Financial statements

For year ending 30 June 2019

Contents

PSS
Police Super Scheme

policesuper.co.nz

Statement of net assets

As at 30 June 2019

	Note	2019 $	2018 $
Assets			
Cash at bank		15,815,156	10,605,752
Financial assets	6	2,136,257,843	2,023,514,742
Income tax refundable	8	–	6,659
Deferred tax asset	8	–	135,240
Total assets		2,152,072,999	2,034,262,393
Less liabilities			
Benefits payable		1,464,957	2,251,817
Sundry creditors		320,134	312,857
Income tax payable	8	9,684,847	–
Total liabilities		11,469,938	2,564,674
Net assets available for benefits		**2,140,603,061**	**2,031,697,719**
Liability for promised benefits			
Represented by:			
Member accounts	4	609,826,716	573,633,746
Employer accounts	4	1,530,031,084	1,457,355,439
Reserve accounts	10	745,261	708,534
		2,140,603,061	**2,031,697,719**

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

Greg Fleming
12 September 2019

Tim McGuinness
12 September 2019

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 2019

	Note	2019 $	2018 $
Investment activities			
Investment income			
Gains on financial assets at fair value through profit or loss	7	126,103,102	117,333,397
Interest		73,090	52,885
		126,176,192	117,386,282
Investment expenses			
Investment management fees		(11,023,229)	(11,359,928)
Net investment income		115,152,963	106,026,354
Other expenses			
Administration fees		763,742	675,338
Investment consultancy fees		287,075	292,850
Auditor's remuneration – for audit of financial statements		17,250	23,575
Auditor's remuneration – for audit of member register		–	2,875
Auditor's remuneration – other assurance services		–	13,800
Auditor's remuneration – taxation service fees		62,146	16,675
Secretarial fees		124,529	125,832
Member communications		154,126	218,067
Legal fees		78,283	40,797
Trustee's remuneration and expenses	15	272,579	295,019
Financial Markets Authority		98,751	96,049
Other expenses		16,115	22,745
Total other expenses		1,874,596	1,823,622
Change in net assets before taxation and membership activities		113,278,367	104,202,732
Income tax expense	8	18,576,469	1,052,993
Change in net assets after taxation and before membership activities		94,701,898	103,149,739
Membership activities			
Contributions			
Member contributions		57,508,830	53,939,882
Voluntary member contributions		2,824,692	2,367,203
Employer contributions		80,045,539	74,926,475
Total contributions		140,379,061	131,233,560
Benefits paid			
Retirement		21,940,168	27,902,662
Withdrawals		48,916,007	55,687,574
Retrenchment		–	332,704
In-service access		40,063,661	37,452,371
In-service termination		2,602,064	1,920,578
First home		8,821,691	–
Medical disengagement		366,532	1,642,418
Death and permanent incapacity		1,765,394	3,237,222
Hardship		1,700,100	2,303,417
Total benefits paid		126,175,617	130,478,946
Net membership activities		14,203,444	754,614
Net increase in net assets during the year		108,905,342	103,904,353
Net assets available for benefits at beginning of year		2,031,697,719	1,927,793,366
Net assets available for benefits at end of year		**2,140,603,061**	**2,031,697,719**

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 2019

	Note	2019 $	2018 $
Cash flows from operating activities			
Cash provided from			
Member contributions		60,329,357	56,287,919
Employer contributions		80,045,539	74,926,475
Interest		73,090	52,885
Income tax refund		6,659	28,484
		140,454,645	131,295,763
Cash applied to			
Benefits paid		126,962,477	128,689,079
Administration fees		753,945	723,605
Investment consultancy fees		279,887	292,851
Auditor's remuneration – for audit of financial statements, registry and custodian controls		19,550	40,250
Auditor's remuneration – taxation service fees		54,056	14,950
Secretarial fees		124,902	126,016
Member communications		173,720	191,292
Legal fees		70,019	39,875
Trustee's remuneration and expenses		270,549	297,435
Financial Markets Authority		99,353	97,173
Other expenses		14,580	22,670
Income tax paid		–	6,659
		128,823,038	130,541,855
Net cash flows from operating activities	9	11,631,607	753,908
Cash flows from investing activities			
Cash provided from			
Sale of investments		89,638,266	125,520,482
Cash applied to			
Purchase of investments		96,060,469	128,893,755
Net cash flows utilised by investing activities		(6,422,203)	(3,373,273)
Net increase/(decrease) in cash held		5,209,404	(2,619,365)
Cash at beginning of the year		10,605,752	13,225,117
Cash at end of the year		**15,815,156**	**10,605,752**

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 2019

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.

The registered office is Mercer (N.Z.) Limited, PO Box 1849, Wellington 6140.

The trustee of the scheme is PSS Trustees Limited. The directors of PSS Trustees Limited are Charlie Cahn, Greg Fleming, Sarah Graydon (appointed effective 1 April 2019), Tim McGuinness, Ian Russon and Dave Trappitt (resigned effective 1 September 2019). 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 2019 were:

30 June 2018	10,059
New members	970
Death and total and permanent disablement	(7)
Retirement	(75)
Withdrawals/resignations	(296)
Medical disengagements	(4)
In-service terminations	(21)
30 June 2019	10,626

Funding arrangements

In 2019, the employer contributed to the scheme at rates of up to 15.2% (2018: 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 2019 at rates of up to 7.5% (2018: 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

An amendment was made to the trust deed dated 25 February 2019 which introduced a first-home withdrawal benefit to members.

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 2019

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 trade 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 on 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 2019

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 2019

3. Summary of significant accounting policies continued

New and amended standards adopted by the scheme

NZ IFRS 9 *Financial instruments* was issued in September 2014 as a complete version of the standard. NZ IFRS 9 replaces parts of NZ IAS 39 that relate to the classification and measurement of financial instruments, hedge accounting and impairment. NZ IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The 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 for financial liabilities is that, in cases where the fair value option is taken, 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. NZ IFRS 9 also introduces a new expected credit loss model for calculating the impairment of financial assets.

There are no recognition or measurement changes as a result of adopting NZ IFRS 9. The impact of adopting NZ IFRS 9 on the classification of the scheme's financial assets is that the scheme now classifies cash at bank and sundry receivables as financial assets at amortised cost (previously these were classified as loans and receivables).

This standard is effective for annual reporting periods beginning on or after 1 January 2018. The adoption of this standard has resulted in amended disclosures as detailed above but has not impacted the scheme's reported result or financial position.

NZ IFRS 15 (amendment) *Revenue from Contracts with Customers* was issued in July 2014 effective for periods from 1 January 2018. This is the converged standard on revenue recognition. It replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The scheme's main sources of revenue are interest income and gains on financial instruments measured at fair value through profit or loss. As these are outside the scope of the new standard the adoption of this standard does not have a significant impact on the scheme's financial position and financial performance, or the presentation and disclosures in the financial statements.

There are no other standards, amendments or interpretations that have been issued but are not yet effective that are expected to materially impact the scheme's financial statements.

Notes to the financial statements continued

For the year ended 30 June 2019

4. Liability for promised benefits

Changes in promised benefits as at 30 June 2019

	Member account $	Employer account $	No 1 reserve account $	No 2 reserve account $	Total 2019 $
Balance 1 July	573,633,746	1,457,355,439	519,964	188,570	2,031,697,719
Contributions	60,333,521	80,045,540	–	–	140,379,061
Withdrawals	(51,494,429)	(74,681,188)	–	–	(126,175,617)
Member deductions	(34,892)	(880,521)	–	–	(915,413)
Income allocated	27,388,770	68,191,814	26,953	9,775	95,617,312
Balance 30 June	**609,826,716**	**1,530,031,084**	**546,917**	**198,344**	**2,140,603,061**

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)
Reserve distributions	(9,825)	(816,969)	–	–	(826,794)
Member deductions	29,642,654	74,298,623	25,873	9,384	103,976,533
Income allocated					
Balance 30 June	**573,633,746**	**1,457,355,439**	**519,964**	**188,570**	**2,031,697,719**

Guaranteed benefits

No guarantees have been made in respect of any part of the liability for promised benefits (2018: 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.

	2019 $	2018 $
	2,139,857,800	2,030,989,186

6. Financial assets

	2018 $	2018 $
Mercer Investment Trusts New Zealand		
Balanced	1,067,714,418	1,031,186,738
Cash Plus	50,215,523	43,942,169
Growth	683,403,558	635,574,393
Stable	334,924,344	312,811,442
Total financial assets	2,136,257,843	2,023,514,742

Notes to the financial statements continued

For the year ended 30 June 2019

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

	2019 $	2018 $
Balanced	69,693,194	58,877,798
Cash Plus	1,321,012	1,040,051
Growth	37,740,475	43,678,467
Stable	17,348,421	13,737,081
Total gains on financial assets at fair value through profit or loss	126,103,102	117,333,397

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

	2019 $	2018 $
Comprising:		
Current tax	18,441,230	1,086,240
Deferred tax	135,239	(33,247)
	18,576,469	1,052,993

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	113,278,367	104,202,732
Income tax @ 28%	31,717,943	29,176,765

Tax effect of:		
Non assessable investment gains and losses	(32,222,364)	(29,672,572)
PIE tax liability	19,061,853	1,548,800
Non-deductible expenditure	19,037	–
Income tax expense	18,576,469	1,052,993

Current tax asset		
Opening balance	6,659	28,484
Net tax (refunded)/paid in current year	(6,659)	(21,825)
Tax payable in current year	(9,684,847)	–
Closing balance	(9,684,847)	6,659

Deferred tax asset		
Opening balance	135,240	101,993
Current year movement	(135,240)	33,247
Balance at end of year	–	135,240

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 (PIR) of 0% for the 12 months to 31 March 2019, and 28% for the 3 months to June 2019. The scheme incurred a tax expense in relation to its PIE investments of $19,061,853 for the year ended 30 June 2019 (2018: $1,548,800).

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 2019

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

	2019 $	2018 $
Increase in net assets	108,905,342	103,904,353
Non-cash items		
Gains on fair value through profit or loss	(126,103,102)	(117,333,397)
PIE tax paid	8,756,382	1,548,800
Tax credits received as units	–	(462,560)
Investment management fees deducted as units from the scheme	11,025,822	11,365,735
Deferred tax (benefit)/expense	135,240	(33,247)
Movements in other working capital items		
Decrease in income tax refundable	6,659	21,825
(Decrease)/increase in benefits payable	(786,860)	1,789,867
Increase/(decrease) in sundry creditors	9,684,847	(47,468)
Net cash flows from operating activities	11,631,607	753,908

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 2019

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 2019

	Fair value through profit or loss $	Financial assets at amortised cost $	Financial liabilities at amortised cost $	Total $
Financial assets				
Mercer Investment Trusts New Zealand				
– Balanced	1,067,714,418	–	–	1,067,714,418
– Cash Plus	50,215,523	–	–	50,215,523
– Growth	683,403,558	–	–	683,403,558
– Stable	334,924,344	–	–	334,924,344
Cash at bank	–	15,815,156	–	15,815,156
Total financial assets	2,136,257,843	15,815,156	–	2,152,072,999
Financial liabilities				
Benefits payable	–	–	1,464,957	1,464,957
Sundry creditors	–	–	320,134	320,134
Total financial liabilities	–	–	1,785,091	1,785,091

Categories of financial instruments – 30 June 2018

	Fair value through profit or loss $	Financial assets at amortised cost $	Financial liabilities at amortised cost $	Total $
Financial assets				
Mercer Investment Trusts New Zealand				
– 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

Notes to the financial statements continued

For the year ended 30 June 2019

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 2019

	Level 1 $	Level 2 $	Level 3 $	Total $
Description				
Financial assets at fair value through profit or loss				
Mercer Investment Trusts New Zealand				
– Balanced	–	1,067,714,418	–	1,067,714,418
– Cash Plus	–	50,215,523	–	50,215,523
– Growth	–	683,403,558	–	683,403,558
– Stable	–	334,924,344	–	334,924,344
Total	–	2,136,257,843	–	2,136,257,843

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 2018

	Level 1 $	Level 2 $	Level 3 $	Total $
Description				
Financial assets at fair value through profit or loss				
Mercer Investment Trusts New Zealand				
– 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.

Notes to the financial statements continued

For the year ended 30 June 2019

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 expect 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 Investments (New Zealand) Limited, 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.

The Cash portfolio has 0% foreign currency exposure.

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).

The Balanced portfolio 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).

The Growth portfolio 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 2019

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 $106,812,892 (2018: $101,175,737).

Over the last three years, the scheme has experienced returns ranging between 1.6% p.a. and 7.3% p.a. (after tax and after fees).

13. Commitments and contingent liabilities

There were no commitments or contingent liabilities outstanding as at 30 June 2019 (2018: 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 $272,579 representing trustee's remuneration and expenses was paid to the directors of the trustee of the scheme (2018: $295,019).

	2019 $	2018 $
Trustee's remuneration	218,207	243,469
Trustee's expenses	54,372	51,550
Total	**272,579**	**295,019**

16. Events after balance date

The scheme became a portfolio investment entity (PIE) effective 1 July 2019 (2018: nil).

Independent auditor's report

To members of the Police Superannuation Scheme

Opinion

We have audited the financial statements of the Police Superannuation Scheme (the 'Scheme'), which comprise the statement of net assets as at 30 June 2019, 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 3 to 16, present fairly, in all material respects, the financial position of the Scheme as at 30 June 2019 2019, 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 and the provision of taxation advice, we have no relationship with or interests in the Scheme. These services have not impaired our independence as auditor of the Scheme.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined that there are no key audit matters to communicate in our report.

Other information

The Directors of the Trustee are 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. The Annual Report is expected to be made available to us after the date of this auditor's 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.

When we read the other information in the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors of the Trustee and consider further appropriate actions.

Directors of the Trustee's responsibilities for the financial statements

The Directors of the Trustee are 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 Directors of the Trustee determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors of 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 Directors of 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, Partner
for Deloitte Limited
Wellington, New Zealand
12 September 2019

Here to help

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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