

Independent Auditor's Report

Audit

Grant Thornton New Zealand Audit Partnership

L15, Grant Thornton House
215 Lambton Quay
PO Box #
PO Box 10712

T +64(0)4 474 8500

F +64(0)4 474 8509

www.granthornton.co.nz

To the Members of Veterinary Professional Insurance Society

We have audited the financial statements of the Veterinary Professional Insurance Society on pages 1 to 22, which comprise the statement of financial position as at 30 September 2015, and the statement of comprehensive income, statement of movements in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board Members' responsibilities

The board members are responsible for the preparation and fair presentation of these financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and for such internal control as the board members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities

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 judgement, 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 present fairly 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 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.

Our firm carries out other assignments for Veterinary Professional Insurance Society in the area of Solvency review. The firm has no other interest in the Veterinary Professional Insurance Society.

Opinion

In our opinion, the financial statements on pages 1 to 22 present fairly, in all material respects, the financial position of the Veterinary Professional Insurance Society as at 30 September 2015, and its financial performance and its cash flows, for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards.



Grant Thornton New Zealand Audit Partnership
Wellington, New Zealand
22 December 2015

27 JAN 2016

Veterinary Professional Insurance Society Incorporated
Statement of Comprehensive Income
For the year ended 30 September 2015

2014	INCOME	Note	2015
\$			\$
779,636	Insurance income		853,297
220,263	Membership income		197,969
9,470	Miscellaneous income		10,033
<u>1,009,369</u>	Total operating income		<u>1,061,299</u>
	LESS EXPENSES		
459,563	Insurance fees and premiums		455,000
152,472	Insurance claims	12	150,000
230,974	Legal and absorbed		125,480
213,225	Administration		217,854
9,800	Audit Fees	21	9,000
99,936	Board		99,018
5,968	Depreciation	13,14	32,601
11,290	Investment		11,744
22,470	Special projects		24,286
<u>1,205,698</u>	Total Expenses		<u>1,124,983</u>
<u>(196,329)</u>	NET OPERATING SURPLUS/(DEFICIT)		<u>(63,684)</u>
	INVESTMENT ACTIVITIES		
103,862	Investment income	11	102,807
20,405	Investment property income	11	20,405
(9,563)	Loss on realised investments	11	-
79,766	Unrealised investment income	11	70,741
<u>194,470</u>	Total Investment Income	11	<u>193,953</u>
<u>(1,859)</u>	NET PROFIT/ (LOSS) FOR THE YEAR		<u>130,269</u>
-	Other comprehensive income		-
<u>(1,859)</u>	TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		<u>130,269</u>

These financial statements should be read in conjunction with the accounting policies and notes that follow



Veterinary Professional Insurance Society Incorporated
Statement of Movements in Equity
For the year ended 30 September 2015

2014		2015
\$		\$
1,940,154	Balance at 1 October	1,938,295
(1,859)	Net Profit/ (Loss) for the year	130,269
<u>(1,859)</u>	Total Profit /(Loss) for the year	<u>130,269</u>
-	Other Comprehensive Income	-
<u>(1,859)</u>	Total Comprehensive Income/(Loss)	<u>130,269</u>
<u>1,938,295</u>	Balance at 30 September	<u>2,068,564</u>

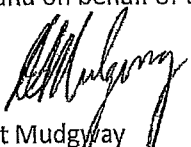
These financial statements should be read in conjunction with the accounting policies and notes that follow




Veterinary Professional Insurance Society Incorporated
Statement of Financial Position
As at 30 September 2015

2014	ASSETS	Note	2015
\$	Current Assets		\$
228,450	Cash and cash equivalents	8	311,247
104,648	Term Deposit		109,045
310,612	Accounts receivable	9	293,008
506	Interest accrued		576
4,680	GST Receivable		-
<u>648,896</u>	Total Current Assets		<u>713,876</u>
	Non Current Assets		
114,859	Software	13	109,716
215,577	Investment Property	14	212,052
<u>1,753,616</u>	Investment Portfolio	6,7	<u>1,889,653</u>
<u>2,084,052</u>	Total Non Current Assets		<u>2,211,421</u>
<u>2,732,948</u>	TOTAL ASSETS		<u>2,925,297</u>
	CURRENT LIABILITIES		
202,929	Accounts payable	10	34,822
-	GST payable		60,027
358,137	Subscriptions received in advance		515,782
142,595	Sundry payables		141,011
<u>90,992</u>	Provision for claims	12	<u>105,091</u>
<u>794,653</u>	TOTAL LIABILITIES		<u>856,733</u>
<u>1,938,295</u>	NET ASSETS		<u>2,068,564</u>
<u>1,938,295</u>	EQUITY		<u>2,068,564</u>

For and on behalf of the Board on 22 December 2015


 Brett Mudgway
 Chief Executive Officer


 Vince Peterson
 VPIS Chairman

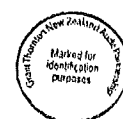
These financial statements should be read in conjunction with the accounting policies and notes that follow



Veterinary Professional Insurance Society Incorporated
Statement of Cash flows
For the year ended 30 September 2015

2014		2015
\$	Cash flow from operating activities	\$
	Cash was provided from/ (applied to):	
1,030,186	Insurance receipts	1,226,513
22,629	Interest received	25,695
29,875	Other income	30,438
(1,049,290)	Payments to suppliers	(1,171,520)
<u>33,400</u>	<u>Net cash from continuing activities</u>	<u>111,126</u>
<u>33,400</u>	Net cash flows from operating activities	<u>111,126</u>
	Cash flow from investing activities	
43,659	Proceeds from interest	37,575
37,340	Proceeds from dividends	39,467
(9,563)	Proceeds from gain on sale of investments	-
79,766	Unrealised gains	70,741
(139,912)	Payments to acquire financial assets	(136,037)
(117,303)	Payments to acquire software assets	(23,934)
(11,290)	Payments to Management Fees	(11,744)
<u>(117,303)</u>	Net cash flow from/ (used in) investing activities	<u>(23,932)</u>
-	Net cash flow from financing activities	-
(83,903)	Net change in cash and cash equivalents	87,194
417,001	Cash and cash equivalents, beginning of year	333,098
<u>333,098</u>	Cash and cash equivalents at end of year	<u>420,292</u>
	Made up of	
333,098	Cash and Cash equivalents	420,292
<u>333,098</u>	Total Cash	<u>420,292</u>

These financial statements should be read in conjunction with the accounting policies and notes that follow



Veterinary Professional Insurance Society Incorporated
Notes to the Financial Statements
For the year ended 30 September 2015

1. REPORTING ENTITY

The Veterinary Professional Insurance Society (Inc.) ("VPIS" or "Society") is an Incorporated Society registered under the Incorporated Societies Act 1908 and is domiciled in New Zealand. Under the Insurance (Prudential Supervision) Act 2010 insurers are issuers as defined by the Financial Reporting Act 2013.

On 15 July 2013 VPIS was issued a licence to carry on insurance business in New Zealand under the Insurance (Prudential Supervision) Act 2010, and is eligible to use the small insurance exemptions under this Act.

VPIS principal activities is to establish such schemes or arrangements for insurance on behalf of members of VPIS against professional liability or fidelity guarantee insurance, and to promote administer and operate, on behalf of Members of VPIS, any scheme of insurance so arranged.

VPIS operates a professional liability insurance scheme for veterinary practices and was licensed by the Reserve Bank in August 2013. VPIS takes advantage of all of the small insurer exemptions. These financial statements were approved for issue by the Board of VPIS on 22 December 2015.

2. BASIS OF PREPARATION

(a) Statement of Compliance

The financial statements have been prepared using Generally Accepted Accounting Practice in New Zealand and the requirements of the Financial Reporting Act 2013. They comply with New Zealand equivalents to International reporting standards (NZ IFRS) and other applicable financial reporting standards, as appropriate for a not for profit Incorporated Society. These financial statements comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. VPIS is considered to be a Tier 1 For-Profit reporting entity under the External Reporting Board's "Accounting Framework" (XRB-A1).

(b) Basis of measurement

The measurement system adopted is standard historical cost. The accrual basis of accounting has been used unless otherwise stated and the financial statements have been prepared on a going concern basis.

(c) Presentation and Functional Currency

The VPIS financial statements are presented in New Zealand dollars (\$), which is VPIS's functional currency.

3. SIGNIFICANT MANAGEMENT JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

(a) Goods and Service Tax

These financial statements have been prepared on a GST exclusive basis, except for Accounts Receivable and Accounts Payable which are stated inclusive of GST.



Veterinary Professional Insurance Society Incorporated
Notes to the Financial Statements
For the year ended 30 September 2015

(b) Fixed Assets

Fixed assets are included at cost less accumulated depreciation to date and any impairment.

(c) Depreciation

Depreciation has been provided on a straight line basis using estimated useful life of the assets. The Board consider the following rates are appropriate:

Land	is not depreciated
Investment Property	50 years
Software	4 years

(d) Investment property

The Investment property is held to earn rentals and/or for capital appreciation, and is accounted for using a historical cost model.

The Investment property is stated at cost less accumulated depreciation and any impairment.

Rental income derived from the investment property is reported within investment revenue.

(e) Receivables

Receivables are stated at estimated realisable value after providing against debts where collection is doubtful. Bad debts are written off during the period in which they are identified.

(f) Taxation

VPIS is exempt from income tax under the Veterinary Services Bodies provisions of Section CW50 of the Income Tax Act 2007.

(g) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held on call with banks, other short-term highly liquid investments, these are readily convertible into known amounts of cash, and which are subject to an insignificant risk of changes in value, with original maturities of three months or less, and bank overdrafts.

(h) Provisions

A provision is recognised for a liability when the settlement amount or timing is uncertain; when there is a present legal or constructive obligation as a result of a past event; it is probable that expenditures will be required to settle the obligation; and a reliable estimate of the potential settlement can be made.

Provisions are not recognised for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted to their present values, where the time value of money is material

Veterinary Professional Insurance Society Incorporated
Notes to the Financial Statements
For the year ended 30 September 2015

(h) Provisions continued;

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

(i) Impairment of non-financial assets

At each reporting date, the carrying amounts of tangible and intangible assets are reviewed to determine whether there is any indication of impairment. If any such indication exists for an asset, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in profit or loss within the Statement of Comprehensive Income.

(j) Financial Instruments

Financial instruments are comprised of accounts receivable, cash and cash equivalents, the investment portfolio, accounts payable and other payables, other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for those carried at fair value through profit or loss, which are measured at fair value. The investment portfolio is carried at fair value through profit or loss. Financial instruments purchased with the intention of being held for longer than one year or until maturity are recorded at market value which is adjusted through profit and loss within the Statement of Comprehensive Income.

Recognition and de-recognition of financial assets and liabilities

Financial assets and financial liabilities are recognised when VPIS becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

For financial assets and financial liabilities that are actively traded in organised financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the reporting date.

Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification based on the purpose for which the financial assets were acquired.

All financial assets except for those classified as fair value through profit or loss are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or group of financial assets is impaired. Different criteria are used to identify whether there is any objective evidence that a financial asset or group of financial assets are impaired. These criteria are described below;



Veterinary Professional Insurance Society Incorporated
Notes to the Financial Statements
For the year ended 30 September 2015

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. VPIS's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

Financial assets at fair value

Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss within the Statement of Comprehensive Income. All investments of VPIS are held in this category.

Impairment of Financial Assets and Liabilities

At each reporting date, the carrying amounts of the financial assets are reviewed to determine whether there is any indication of impairment. If any such indication exists for an asset, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in profit or loss within the Statement of Comprehensive Income.

Subsequent measurement of financial liabilities

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss, that are subsequently measured at fair value with gains or losses recognised in profit or loss within the Statement of Comprehensive Income.

(k) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefit will flow to VPIS and revenue can be reliably measured. Revenue is measured at the fair value of consideration received, excluding goods and service tax, and insurance recoveries.

The following specific recognition criteria must be met before revenue is recognised:



Veterinary Professional Insurance Society Incorporated
Notes to the Financial Statements
For the year ended 30 September 2015

Insurance Income and Membership Income

Insurance premiums and society membership income which are attributable to the current financial year are recognised as revenue in that year. Where these are paid in advance, the unearned portion has been shown as income in advance. Where these are payable in arrears, and income that has not been received is shown as receivable.

Investment Income

Investment income includes rental income from VPIS's share in the investment property, net proceeds from dividends, interest received and investments sold during the year, adjusted for any gains or losses resulting from changes in the market value of shares.

Other Income

Other income is recognised in the period that it is earned.

(l) Changes in Accounting Policy

The accounting policies adopted are consistent with those of the previous financial year.

(m) Foreign Currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year-end exchange rates are recognised in the profit or loss within the Statement of Comprehensive Income.

(n) Expenditure

Claims Recognition

Claims Fees and Expenses

In addition, claims accrued are recognised based upon Management's estimate of expected loss after adjusting for the provision for claims received and settled as specified under Note 12. These claims are recognised net of excess.

Other Operating Expenses

All other expenses are recognised in profit and loss within the Statement of Comprehensive Income, upon utilisation of the service or at the date of their origin.

(o) Segment Reporting

VPIS operates in one segment only being insurance and operates only in New Zealand.

(p) Cashflows

The Statement of Cash Flows is prepared exclusive of GST, which is consistent with the method used in the statement of comprehensive income.

The following are the definitions of the terms used in the cash flow statement:

(i) Operating Activities

Operating activities include all transactions and other events that are not investing or financing activities.

Veterinary Professional Insurance Society Incorporated
Notes to the Financial Statements
For the year ended 30 September 2015

(p) Cashflows continued;

(ii) Investing Activities

Investing activities are those activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets.

(iii) Cash and Cash Equivalent

Cash includes coins and notes, demand deposits and other highly liquid investments readily convertible into cash and includes at call borrowings such as bank overdrafts, used by VPIS as part of their day-to-day cash management.

(q) NZ IFRS Standards issued but not yet effective

The following new standards are considered relevant to the financial statements have been issued but are not yet effective and which VPIS has not early adopted.

Standards, amendments and interpretations to existing standards

NZ IFRS 9 Financial Instruments (effective date from 1 January 2018)

The IASB and the XRB will to replace NZ IAS 39 Financial Instruments: Recognition and Measurement in its entirety with this new standard (NZ IFRS 9). This deals with recognition, classification, measurement and de-recognition of financial assets and financial liabilities, expected credit losses and hedging, these chapters are effective for annual periods beginning on or after 1 January 2018.

Standards, amendments and interpretations to existing standards continued

Management has yet to assess the impact the standard is likely to have on the recognition and measurement of financial assets held by the Society.

NZ IFRS 15 Revenues from Contracts With Customers (effective date from 1 January 2018)

The IASB and the XRB have published IFRS 15 Revenue from Contracts with Customers, the product of a major joint project between the IASB and the US FASB. The previous requirements of IFRS and US GAAP were not harmonised and often resulted in different accounting treatment for economically similar transactions. In respect, the accounting Boards have development new, fully converged requirements for the recognition of revenue under both IFRS and US GAAP.

NZ FRS 15 replaces

NZ IAS 18 *Revenues*, NZ IAS 11 *Construction Contracts* and some revenue - related interpretations.

- establishes a new control-based revenue recognition model
- changes the basis for deciding whether revenue is to be recognised over time or at a point in time.
- Provides new and more detailed guidance on specific topics
- Expands and improves disclosures about revenue

Management has yet to assess the impact the standard is likely to have on the recognition and measurement of financial assets held by the Society.



Veterinary Professional Insurance Society Incorporated
Notes to the Financial Statements
For the year ended 30 September 2015

4. SIGNIFICANT MANAGEMENT JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

When preparing the financial statements management undertakes a number of judgments, estimates and assumption that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Where material, information on significant assumptions and estimates is provided below or in the relevant accounting policy with additional analysis in the relevant note.

Provision

A provision is made to cover the amount that VPIS has not paid in any year against the claims made. When the claims reach \$150,000 in any year, VERO as the underwriters pay the amounts over the aggregate. Claims are offset by the excess applicable and only when the net of these exceeds \$150,000 is the underwriter liable. Provisions are carried forward as a claim can be made for any year where aggregates have not been reached.

5. CONTINGENT LIABILITIES

The Society reinsured its liability for claims during the year in excess of \$150,000 or any one claim in excess of \$50,000 (2014 \$150,000 and any one claim in excess of \$50,000) and the provision for claims shown in the Current Liabilities is net of this recovery. VPIS has a contingent liability for this excess if for any reason it is not recoverable from the Underwriters.

6. NZ GOVERNMENT STOCK DEPOSIT UNDER INSURANCE COMPANIES ACT 1953

The investment was purchased in May 2012 and had a face value of \$10,000 with an interest rate of 6% per annum. This matured on the 15 April 2015. There is no stock value as at 30 September 2015.

7. INVESTMENT PORTFOLIO

Investments have been recorded at market value as at 30 September 2015 and 30 September 2014. The majority of the funds are managed by the Bank of New Zealand Investment advisors.

8. CASH AND CASH EQUIVALENTS

The carrying value of cash and cash equivalents approximates their fair value. Cash at bank earns interest at floating rates on daily deposit balances.



Veterinary Professional Insurance Society Incorporated
Notes to the Financial Statements
For the year ended 30 September 2015

SHORT TERM DEPOSITS

The carrying value of short term deposits approximate their fair value and interest accrued is shown separately in the statement of financial position. The current deposit is earning 3.71% per annum. (2014: 4.2%)

9. ACCOUNTS RECEIVABLE

Accounts receivable are non-interest bearing and receipt is normally for re-insurance Seven days and other receivables 30 days. Therefore the carrying value of receivables approximates its fair value. As at 30 September 2015 and 2014, all overdue balances have been assessed for impairment and no allowance was necessary. All receivables are subject to credit risk exposure.

The aging of the receivables balances at 30 September are as follows;

	2015		2014
	\$		\$
0-30 Days	245,452	0-30 Days	299,938
31-60 Days	45,026	31-60 Days	9,371
60 days and over	2,530	60 days and over	1,303
<u>Total</u>	<u>293,008</u>	<u>Total</u>	<u>310,612</u>

10. ACCOUNTS PAYABLE

Accounts payable and other payables are non-interest bearing and normally settled within 30 days, therefore the carrying amount approximates its fair value.



Veterinary Professional Insurance Society Incorporated
Notes to the Financial Statements
For the year ended 30 September 2015

11. INVESTMENT INCOME

	2015	2014
Interest Received	\$	\$
On call accounts	11,579	19,452
Government stock	<u>600</u>	<u>600</u>
	12,179	20,052
Investment Portfolio		
Interest received	51,161	46,470
Dividends received	<u>39,467</u>	<u>37,340</u>
	90,628	83,810
Total interest and dividends	<u>102,807</u>	<u>103,862</u>
Gain from sale of investments		
Gains	-	-
Losses	<u> </u>	<u>(9,563)</u>
		(9,563)
Income from Investment property	20,405	20,405
Gain from changes in the market value of investments		
Unrealised gains	70,741	79,766
Investment Income	<u>193,953</u>	<u>194,470</u>



Veterinary Professional Insurance Society Incorporated
Notes to the Financial Statements
For the year ended 30 September 2015

12. CLAIMS

Each year the Society makes a provision for claims received and not yet settled.

	2015	2014
Provision for Claims	\$	\$
Opening Provision	90,992	153,281
Plus provision for current year	150,000	150,000
	<u>240,992</u>	<u>303,281</u>
Less paid current year	121,364	135,463
Less paid other years net of recoveries	14,537	76,826
<u>Closing Provision</u>	<u>105,091</u>	<u>90,992</u>

Provisions are treated as a current liability due to the uncertainty in measuring the portion of claims that are likely to be paid over a term exceeding one year where the aggregates have not been breached.

	\$	\$
Claims, fees & expenses		
Expenses Paid Current Year	121,364	135,463
Less: Paid 30 September (prior year events)	14,537	76,826
Plus Additional For 2012	-	<u>2,472</u>
	135,901	214,761
Additional Provision for the two years (net of current insurance year's payments)	<u>14,099</u>	<u>(62,289)</u>
<u>Total expenses incurred for the year</u>	<u>150,000</u>	<u>152,472</u>



Veterinary Professional Insurance Society Incorporated
Notes to the Financial Statements
For the year ended 30 September 2015

13. FIXED ASSETS

Fixed assets are stated at cost less accumulated depreciation as detailed in the attached schedule.

	Original Cost	Plus Additions	Less Disposals	Total Cost	Depreciation for the year	Accumulated Depreciation	Carrying amount
	\$	\$	\$	\$	\$	\$	\$
2015							
Software	166,359	34,179	25,416	175,122	29,076	65,406	109,716
	166,359	34,179	25,416	175,122	29,076	65,406	109,716
2014							
Software	49,056	117,303	-	166,359	2,444	51,500	114,859
	49,056	117,303	-	166,359	2,444	51,500	114,859

14. INVESTMENT PROPERTY

The Investment Property is stated at Cost. VPIS has a 25% ownership in the land and building situated at Level 2, 44 Victoria Street, Wellington, the principal place of operation. Ownership is shared with New Zealand Veterinary Association (NZVA) and New Zealand Veterinary Association Foundation for Continuing Education (the Foundation) under an agreement and Purchase dated August 2006. It receives rental income from NZVA.

Investment Property is stated at cost less accumulated depreciation as detailed in the schedule below.

	Original Cost	Depreciation for the year	Accumulated Depreciation	Carrying amount
2015				
Share of Premises	176,226	3,525	41,606	134,620
Land	77,432	-	-	77,432
	253,638	3,525	41,606	212,052
2014				
Share of Premises	176,226	3,524	38,081	138,145
Land	77,432	-	-	77,432
	253,638	3,524	38,081	215,577



Veterinary Professional Insurance Society Incorporated
Notes to the Financial Statements
For the year ended 30 September 2015

15. FINANCIAL INSTRUMENTS RISK

VPIS is exposed to various risks in relation to financial instruments. VPIS's financial assets and liabilities by category are summarised below:

2014	Financial assets	2015
\$		\$
643,710	Loans and receivables	713,300
1,753,616	Financial Assets at fair value through Profit and Loss	1,889,653
<u>2,397,326</u>		<u>2,602,953</u>
Financial liabilities		
345,524	Trade and other payables	175,833
<u>345,524</u>		<u>175,833</u>

16. RISK MANAGEMENT OBJECTIVES AND POLICIES

VPIS is exposed to various risks in relation to financial instruments which are summarised by category in Note 15. The main types of risk are market risk, credit risk and liquidity risk.

VPIS risk management is co-ordinated by NZVA in close cooperation with the VPIS board and focuses on actively securing the short to medium term cash flows by minimising the exposure to financial markets. Longer term financial investments are managed by BNZ to generate longer lasting returns to the Society and its members.

VPIS does not actively engage in the trading of financial assets. The most significant of the financial risks to which VPIS is exposed are described below.

Market risk analysis

VPIS is exposed to market risk through its used of financial instruments and specifically to currency risk, interest rate risk and other certain price risks which result from both its operating and investing activities.

Foreign currency sensitivity

VPIS transactions are denominated in NZD. Exposures to currency exchange rates arise from an investment in TR Properties Trust, (British Pounds) and any overseas investments managed by the BNZ on behalf of VPIS. The exposure to foreign currency is minimal and no mitigation is considered necessary. All fluctuations in the investments are shown in the profit or loss with in the Statement of Comprehensive Income as unrealised gains or losses on investments until they are sold.



Veterinary Professional Insurance Society Incorporated
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Risk management objectives and policies continued;

The impact of the sensitive nature of these investments is deemed to be nil on the surpluses derived in 2015 given the total funds invested.

Interest rate sensitivity

VPIS is exposed to interest rate risk through cash and cash equivalents and its managed funds. The exposure is considered minimal. There is no effect on the payables.

Market risk analysis continued;

The following table illustrates the sensitivity of surplus and equity to a reasonably possible change in interest rates of +/-1%; (2014:+/-1%). These changes are considered to be reasonably possible based on observations of current market conditions. The calculations are based on a change in the average market interest rate and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are constant.

	Profit		Equity	
	1%	-1%	1%	-1%
30 September 2015	\$5,202	(\$5,150)	\$5,202	(\$5,150)
30 September 2014	\$3,364	(\$3,298)	\$3,364	(\$3,298)

Credit risk analysis

Credit risk is the risk that counterparty fails to discharge an obligation to VPIS. The exposure to this risk is for various financial instruments, for example receivables from members and other entities, placing deposits and investments. The maximum exposure is limited to the carrying amount of the financial assets at 30 September 2015 and 2014. Carrying amounts of financial assets are listed below;

2014	Financial assets	2015
\$		\$
333,098	Cash and cash equivalents	420,292
310,612	Accounts receivable	293,008
1,743,616	Investment portfolio	1,889,653
<u>10,000</u>	Government Stock	<u>-</u>
<u>2,397,326</u>		<u>2,602,953</u>

VPIS continuously monitors defaults of members and other counterparties and incorporates this into its credit risk controls.



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Credit risk analysis continued;

VPIS's policy is to deal with only creditworthy counterparties. VPIS is not exposed to any significant credit risk from any single counterparty. Based on historical information the default rates are negligible.

Liquidity risk analysis

Liquidity risk is that risk that VPIS might be unable to meet its obligations. VPIS's objective is to maintain cash and on call deposits to meet its liquidity requirements. This objective was met for the both 2015 and 2014 reporting periods. The financial assets currently held exceed the current cash outflow requirements. Cash flows from receivables are all contractually due within 30 days.

Net cash flows from insurance liabilities

It is estimated that all of the provision for claims provided for the year ended 30 September 2015, will be paid out within 6 months from this date.

The provision held for the year ended 30 September 2012 is not likely to be called upon in full in the next 12 months.

Fair Value measurement

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three Levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of VPIS financial assets at fair value through profit or loss are classified as follows:

		Govt Bond	TR Investments	BNZ Portfolio	Total Investments
		\$	\$	\$	\$
2015	Level 1	-	152,317	658,788	811,105
	Level 2	-	-	865,644	865,644
	Total	-	152,317	1,524,432	1,676,749
2014	Level 1	10,000	115,211	944,771	1,069,982
	Level 2	-	-	462,178	462,178
	Total	10,000	115,211	1,406,949	1,532,160



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Fair Value Measurement continued;

Measurement of fair value of financial instruments classified as Level 2

Financial instruments classified as being Level 2 include holdings in third party Funds.

*Third party
Funds*

VPIS holdings in third party Funds are valued at the price independently quoted by the third party manager.

There were no transfers between Level 1 and Level 2 in 2015 or 2014.
There were no Level 3 assets in 2015 or 2014.

17. INSURANCE RISK

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that VPIS faces under its insurance contracts is that the actual claims exceed the carrying amount of the insurance provisions for any year and there are several single claims that exceed \$50,000 which the reinsurer will not accept. This risk is mitigated by the reinsurer's involvement in every claim from the outset. All policies are underwritten so the maximum exposure to VPIS in any one year is the aggregate of \$50,000 per claim or \$150,000 in any year. Insurance events are unpredictable, and the actual number and amount of claims will vary from year to year but VPIS is exposed in each year to a maximum of \$150,000 plus any costs it accepts as part of the process.

VPIS has developed its insurance underwriting strategy to mitigate the insurance risks. Refer to note 12 for the movement in the provisions between the last two years.

Short-term insurance liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest bearing.

Insurance Credit risk

VPIS has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the entity is exposed to credit risk are:

- Reinsurers' share of insurance liabilities;
- Amounts due from reinsurers in respect of claims already paid;
- Amounts due from insurance contract holders;
- Amounts due from money market and cash positions.

VPIS structures the levels of credit risk it accepts by placing limits on its exposure by having reinsurer insurance in place to cover amounts that exceed \$50,000 in one claim or \$150,000 over one insurance year. Reinsurance is used to manage insurance risk.



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18. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

VPIS considers its capital to comprise of members equity which includes accumulated surpluses.

In managing its capital VPIS's objectives are to ensure that VPIS is able to continue as a going concern. VPIS assesses each relevant transaction to ensure that risks and returns are at an acceptable level and also to maintain a sufficient funding base to enable VPIS to meet its working capital and strategic management needs.

There have been no significant changes to the Entity's capital management objectives, policies and processes in the year nor has there been any change in what VPIS considers to be its capital. VPIS does not currently have a gearing ratio policy. VPIS does have an externally imposed capital requirements to meet with the Reserve Bank via its Solvency rating. Refer to Note 24.

19. COMMITMENTS

There were no known commitments for capital expenditure at the reporting date (2014: Nil).

20. RELATED PARTY TRANSACTIONS

Rental

Veterinary Professional Insurance Society (Inc.), (VPIS) receives rental income from New Zealand Veterinary Association Incorporated (NZVA) who occupy the premises.

Rental Income received for the year was \$20,405 (2014: \$20,405). Owed to VPIS as at 30 September 2015 was \$1,955 (2014: \$1,955).

Management Fees

VPIS is charged by NZVA for management services provided to VPIS. All transactions occurred and are agreed by the VPIS Board.

Management fees were \$153,178. (2014: \$183,108).

Owed to NZVA as at 30 September 2015 \$16,756 (2014: \$881).

Fees paid to Board Members

Board members of the VPIS Board are contracted as insurance assessors from time to time on normal business terms.

Board members and Audit and Risk Committee fees paid for the year were \$66,210 (2014: \$65,264).

Amounts owed to Board members at 30 September 2015 were \$nil (2014:\$nil).

Assessors Fees to Board members for the year was \$45,268 (2014:\$13,222).

Amounts owed to Board members as assessor fees as at 30 September 2015 \$10,650.84 (2014:\$5,259).

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21. AUDIT FEES

Fees paid include the audit of the annual financial statements and the audit of the solvency return as at the 30 September. Audit of the Solvency return and any other fees paid are classified as Other Assurance services. There was one solvency return audited in the year ended 30 September 2015.

	2015	2014
	\$	\$
Audit Fees	7,000	6,000
Other Assurance Services	<u>2,000</u>	<u>3,800</u>
Total	<u>9,000</u>	<u>9,800</u>

22. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

2014		2015
\$		\$
(1,859)	Net Profit/ (Loss) for the year	130,269
	Add non-cash items	
5,968	Depreciation	32,601
	Add/(deduct) items classified as investing activities	
(139,912)	Net change in investment portfolio	(136,037)
	Add/(deduct) movements in working capital	
(106,701)	Decrease/(increase) in accounts receivable	17,604
(235)	Decrease/(increase) in accrued interest	(70)
180,396	(Decrease)/increase in accounts payable	(168,107)
51,804	(Decrease)/increase in sundry payables	(1,584)
(30,760)	(Decrease)/increase in goods and service tax	64,708
136,988	(Decrease)/increase in premiums in advance	157,643
<u>(62,289)</u>	(Decrease)/increase in provision for claims	<u>14,099</u>
<u>33,400</u>	Net cash flows from operating activities	<u>111,126</u>



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23. EVENTS SUBSEQUENT TO REPORTING DATE

There are no events subsequent to reporting date. (2014: Nil)

24. SOLVENCY MARGIN

Under section 4.5 of the Solvency Standard for Non-Life Insurance business, issued by the Reserve Bank of New Zealand under section 55 of the Insurance (Prudential Supervision) Act 2010, VPIS is required to disclose certain information regarding its solvency position. As at 30 September 2015:

- (a) VPIS's Actual Solvency Capital was \$1.959m (2014: \$1.823m)
- (b) VPIS's Minimum Solvency Capital was \$0.470m (2014: \$0.428m)
- (c) VPIS's Solvency Margin was \$1.489m (2014: \$1.396)
- (d) VPIS's Solvency Ratio was 416%. (2014: 426%)

