Financial statements

For year ending 30 June 2018

Contents

PSS
Police Super Scheme

policesuper.co.nz

Statement of net assets

As at 30 June 2018

	Note	2018 $	2017 $
Assets			
Cash at bank		10,605,752	13,225,117
Financial assets	6	2,023,514,742	1,914,947,495
Sundry debtors		–	312,552
Income tax refundable	8	6,659	28,484
Deferred tax asset	8	135,240	101,993
Total assets		2,034,262,393	1,928,615,641
Less liabilities			
Benefits payable		2,251,817	461,950
Sundry creditors		312,857	360,325
Total liabilities		2,564,674	822,275
Net assets available for benefits		**2,031,697,719**	**1,927,793,366**
Liability for promised benefits			
Represented by:			
Member accounts	4	573,633,746	537,521,896
Employer accounts	4	1,457,355,439	1,389,598,193
Reserve accounts	10	708,534	673,277
		2,031,697,719	**1,927,793,366**

For and on behalf of the trustee, PSS Trustees Limited, who authorised the issue of these financial statements.

Greg Fleming
10 September 2018

Tim McGuinness
10 September 2018

This statement is to be read in conjunction with the notes on pages 5 to 15.

Statement of changes in net assets

For the year ended 30 June 2018

	Note	2018 $	2017 $
Investment activities			
Investment income			
Gains on financial assets at fair value through profit or loss	7	117,333,397	158,754,988
Interest		52,885	94,982
		117,386,282	158,849,970
Investment expenses			
Investment management fees		(11,359,928)	(10,862,999)
Net investment income		106,026,354	147,986,971
Other expenses			
Administration fees		675,338	813,025
Investment consultancy fees		292,850	278,562
Auditor's remuneration – for audit of financial statements		23,575	23,320
Auditor's remuneration – for audit of member register		2,875	2,300
Auditor's remuneration – other assurance services		13,800	–
Auditor's remuneration – taxation service fees		16,675	17,460
Secretarial fees		125,832	125,380
Member communications		218,067	95,414
Legal fees		40,797	84,025
Trustee's remuneration and expenses	15	295,019	321,788
Financial Markets Authority		96,049	96,497
Other expenses		22,745	59,525
Total other expenses		1,823,622	1,917,296
Change in net assets before taxation and membership activities		104,202,732	146,069,675
Income tax expense	8	1,052,993	18,868,192
Change in net assets after taxation and before membership activities		103,149,739	127,201,483
Membership activities			
Contributions			
Member contributions		53,939,882	52,694,113
Voluntary member contributions		2,367,203	1,881,625
Employer contributions		74,926,475	73,259,684
Transfer from other funds		–	6,035
Total contributions		131,233,560	127,841,457
Benefits paid			
Retirement		27,902,662	9,871,192
Withdrawals		55,687,574	57,730,524
Retrenchment		332,704	327,810
In-service access		37,452,371	30,719,542
In-service termination		1,920,578	412,508
Medical disengagement		1,642,418	388,134
Death and permanent incapacity		3,237,222	6,218,722
Hardship		2,303,417	2,034,822
Total benefits paid		130,478,946	107,703,254
Net membership activities		754,614	20,138,203
Net increase in net assets during the year		103,904,353	147,339,686
Net assets available for benefits at beginning of year		1,927,793,366	1,780,453,680
Net assets available for benefits at end of year		**2,031,697,719**	**1,927,793,366**

This statement is to be read in conjunction with the notes on pages 5 to 15.

Statement of cash flows

For the year ended 30 June 2018

	Note	2018 $	2017 $
Cash flows from operating activities			
Cash provided from			
Member contributions		56,287,919	54,599,069
Employer contributions		74,926,475	73,259,684
Transfer from other funds		–	6,034
Interest		52,885	94,982
Income tax refund		28,484	24,333
		131,295,763	127,984,102
Cash applied to			
Benefits paid		128,689,079	107,819,683
Administration fees		723,605	755,536
Investment consultancy fees		292,851	278,562
Auditor's remuneration – for audit of financial statements, registry and custodian controls		40,250	19,320
Auditor's remuneration – taxation service fees		14,950	17,135
Secretarial fees		126,016	125,206
Member communications		191,292	92,162
Legal fees		39,875	93,324
Trustee's remuneration and expenses		297,435	321,815
Financial Markets Authority		97,173	83,357
Other expenses		22,670	59,856
Income tax paid		6,659	28,502
		130,541,855	109,694,457
Net cash flows from operating activities	9	753,908	18,289,645
Cash flows from investing activities			
Cash provided from			
Sale of investments		125,520,482	82,925,060
Cash applied to			
Purchase of investments		128,893,755	95,889,190
Net cash flows utilised by investing activities		(3,373,273)	(12,964,130)
Net (decrease)/increase in cash held		(2,619,365)	5,325,515
Cash at beginning of the year		13,225,117	7,899,602
Cash at end of the year		**10,605,752**	**13,225,117**

This statement is to be read in conjunction with the notes on pages 5 to 15.

Notes to the financial statements

For the year ended 30 June 2018

1. Scheme description

Police Superannuation Scheme (the scheme) is a defined contribution restricted workplace savings scheme registered in New Zealand under the Financial Markets Conduct Act 2013 to provide retirement benefits to the salaried employees of the New Zealand Police.

Registered office: Aon New Zealand, PO Box 2764, Wellington 6140.

The trustee of the scheme is PSS Trustees Limited. The directors of PSS Trustees Limited are: Charlie Cahn, Greg Fleming, Tim McGuiness, Ian Russon and Dave Trappitt. The independent licensed trustee is Ian Russon.

The custodian of the scheme's financial assets is BNP Paribas Fund Services Australasia Pty Ltd.

The administrator of the scheme is Mercer (N.Z.) Limited.

Details of membership as at 30 June 2018 were:

30 June 2017	9,641
New members	848
Death and total and permanent disablement	(10)
Retirement	(70)
Withdrawals/resignations	(326)
Medical disengagements	(7)
In-service terminations	(16)
Retrenchments	(1)
30 June 2018	10,059

Funding arrangements

In 2018, the employer contributed to the scheme at rates of up to 15.2% (2017: 15.2%) (before deduction of withholding tax) of the salaries of those employees who were members of the scheme. Employees contributed to the scheme during 2018 at rates of up to 7.5% (2017: 7.5%) of gross salary, excluding any additional voluntary contributions.

There are three classes of members namely, retained members, standard sworn entrants, optional or special entrants.

Retirement benefits

The retirement benefits are determined by contributions to the scheme together with investment earnings on those contributions over the period of membership.

Termination terms

The trust deed sets out the basis on which the scheme can be terminated.

Changes in the scheme

The trust deed was amended in July 2017 to revise the benefit payable on the death of a member.

2. Basis of preparation

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and the requirements of the Financial Markets Conduct Act 2013 and other relevant legislative requirements as appropriate for for-profit entities.

The scheme has adopted External Reporting Board Standard A1 Accounting Standards Framework (For-profit Entities Update) (XRB A1). XRB A1 establishes a for-profit tier structure and outlines which suite of accounting standards entities in different tiers must follow. The scheme is a Tier 1 entity as it is publicly accountable.

Statement of compliance

These financial statements comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities and also with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Measurement base

The measurement base adopted is that of historical cost modified by the revaluation of assets which are measured at fair values at balance date.

Notes to the financial statements continued

For the year ended 30 June 2018

2. Basis of preparation continued

Presentation currency

These financial statements are presented in New Zealand dollars because that is the currency of the primary economic environment in which the scheme operates.

Classification of assets and liabilities

Police Superannuation Scheme operates as a retirement savings scheme. As such, the assets and liabilities are disclosed in the statement of net assets in an order that reflects their relative liquidity.

3. Summary of significant accounting policies

The following are the significant accounting policies which have been adopted in the preparation of the financial statements:

Financial assets at fair value through profit or loss

The scheme classifies its investments as designated at fair value through profit or loss. The financial assets are recognised and derecognised on the trade date where a purchase or sale is under contract whose terms require delivery within the time frame established by the market concerned, initially measured at fair value. Subsequent to initial recognition all financial assets through profit or loss are measured at fair value.

Gains or losses arising from changes in fair value of the financial assets through profit or loss category are presented in the statement of changes in net assets when they arise. Interest and dividends related to financial assets at fair value through profit or loss are recognised as part of the gains and losses presented in the statement of changes in net assets.

The fair value of financial assets is determined using the last sale price (exit price) as calculated by the fund manager at balance date.

Impairment of assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial assets the estimated future cash flows of the investment have been impacted.

The carrying value of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trace receivables where the carrying amount is reduced through the use of an allowance account.

If, in the subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the statement of changes in net assets to the extent 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.

Income recognition

(i) Interest income is recognised as interest accrues using the effective interest rate method. Interest income is earned on cash and cash equivalents.

(ii) Gains or losses of financial assets at fair value through profit or loss are recognised in the statement of changes in net assets as disclosed above.

(iii) Dividends and distributions from unitised investments are recognised on a due and receivable basis.

Foreign currencies

Transactions in currencies other than New Zealand dollars are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance date, assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing on balance date. Gains and losses arising on translation are included in changes in net assets for the period.

Expenses

All expenses are accounted for on an accruals basis.

Notes to the financial statements continued

For the year ended 30 June 2018

3. Summary of significant accounting policies continued

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The scheme's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the statement of changes in net assets.

Financial instruments

Financial assets and financial liabilities are recognised on the scheme's statement of net assets when the scheme becomes a party to the contractual provisions of the instrument. The scheme shall offset financial assets and financial liabilities if the scheme has a legally enforceable right to set off the recognised amounts and interests and intends to settle on a net basis.

Derivative financial instruments

The scheme's activities expose it primarily to the financial risks of changes in foreign currency rates and interest rates. The scheme may use foreign exchange forward contracts and interest rate swap contracts to hedge these exposures. The scheme does not use derivative financial instruments for speculative purposes.

The use of financial derivatives is governed by the scheme's policies approved by the trustee, which provide written principles on the use of financial derivatives.

Changes in the fair value of derivative financial instruments are recognised in the statement of changes in net assets as they arise.

Sundry creditors

Sundry creditors are not interest-bearing and are stated at their amortised cost.

Goods and services tax (GST)

The scheme is not registered for GST and consequently all components of the financial statements are stated inclusive of GST where appropriate.

Statement of cash flows

The cash flows of the scheme do not include those of the investment managers. The following are definitions of the terms used in the statement of cash flows:

Cash – comprises cash balances held with banks in New Zealand and overseas.

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

Investing activities – comprise acquisition and disposal of investments. Investments include securities not falling within the definition of cash.

Promised benefits

The liability for promised benefits is the scheme's present obligation to pay benefits to members and beneficiaries. It has been calculated as the difference between the carrying amounts of the assets and the carrying amounts of the liabilities as at balance date. Promised benefits include amounts allocated to members' accounts and reserves.

Contributions and benefits

Contributions and benefits are accounted for on an accruals basis.

Notes to the financial statements continued

For the year ended 30 June 2018

3. Summary of significant accounting policies continued

Standards and interpretations on issue not yet effective

At the date of authorisation of the financial report, a number of standards and interpretations were on issue but not yet effective. Application of the revised standards is not expected to materially affect any of the amounts recognised in the financial statements. The following may change the presentation and disclosures presently made in relation to the scheme's financial statements:

NZ IFRS 9 – Financial instruments is applicable to annual reporting periods beginning on or after 1 January 2018. The scheme is to adopt this standard for the financial year ending 30 June 2019. NZ IFRS 9 was issued in September 2014 as a complete version of the standard. It addresses the classification, measurement and recognition of financial assets and financial liabilities, hedge accounting and impairment. It replaces the guidance contained in NZ IAS 39 that relates to the classification and measurement of financial instruments, hedge accounting and impairment. NZ IFRS 9 requires financial assets to be classified into three measurement categories: those measured at fair value through other comprehensive income, those measured at fair value through profit or loss and those measured at amortised cost. The determination is made at initial recognition. Classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the NZ IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. Based on the scheme's initial assessment, the adoption of this standard does not have a material impact on the scheme's financial statements. However, the classification of some financial instrument will change as follows: (1) those currently classified as loans and receivables will be classified as financial assets/financial liabilities at amortised cost, (2) those currently classified as held for trading will be classified as financial assets/financial liabilities at fair value through profit or loss, and (3) those currently classified as designated at fair value through profit or loss will be classified as financial assets/financial liabilities at fair value through profit or loss. The scheme's assessment of NZIFRS9's full impact has been done and it was found that there was no impact.

Notes to the financial statements continued

For the year ended 30 June 2018

4. Liability for promised benefit

Changes in promised benefits as at 30 June 2018

	Member account $	Employer account $	No 1 reserve account $	No 2 reserve account $	Total 2018 $
Balance 1 July	537,521,896	1,389,598,193	494,091	179,186	1,927,793,366
Contributions	56,307,085	74,926,475	–	–	131,233,560
Withdrawals	(49,828,064)	(80,650,882)	–	–	(130,478,946)
Member deductions	(9,825)	(816,969)	–	–	(826,794)
Income allocated	29,642,654	74,298,623	25,873	9,384	103,976,533
Balance 30 June	**573,633,746**	**1,457,355,439**	**519,964**	**188,570**	**2,031,697,719**

Changes in promised benefits as at 30 June 2017

	Member account $	Employer account $	No 1 reserve account $	No 2 reserve account $	Total 2017 $
Balance 1 July	489,797,101	1,288,340,433	2,066,167	249,979	1,780,453,680
Contributions	54,581,773	73,259,684	–	–	127,841,457
Withdrawals	(43,613,587)	(64,067,085)	(21,611)	(971)	(107,703,254)
Reserve distributions	414,867	1,091,286	(1,441,384)	(64,769)	–
Member deductions	(10,475)	(684,804)	(168,602)	(7,576)	(871,457)
Income allocated	36,352,217	91,658,679	59,521	2,523	128,072,940
Balance 30 June	**537,521,896**	**1,389,598,193**	**494,091**	**179,186**	**1,927,793,366**

Guaranteed benefits

No guarantees have been made in respect of any part of the liability for promised benefits (2017: Nil).

5. Vested benefits

Vested benefits are benefits payable to members or beneficiaries under the conditions of the trust deed, on the basis of all members ceasing to be members of the scheme at balance date.

	2018 $	2017 $
	2,030,989,186	1,927,120,089

6. Financial assets

	2018 $	2017 $
Mercer Investment Trusts New Zealand		
Balanced	1,031,186,738	993,054,349
Cash Plus	43,942,169	48,627,669
Growth	635,574,393	567,179,490
Stable	312,811,442	306,085,987
Total financial assets	2,023,514,742	1,914,947,495

Notes to the financial statements continued

For the year ended 30 June 2018

7. Gains on financial assets at fair value through profit or loss

	2018 $	2017 $
Balanced	58,877,798	81,676,790
Cash Plus	1,040,051	1,326,598
Growth	43,678,467	60,430,681
Stable	13,737,081	15,320,919
Total gains on financial assets at fair value through profit or loss	117,333,397	158,754,988

The net gains/(losses) on items of fair value through profit or loss do not include interest or dividend income. These are disclosed separately on the face of the financial statements.

8. Income tax

	2018 $	2017 $
Comprising:		
Current tax	1,086,240	18,841,757
Deferred tax	(33,247)	26,435
	1,052,993	18,868,192

The total charge for the year can be reconciled to the change in net assets as follows:

Change in net assets before tax and membership activities	104,202,732	146,069,675
Income tax @ 28%	29,176,765	40,899,509
Tax effect of:		
Non assessable investment gains and losses	(29,672,572)	(41,409,757)
PIE tax liability	1,548,800	19,378,440
Income tax expense	1,052,993	18,868,192
Current tax asset		
Opening balance	28,484	24,315
Net tax (refunded)/paid in current year	(21,825)	4,169
Closing balance	6,659	28,484
Deferred tax asset		
Opening balance	101,993	128,428
Current year movement	33,247	(26,435)
Balance at end of year	135,240	101,993

The scheme invests in the Mercer Investment Trusts New Zealand (MITNZ) which are PIEs. For these investments the scheme has elected to apply a Prescribed Investor Rate of 28%. The scheme incurred a tax expense in relation to its PIE investments of $1,548,800 for the year ended 30 June 2018 (2017: $19,378,440).

Gains and losses on investments with an elected PIR of 28% are taxable within the individual PIE, with any tax deducted/credited reflected in the valuation of investments at year end. However, to improve transparency in the financial statements, tax expense has been shown in the statement of changes in net assets, below the line as income tax expense, with gains on financial assets at fair value through profit or loss presented gross of any tax deducted.

Notes to the financial statements continued

For the year ended 30 June 2018

9. Reconciliation of increase in net assets to net cash flows from operating activities

	2018 $	2017 $
Increase in net assets	103,904,353	147,339,687
Non-cash items		
Gains on fair value through profit or loss	(117,333,397)	(158,754,989)
PIE tax paid	1,548,800	19,378,440
Tax credits received as units	(462,560)	(536,683)
Investment management fees deducted as units from the scheme	11,365,735	10,862,999
Deferred tax (benefit)/expense	(33,247)	26,435
Movements in other working capital items		
Decrease/(increase) in income tax refundable	21,825	(4,169)
Increase/(decrease) in benefits payable	1,789,867	(116,429)
(Decrease)/increase in sundry creditors	(47,468)	94,354
Net cash flows from operating activities	753,908	18,289,645

10. Reserve account

Pursuant to the trust deed, the trustee has established a reserve account for term engagement entrants and special entrants, and optional entrants and savings contributors.

Reserve Account No 1 relates to standard sworn entrants and special entrants (police officers).

Reserve Account No 2 relates to optional entrants and savings contributors (support staff).

The reserve account has been allocated with the earnings from the investments of the scheme held in the reserves, forfeited benefits, and any amounts not required for the payment of benefits.

The reserve account may be used at the trustee's discretion and the direction of the commissioner in meeting any expenses of the scheme; meeting employer's contributions to the scheme; providing benefits (other than retirement benefits); increasing members' and employer's accounts on an equitable basis; in respect of forfeited benefits (as a consequence of the member's bankruptcy) for the member's (or the member's dependants) benefit in the case of hardship; in payment of any insurance premiums; and in such other manner as the trustee may from time to time consider appropriate.

11. Financial instruments

The scheme is involved with a number of financial instruments in the course of its normal investing activities. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in the accounting policies.

The trustee has approved a *Statement of Investment Policy and Objectives* (SIPO) which establishes investment portfolio objectives and target asset allocations. Performance against these targets is reviewed at least quarterly by the trustee and asset reallocations are undertaken as required.

Notes to the financial statements continued

For the year ended 30 June 2018

11. Financial instruments continued

Fair value

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective fair values, determined in accordance with the scheme's accounting policy in relation to financial assets held at fair value through profit or loss.

Categories of financial instruments – 30 June 2018

	Fair value through profit or loss $	Loans and receivables $	Financial liabilities at amortised cost $	Total $
Financial assets				
Mercer Investment Trusts New Zealand Limited				
– Balanced	1,031,186,738	–	–	1,031,186,738
– Cash Plus	43,942,169	–	–	43,942,169
– Growth	635,574,393	–	–	635,574,393
– Stable	312,811,442	–	–	312,811,442
Cash at bank	–	10,605,752	–	10,605,752
Total financial assets	2,023,514,742	10,605,752	–	2,034,120,494
Financial liabilities				
Benefits payable	–	–	2,251,817	2,251,817
Sundry creditors	–	–	312,857	312,857
Total financial liabilities	–	–	2,564,674	2,564,674

Categories of financial instruments – 30 June 2017

	Fair value through profit or loss $	Loans and receivables $	Financial liabilities at amortised cost $	Total $
Financial assets				
Mercer Investment Trusts New Zealand Limited				
– Balanced	993,054,349	–	–	993,054,349
– Cash Plus	48,627,669	–	–	48,627,669
– Growth	567,179,490	–	–	567,179,490
– Stable	306,085,987	–	–	306,085,987
Cash at bank	–	13,255,117	–	13,225,117
Total financial assets	1,914,947,495	13,255,117	–	1,928,172,612
Financial liabilities				
Benefits payable	–	–	461,950	461,950
Sundry creditors	–	–	360,325	360,325
Total financial liabilities	–	–	822,275	822,275

Notes to the financial statements continued

For the year ended 30 June 2018

11. Financial instruments continued

Hierarchy of fair value measurements

The following table provides an analysis of financial instruments that are measured subsequent to initial value at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 – fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

30 June 2018

	Level 1 $	Level 2 $	Level 3 $	Total $
Description				
Financial assets at fair value through profit or loss				
Mercer Investment Trusts New Zealand Limited				
– Balanced	–	1,031,186,738	–	1,031,186,738
– Cash Plus	–	43,942,169	–	43,942,169
– Growth	–	635,574,393	–	635,574,393
– Stable	–	312,811,442	–	312,811,442
Total	–	2,023,514,742	–	2,023,514,742

The financial assets above have been classified as level 2 as they are unit trusts with fair values derived from quoted prices in active markets. There were no transfers between levels in the period.

30 June 2017

	Level 1 $	Level 2 $	Level 3 $	Total $
Description				
Financial assets at fair value through profit or loss				
Mercer Investment Trusts New Zealand Limited				
– Balanced	–	993,054,349	–	993,054,349
– Cash Plus	–	48,627,669	–	48,627,669
– Growth	–	567,179,490	–	567,179,490
– Stable	–	306,085,987	–	306,085,987
Total	–	1,914,947,495	–	1,914,947,495

The financial assets above have been classified as level 2 as they are unit trusts with fair values derived from quoted prices in active markets. There were no transfers between levels in the period.

Notes to the financial statements continued

For the year ended 30 June 2018

11. Financial instruments continued

Investment policies

The scheme adheres to the investment manager mandates as follows:

Trans-Tasman Shares – Core are managed by MITNZ. The objective of the manager is expected to achieve returns (gross of fees and taxes) that are 1.5% above the selected benchmark index over a rolling three-year period.

Global Shares are managed by MITNZ. The manager is expected to achieve returns (gross of fees and taxes) that are 2% above the selected benchmark index over a rolling three-year period.

Global Property is managed by MITNZ. The manager is expected to achieve returns (gross of fees and taxes) that are 1.5% above the selected benchmark index over a rolling three-year period.

Global Collateralised Commodity Futures is managed by MITNZ. The manager is expected to achieve returns (gross of fees and taxes) that are 0.8% above the selected benchmark index over a rolling three-year period.

Global Infrastructure is managed by MITNZ. The manager is expected to achieve returns (gross of fees and taxes) that are 2% above the selected benchmark index over a rolling three-year period.

Global Fixed Interest is managed by MITNZ. The overseas fixed interest manager is expected to achieve returns (gross of fees and taxes) that are 1% above the selected benchmark over a rolling three-year period.

Cash investments are managed by MITNZ. The cash manager is expected to achieve returns (gross of fees and taxes) that are 0.1% above the selected benchmark over a rolling three-year period.

Liquidity risk

The administrator monitors the scheme's liquidity position on a daily basis. Liquidity management is designed to ensure that the scheme has the ability to generate sufficient cash in a timely manner to meet its financial commitments and normal levels of withdrawals. The administrator regularly monitors market volatility and withdrawal levels to establish the scheme's appropriate liquidity levels within allowable benchmark ranges.

The scheme holds financial assets and liabilities that are highly liquid and all can be realised within 12 months.

Credit risk

Financial instruments which potentially expose the scheme to credit risk consist of cash, receivables and, indirectly, investments in unitised products which invest in cash and fixed interest investments. The maximum exposure to credit risk is the carrying value of these financial instruments. The significant counterparty of the scheme is its investment manager, Mercer, which the trustee considers to be a financial institution of high quality. The investments are held in trust by the investment manager for the benefit of the scheme. The manager maintains diversified investment portfolios in accordance with the portfolio mix adopted by the trustee.

Currency risk

The scheme is indirectly exposed to currency risk in that future currency movements will affect the valuation of investments in unitised products which invest in foreign currency denominated investments. The scheme is also exposed to currency risk in respect of directly held investments denominated in a foreign currency.

Cash Plus has 0% foreign currency exposure.

Stable has a benchmark foreign currency exposure of 75.0%, all of this is hedged to New Zealand dollars. The total portfolio is made up of 25% domestic investments (Trans-Tasman Shares and NZ Cash), 75% foreign currency exposure that is hedged to New Zealand dollars (Overseas Fixed Interest, Commodities and Overseas Shares Composite Portfolio).

Balanced has a benchmark foreign currency exposure of 87.5%, all of this is hedged to New Zealand dollars. The total portfolio is made up of 12.5% domestic investments (Trans-Tasman Shares and NZ Cash), 87.5% foreign currency exposure that is hedged to New Zealand dollars (Overseas Fixed Interest, Commodities and Overseas Shares Composite Portfolio).

Growth has a benchmark foreign currency exposure of 82.5%, all of this is hedged to New Zealand dollars. The total portfolio is made up of 17.5% domestic investments (Trans-Tasman Shares and NZ Cash), 82.5% foreign currency exposure that is hedged to New Zealand dollars (Overseas Fixed Interest, Commodities and Overseas Shares Composite Portfolio).

Notes to the financial statements continued

For the year ended 30 June 2018

11. Financial instruments continued

Risk management

Risk management activities are undertaken by the scheme's investment manager to operate within the guidelines provided by the trustee.

Net assets available for benefits are considered to be the scheme's capital for the purposes of capital management. The scheme does not have to comply with externally imposed capital requirements. The scheme's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns to its members and to maximise the scheme's members value as well as ensuring its net assets available for benefits are sufficient to meet all present and future obligations.

In order to meet its objectives for capital management, the scheme's management review the scheme's performance on a regular basis.

Interest rate risk

The scheme is indirectly exposed to interest rate risk in that future interest rate movements will affect the valuation of investments in unitised products which invest in cash and fixed interest investments.

Interest rate risk management activities are undertaken by the investment manager in accordance with the investment mandate set by the trustee. The intention of the trustee is not necessarily to hold these assets to maturity, but to realise and purchase similar assets as part of the ongoing management of the investments of the scheme. There is no maturity period for unitised investments.

An appropriate level of portfolio risk for the scheme will be determined and agreed by the trustee in consultation with professional advisors. Investment risk must be minimised for the expected level of return and an appropriate level of diversification across securities, sectors, asset classes and countries must be maintained.

12. Sensitivity analysis

A five percent movement in the unit prices of the scheme's investments in MITNZ would have an impact on the value of the scheme's assets of $109,846,116 (2017: $103,952,564).

Over the last three years, the scheme has experienced returns ranging between 1.8% p.a. and 6.4% p.a. (after tax and after fees).

13. Commitments and contingent liabilities

There were no commitments or contingent liabilities outstanding as at 30 June 2018 (2017: Nil).

14. Key sources of estimation uncertainty

The preparation of the financial statements requires the trustee to make estimates and assumptions that affect the amount reported in the financial statements and accompanying notes. The trustee has also used judgement in the categorisation of its financial assets and liabilities at fair value through profit or loss in accordance with the fair value hierarchy under NZ IFRS 13.

15. Related parties

The scheme holds no investments in any of the employer companies or any of its related parties and during the period had no related party transactions except for employer contributions. During the year, $295,019 representing trustee's remuneration and expenses was paid to the directors of the trustee of the scheme (2017: $321,788).

	2018 $	2017 $
Trustee's remuneration	243,469	249,086
Trustee's expenses	51,550	72,702
Total	295,019	321,788

16. Events after balance date

There have been no material events after balance date that require adjustment to or disclosure in the financial statements (2017: Nil).

Independent auditor's report

To members of the Police Superannuation Scheme

Deloitte.

Opinion

We have audited the financial statements of Police Superannuation Scheme (the 'Scheme'), which comprise the statement of net assets as at 30 June 2018, and the 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, on pages 2 to 15, present fairly, in all material respects, the financial position of the Scheme as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Scheme 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 the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor, the provision of taxation compliance, custodian controls audit and audit of the member register, we have no relationship with or interests in the Scheme. These services have not impaired our independence as auditor of the Scheme.

Other information

The Trustee is responsible on behalf of the Scheme for the other information. The other information comprises the information in the Annual Report that accompanies the financial statements and the audit report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and consider whether it is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

Trustee's responsibilities for the financial statements

The Trustee is responsible on behalf of the Scheme for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Trustee determines 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 Trustee is responsible on behalf of the Scheme for assessing the Scheme'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 Trustee either intends to liquidate the Scheme 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 and 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 our 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-6

This description forms part of our auditor's report.

Restriction on use

This report is made solely to the Scheme's members, as a body. Our audit has been undertaken so that we might state to the Scheme's members those matters 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 Scheme's members as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte Limited

James Shepherd, Deloitte Limited
Wellington, New Zealand
10 September 2018

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Call our friendly helpline team if you've got a question about your super. There's someone available to take your call any time from 9am to 7pm, Monday to Friday (excluding public holidays).

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