

New Zealand Fire Service Superannuation Scheme

Financial Statements

For the Year Ended 31 March 2018

New Zealand Fire Service Superannuation Scheme

Financial Statements

For the Year Ended 31 March 2018

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Independent Auditor's Report

To the Members of New Zealand Fire Service Superannuation Scheme

Opinion

We have audited the financial statements of New Zealand Fire Service Superannuation Scheme (the 'Scheme'), which comprise the statement of net assets as at 31 March 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 4 to 18, present fairly, in all material respects, the financial position of the Scheme as at 31 March 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.

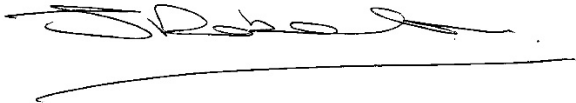
A further description of our responsibilities for the audit of the financial statements is located on the External Reporting Board's website at:

<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.

A handwritten signature in black ink, appearing to read 'J Robertson', followed by a long horizontal line.

**Jacqueline Robertson, Partner
for Deloitte Limited**
Wellington, New Zealand
14 June 2018

New Zealand Fire Service Superannuation Scheme
Statement of Net Assets
As at 31 March 2018

	Note	2018 \$	2017 \$
ASSETS			
Cash at Bank		1,231,573	848,533
Short Term Securities	5	38,945,667	42,571,895
Fixed Interest Securities - New Zealand	5	31,869,789	30,784,404
Fixed Interest Securities - Offshore	5	108,743,354	96,799,939
Equities - New Zealand	5	25,051,095	22,043,833
Equities - Offshore	5	204,535,820	189,130,468
Property - Offshore	5	19,609,697	25,357,654
Total Assets		<u>429,986,995</u>	<u>407,536,726</u>
Less LIABILITIES			
Benefits Payable		367,385	3,000
Contributions Received in Advance		1,243	-
Sundry Creditors		295,186	267,036
Deferred Tax Liability	8	258,276	264,852
Total Liabilities		<u>922,090</u>	<u>534,888</u>
NET ASSETS AVAILABLE FOR BENEFITS		<u><u>429,064,905</u></u>	<u><u>407,001,838</u></u>
LIABILITY FOR PROMISED RETIREMENT BENEFITS			
<i>Represented By:</i>	3		
Member Accounts		177,159,369	164,006,278
FENZ Accounts		251,905,536	242,995,560
Reserve Funds		-	-
		<u><u>429,064,905</u></u>	<u><u>407,001,838</u></u>

For and on behalf of the Trustee, FireSuper Trustee Limited, who authorised the issue of these financial statements

Director

Date

14.6.18

Director

Date

14.6.18

New Zealand Fire Service Superannuation Scheme
Statement of Changes in Net Assets
For the Year Ended 31 March 2018

	Note	2018 \$	2017 \$
INVESTMENT ACTIVITIES			
Investment Income			
Gains on Financial Assets at Fair Value Through Profit or Loss	6	27,550,997	31,336,275
Dividends		901,712	1,102,829
Distributions		3,516,664	3,274,744
Bank Interest		25,598	28,700
		<u>31,994,971</u>	<u>35,742,548</u>
Investment Expenses			
Investment Management Fees		<u>(2,327,913)</u>	<u>(2,175,593)</u>
Net Investment Income		<u>29,667,058</u>	<u>33,566,955</u>
OTHER INCOME			
Death Payment Component Top-Up		<u>7,957</u>	<u>-</u>
		<u>7,957</u>	<u>-</u>
OTHER EXPENSES			
Auditor's Remuneration - fees for audit of financial statements		16,675	22,700
Auditor's Remuneration - fees for custodian controls		13,800	-
Auditor's Remuneration - fees for audit of register of members		2,300	2,300
Auditor's Remuneration - taxation services fees		20,240	68,540
Administration Fees		403,264	319,591
Legal Fees		33,165	87,866
Trustee Fees and Expenses		99,405	126,676
Trustee and Director Liability Insurance		10,350	14,980
Annual Fees and Levies		33,219	45,863
Printing and Stationery		4	2
General Expenses		44	47
Total Other Expenses		<u>632,466</u>	<u>688,565</u>
Change in Net Assets before Taxation and Membership Activities		<u>29,042,549</u>	<u>32,878,390</u>
Income Tax Expense	8	<u>3,506,108</u>	<u>4,890,159</u>
Change in Net Assets after Taxation and before Membership Activities		<u>25,536,441</u>	<u>27,988,231</u>
MEMBERSHIP ACTIVITIES			
Contributions			
Member Contributions		7,424,040	7,103,999
Voluntary Contributions		115,970	89,129
FENZ Contributions		11,241,303	10,747,787
FENZ Reimbursement		-	-
Total Contributions		<u>18,781,313</u>	<u>17,940,915</u>
Benefits Paid	7	22,254,687	19,095,281
Net Membership Activities		<u>(3,473,374)</u>	<u>(1,154,366)</u>
Net Increase in Net Assets During the Year		<u>22,063,067</u>	<u>26,833,865</u>
Net Assets Available for Benefits at Beginning of the Year		<u>407,001,838</u>	<u>380,167,973</u>
Net Assets Available for Benefits at End of the Year		<u><u>429,064,905</u></u>	<u><u>407,001,838</u></u>

This statement is to be read in conjunction with the notes on pages 7 to 18.

New Zealand Fire Service Superannuation Scheme
Statement of Cash Flows
For the Year Ended 31 March 2018

	Note	2018 \$	2017 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
<i>Cash provided from</i>			
Member Contributions		7,540,503	7,193,128
FENZ Contributions		11,242,053	10,850,397
Dividends		901,712	1,102,829
Distributions		3,516,664	3,274,744
Bank Interest		25,598	28,700
Death Payment Component Top-Up		7,957	-
		<u>23,234,487</u>	<u>22,449,798</u>
<i>Cash applied to</i>			
Benefits Paid		21,890,302	19,212,281
Administration Expenses		587,935	633,862
Investment Management Fees		2,344,294	2,085,545
Income Tax Paid		3,512,684	4,737,890
		<u>28,335,215</u>	<u>26,669,578</u>
Net Cash Flows from Operating Activities	9	<u>(5,100,728)</u>	<u>(4,219,780)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
<i>Cash provided from</i>			
Sale of Investments		36,641,136	10,243,289
<i>Cash applied to</i>			
Purchase of Investments		31,157,368	6,575,369
Net Cash Flows from Investing Activities		<u>5,483,768</u>	<u>3,667,920</u>
Net Increase/(Decrease) in Cash Held		383,040	(551,860)
Cash at Beginning of the Year		848,533	1,400,393
Cash at End of the Year		<u><u>1,231,573</u></u>	<u><u>848,533</u></u>

This statement is to be read in conjunction with the notes on pages 7 to 18.

New Zealand Fire Service Superannuation Scheme
Notes to the Financial Statements
For the Year Ended 31 March 2018

1. Scheme Description

New Zealand Fire Service Superannuation Scheme (the "Scheme") is a restricted workplace savings scheme registered in New Zealand under the Financial Markets Conduct Act 2013 ("FMC Act") to provide employees of Fire and Emergency New Zealand ("FENZ") with benefits on their retirement or otherwise ceasing service.

The registered office of the Scheme is: c/- Mercer (N.Z.) Limited, P O Box 2897, Wellington 6140, New Zealand.

There is only one class of member. The members and FENZ both contribute to the Scheme to fund benefits.

Details of membership as at 31 March 2018 were:

	Active	Deferred	Total
1 April 2017	1,812	101	1,913
New Members	119	33	152
Death	(6)	(2)	(8)
Resignations	(27)	(8)	(35)
Retirements	(45)	-	(45)
31 March 2018	1,853	124	1,977

Funding Arrangements

New Zealand Fire Service Superannuation Scheme is a defined contribution scheme. Under the Trust Deed contributions are made by Scheme members and by FENZ.

During the year the rates of contribution were as follows:

Member - regular contributions at rates between 6-11% of superable salary/wages dependent on the member's age and date upon joining as specified in the Trust Deed. Members may suspend contributions or make additional contributions subject to the Trustee's consent.

FENZ - \$1.52 net of Employer Superannuation Contribution Tax for each dollar of regular contribution made by the member.

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

During the year there were no changes in the Scheme.

New Zealand Fire Service Superannuation Scheme
Notes to the Financial Statements (Continued)
For the Year Ended 31 March 2018

2. Summary of Significant Accounting Policies

Basis of Preparation

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP) and the requirements of the Financial Markets Conduct Act 2013.

Statement of Compliance

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 fully transitioned to the Financial Markets Conduct Act 2013 on 29 September 2016.

The Scheme is a Tier 1 entity and, as such, the financial statements comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), other New Zealand Accounting Standards and authoritative notices as appropriate for For-profit entities. These financial statements also comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

Standards and Interpretations on issue not yet adopted

The following new standards, amendments to standards or interpretations relevant to the Scheme have been issued but are not yet effective for the year ended 31 March 2018, and have not been applied in preparing these financial statements. These standards are not expected to have a material impact on the Scheme's financial position and financial performance. Some of the standards will impact on the disclosure in the Notes of the Financial Statements. Where relevant, the standards and interpretations will be adopted in the next financial year.

NZ IFRS 9, 'Financial instruments', was issued in September 2014 as a complete version of the standard. NZ IFRS 9 replaces the 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 as 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 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. The new hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risks. NZ IFRS 9 introduces a new expected credit loss model for calculating the impairment of financial assets. This standard is effective for reporting periods beginning on or after 1 January 2018. The adoption of this standard may result in additional or amended disclosures and is not expected to have an effect on the Scheme's reported result or financial position.

NZ IFRS 15 (amendment) 'Revenue from Contracts with Customers', was issued 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 adoption of this standard may result in additional disclosures but is not expected to have a significant impact on the Scheme's reported financial position.

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.

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 operated.

Classification of Assets and Liabilities

New Zealand Fire Service Superannuation Scheme operates as a restricted workplace savings scheme. As such, the assets and liabilities are disclosed in the Statement of Net Assets in an order that reflected their relative liquidity.

New Zealand Fire Service Superannuation Scheme
Notes to the Financial Statements (Continued)
For the Year Ended 31 March 2018

2. Summary of Significant Accounting Policies (Continued)

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 was 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 with reference to the unit prices calculated by the investment managers in which the Scheme holds financial assets.

The Fair Value of financial assets is determined using the last sale price ("exit" price) as calculated by the investment manager at balance date.

Income Recognition

(i) Interest income is recognised as interest accrued 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 NZ 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 retranslated at the rates prevailing on the balance date. Gains and losses arising on retranslation are included in changes in net assets for the period.

Expenses

All expenses are accounted for on an accruals basis.

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 period. Taxable profit differs from profit before tax as reported in the Statement of Changes in Net Assets because it excludes items of income or expense that are taxable or deductible in other periods 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 are 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 are 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.

New Zealand Fire Service Superannuation Scheme
Notes to the Financial Statements (Continued)
For the Year Ended 31 March 2018

2. Summary of Significant Accounting Policies (Continued)

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 does not directly hold foreign exchange forward contracts and interest rate swap contracts. The Scheme does not use derivative financial instruments for speculative purposes. Hedge accounting has not been applied.

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 Retirement Benefits

The liability for accrued retirement 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. Accrued retirement benefits include amounts allocated to members' accounts and reserves.

Contributions and Benefits

Contributions and benefits are accounted for on an accruals basis.

New Zealand Fire Service Superannuation Scheme
Notes to the Financial Statements (Continued)
For the Year Ended 31 March 2018

3. Liability for Promised Retirement Benefits

Changes in promised retirement benefits for the year ended 31 March 2018:

	Member Accounts \$	FENZ Accounts \$	Reserve A \$	Total 2018 \$
Balance 1 April 2017	164,006,278	242,995,560	-	407,001,838
Contributions	7,540,010	11,241,303	-	18,781,313
Expenses Allocated	(5,518)	-	5,518	-
Benefits Paid to Members	(14,744,400)	(7,502,330)	(7,957)	(22,254,687)
Net Profit Allocated	10,168,992	15,365,010	2,439	25,536,441
	<u>166,965,362</u>	<u>262,099,543</u>	<u>-</u>	<u>429,064,905</u>
Deferred Benefit Transfers*	10,194,007	(10,194,007)	-	-
Balance 31 March 2018	<u>177,159,369</u>	<u>251,905,536</u>	<u>-</u>	<u>429,064,905</u>

Changes in promised retirement benefits for the year ended 31 March 2017:

	Member Accounts \$	FENZ Accounts \$	Reserve A \$	Total 2017 \$
Balance 1 April 2016	154,658,193	225,509,780	-	380,167,973
Contributions	7,193,128	10,747,787	-	17,940,915
Expenses Allocated	(3,677)	-	3,677	-
Benefits Paid to Members	(13,096,291)	(5,998,964)	(26)	(19,095,281)
Net Profit Allocated	11,147,520	16,844,362	(3,651)	27,988,231
	<u>159,898,873</u>	<u>247,102,965</u>	<u>-</u>	<u>407,001,838</u>
Deferred Benefit Transfers*	4,107,405	(4,107,405)	-	-
Balance 31 March 2017	<u>164,006,278</u>	<u>242,995,560</u>	<u>-</u>	<u>407,001,838</u>

* Deferred Benefit Transfers are where members leave employment of Fire and Emergency New Zealand but retain their funds in the Scheme as Deferred Members.

Guaranteed Benefits

No guarantees have been made in respect of any part of the liability for promised retirement benefits (31 March 2017: Nil).

4. 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 \$
<u>429,064,905</u>	<u>407,001,838</u>

New Zealand Fire Service Superannuation Scheme
Notes to the Financial Statements (Continued)
For the Year Ended 31 March 2018

5. Financial Assets

The Scheme invests in the following:

	2018	2017
	\$	\$
AMP Capital New Zealand Shares Fund	25,051,095	22,043,833
AMP Capital Emerging Markets Share Fund	14,753,412	12,448,285
AMP Capital Core Global Shares Fund	54,161,406	52,030,482
AMP Capital Core Hedged Global Shares Fund	82,794,875	79,125,609
ANZ Wholesale Cash Fund	38,945,667	42,571,895
ANZ Sovereign Bond Fund	12,637,966	12,261,567
ANZ High Grade Bond Fund	19,231,823	18,522,837
ANZ Wholesale International Property Securities Fund	19,609,697	25,357,654
Direct Capital IV Limited Partnership	1,350,024	1,304,894
First State Investments Global Listed Infrastructure Fund	26,152,410	20,245,411
Harbour Asset Management Australasian Equity Fund	25,323,693	23,975,787
Russell Investments Global Fixed Interest Fund	108,743,354	96,799,939
Total Financial Assets	<u>428,755,422</u>	<u>406,688,193</u>

6. Gains on Financial Assets at Fair Value Through Profit or Loss

	2018	2017
	\$	\$
Fixed Interest - New Zealand	2,580,603	1,705,445
Fixed Interest - Offshore	940,134	978,747
Equities - New Zealand	2,344,478	148,942
Equities - Offshore	21,130,123	28,414,229
Property - Offshore	555,659	88,912
	<u>27,550,997</u>	<u>31,336,275</u>

The net gains on items at fair value through profit or loss do not include interest or dividend income. These are disclosed separately on the face of the Statement of Changes in Net Assets.

7. Benefits Paid

Benefits paid to members are broken down as follows:

	2018	2017
	\$	\$
Death	1,975,405	910,211
Loss of Medical Fitness	-	436,683
Relationship Property Settlements	415,029	470,821
Resignations	4,101,979	4,598,650
Retirements	7,355,503	6,521,368
Withdrawals	8,406,771	6,157,548
	<u>22,254,687</u>	<u>19,095,281</u>

New Zealand Fire Service Superannuation Scheme
Notes to the Financial Statements (Continued)
For the Year Ended 31 March 2018

8. Income Tax

	2018	2017
	\$	\$
Current Tax	(201,764)	(219,564)
Deferred Tax	(6,576)	152,268
PIE Tax expense	3,714,448	4,957,455
	<u>3,506,108</u>	<u>4,890,159</u>

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	<u>29,042,549</u>	<u>32,878,390</u>
Income Tax @ 28%	8,131,914	9,205,949
Tax effect of:		
Tax paid income / Non-deductible losses	(8,348,234)	(9,293,604)
Prior period adjustment	7,980	20,359
PIE Tax expense	3,714,448	4,957,455
Income Tax Expense	<u>3,506,108</u>	<u>4,890,159</u>

Current Tax

Opening Balance	-	-
Current year charge	-	-
Net tax paid in current year	-	-
Current Tax Balance	<u>-</u>	<u>-</u>

Opening Balance	Charged to Income	Closing Balance
----------------------------	------------------------------	----------------------------

Deferred Tax

2018

Investments	(340,310)	(12,942)	(353,252)
Expenses to transfer to investment manager	75,458	19,518	94,976
Closing Balance	<u>(264,852)</u>	<u>6,576</u>	<u>(258,276)</u>

2017

Investments	(141,631)	(198,679)	(340,310)
Expenses to transfer to investment manager	29,048	46,410	75,458
Closing Balance	<u>(112,583)</u>	<u>(152,269)</u>	<u>(264,852)</u>

The Scheme invests in funds managed by AMP Capital Investors, ANZ Investments, Harbour Asset Management, First State Investments and Russell Investments which are all Portfolio Investment Entities ("PIEs"). A prescribed Investor Rate ("PIR") of 28% has been applied to these PIEs. The Scheme also invests in a fund managed by Direct Capital Partners which is not a PIE.

Gains and losses on PIE investments held with a 28% PIR are taxable within the PIE fund, with any tax deducted/credited reflected in the valuation of investments at year end. However, to improve transparency in the financial statements, all PIE tax expense/credits are shown in the Statement of Changes in Net Assets as 'Income Tax Expense/(Credit)', with 'Gains/(Losses) on Financial Assets at Fair Value Through Profit or Loss' presented gross of any tax deducted.

As at 31 March 2018 the Scheme has \$339,203 expenses to carry forward to its PIE investments (31 March 2017: \$269,495).

New Zealand Fire Service Superannuation Scheme
Notes to the Financial Statements (Continued)
For the Year Ended 31 March 2018

9. Reconciliation of Increase in Net Assets to Net Cash Flows from Operating Activities

	2018 \$	2017 \$
Increase in Net Assets	22,063,067	26,833,865
Non-Cash Items		
Gains on Fair Value Through Profit or Loss	(27,550,997)	(31,336,275)
Movement in Deferred Taxation Liability	(6,576)	152,269
Movements in Other Working Capital Items		
Decrease in Contributions Receivable	-	102,610
Decrease in Benefits Payable	364,385	(117,000)
Increase in Contributions Received in Advance	1,243	-
Increase in Sundry Creditors	28,150	144,751
Net Cash Flows from Operating Activities	<u><u>(5,100,728)</u></u>	<u><u>(4,219,780)</u></u>

10. Reserve Fund

Pursuant to the Trust Deed, the Trustee shall establish Reserve Accounts which the Trustee may, at its discretion, apply part or the whole of the Reserve Accounts.

Reserve Fund A consists of monies which have been derived from interest and other income from the investments of the Scheme. The Trustee may apply Reserve Fund A in any of the following ways:

- towards increasing or decreasing the retirement benefits for all members on an equitable basis;
- providing benefits other than retirement benefits for all members of the Scheme on an equitable basis; and
- payment of the expenses of administering the Scheme.

Reserve Fund B consists of monies which have been derived from the following sources and are not specifically required or allocated for any other purpose:

- benefits forgone when members cease to be eligible to contribute to the Scheme;
- unclaimed benefits;
- other money not required for the payment of benefits under the Scheme; and
- any contributions made by FENZ pursuant to 2.1.2 of the Fourth Schedule of the Trust Deed.

The Trustee may apply Reserve Fund B in any of the following ways:

- providing any benefit that may be required in respect of any member of the Scheme pursuant to Clause 2.2.2, 3.2.2 or 4 of the Third Schedule of the Trust Deed or any other benefits for all members of the Scheme on an equitable basis;
- providing personal benefits for members or their dependents in the case of hardship; and
- payment of the expenses of administering the Scheme.

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 undertaken as required.

New Zealand Fire Service Superannuation Scheme
Notes to the Financial Statements (Continued)
For the Year Ended 31 March 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 - 31 March 2018

	Fair value through Profit or Loss \$	Loans and Receivables \$	Financial Liabilities at Amortised Cost \$	Total \$
Assets				
Cash at Bank	-	1,231,573	-	1,231,573
AMP Capital New Zealand Shares Fund	25,051,095	-	-	25,051,095
AMP Capital Emerging Markets Global Share Fund	14,753,412	-	-	14,753,412
AMP Capital Core Global Shares Fund	54,161,406	-	-	54,161,406
AMP Capital Core Hedged Global Shares Fund	82,794,875	-	-	82,794,875
ANZ Wholesale Cash Fund	38,945,667	-	-	38,945,667
ANZ Sovereign Bond Fund	12,637,966	-	-	12,637,966
ANZ High Grade Bond Fund	19,231,823	-	-	19,231,823
ANZ Wholesale International Property Securities Fund	19,609,697	-	-	19,609,697
Direct Capital IV Limited Partnership	1,350,024	-	-	1,350,024
First State Investments Global Listed Infrastructure Fund	26,152,410	-	-	26,152,410
Harbour Asset Management Australasian Equity Fund	25,323,693	-	-	25,323,693
Russell Investments Global Fixed Interest Fund	108,743,354	-	-	108,743,354
Total Assets	428,755,422	1,231,573	-	429,986,995
Liabilities				
Benefits Payable	-	-	367,385	367,385
Contributions Received in Advance	-	-	1,243	1,243
Sundry Creditors	-	-	295,186	295,186
Total Liabilities	-	-	663,814	663,814

Categories of Financial Instruments - 31 March 2017

Assets				
Cash at Bank	-	848,533	-	848,533
AMP Capital New Zealand Shares Fund	22,043,833	-	-	22,043,833
AMP Capital Emerging Markets Global Share Fund	12,448,285	-	-	12,448,285
AMP Capital Core Global Shares Fund	52,030,482	-	-	52,030,482
AMP Capital Core Hedged Global Shares Fund	79,125,609	-	-	79,125,609
ANZ Wholesale Cash Fund	42,571,895	-	-	42,571,895
ANZ Sovereign Bond Fund	12,261,567	-	-	12,261,567
ANZ High Grade Bond Fund	18,522,837	-	-	18,522,837
ANZ Wholesale International Property Securities Fund	25,357,654	-	-	25,357,654
Direct Capital IV Limited Partnership	1,304,894	-	-	1,304,894
First State Investments Global Listed Infrastructure Fund	20,245,411	-	-	20,245,411
Harbour Asset Management Australasian Equity Fund	23,975,787	-	-	23,975,787
Russell Investments Global Fixed Interest Fund	96,799,939	-	-	96,799,939
Total Assets	406,688,193	848,533	-	407,536,726
Liabilities				
Benefits Payable	-	-	3,000	3,000
Sundry Creditors	-	-	267,036	267,036
Total Liabilities	-	-	270,036	270,036

New Zealand Fire Service Superannuation Scheme
Notes to the Financial Statements (Continued)
For the Year Ended 31 March 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).

31 March 2018

Description	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial Assets at Fair Value Through Profit or Loss				
AMP Capital New Zealand Shares Fund	-	25,051,095	-	25,051,095
AMP Capital Emerging Markets Global Shares Fund	-	14,753,412	-	14,753,412
AMP Capital Core Global Shares Fund	-	54,161,406	-	54,161,406
AMP Capital Core Hedged Global Shares Fund	-	82,794,875	-	82,794,875
ANZ Wholesale Cash Fund	-	38,945,667	-	38,945,667
ANZ Sovereign Bond Fund	-	12,637,966	-	12,637,966
ANZ High Grade Bond Fund	-	19,231,823	-	19,231,823
ANZ Wholesale International Property Securities Fund	-	19,609,697	-	19,609,697
Direct Capital IV Limited Partnership	-	-	1,350,024	1,350,024
First State Investments Global Listed Infrastructure Fund	-	26,152,410	-	26,152,410
Harbour Asset Management Australasian Equity Fund	-	25,323,693	-	25,323,693
Russell Investments Global Fixed Interest Fund	-	108,743,354	-	108,743,354
Total	-	427,405,398	1,350,024	428,755,422

The majority of the financial assets above are classified as Level 2 as they are based on unit prices with Fair Value derived from inputs other than quoted prices in active markets. The Level 3 investment fair value measurement is derived from valuation techniques that include inputs not based on observable market data.

All financial instruments (except Direct Capital IV Limited Partnership) disclosed in these Financial Statements are categorised as Level 2 for both 2017 and 2018 financial periods.

The Scheme invests in managed funds. The fair value is based upon unit prices calculated by the Manager of the fund.

The fair value of units is based upon a Net Asset Valuation using observable inputs of quoted security prices in active share markets and/or interest rates or yield curves which are observable at specific time intervals. The Net Asset Valuation of the fund may also include securities or derivatives which have inputs such as foreign exchange spot and forward rates and interest rate curves derived from quoted bond prices. The Net Asset Valuation may also have adjustments to reflect fees associated with the fund.

For unit prices, significant inputs into the calculation are market observable and are included within level 2.

There were no transfers between levels in the period.

New Zealand Fire Service Superannuation Scheme
Notes to the Financial Statements (Continued)
For the Year Ended 31 March 2018

11. Financial Instruments (Continued)

Hierarchy of Fair Value Measurements (Continued)

31 March 2017

Description	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial Assets at Fair Value Through Profit or Loss				
AMP Capital New Zealand Shares Fund	-	22,043,833	-	22,043,833
AMP Capital Emerging Markets Global Shares Fund	-	12,448,285	-	12,448,285
AMP Capital Core Global Shares Fund	-	52,030,482	-	52,030,482
AMP Capital Core Hedged Global Shares Fund	-	79,125,609	-	79,125,609
ANZ Wholesale Cash Fund	-	42,571,895	-	42,571,895
ANZ Sovereign Bond Fund	-	12,261,567	-	12,261,567
ANZ High Grade Bond Fund	-	18,522,837	-	18,522,837
ANZ Wholesale International Property Securities Fund	-	25,357,654	-	25,357,654
Direct Capital IV Limited Partnership	-	-	1,304,894	1,304,894
First State Investments Global Listed Infrastructure Fund	-	20,245,411	-	20,245,411
Harbour Asset Management Australasian Equity Fund	-	23,975,787	-	23,975,787
Russell Investments Global Fixed Interest Fund	-	96,799,939	-	96,799,939
Total	-	405,383,299	1,304,894	406,688,193

Credit Risk

Financial instruments which potentially expose the Scheme to credit risk consist of cash and 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 counterparties of the Scheme are its investment managers: AMP Capital Investors (New Zealand) Limited, ANZ Investments, Direct Capital Partners, First State Investments, Harbour Asset Management and Russell Investments, which the Trustee considers to be financial institutions of high quality. The investments are held in trust by the investment managers for the benefit of the Scheme. The managers maintain diversified investment portfolios in accordance with the portfolio mix adopted by the Trustee.

Currency Risk

As at 31 March 2018 the Scheme had \$332,886,171 (2017: \$311,288,061) invested in offshore fixed interest securities, offshore equities, offshore property, and offshore infrastructure assets which expose the Scheme to currency risks. The AMP Capital New Zealand Shares Fund and the Harbour Asset Management Australasian Equity Fund are hedged at the managers' discretion. The First State Investments Global Listed Infrastructure Fund and the Russell Investments Global Fixed Interest Fund are 100% hedged on an after tax basis. The ANZ Wholesale International Property Securities Fund is 100% hedged on a gross of tax basis. The AMP Capital Core Hedged Global Shares Fund is 139% hedged on a gross of tax basis. The remaining Funds are not hedged.

	2018	2017
	\$	\$
Hedged Funds		
AMP Capital New Zealand Shares Fund	25,051,095	22,043,833
AMP Capital Core Hedged Global Shares Fund	82,794,875	79,125,609
ANZ Wholesale International Property Securities Fund	19,609,697	25,357,654
First State Investments Global Listed Infrastructure Fund	26,152,410	20,245,411
Harbour Asset Management Australasian Equity Fund	25,323,693	23,975,787
Russell Investments Global Fixed Interest Fund	108,743,354	96,799,939
Total Hedged Funds	287,675,124	267,548,233
Unhedged Funds		
AMP Capital Emerging Markets Share Fund	14,753,412	12,448,285
AMP Capital Core Global Shares Fund	54,161,406	52,030,482
ANZ Wholesale Cash Fund	38,945,667	42,571,895
ANZ Sovereign Bond Fund	12,637,966	12,261,567
ANZ High Grade Bond Fund	19,231,823	18,522,837
Direct Capital IV Limited Partnership	1,350,024	1,304,894
Total Unhedged Funds	141,080,298	139,139,960

New Zealand Fire Service Superannuation Scheme
Notes to the Financial Statements (Continued)
For the Year Ended 31 March 2018

11. Financial Instruments (Continued)

Interest Rate Risk

The Scheme is exposed to interest rate risk in that future rate movements will affect the cash flows and the net market value of fixed interest securities. Risk management activities are undertaken by the Scheme's investment managers as part of their investing operations.

	2018 \$	2017 \$
Fixed Interest - New Zealand	70,815,456	73,356,299
Fixed Interest - Offshore	108,743,354	96,799,939
Total	<u>179,558,810</u>	<u>170,156,238</u>

Liquidity Risk

All financial assets at fair value through profit or loss can be realised within 12 months, except Direct Capital IV Limited Partnership, which is not available for withdrawal until the Partnership is divested in approximately 4-5 years. The Trustee has capital commitments of up to \$1.62 million to Direct Capital IV Limited Partnership. There are no significant financial

12. Sensitivity Analysis

A 5% increase/decrease in the value of the Scheme's investments would have a positive/adverse impact on the value of the Scheme's assets by \$22,422,323 (2017: \$23,230,982), and the Trustee has determined it is appropriate to use as it shows the sensitivity to investment fluctuations.

13. 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 used judgment in the categorisation of financial assets and liabilities at fair value through profit or loss in accordance with the fair value hierarchy under NZ IFRS 13.

14. Commitments and Contingent Liabilities

There were no contingent liabilities outstanding as at 31 March 2018 (31 March 2017: Nil). The Trustee has future capital commitments of \$1.62 million to Direct Capital IV Limited Partnership.

15. Related Parties

The Scheme held no direct investments in any of the FENZ companies or any of its related parties and during the year had no related party transactions except for FENZ contributions. Trustee fees and expenses for the year were \$99,405 (2017: \$126,676). The fee paid to the Licensed Independent Trustee for the financial year was \$37,579 (2017: \$35,910). Directors of the Trustee that are members of the Scheme contribute on the same basis and have the same rights as other members of the Scheme.

16. Events After Balance Date

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