplus or deficit.

(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 available for sale financial assets, where there is a significant or prolonged decline in the fair value (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognised in other comprehensive revenue and expense, is recognised in surplus or deficit. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases, and the increase can be objectively related to an event occurring after the impairment loss was recognised in surplus or deficit, the impairment loss is reversed through surplus or deficit.

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 Company will be unable to collect the amount. Impairment losses for uncollectable premiums are written off against claims expense in the year in which they are incurred.

Changes in the carrying amount of the allowance account are recognised in surplus or deficit.

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.

POLICE HEALTH PLAN LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1. STATEMENT OF ACCOUNTING POLICIES (continued)

(v) FINANCIAL INSTRUMENTS (continued)

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 plus directly attributable transaction costs and subsequently carried at amortised cost using the effective interest method.

(vi) EMPLOYEE BENEFITS

Defined contribution pension plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in statement of comprehensive revenue and expense as incurred.

Short Term Employee Benefits Liability

Liabilities for wages and salaries, including non-monetary benefits, annual leave, and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in employee benefit liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled on an undiscounted basis.

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.

(vii) GOODS & SERVICES TAX (GST)

The Statement of Comprehensive Revenue and Expense has been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated net of GST, with the exception of receivables and payables which include GST invoiced.

(viii) 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 the surplus or deficit, except to the extent they reverse gains previously recognised in other comprehensive revenue and expense.

(ix) 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.

(x) CLAIMS EXPENSE

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

(xi) PROVISION FOR CLAIMS

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.

(xii) 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.

POLICE HEALTH PLAN LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1. STATEMENT OF ACCOUNTING POLICIES (continued)

(xiii) 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 expense 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 Statement of Comprehensive Revenue and Expense after first writing down any deferred acquisition costs. The deficiency in excess of deferred acquisition costs is recognised in the Statement of Financial Position as an unexpired risk provision.

(xiv) ADOPTION OF ACCOUNTING STANDARDS

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

(xv) 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.

NOTE 2. CLAIMS EXPENSE

	2019	2018
Claims incurred relating to risks borne in current financial year	36,723,004	34,527,625
Claims incurred relating to risks borne in previous financial years		
Claims previously recognised relating to risks borne in current financial year	(261,238)	(60,139)
Movement in provision for claims handling costs	1,000	(33,000)
Movement in provision for ACC recoveries	14,000	421,000
Movement in risk margin	10,000	169,000
Claims incurred	36,486,766	35,024,486
Movement in Provision for Unexpired Risk	-	-
	<u>36,486,766</u>	<u>35,024,486</u>

NOTE 3. INVESTMENT INCOME

	2019	2018
Available for Sale Financial Assets		
Interest Income	70,735	75,456
	<u>70,735</u>	<u>75,456</u>
Financial Assets at Fair Value Through Surplus or Deficit		
Interest Income	92	344
Realised Gains on ANZ Investments Portfolio	17,432	28,999
Unrealised Gains on ANZ Investments Portfolio	2,255,030	1,556,502
	<u>2,272,554</u>	<u>1,585,845</u>
Held to Maturity Financial Assets		
Interest Income	-	-
	<u>-</u>	<u>-</u>
Total Investment Income	<u>2,343,289</u>	<u>1,661,301</u>

NOTE 4. INVESTMENTS

	2019	2018
Available-for-sale		
Listed Investment Bonds	-	2,489,299
	<u>-</u>	<u>2,489,299</u>
Financial Assets at Fair Value Through Surplus or Deficit		
ANZ Investments Portfolio	39,479,055	34,786,641
	<u>39,479,055</u>	<u>34,786,641</u>
Total Investments	<u>39,479,055</u>	<u>37,275,940</u>
Current assets	39,479,055	37,275,940
Non-current Assets	-	-
	<u>39,479,055</u>	<u>37,275,940</u>

The attached notes form part of and must be read in conjunction with the financial statements

POLICE HEALTH PLAN LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 5. PROPERTY, PLANT & EQUIPMENT & INTANGIBLES

	Property, Plant and Equipment			Intangibles
	<i>Furniture & Fittings</i>	<i>Computer Hardware</i>	<i>Total</i>	<i>Blueline 360 CRM System</i>
2019				
Cost:				
Opening	23,445	15,003	38,448	619,791
Purchases	589	-	589	41,208
Disposals	-	1,133	1,133	-
Closing	24,034	13,870	37,904	660,999
Accumulated Depreciation and Impairment:				
Opening	7,517	15,003	22,520	235,763
Depreciation/Amortisation Expense	1,849	-	1,849	63,133
Disposals	-	1,133	1,133	-
Closing	9,366	13,870	23,236	298,896
Book Value				
Opening	15,928	-	15,928	384,028
Closing	14,668	-	14,668	362,103
2018				
Cost:				
Opening	23,445	15,003	38,448	529,346
Purchases	-	-	-	90,445
Disposals	-	-	-	-
Closing	23,445	15,003	38,448	619,791
Accumulated Depreciation and Impairment:				
Opening	5,662	13,650	19,312	176,228
Depreciation/Amortisation Expense	1,855	1,353	3,208	59,535
Disposals	-	-	-	-
Closing	7,517	15,003	22,520	235,763
Book Value				
Opening	17,783	1,353	19,136	353,118
Closing	15,928	-	15,928	384,028

NOTE 6. INSURANCE CONTRACT LIABILITIES

	2019	2018
Provision for claims (refer note 6a)	8,082,000	7,971,000
Unearned premium liability (refer note 6c)	1,030,000	976,997
Provision for unexpired risk (refer note 6d)	132,000	171,000
	<u>9,244,000</u>	<u>9,118,997</u>
Assets backing insurance contract liabilities	39,479,055	34,786,641

Police Health Plan hold an investment portfolio with ANZ Investments as security over their insurance liabilities. The carrying value of investments that back general insurance liabilities is the fair value of these assets. Assets backing insurance liabilities have been determined as the investment portfolio as it is highly liquid and funds can be withdrawn on demand in order to meet insurance contract liabilities.

Note 6a Provision for outstanding claims	2019	2018
Central estimate of outstanding claims liability	7,353,000	7,267,000
Claims handling costs	147,000	146,000
ACC Recoveries	(153,000)	(167,000)
Risk margin	735,000	725,000
Closing balance	<u>8,082,000</u>	<u>7,971,000</u>
Note 6b Reconciliation of movement in provision for claims	2019	2018
Opening balance	7,971,000	6,119,000
Amounts utilised during the year	(7,005,762)	(5,911,861)
Movement in ACC Recoveries	14,000	421,000
Movement in Risk margin	10,000	169,000
Movement in Claims Handling Costs	1,000	(33,000)
Amounts provided during the year	<u>7,091,762</u>	<u>7,206,861</u>
Closing balance	<u>8,082,000</u>	<u>7,971,000</u>

The attached notes form part of and must be read in conjunction with the financial statements

POLICE HEALTH PLAN LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 6. INSURANCE CONTRACT LIABILITIES (continued)

Note 6c Reconciliation of movement in unearned premiums liability

	2019	2018
Opening balance	976,997	1,007,065
Premiums written during year	39,488,571	35,575,007
Premiums earned during year	(39,435,568)	(35,605,075)
Closing balance	<u>1,030,000</u>	<u>976,997</u>

Note 6d Provision for unexpired risk

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 surplus or deficit before tax in the statements of comprehensive income. The deficiency is recognised in the statements of financial position as an unexpired risk provision.

Provision for Unexpired Risk

	2019	2018
Expected future cashflows for claims and expenses	989,000	976,997
Risk margin	132,000	171,000
Less Unearned Premium	<u>(1,030,000)</u>	<u>(976,997)</u>
Closing Balance	<u>91,000</u>	<u>171,000</u>

Reconciliation of movement in provision for unexpired risk

	2019	2018
Opening Balance	171,000	176,000
Reversal of Opening Balance	(171,000)	(176,000)
Net liability for unexpired risk recognised during the year	0	0
Risk Margin	132,000	171,000
Closing Balance	<u>132,000</u>	<u>171,000</u>

NOTE 7. ACTUARIAL INFORMATION

The estimate of outstanding claims as at 30 June 2019 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 30 July 2019. There were no qualifications to the report. The calculation of the provision for outstanding claims complies with both PBE IFRS 4: Insurance Contracts, and the Professional Standard No 30 Valuations of General Insurance Claims, 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 2019, 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 outstanding claims and premiums liability was established at 30 June 2019 (30 June 2018: 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. ACC recoveries have been assumed to be 35% on claims outstanding. This includes an adjustment for recovery (100%) and a management fee of 25%.
3. A risk margin of 10% as described above.

POLICE HEALTH PLAN LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 7. ACTUARIAL INFORMATION (continued)

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. 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 2% (30 June 2018: 2%) of the underlying claims amounts based on an analysis of administration expenses.

As at 30 June 2019, 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 2018: no more than 2 to 3 months). Accordingly, expected future payments are not discounted due to the short term nature of the liabilities.

Unexpired risk provision and liability adequacy test

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

If the present value of the expected future cash flows plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs then the unearned premium liability is deemed to be deficient.

The unexpired risk liability has been calculated as the projected premium deficiency for current in-force business until the next policy billing date on or after 11 July 2019.

The calculation of the risk margin has been based on an analysis of the volatility of historical claims experience within the time period covered by the unearned premiums. A risk margin of 17.5% of the present value of expected future cash flows has been applied at 30 June 2019 (30 June 2018: 17.5%). The risk margin was determined with the objective of achieving at least 75% probability of sufficiency of the unexpired risk liability.

Key assumptions:

1. Future patterns of claims development will be similar to historical patterns depending on the type of policy, type of claim and development month.
2. Monthly seasonality factors used for claims incurred. These were calculated from the 5 years' claims experience.
3. Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. 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 2% (30 June 2018: 2%) of the underlying claims amounts based on an analysis of administration expenses. No explicit allowance has been made for cancellations or transfers. These are allowed for implicitly in the inflation assumption. Expected future payments are not discounted due to the short tail nature of the liabilities.

NOTE 8. TOTAL EQUITY

Share Capital

Ordinary Shares @\$1 Fully Paid

No shares have been issued or sold during the year

	2019	2018
Ordinary Shares @\$1 Fully Paid	1,000	1,000

Investment reserve

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

NOTE 9. 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:

	2019		2018	
	Carrying Value	Fair	Carrying Value	Fair
Loans and receivables				
Cash and cash equivalents (Cash at Bank)	4,812,007	4,812,007	3,180,379	3,180,379
Trade receivables	95,710	95,710	78,284	78,284
	<u>4,907,716</u>	<u>4,907,716</u>	<u>3,258,663</u>	<u>3,258,663</u>
Available for Sale				
Listed Investment Bonds	-	-	2,489,299	2,489,299
	<u>-</u>	<u>-</u>	<u>2,489,299</u>	<u>2,489,299</u>
Fair value through surplus or deficit				
ANZ Investment Portfolio	39,479,055	39,479,055	34,786,641	34,786,641
	<u>39,479,055</u>	<u>39,479,055</u>	<u>34,786,641</u>	<u>34,786,641</u>
Total Financial Assets	<u>44,386,771</u>	<u>44,386,771</u>	<u>40,534,603</u>	<u>40,534,603</u>

The attached notes form part of and must be read in conjunction with the financial statements

POLICE HEALTH PLAN LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 9. FINANCIAL INSTRUMENTS (continued)

	2019		2018	
	Carrying Value	Fair	Carrying Value	Fair
<i>Financial liabilities at amortised cost</i>				
Sundry Creditors	84,649	84,649	67,891	67,891
Total Financial Liabilities	84,649	84,649	67,891	67,891

The fair value of financial instruments is not materially different to the carrying values set out above.

The ANZ Investment Portfolio, managed on behalf of the Group by ANZ Investments, is invested in a number of single-asset-class funds. Exposure to credit risk, interest rate risk, equity price and liquidity risk arises in the ordinary course of the Group's operations.

NOTE 10. RISK MANAGEMENT

The Company is exposed to a number of risks in the normal course of business. Primarily there are the risks associated with an underwriting insurance business (insurance risk). Other risks include financial risks (credit risk and liquidity risk), market risks (interest rate risk), underwriting 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 7.

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.

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.

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 counterparty 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-

POLICE HEALTH PLAN LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 10. RISK MANAGEMENT (continued)

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.

	2019	2018
Banks	4,812,007	3,180,379
Financial Institutions	39,479,055	37,275,940
Other non-investment related receivable	95,710	78,284
Total Financial Assets with Credit Exposure	<u>44,386,771</u>	<u>40,534,603</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 statement of financial position. 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:

	2019	2018
AAA	1,533,825	2,206,068
AA	36,115,728	22,537,540
A	6,641,508	11,940,748
BBB	-	165,173
Non-rated	95,710	3,685,075
	<u>44,386,770</u>	<u>40,534,605</u>

A number of individual ANZ products (\$4,030,650) have been classified as a group as AA, being the ANZ bank overall classification as they are held as unit investments through ANZ. The Board believes this is the best estimate of the credit ratings for these products.

c. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its cash outflows associated with financial liabilities, as they fall due, because of lack of liquid assets or access to funding on acceptable terms. The Directors set limits on the minimum proportion 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	One to Two	Two to Four
	Value		One Year	Years	Years
2019					
<i>Financial Assets</i>					
Cash and cash equivalents	4,812,007	4,812,007	-	-	-
ANZ Investment Portfolio	39,479,055	39,479,055	-	-	-
Trade receivables	95,710	-	95,710	-	-
Investment Bonds	-	-	-	-	-
<i>Financial Liabilities</i>					
Trade and Other Payables	84,649	-	84,649	-	-
2018	Value		One Year	Years	Years
<i>Financial Assets</i>					
Cash and cash equivalents	3,180,379	3,180,379	-	-	-
ANZ Investment Portfolio	34,786,641	34,786,641	-	-	-
Trade receivables	78,284	-	78,284	-	-
Investment Bonds	2,489,299	22,286	2,467,013	-	-
<i>Financial Liabilities</i>					
Trade and Other Payables	67,891	-	67,891	-	-

The liquidity analysis prepared above is prepared based on the expected timings of cash flows per contractual requirements.

d. Market risks

I. Foreign currency risks

Through the portfolio with ANZ Investments, an amount of \$1,885,786 as at 30 June 2019 (2018: \$1,806,538) is invested in International Equities. In order to reduce the foreign exchange risk, ANZ Investments has entered into a number of foreign exchange forward contracts on the Group's behalf as part of the investment portfolio, the fair value of these at 30 June 2019 being \$11,846 (2018: -\$2,519).

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.

The attached notes form part of and must be read in conjunction with the financial statements

POLICE HEALTH PLAN LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 10. RISK MANAGEMENT (continued)

(i) Cash flow interest rate risk

The cash flows from the Company's cash and cash equivalents are susceptible to changes in interest rates. The following analysis shows the impact of a 1% movement in interest rates (2018: 1%). This sensitivity is consistent with that used in the companies disclosures to the Reserve Bank

	2019	2018
Impact of increase in interest rates by 100 basis points on cash flows	48,120	31,804
Impact of decrease in interest rates by 100 basis points on cash flows	(48,120)	(31,804)

(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 revenue and expense in the Statements of Comprehensive Revenue and Expense for each period. The following analysis shows the impact of a 1% change in interest rates on the fair value of fixed rate investments (2018: 1%).

	2019	2018
Impact of increase in interest rates by 100 basis points on investments	-	206,426
Impact of decrease in interest rates by 100 basis points on investments	-	(206,426)

(iii) Fair values of financial assets and financial liabilities

Excluding cash and cash equivalents, trade receivables and trade payables which are measured at amortised cost all financial assets and financial liabilities included in the consolidated statement of financial position are carried at 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.

2019	Level 1	Level 2	Level 3	Total
Investment Bonds	-	-	-	-
ANZ Investment Portfolio	39,479,055	-	-	39,479,055
	39,479,055	-	-	39,479,055
2018	Level 1	Level 2	Level 3	Total
Investment Bonds	2,489,299	-	-	2,489,299
ANZ Investment Portfolio	34,786,641	-	-	34,786,641
	37,275,940	-	-	37,275,940

The fair value of financial instruments traded in active markets is based on quoted market prices at the Statement of Financial Position 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. Investment Bonds are listed.

III. Other Price Risk

The Group has an investment portfolio managed by ANZ Investments which is invested in a number of single-asset-class funds such as the NZ Share Fund, International Share Fund, NZ Fixed Interest Bond Fund and the NZ Cash Fund. The following analysis shows the effect of a 20% change in the unit price of the share funds, a 5% change in unit price of the fixed interest funds and a 2% change in the unit price of the cash fund as at 30 June 2019:

	2019	2018
Impact of increase in unit price on surplus or deficit	2,103,750	1,868,522
Impact of decrease in unit price on surplus or deficit	(2,125,840)	(1,868,522)

The % changes used in the sensitivity analysis are movements which could be reasonably expected to occur in the current market based on the results of the previous year.

IV. Debt Price Risk

This is the risk that investments in debt instruments will fall in value. Investments in debt instruments are carried at fair value which equates to the market value. Refer to note 10 ii for sensitivity analysis of bond interest rates.

NOTE 11. AUDIT FEES

	2019	2018
Audit Fees	29,327	26,961
Other Fees Paid to Auditors	2,444	1,000

Other fees paid to auditors relate to fees paid for the taxation services

The attached notes form part of and must be read in conjunction with the financial statements

POLICE HEALTH PLAN LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 12. STAFF COSTS

	2019	2018
Salaries and Wages	625,537	530,489
Contributions to Defined Contribution Plans	30,076	27,099
Other Staff Costs	37,110	26,213
	<u>692,723</u>	<u>583,801</u>

NOTE 13. 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, Police Welfare Fund Nominees, New Zealand Police Centennial Trust. Police Health Plan is a wholly owned subsidiary of Police Welfare Fund Limited.

Police Health Plan Limited paid \$45,600 (2018: \$45,600) 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 \$175,200 (2018: \$178,800) associated with Police Health Plan's representation in the Police News Magazine, the member website and social media. 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 classifies its key management personnel into one of two classes:

- Members of the governing body
- Senior executive officers, responsible for reporting to the governing body

Members of the governing body are paid an annual fee of \$46,437 total.

Senior executive officers are employed as employees of the Group, on normal employment terms.

The aggregate level of remuneration paid and number of persons (measured in 'people' for Members of the governing body, and full-time-equivalents' (FTE's) for Senior executive officers) in each class of key management personnel is presented below:

	2019		2018	
	Remuneration \$	Number of People	Remuneration \$	Number of People
Members of the governing body	40,285	6	26,178	6
Senior executive officers	<u>143,321</u>	0.6 FTE's	<u>143,827</u>	0.6 FTE's
	183,606		170,005	

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.

Transactions with Directors

Ralph Stewart (director of Police Health Plan) is also a director/shareholder of Stewart Capital Limited to which \$33,848 was paid during the year for Chairmanship and Professional advice (2018: \$12,500).

NOTE 14. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

There were no contingent liabilities as at reporting date (2018: nil). There were no capital commitments as at reporting date (2018: nil).

NOTE 15. CREDIT RATING

On 10 May 2019 A.M. Best Co. confirmed the assignment of a financial strength rating of A- (outlook implication Stable) and an issuer credit rating of A- (outlook implication Stable) for Police Health Plan Limited

NOTE 16. 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 \$35.03 million (30 June 2018: \$31.34 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 2019 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

POLICE HEALTH PLAN LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 16. SOLVENCY AND CAPITAL ADEQUACY (continued)

	2019	2018
Actual Solvency Capital	35,025,467	31,338,498
Minimum Solvency Capital	7,746,665	6,856,077
Solvency Margin	27,278,802	24,482,421
Solvency Ratio	4.52	4.57

NOTE 17. RECONCILIATION OF CASHFLOWS FROM OPERATING ACTIVITIES WITH NET PROFIT AFTER TAX

	2019	2018
Net Surplus/(Deficit) for the Year	3,666,991	781,464
<i>Non Cash Items</i>		
Unrealised gain on investments	(2,255,030)	(1,556,502)
Realised gain on investments	(17,432)	(28,999)
Depreciation & Amortisation	64,982	62,744
	<u>(2,207,480)</u>	<u>(1,522,757)</u>
Movement in Working Capital Items		
(Increase) Decrease in Debtors	(17,426)	(60,745)
Increase (Decrease) in Employee Benefit Liability	20,231	(11,982)
Increase (Decrease) in Creditors	16,758	(10,254)
Increase (Decrease) in Claims Provision	111,000	1,852,000
Increase (Decrease) in Unexpired Premium Liability	53,003	(30,068)
Increase (Decrease) in Unexpired Risk	(39,000)	(5,000)
	<u>144,566</u>	<u>1,733,951</u>
Net Cash Inflow(Outflow) from Operating Activities	<u><u>1,604,076</u></u>	<u><u>992,658</u></u>

The attached notes form part of and must be read in conjunction with the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF POLICE HEALTH PLAN LIMITED

Opinion

We have audited the financial statements of Police Health Plan Limited ("the company"), which comprise the statement of financial position as at 30 June 2019 and the statement of comprehensive revenue and expense, statement of changes in net assets/equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the company as at 30 June 2019, and its financial performance and its cash flows for the year then ended in accordance with Public Benefit Entity Standards ("PBE Standards") issued by the New Zealand Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the company.

Key Audit Matter	
Claims Liability	How The Matter Was Addressed in Our Audit
<p>We considered the valuation of the claims liability a key audit matter because of the significant judgement required by management and the directors in determining the balance as at 30 June 2019.</p> <p>The valuation of the outstanding claims relies on the quality of the underlying data. It involves subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can result in material impacts to the estimate.</p> <p>In particular, judgement arises over the estimation of payments for claims that have been incurred at the reporting date but have not yet been reported to the entity, as there is generally less</p>	<p>Our audit procedures included obtaining an understanding of key controls, including key data reconciliations and management review of the estimates.</p> <p>Historical claims data is a key input to the actuarial estimates. Accordingly, we:</p> <ul style="list-style-type: none"> o We gained an understanding of the design and implementation of the control environment in regard to claims processing; o Re-performed claims data reconciliations; o Inspected a sample of claims paid during the year to confirm that they were supported by appropriate documentation and approved within delegated authority limits. <p>To assess our ability to rely on the work of the actuarial expert engaged by management, we:</p>

<p>information available in relation to these claims, and uncertainty over the amount which will be settled.</p> <p>Outstanding claims include a risk margin that allows for the inherent uncertainty in the central estimate of the future claim payments. In determining the risk margin, the entity make a judgement about the volatility of the claims pattern.</p> <p>Relevant references in the financial statements: Refer to notes 6 and 7 to the financial statements, which also describe the elements that make up the balance.</p>	<ul style="list-style-type: none"> • Obtained the amount for the actual claims paid in the months of July and August 2019 for claims incurred pre year end and compared the total paid to the central estimate. • Assessed key actuarial judgements and assumptions and challenged them by comparing with our expectations based on the entity's experience, our own sector knowledge and independently observable industry trends; • Considered the accuracy of claims liability in the past against actual post balance date claims; and • Assessed the risk margin, by comparing to known industry practices. In particular we focused on the assessed level of uncertainty in the central estimate.
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Directors' Responsibilities for the Financial Statements

The directors are responsible on behalf of the company for the preparation and fair presentation of the financial statements in accordance with PBE Standards, 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.

In preparing the financial statements, the directors are responsible on behalf of the company for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Who we Report to

This report is made solely to the company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

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

BDO Wellington Audit Limited

BDO Wellington Audit Limited
Wellington
New Zealand
11 September 2019

Greystone Consulting

Police Health Plan

Review of Actuarial Information In, or Used In Preparation of, the Financial Statements at 30 June 2019

This report is to provide certain information and certification as required under Sections 77 and 78 of the Insurance (Prudential Supervision) Act 2010 (the Act). This information is actuarial information in, or used in the preparation of, the financial statements as at 30 June 201 of the Police Health Plan (the Plan).

I have provided a “Valuation Report” dated 30 July 2019 (updated by my letter of 12 October 2019), which contains detailed advice on actuarial information for the financial statements,

The Solvency Standard for Non-life Insurance Business issued under the Act (the Standard) specifies which is actuarial information.

I have reviewed the following actuarial information:

- The Provision for Unexpired Risk (which, together with Unexpired Premiums Received, is referred to in the Standard as Premium Liabilities).
- The Provision for Claims (referred to in the Standard as the Net Outstanding Claims Liability).
- Note 7 to the financial statements containing a description of the method and assumptions used in the calculation of the Provision for Claims and Provision for Unexpired Risk.

The Plan has no reinsurance and no deferred acquisition costs or fee revenue assets.

I can advise as follows:

- There were no limitations or restrictions placed on me in carrying out this work, and I have obtained all the information and explanation that I required.
- My relationship with or interest in the Plan is limited to that of Appointed Actuary.
- It is the Plan’s established policy to seek my advice on actuarial information and to adopt my advice in the financial statements.
- The actuarial information provided by me has been prepared in accordance with the New Zealand Equivalent of International Financial Reporting Standard 4, and Professional Standard 30 of the New Zealand Society of Actuaries
- The actuarial information contained in, and used in the preparation of, the financial statements has been appropriately included and used.
- In my opinion, and from an actuarial perspective, the Plan is maintaining, at the balance date, the solvency margin as required under the Act.



Charles Cahn
FIAA FNZSA
Appointed Actuary

12 October 2019