Veterinary Professional Insurance Society Incorporated
Statement of Comprehensive Revenue and Expenses
For the year ended 30 September 2017

	Notes	2017 $	2016 $
Revenue from Exchange Transactions			
Gross premium		1,099,326	1,040,977
Premium ceded to Re-Insurer		(107,076)	(89,800)
Net premium		992,250	951,177
Membership revenue		205,267	204,353
Miscellaneous revenue		12,263	7,959
Investment income		36,662	93,866
Investment property income		20,400	20,401
(Loss)/gain on realised investments		(12,057)	20,345
Unrealised investment income		76,590	31,525
Revenue from Non- Exchange Transactions		-	-
Total Revenue (including net premium)		**1,331,375**	**1,329,626**
Expenses			
Gross benefit / claims	11	592,872	387,539
Claims ceded	11	(355,599)	(188,801)
Movement of provision	11	-	(105,091)
Insurance fees and premiums		513,971	524,718
Legal expenses		15,158	9,066
Administration		251,132	240,536
Finance cost		2,676	5,485
Board cost		108,131	91,557
Depreciation and amortisation	12,13	53,393	63,373
Investment management fee		12,743	12,509
Special projects		22,776	8,201
Total Expenses		**1,217,253**	**1,049,092**
Total surplus/(deficit) for the year		**114,122**	**280,534**
Other comprehensive revenue and expenses		-	-
Total comprehensive revenue and expenses for the year		**114,122**	**280,534**

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

Veterinary Professional Insurance Society Incorporated
Statement of Changes in Net Assets
For the year ended 30 September 2017

	2017	2016
	$	$
Balance as at 1 October	2,349,098	2,068,564
Surplus for the year	114,122	280,534
Total surplus for the year	**114,122**	**280,534**
Other comprehensive revenue	-	-
Total Comprehensive revenue and expenses	**114,122**	**280,534**
Balance as at 30 September	**2,463,220**	**2,349,098**

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 2017

	Notes	2017	2016
Current Assets		**$**	**$**
Cash and cash equivalents	7	581,237	468,041
Investments	8	115,691	112,037
Receivables from exchange transactions	9	461,220	252,972
Interest accrued		2,010	1,478
GST receivable		-	-
Total Current Assets		1,160,158	834,528
Non-Current Assets			
Intangible assets	12	-	49,868
Capital work in progress		6,525	-
Investment property	13	205,003	208,528
Investment portfolio	6	2,089,143	2,009,749
Total Non-Current Assets		2,300,671	2,268,145
Total Assets		**3,460,829**	**3,102,673**
Current Liabilities			
Accounts payable	10	127,377	60,900
GST payable		74,016	51,893
Income received in advance		576,843	458,919
Sundry payables		219,373	181,863
Provision for claims	11	-	-
Total Liabilities		**997,609**	**753,575**
Net Assets		**2,463,220**	**2,349,098**
Equity		**2,463,220**	**2,349,098**

For and on behalf of the Board on 19 January 2018.

Mark Ward
Chief Executive Officer

Gavin Shepherd
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 2017

	Note	2017	2016
Cash flow from operating activities		**$**	**$**
Cash was provided from/ (applied to):			
Insurance receipts		1,291,232	1,304,696
Interest received		4,646	8,795
Other income		37,562	32,613
Payments to suppliers		(1,220,470)	(1,189,750)
Net cash from continuing activities		112,970	156,354
Net cash flows from operating activities		112,970	156,354
Cash flow from investing activities			
Proceeds from interest		5,015	27,529
Proceeds from dividends		26,469	56,640
Proceeds from gain on sale of investments		(12,057)	20,345
Unrealised gains		76,590	31,525
Payments to acquire financial assets		(79,394)	(120,096)
Payments to acquire software assets		-	-
Payments to Management Fees		(12,743)	(12,510)
Net cash flow from/ (used in) investing activities		**3,880**	**3,433**
Net cash flow from financing activities		-	-
Net change in cash and cash equivalents		116,850	159,787
Cash and cash equivalents, beginning of year		580,078	420,291
Cash and cash equivalents at end of year	7	**696,928**	**580,078**
Made up of			
Cash and Cash equivalents		696,928	580,078
Total Cash	7	**696,928**	**580,078**

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 2017

1. REPORTING ENTITY

The Veterinary Professional Insurance Society Incorporated ("VPIS" or "Society") is a Public Benefit Entity registered as an Incorporated Society under the Incorporated Societies Act 1908 and is domiciled in New Zealand. Under the Insurance (Prudential Supervision) Act 2010 insurers are FMC entities as defined by the Financial Markets Conduct Act 2013.

On 15 July 2013 VPIS was issued the original licence and on 13 August 2015 was issued a revised license 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 19 January 2018.

2. STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). They comply with Public Benefit Entity International Public Sector Accounting Standards ("PBE IPSAS") and other applicable financial reporting standards as appropriate that have been authorised for use by the New Zealand Accounting Standards Board for Not-For-Profit entities. For the purposes of complying with NZ GAAP, the Society is a public benefit not-for-profit entity and is eligible to apply Tier 2 Not-For-Profit PBE IPSAS on the basis that it does not have public accountability and it is not defined as large.

The Board has elected to report in accordance with Tier 2 Not-For-Profit PBE Accounting Standards and in doing so has taken advantage of all applicable Reduced Disclosure Regime ("RDR") disclosure concessions.

3. SUMMARY OF ACCOUNTING POLICIES

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

3.1 Basis of measurement

The measurement system adopted is standard historical cost except for investments which are at fair value. The accrual basis of accounting has been used unless otherwise stated and the financial statements have been prepared on a going concern basis.

The premium income and the claim expenses have been grossed up for 2016/17 year and the comparative figures have been adjusted accordingly.

3.2 Presentation and Functional Currency

The VPIS financial statements are presented in New Zealand dollars ($), which is VPIS's functional currency. All financial information presented in New Zealand dollars has been rounded to the nearest dollar.

3.3 Revenue

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

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

Revenue from Exchange Transactions

Insurance Revenue
Gross general insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the reporting period. They are recognised on the date on which the policy commences. Premiums include any adjustments arising in the reporting period for premiums receivable in respect of business written in prior accounting periods.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Reinsurance premiums
Gross outward reinsurance premiums on investment contracts are recognised as an expense on the earlier of the date when premiums are payable or when the policy becomes effective.

Gross general reinsurance premiums ceded comprise the total premiums payable for the whole cover provided by contracts entered into in the period and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

3.3 Revenue (continued)

Unearned reinsurance premiums are those proportions of premiums ceded in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.

Reinsurance premiums and claims on the face of the statement of comprehensive revenue and expense have been presented as negative items within premiums and net benefits and claims, respectively, because this is consistent with how VPIS is managed.

Membership Revenue
Membership revenue which is attributable to the current financial year is recognised as revenue in that insurance year. Where this is paid in advance, the unearned portion has been shown as income in advance.

Investment Income
Investment income includes 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.

Interest revenue is recognised as it accrues. Dividend revenue is recognised when the dividend is received.

Investment Property Income
Investment property income is the rental income from VPIS's share in the investment property.

3.4 Financial Instruments

Financial assets and financial liabilities are recognised when the Society becomes a party to the contractual provisions of the financial instrument.

The Society derecognises a financial asset or, where applicable, a part of a financial asset or part of a group of similar financial assets when the rights to receive cash flows from the asset have expired or are waived, or the Society has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party; and either:

- the Society has transferred substantially all the risks and rewards of the asset; or
- the Society has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial assets
Financial assets within the scope of NFP PBE IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets. The classifications of the financial assets are determined at initial recognition.

3.4 Financial Instruments (continued)

The categorisation determines subsequent measurement and whether any resulting income and expense is recognised in surplus or deficit or in other comprehensive revenue and expenses. The Society's financial assets are classified as either financial assets at fair value through surplus or deficit, or loans and receivables. VPIS's financial assets include: cash and cash equivalents, short term investments, receivables from exchange transactions, investment portfolio and investment property.

All financial assets except for those at fair value through surplus or deficit 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.

Financial assets at fair value through surplus or deficit

Financial assets at fair value through surplus or deficit include financial assets that are either classified as held for trading or that meet certain conditions and are designated at fair value through surplus or deficit upon initial recognition. All investments of VPIS fall into this category of financial instruments

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. VPIS's cash and cash equivalents, short-term investments and receivables from exchange transactions fall into this category of financial instruments.

Impairment of financial and 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 surplus or deficit within the Statement of Comprehensive Revenue and Expenses.

Financial Liabilities

The Society's financial liabilities include accounts payables and sundry payables.

All financial liabilities are initially recognised at fair value (plus transaction cost for financial liabilities not at fair value through surplus or deficit) and are measured subsequently at amortised cost using the effective interest method.

3.5 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held on call with banks and short-term deposits which have a term of 90 days or less. These are highly liquid investments readily convertible into known amounts of cash which are subject to an insignificant risk of changes in value.

3.6 Short Term Investments

Short term investments comprise term deposits which have a term of greater than three months and therefore do not fall into the category of cash and cash equivalents.

3.7 Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortisation period and the amortisation method for an intangible asset with finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits or service potential embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

The amortisation expense on intangible assets with finite lives is recognised in surplus or deficit within the depreciation and amortisation line.

The Society doesn't hold any intangible assets that have an indefinite life. The useful economic life of the software is expected to be 4 years.

3.8 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.

3.8 Investment Property (continued)

Depreciation is charged on a straight line basis over the useful life of the asset and recognised as an expense in the Statement of Comprehensive Revenue and Expenses.

The depreciation period for the property is as follows.
Investment Property - 50 years

Rental income derived from the investment property is reported as revenue from exchange transactions.

3.9 Income Tax

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

3.10 Goods and Service Tax (GST)

The financial statements have been prepared on a GST exclusive basis, except for accounts receivable and accounts payable which are stated inclusive of GST.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the Inland Revenue Department is classified as part of operating cash flows.

3.11 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.

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

3.12 Expenditure

Claims Fees and Expenses
General insurance claims include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims.

Reinsurance Claims
Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

Other Operating Expenses
All other expenses are recognised in surplus and deficit within the Statement of Comprehensive Revenue and Expenses, upon utilisation of the service or at the date of their origin.

3.13 Reinsurance ceded to reinsurance counterparties

VPIS cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that VPIS may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that VPIS will receive from the reinsurer. The impairment loss is recorded in the statement of profit or loss.

Gains or losses on buying reinsurance are recognised in the statement of comprehensive revenue and expense immediately at the date of purchase and are not amortised.

Ceded reinsurance arrangements do not relieve VPIS from its obligations to policyholders.

3.14 Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of comprehensive revenue and expense.
Insurance receivables are derecognised when the de-recognition criteria for financial assets have been met.

4. SIGNIFICANT MANAGEMENT JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

When preparing the financial statements management undertakes a number of judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of revenue, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities.

Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgements
In the process of applying the Society's accounting policies, management has made the following judgment, which has the most significant effect on the amount recognised in the financial statements.

Estimates and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Society based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Society. Such changes are reflected in the assumptions when they occur.

Revaluation of investment property
The useful life of the building has been assumed to remain unchanged due to the absence of any information to the contrary.

Useful lives and residual values
The useful lives and residual values of assets are assessed using the following indicators to determine potential future use and value from disposal:
- The condition of the asset
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

Considering the above factors the Software cost has been fully amortised as at 30 September 2017. This software will be replaced with a new system within the next 6 months.

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 (2016: $150,000 and any one claim in excess of $50,000). VPIS has a contingent liability if for any reason the excess is not recoverable from the underwriters. This has not been quantified as the liability is wholly re-insured.

6. INVESTMENT PORTFOLIO

Investments have been recorded at market value as at 30 September 2017 and 30 September 2016.

7. 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. Short term deposits earn interest at a rate of 2.75% and 2.20% per annum for investments with a term of 90 days and 60 days respectively.

8. SHORT TERM INVESTMENTS

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 3.50% per annum. (2016: 3.21%)

9. ACCOUNTS RECEIVABLE

Accounts receivable is non-interest bearing and receipt is normally for re-insurance 7 days and other receivables 30 days. Therefore the carrying value of receivables approximates its fair value. As at 30 September 2017 and 2016, 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 receivable balances at 30 September are as follows:

	2017		**2016**
	$		**$**
0-30 Days	394,764	0-30 Days	233,868
31-60 Days	63,418	31-60 Days	19,104
60 days and over	3,038	60 days and over	-
Total	**461,220**	**Total**	**252,972**

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.

11. CLAIM EXPENSES AND PROVISION

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

	2017	2016
Provision for Claims	**$**	**$**
Opening Provision	-	105,091
Plus provision for current year	150,000	150,000
	150,000	255,091
Less paid current year	150,000	150,000
Less paid other years net of recoveries	-	30,636
Less reversal of other years provisions	-	74,455
Closing Provision	-	-

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.

	2017	2016
	$	**$**
Claims, fees & expenses		
Expenses incurred current year claims	387,966	175,780
Expenses incurred prior years claims	204,906	211,759
	592,872	387,539
Claims ceded	(355,599)	(188,801)
Net claim expenses incurred during the year	**237,273**	**198,738**
Movement of Provision	-	(105,091)
Net Claims cost for the year	**237,273**	**93,647**

12. INTANGIBLE ASSETS

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

2017	Original Cost $	Plus Additions $	Less Disposals $	Total Cost $	Amortisation for the year $	Accumulated Amortisation $	Carrying Amount $
Software	175,122	-	-	175,122	49,868	175,122	-
	175,122	**-**	**-**	**175,122**	**49,868**	**175,122**	**-**

2016	Original Cost $	Plus Additions $	Less Disposals $	Total Cost $	Amortisation for the year $	Accumulated Amortisation $	Carrying Amount $
Software	175,122	-	-	175,122	59,848	125,254	49,868
	175,122	**-**	**-**	**175,122**	**59,848**	**125,254**	**49,868**

Reconciliation of the carrying amount at the beginning and end of the period:

Software	2017 $
Opening balance as at 1 October	49,868
Additions	-
Disposals	-
Amortisation	(49,868)
Closing balance as at 30 September	-

13. INVESTMENT PROPERTY

The investment property is stated at cost and there has not been any fair value valuation as at 30 September 2016. 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. VPIS is restricted from disposing the asset since it owns only 25% of the property. There are no contractual obligations to purchase, construct, develop the property or for maintenance and enhancements.

VPIS receives rental income from NZVA.

13. INVESTMENT PROPERTY (CONTINUED)

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

Investment Property

	Original Cost	Depreciation for the year	Accumulated Depreciation	Carrying amount
2016	253,658	3,525	45,130	208,528
2017	253,658	3,525	48,655	205,003

Reconciliation of the carrying amount at the beginning and end of the period:

Investment Property	**2017**
	$
Opening balance as at 1 October	208,528
Additions	-
Disposals	-
Depreciation	(3,525)
Closing balance as at 30 September	**205,003**

14. 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:

	2017	**2016**
	$	**$**
Financial Assets		
Loans and receivables	1,164,673	833,050
Financial Assets at fair value through Profit and Loss	2,089,143	2,009,749
	3,253,816	2,842,799
Financial Liabilities		
Accounts payable	127,377	60,900
Sundry payables	265,645	216,589
	393,022	277,489

15. 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 13 for the movement in the provisions between the last two years.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although VPIS has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

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.

Insurance Liquidity and Market risk
Liquidity and market risk are managed by VPIS through the reinsurance agreement and through limited cover explained above. VPIS's reinsurance provider has a financial risk rating of A+.

16. COMMITMENTS

There were no known commitments for capital expenditure at the reporting date. (2016: Nil).

17. KEY MANAGEMENT PERSONNEL

VPIS services are provided under contract from NZVA. Mark Ward is the Chief Executive Officer for VPIS. VPIS doesn't pay any employees directly.

18. 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 $20,400 (2016: $20,401), owed to VPIS as at 30 September 2017 was $1,955 (2016: $1,955).

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

Management fees were $157,188 (2016: $156,186).

Amounts owed to NZVA as at 30 September 2017 were $15,064 (2016: $15,064).

Fees paid to Board Members
Board members of the VPIS are contracted as insurance assessors from time to time.

Board member fees and Audit and Risk Committee fees paid for the year were $81,130 (2016: $66,562).

Board and Audit and Risk Committee fees owed to Board members as at 30 September 2017 were $nil (2016:$nil).

Assessors Fees to Board members for the year was $115,927 (2016:$66,979).

Amounts owed to Board members as assessor fees as at 30 September 2017 $44,613 (2016:$15,172).

19. EVENTS SUBSEQUENT TO REPORTING DATE

There are no events subsequent to reporting date. (2016: Nil)

20. SOLVENCY DISCLOSURE

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 2017:
(a) VPIS's Actual Solvency Capital was \$2.46m (2016: \$2.299m)
(b) VPIS's Minimum Solvency Capital was \$0.603 (2016: \$0.496m)
(c) VPIS's Solvency Margin was \$1.85m (2016: \$1.804)
(d) VPIS's Solvency Ratio was 408%. (2016: 464%)

Grant Thornton

Independent Auditor's Report

Audit
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To the Members of Veterinary Professional Insurance Society Incorporated

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Veterinary Professional Insurance Society Incorporated on pages 1 to 18 which comprise the statement of financial position as at 30 September 2017, and the statement of comprehensive revenue and expenses, statement of changes in net assets and statement of cash flows 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 Veterinary Professional Insurance Society Incorporated as at 30 September 2017 and its financial performance and cash flows for the year then ended in accordance with Public Benefit Entity International Public Sector Accounting Standards (Not-For-Profit) Reduced Disclosure Regime 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 Veterinary Professional Insurance Society Incorporated 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, Veterinary Professional Insurance Society Incorporated.

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Board Members' Responsibilities for the Financial Statements

The Board Members are responsible on behalf of Veterinary Professional Insurance Society Incorporated for the preparation and fair presentation of these financial statements in accordance with Public Benefit Entity International Public Sector Accounting Standards (Not-For-Profit) Reduced Disclosure Regime issued by the New Zealand Accounting Standards Board, and for such internal control as those charged with governance 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, those charged with governance are responsible for assessing Veterinary Professional Insurance Society Incorporated'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 members either intend to liquidate the Entity 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 economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the External Reporting Board's website at: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-8/

Restriction on use of our report

This report is made solely to the members of the Veterinary Professional Insurance Society Incorporated, as a body. Our audit work has been undertaken so that we might state to the members of Veterinary Professional Insurance Society Incorporated, as a body, 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 Veterinary Professional Insurance Society Incorporated and it's members, as a body, for our audit work, for this report or for the opinion we have formed.

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Brent Kennerley
Partner
Wellington
19 January 2018