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# DUNEDIN CITY TREASURY LIMITED

Annual Report  
2014

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# Dunedin City Treasury Limited

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# Dunedin City Treasury Limited

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## **COMPANY PARTICULARS**

**As at 30 June 2014**

### Directors

Graham W Crombie - B.Com., F.C.A.(P.P), A.F.Inst.D., M.D.Ent.

Kathy E Grant - B.A., L.L.B., Dip.Law, M.Inst.D.

Linda M Robertson - B.Com., A.M.Inst.D

Brian J Wood - M.B.A.(Otago), F.N.Z.I.M, A.F.Inst.D.

### Chief Executive

M John Knight – B.Com., C.A.

### Registered Office

50 The Octagon

Dunedin

New Zealand

### Bankers

ANZ Bank New Zealand Limited

### Solicitors

Anderson Lloyd, Barristers and Solicitors

### Taxation Advisers

Deloitte

### Auditor

Audit New Zealand on behalf of the Auditor-General

# Dunedin City Treasury Limited

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## **DIRECTORS' REPORT**

### **For the Year Ended 30 June 2014**

The Directors of Dunedin City Treasury Limited are pleased to report on the trading results of the company for the year ended 30 June 2014.

#### ***Principal Activities of the Company***

The role of Dunedin City Treasury Limited is to identify and manage the financial risks and the liquidity of the Dunedin City Council Group so as to ensure that adequate funds are always available to meet ongoing obligations in such a way that financing costs are minimised and the return on surplus funds is maximised within acceptable levels of risk.

The funding and treasury management services of Dunedin City Treasury Limited include the following activities:

- managing financial relationships with third parties
- working capital management
- cash management
- funds management
- financial risk management
- interest rate risk management
- treasury advisory services
- investment portfolio management.

#### ***Results for the Year Ended 30 June 2014***

	<b>\$'000</b>
Profit before Income Tax	25
Income Tax	<u>3</u>
Net Profit for the Year	<u><u>22</u></u>

The trading surplus arises after an interest rate adjustment had been paid to members of the DCC Group in December 2013 and June 2014 amounting to \$1,163,966 (2013 \$1,435,956).

#### ***State of Affairs***

The Directors are satisfied with the results achieved by the Company and believe that the state of affairs of the Company is satisfactory.

# Dunedin City Treasury Limited

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## **DIRECTORS' REPORT - continued** **For the Year Ended 30 June 2014**

### ***Dividends***

The Directors recommend that no dividend be paid. The Company operates with the intention of achieving the lowest possible interest cost for group companies which use the Company's services.

### ***Reserves***

The following net transfer has been made to reserves:	<b>\$'000</b>
Retained Earnings	<u>22</u>

### ***Review of Operations***

The Company continues to achieve good results with its promissory note programme. Over the year the average rate achieved was 11.5 basis points over the 90 Day Bank Bill Reference Rate, which when compared to our peers in the market was an excellent result given the uncertainty in the financial markets.

Group companies and the Dunedin City Council, using facilities arranged through the company, have had the benefit of very good interest rates on both the funds they have borrowed and surplus funds which they have invested through the Company. In addition, an interest rate/fees adjustment totalling \$1,163,966 has been paid to members of the Dunedin City Council Group in December 2013 and June 2014.

The Company's Standard and Poor's long term credit rating was reaffirmed at AA in December 2013. The A1+ short term rating remained the same as previously reported.

The Company continues to provide management services to the Waipori Fund which is a large Dunedin City Council investment fund. The result for the year was a \$4,590,673 surplus, before an inflation adjustment, of \$1,180,499 which was a return of 6.02%. With an inflation factor of 1.50% the return after inflation was 4.52%.

Overall the company achieved a very satisfactory result for the year.

### ***Financial Statements***

The audited financial statements for the year ended 30 June 2014 are attached to this report.

# Dunedin City Treasury Limited

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## **DIRECTORS' REPORT - continued** **For the Year Ended 30 June 2014**

### ***Changes in Accounting Policies***

There have been no changes in accounting policies.

### ***Directors' Interests in Contracts***

No material contracts involving Directors' interests were entered into during the year ended 30 June 2014 or existed at the end of this twelve month period apart from transactions with Southern Sinfonia referred to in note 25.

### ***Auditors***

The Auditor-General has contracted the audit to Audit New Zealand. The total remuneration payable by the company to the Auditor for the year was \$19,900 (2013 - \$19,790).

### ***Internal Audit***

The Company utilises external experts to carry out the internal audit function. Regular reviews of systems, procedure and control mechanisms are carried out and reports to the Board are received.

### ***Information on the Directors of Dunedin City Treasury Limited***

Mr G W Crombie will retire by rotation in accordance with the Constitution of the Company. He is eligible and offers himself for re-election.

In October 2013 the Board of Dunedin City Treasury Ltd was reconstituted to the same as Dunedin City Holdings Ltd. The company wishes to record its thanks for the significant service given by the previous directors.

The Board wished to formally acknowledge the significant contribution of Mr Ross Liddell, who retired from the Board in September 2013 and passed away on 19 July 2014. Mr Liddell was one of the original directors appointed in June 1993 and has been Chairman from November 1999 until September 2013. He successfully guided the company through its formative years, through a period of increased debt requirement and more recently through the Global Financial Crisis.

### ***Directors' Insurance***

As allowed by the Company's Constitution, Dunedin City Treasury Limited has arranged policies of Directors' Liability Insurance which, together with a deed of indemnity, ensure that the Directors will incur no monetary loss as a result of actions undertaken by them as Directors, provided that they operate within the law.

# Dunedin City Treasury Limited

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## **DIRECTORS' REPORT - continued** **For the Year Ended 30 June 2014**

### ***Directors' Benefits***

No Director of Dunedin City Treasury Limited has, since the end of the previous financial year, received or become entitled to receive a benefit apart from Director's fees paid to Mr R D Liddell for the period to his retirement from the Board on 30 September 2013. This amounted to \$9,328.

There were no loans from the Company to Directors.

There were no notices from Directors of the Company requesting use of company information received in their capacity as Directors which would not otherwise have been available to them.

### ***Employee Remuneration***

One employee received remuneration in the \$210,000 to \$220,000 bracket during the current year.

### ***Staff***

The Board extends its thanks and appreciation to John Knight for his significant contribution to the Company over the last 20 years. Mr Knight, who will retire on 31 July 2014, has played a large part in the continuing success of the Company overseeing a period of significant growth as well as dealing with a series of market challenges providing real benefit to the Dunedin City Council and its group of companies.

### ***Outlook***

Dunedin City Treasury Ltd is soundly based and conservatively managed. The Board believes that, while the outlook for financial markets is still uncertain, the Company will be able to continue to provide a sound treasury function to the Dunedin City Council Group in the coming years.

On behalf of the Board of Directors

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G W Crombie  
Chairman

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Dated:

# Dunedin City Treasury Limited

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## TRENDS STATEMENT

	<i>2014</i>	<i>2013</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>	<i>2009</i>
<i><b>Financial Assets Managed by the Company</b></i>						
(\$ millions)						
Dunedin City Treasury Limited	613	620	609	560	488	367
Dunedin City Council	80	79	85	81	70	80
Other	-	-	1	7	10	20
	<hr/>					
Total Financial Assets Managed	693	699	695	648	568	467



# Dunedin City Treasury Limited

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## Information on the Directors of Dunedin City Treasury Ltd

Director and Qualifications	Responsibilities	Declarations of Interests
Graham W Crombie B.Com, F.C.A. (CPP), A.F.Inst.D., M.D.Ent.  Date appointed – 17 October 2013	Chairman	Chairman, NZ Institute of Chartered Accountants Chairman, Dunedin City Holdings Ltd Chairman, Otago Museum Trust Independent Chairman, Action Engineering Limited Chairman, NZ Genomics Limited Director, Australia/NZ Chartered Accountants Director, Surf Life Saving NZ Director, Innovatio Limited Trustee, Arai Te Uru Kokiri Centre Charitable Trust Trustee, Orokonui Foundation Trust
Kathleen E Grant B.A., L.L.B., Dip.Law, M.Inst.D.  Date appointed – 17 October 2013	Non-Executive Director	Associate, Gallaway Cook Allan Chair of Council, Otago Polytechnic Trustee, Sport Otago Director, Dunedin City Holdings Limited Director, Dunedin International Airport Limited Director, Southern Sinfonia
Linda M Robertson B.Com., A.M.Inst.D., F.C.I.S.  Date appointed – 17 October 2013	Non-Executive Director	Chairman – Statistics New Zealand Audit and Risk Committee Director - Dunedin City Holdings Limited Director – Hunter Downs Development Limited Director/Shareholder - R.M.L Consulting Limited Employee and shareholder – Meridian Energy Limited
Brian J Wood M.B.A. (Otago), F.N.Z.I.M., A.F.Inst.D.  Date appointed 17 October 2013	Non-Executive Director	Chairman, Buller Holdings Limited Chairman, Westreef Services Limited Chairman, Buller Recreation Limited Chairman, Westport Harbour Limited Chairman, Canterbury Linen Services Limited Chairman, Abley Transportation Consultants Limited Director, Interpret Geospatial Solutions Limited Director, Lyttelton Port of Christchurch Limited Director, Dunedin City Holdings Limited Director, Harrison Grierson Holdings Limited
Ross D Liddell B.Com., C.A.(P.P.), A.C.I.S., A.F. Inst.D.  Date resigned – 30 September 2013	Chairman Member - Audit Committee Member - Remuneration Committee	Director - A B Lime Limited Chairman – Browns Barkly Limited Chairman – City Forests Limited Chairman – James Maurice Properties Limited Chairman – Palmer & Son Limited Chairman – Palmer MH Limited Chairman – Viblock Limited Chairman – Victory Lime 2000 Limited Director – McMahon Investments Limited Director – Hunterfields Investments Limited

## Dunedin City Treasury Limited

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<b>Director and Qualifications</b>	<b>Responsibilities</b>	<b>Declarations of Interests</b>
<p>Grady W Cameron B.E., M.E.M.</p> <p>Date resigned – 17 October 2013</p>	Non-Executive Director	<p>Chief Executive – Aurora Energy Limited Chief Executive – Delta Utility Services Limited Director – Electricity Network Association Director – Smart Co Limited Director – Delta Investments Limited</p>
<p>Bevan R N Dodds B.C.A. (Hons), C.A., F.C.I.S.</p> <p>Date resigned – 17 October 2013</p>	Non-Executive Director	<p>Chief Executive - Dunedin City Holdings Limited Director – Taieri Gorge Railway Limited Director – The Street Limited</p>
<p>Grant A A Dodson B.For.Sc., M.N.Z.I.F.</p> <p>Date resigned – 17 October 2013</p>	Non-Executive Director	<p>Chief Executive – City Forests Limited Chairman – Otago Chipmill Limited Director – Highway 88 Limited</p>

# Dunedin City Treasury Limited

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## STATEMENT OF SERVICE PERFORMANCE For the Year Ended 30 June 2014

The Company's primary output function is to provide treasury management services to entities within the Dunedin City Council Group.

Performance Targets	Performance Targets Achieved
1. Completion of the issue of range of debt instruments at rates which are consistent with, or better than organisations with similar credit ratings.	1. Achieved – During the year the Company successfully issued: - twenty tranches of promissory notes - one tranches of Floating rate notes - one tranche of Fixed rate bonds at rates which were consistent or better than organisations with similar ratings.
2. Through the successful utilisation of facilities available, maintain the required level of liquidity for the Dunedin City Council Group at margins in line with market movements.	2. Achieved – Twenty tranches of promissory notes were successfully offered for tender or privately placed during the year, plus one tranche of Floating rate notes and one tranche of Fixed rate notes were issued at competitive rates.
3. All surplus funds deposited outside the Dunedin City Council Group have satisfied the investment criteria approved by the Board; and at least 80% of investments are placed with organisations with a Standard & Poors credit rating of investment grade or better.	3. Achieved – All funds deposited outside the Dunedin City Council Group have satisfied the investment criteria approved by the board with not less than 80% of the funds managed being invested with organisations having a Standard and Poor's rating of investment grade or better.
4. Derivatives to protect Dunedin City Council Group debt in accordance with the policies adopted by each member of the Group will be put in place within 90 days of any change in policy requiring additional cover to be established.	4. Achieved – Throughout the 12 months to 30 June 2014 the Company managed interest rate sensitive funding in accordance with the policies adopted by each member of the group with not less than 75% of interest sensitive funding being protected by derivatives.
5. Preparation of a report for every quarter assessing the company's achievement against the benchmark, and achieve an improvement in the actual portfolio performance against the benchmark.	5. Not achieved - No formal report was prepared against a benchmark, but regular reviews were undertaken to compare the margins achieved for promissory note issues and bond issues against our peers.
6. To have produced and circulated at least 10 monthly interest rate newsletters during the year.	6. Achieved - Ten newsletters were prepared and circulated during the year.
7. To manage the fund fully in accordance with the Statement of Policy and Objectives set by Council.	7. Achieved - The Waipori Fund recorded a return for the year of \$4,590,673 which is a return of 6.02%. After deduction of inflation of 1.5%, the "real" return is 4.52%.
8. There will be "nil" instances of non-compliance with the Company's EEO policy.	8. Achieved - There have been "nil" instances of non-compliance with the Company's EEO Policy.
9. To have completed a review of the Company's operations for any potential social or environmental issues by 30 June 2014.	9. Achieved - A review was completed by 30 June 2014 with no potential social or environmental issues identified.

## Dunedin City Treasury Limited

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### Statement of Comprehensive Income

For the Year Ended 30 June 2014

	Note	2014 \$'000	2013 \$'000
Financial income	3	39,825	40,367
Total Income		<u>39,825</u>	<u>40,367</u>
Less expenses:			
Audit fees	4	29	29
Depreciation			-
Directors fees		9	37
Employee expenses		270	262
Financial expenses	5	39,300	39,829
Other expenses	4	192	182
Total Expenditure		<u>39,800</u>	<u>40,339</u>
<b>Surplus before tax</b>		<u>25</u>	<u>28</u>
Income tax expense	6	3	12
<b>Surplus for the Year</b>		<u>22</u>	<u>16</u>
Other Comprehensive Income:			
Gain (loss) of cash flow hedges taken to equity		9,694	9,121
Gain (loss) of cash flow hedges to related parties taken to equity		(9,694)	(9,121)
Total other Comprehensive Income for the year, net of tax		<u>-</u>	<u>-</u>
<b>Total Comprehensive Income for the year</b>		<u>22</u>	<u>16</u>
Earnings per share	7	22.0 cents	15.9 cents

### Statement of Changes in Equity

For the Year Ended 30 June 2014

Equity at beginning of year	233	217
Total comprehensive income	<u>22</u>	<u>16</u>
Equity at the end of the year	<u>255</u>	<u>233</u>

The accompanying notes and accounting policies form an integral part of these audited financial statements.

# Dunedin City Treasury Limited

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## Balance Sheet

As at 30 June 2014

	Note	2014 \$'000	2013 \$'000
<b>Equity</b>			
Share capital	9	100	100
Retained earnings	10	155	133
<b>Total Equity</b>		<u>255</u>	<u>233</u>
<b>Current Liabilities</b>			
Short term borrowings	11	7,527	9,153
Current portion of term borrowing	11	140,000	60,079
Trade and other payables	12	6,984	6,905
Derivative financial instruments	13	17,834	27,529
Provisions	14	19	33
Provision for tax		1	11
Total current liabilities		<u>172,365</u>	<u>103,710</u>
<b>Non-Current Liabilities</b>			
Term borrowings	11	464,517	550,503
Total non-current liabilities		<u>464,517</u>	<u>550,503</u>
<b>Total Liabilities</b>		<u>636,882</u>	<u>654,213</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>637,137</u></u>	<u><u>654,446</u></u>

The accompanying notes and accounting policies form an integral part of these audited financial statements.

# Dunedin City Treasury Limited

## Balance Sheet (continued)

As at 30 June 2014

	Note	2014 \$'000	2013 \$'000
<b>Current Assets</b>			
Cash and cash equivalents	18	34,586	12,175
Trade and other receivables	19	5,816	5,846
Derivative financial instruments	13	17,834	27,529
Prepayments		454	468
Investments	20	16,354	20,662
Total current assets		75,044	66,680
<b>Non-Current Assets</b>			
Investments	20	562,093	587,766
Property, plant and equipment	21	0	-
Total non-current assets		562,093	587,766
<b>TOTAL ASSETS</b>		637,137	654,446

For and on behalf of the Board of Directors

\_\_\_\_\_  
G W Crombie

Director

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K E Grant

Director

The accompanying notes and accounting policies form an integral part of these audited financial statements.

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## Dunedin City Treasury Limited

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### Statement of Cash Flows

For the Year Ended 30 June 2014

	Note	2014 \$'000	2013 \$'000
<b>Cash Flows from Operating Activities</b>			
<i>Cash was provided from</i>			
Receipts from customers		1,264	1,387
Interest received		38,630	37,829
		<hr/>	<hr/>
		39,894	39,216
<i>Cash was disbursed to</i>			
Payments to suppliers and employees		512	511
Interest paid		39,247	39,704
Income tax paid / (received)		14	(1)
		<hr/>	<hr/>
		39,773	40,214
<b>Net Cash Inflows / (Outflows) from Operating Activities</b>	<b>22</b>	<hr/>	<hr/>
		121	(998)
 <b>Cash Flows from Investing Activities</b>			
<i>Cash was provided from</i>			
Net investments realised		31,180	16,269
		<hr/>	<hr/>
		31,180	16,269
<i>Cash was disbursed to</i>			
Net purchase of investments		1,200	15,706
		<hr/>	<hr/>
		1,200	15,706
<b>Net Cash Inflows / (Outflows) from Investing Activities</b>		<hr/>	<hr/>
		29,980	563

The accompanying notes and accounting policies form an integral part of these audited financial statements.

# Dunedin City Treasury Limited

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## Statement of Cash Flows (continued)

For the Year Ended 30 June 2014

	Note	2014 \$'000	2013 \$'000
<b>Cash Flows from Financing Activities</b>			
<i>Cash was provided from</i>			
Net proceeds from borrowings		0	9,490
		<u>0</u>	<u>9,490</u>
<i>Cash was disbursed to</i>			
Net repayment of borrowings		7,690	-
		<u>7,690</u>	<u>-</u>
<b>Net Cash Inflows / (Outflows) from Financing Activities</b>		<u>(7,690)</u>	<u>9,490</u>
<b>Net Increase / (Decrease) in Cash, Cash Equivalents and Bank Overdraft</b>		22,411	9,055
Cash and cash equivalents at the beginning of the year		12,175	3,120
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>18</b>	<u>34,586</u>	<u>12,175</u>

The accompanying notes and accounting policies form an integral part of these audited financial statements.



# Dunedin City Treasury Limited

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## Notes to the Financial Statements

For the Year Ended 30 June 2014

### 1. REPORTING ENTITY

The financial statements presented here are for the reporting entity Dunedin City Treasury Limited (the Company).

Dunedin City Treasury Limited is a Council Controlled Trading Organisation as defined in the Local Government Act 2002. The company, incorporated in New Zealand under the Companies Act 1993, is a subsidiary of Dunedin City Holdings Ltd which is wholly owned by Dunedin City Council.

The financial statements of Dunedin City Treasury Limited are for the year ended 30 June 2014.

The registered address of the company is 50 The Octagon, Dunedin.

Dunedin City Treasury Limited is a profit-oriented entity.

The primary objective of Dunedin City Treasury is to provide funds management, cost effective funding and treasury management services to entities within the Dunedin City Council Group.

The financial statements have been prepared in accordance with the requirements of, the Local Government Act 2002, the Companies Act 1993 and the Financial Reporting Act 1993.

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

All values are rounded to the nearest \$'000s.

The functional currency is NZ Dollars.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Statement of Compliance

The financial statements of the Company comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements were authorised for issue by the directors on 28 July 2014.

#### Basis of Accounting

The Minister of Commerce has approved a new Accounting Standards Framework (incorporating a Tier Strategy) developed by the External Reporting Board (XRB). Under this Accounting Standards Framework, the Company has determined that it is a 'tier one' entity, as the Company has expenses over \$30 million.

## Dunedin City Treasury Limited

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The financial statements have been prepared in accordance with general accepted accounting practice in New Zealand (NZ GAAP). For the purposes of complying with the NZ GAAP the entity is a for-profit entity.

The financial statements have been prepared on the historic cost basis, except for derivative financial instruments, financial instruments classified as available for sale and financial instruments held for trading.

### **Changes in Accounting Policy**

The Company applied, for the first time, the new NZ IFRS POE standards. These include NZ IFRS 10 Consolidated Financial Statements, NZ IFRS 11 Joint Arrangements, NZ IFRS 12 Disclosure of Interests in Other Entities, and IFRS 13 Fair Value Measurement. Of these standards the only one to impact the financial statements of the Company is IFRS 13 Fair Value Measurement. Several other amendments apply for the first time in 2014. However, they do not impact the financial statements of the Company.

The nature and the impact of IFRS 13 is described below:

NZ IFRS 13 establishes a single source of guidance under NZ FRS for all fair value measurements. NZ IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under NZ IFRS. Application of NZ IFRS 13 has not materially impacted the fair value measurements of the Company. Additional disclosures and restatement, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

### **Critical Judgements and Estimates in Applying Accounting Policies**

In the application of NZ IFRS the Directors are required to make judgements, estimates and assumptions about the carrying value of assets and liabilities that are not readily apparent from other sources. These are based on historical experience and other various factors and are reviewed on an ongoing basis.

The Directors believe that, as at the date of these Financial Statements, there are no significant sources of estimation uncertainty that have not been disclosed in these notes. However, they do make estimates and assumptions concerning the future. The resulting accounting estimates may not equal the related actual results.

The accounting policies set out below have been applied consistently to all periods in these financial statements.

### **Standards Issued but not yet Effective**

A number of accounting standards have been issued but as they are not yet compulsory they have not been applied to this set of accounts. These standards are to be applied to future financial statements. NZ IFRS 9, Financial Instruments, will eventually replace NZ IAS 39, Financial Instruments, in three main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology and Phase 3 Hedge Accounting. Phase 1 on the classification and measurement of financial assets has been published in the new financial instrument standard NZ IFRS 9. The new standard is required to be adopted for the year ended 30 June 2018. The impact of the new standard has not been adopted.

# Dunedin City Treasury Limited

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## **Revenue Recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and GST.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

## **Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

## **Borrowing Costs**

All borrowing costs are recognised in the income statement using the effective interest rate method.

## **Employee Entitlements**

Entitlements to salary and wages and annual leave are recognised when they accrue to employees. This includes the estimated liability for salaries and wages and annual leave as a result of services rendered by employees up to balance date at current rates of pay.

## **Good and Service Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except for receivables and payables which are recognised inclusive of GST. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense. Commitments and contingencies are disclosed exclusive of GST.

## **Taxation**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit 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 company's liability for current tax is calculated using tax rates that have been 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 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 income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

## Dunedin City Treasury Limited

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Deferred tax liabilities are generally recognized 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. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

### **Property, Plant and Equipment**

Property, plant and equipment are those assets held by the company for the purpose of carrying on its business activities on an ongoing basis.

All property, plant and equipment is stated at cost less any subsequent accumulated depreciation and any accumulated impairment losses.

### ***Depreciation***

Depreciation is charged so as to write off the cost or valuation of assets on the straight-line basis. Rates used have been calculated to allocate the assets' cost or valuation less estimated residual value over their estimated remaining useful lives.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation rates and methods used are as follows:

	<i>Rate</i>	<i>Method</i>
Office equipment and fittings	5% to 25%	Straight line
Software	20% to 100%	Straight line

### **Impairment of assets excluding goodwill**

At each balance sheet date, a review of the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is immediately recognised as an expense, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent of any previous revaluation increase for that asset (or cash generating unit) that remains in the revaluation reserve. Any additional impairment is immediately transferred to the income statement.

## Dunedin City Treasury Limited

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Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is immediately recognised as income.

### **Financial Instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets and financial liabilities are recognised on the company's balance sheet when the company becomes a party to the contractual provisions of the instrument.

### ***Cash and cash equivalents***

Cash and cash equivalents comprise of cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

### ***Trade and other receivables***

Loans and other receivables are financial instruments that are measured at amortised cost using the effective interest method. This type of financial instrument includes deposits, term deposits, intercompany loans and mortgages.

### ***Investments***

Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

### ***Financial liability and equity***

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

### ***Trade and other payables***

Trade and other payables are stated at cost.

### ***Borrowings***

Borrowings are initially recorded net of directly attributable transaction costs and are measured at subsequent reporting dates at amortised cost. Finance charges, premiums payable on settlement or redemption and direct costs are accounted for on an accrual basis to the Statement of Comprehensive Income using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

# Dunedin City Treasury Limited

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## **Derivative financial instruments and hedge accounting**

The company's activities expose it primarily to the financial risks of changes in interest rates. The company uses interest rate swap contracts to hedge these exposures.

The company does not use derivative financial instruments for speculative purposes. However, any derivatives that do not qualify for hedge accounting, under the specific NZ IFRS rules, are accounted for as trading instruments with fair value gains/losses being taken directly to the income statement.

The use of financial derivatives is governed by each group company's policy approved by its board of directors. The policies provide written principles on the use of financial derivatives.

Derivative financial instruments are recognised at fair value on the date the derivative is entered into and are subsequently remeasured to their fair value. The fair value on initial recognition is the transaction price. Subsequent fair values are based on independent bid prices quoted in active markets as provided to us by our banking counterparties.

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity with any ineffective portion recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise. Derivatives not designated into an effective hedge relationship are classified as current assets or liabilities.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

Hedge derivatives are classified as current assets or current liabilities as the expected cash flows change each six months when the instruments are revalued.

# Dunedin City Treasury Limited

## Provisions

A provision is recognised in the balance sheet when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

<b>3. FINANCIAL INCOME</b>	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Interest on advances to related parties	35,738	36,004
Fees from related parties	3,724	4,074
Interest on other investments	363	289
	<u>39,825</u>	<u>40,367</u>
<b>4. OTHER EXPENSES</b>		
Audit fees - for audit of financial statements	20	20
- Internal Audit	9	9
Total audit fees	<u>29</u>	<u>29</u>
Rental expense on operating leases	5	5
Other expenses	187	177
Total other expenses	<u>192</u>	<u>182</u>
<b>5. FINANCIAL EXPENSES</b>		
Interest and fees - related parties	107	58
Interest and fees - term loans	39,193	39,771
Total financial expenses	<u>39,300</u>	<u>39,829</u>
<b>6. INCOME TAX</b>		
Operating surplus before income tax	25	28
Tax thereon at 28%	7	8
<i>Plus / (Less) the Tax Effect of Differences</i>		
Revenue not liable for taxation	0	-
Expenditure not deductible for taxation	(4)	8
Under / (over) tax provision in prior years	0	(4)
Tax effect of differences	<u>(4)</u>	<u>4</u>
Tax expense	<u>3</u>	<u>12</u>

## Dunedin City Treasury Limited

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	<b>2014</b> <b>\$'000</b>	<b>2013</b> <b>\$'000</b>
<b>Imputation Credit Account</b>		
Balance at the beginning of the year	50	50
Taxation payments made	3	-
Prior period adjustment	-	-
	<hr/>	<hr/>
Balance at the end of the year	53	50
	<hr/> <hr/>	<hr/> <hr/>

### 7. EARNINGS PER SHARE

**Basic earnings per share** is calculated by dividing the net surplus/(deficit) attributable to the shareholder of the group by the weighted average number of ordinary shares on issue during the year.

#### Number of shares

Weighted average number of ordinary shares	100,000	100,000
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<b>Basic earnings per share</b>	22.0 cents	16.0 cents
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### 8. DIVIDENDS

No dividends have been paid. (2013 - Nil).

### 9. EQUITY - Share Capital

#### Issued Capital

100,000 ordinary shares	100	100
	<hr/>	<hr/>

On incorporation, Dunedin City Treasury Limited issued 100,000 ordinary shares in favour of the Dunedin City Holdings Limited.

### 10. RETAINED EARNINGS

Balance at the beginning of the year	133	117
	<hr/>	<hr/>
Net profit for the year	22	16
	<hr/>	<hr/>
Balance at the end of the year	155	133
	<hr/> <hr/>	<hr/> <hr/>



## Dunedin City Treasury Limited

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<b>11. BORROWINGS</b>	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Current:</b>		
Short term borrowing	1,877	1,391
Related parties	5,650	7,762
Current portion term borrowings	140,000	60,079
Total Current borrowing	<u>147,527</u>	<u>69,232</u>
<b>Non-current:</b>		
Promissory notes issued	59,517	75,503
Bonds issued	405,000	475,000
Total Term borrowing	<u>464,517</u>	<u>550,503</u>
<b>Total borrowings</b>	<u><u>612,044</u></u>	<u><u>619,735</u></u>

The Company has an \$850 million Multi Option Debt Issuance Facility which is secured against certain assets and undertakings of the Dunedin City Council Group. Debt is raised by issuing long dated bonds, floating rate notes or by the issue of Promissory Notes usually issued for 90 day terms.

Three independent banks have underwritten the facility to an amount of \$100.0 million (2013 - \$90 mil).

The amount of unamortized premium or (discount) on bonds on issue at 30/06/14 is nil (2013 - \$79,098).

The tender of promissory notes under the multi-option facility generally raises debt for a term of 90 days before being re-tendered. This type of borrowing is executed at the floating rate at the date of borrowing and exposes the group to cash flow interest rate risk. Interest rate derivatives are taken out to manage that risk. The credit risk from each derivative is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The issuing of long-term bonds at fixed interest rates exposes the group to fair value interest rate risk. Several tranches of bonds have been issued as follows:

- a) \$40m issued for 15 months maturing 15/09/14 @ a margin of 28 bp over BKBM
- b) \$25m issued for 2 years, maturing 07/10/14 @ a margin of 65 bp over BKBM
- c) \$75m issued for 5 years, maturing 25/11/14 @ a coupon rate of 6.40%
- d) \$50m floating rate notes, maturing 15/10/15 @ margin of 90 bp over BKBM
- e) \$90m floating notes, maturing 15/04/16 @ a margin of 107 bp over BKBM
- f) \$50m issued for 10 years, maturing 15/11/16 @ a coupon rate of 6.79%
- g) \$20m issued for 4 years, maturing 15/02/17 @ a margin of 80 bp over BKBM
- h) \$60m issued for 10 years, maturing 15/10/17 @ a coupon rate of 7.81%
- i) \$20m issued for 4 years, maturing 15/05/18 @ a margin of 43 bp over BKBM
- j) \$50m issues for 7.5 years, maturing 15/07/18 @ a coupon rate of 6.57%
- k) \$15m issued for 10 years, maturing 17/12/18 @ a coupon rate of 6.85%
- l) \$50m issued for 7 years, maturing 16/11/20 @ a coupon rate of 5.56%

## Dunedin City Treasury Limited

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	<b>2014</b> <b>\$'000</b>	<b>2013</b> <b>\$'000</b>
<b>Maturity Analysis</b>		
The following is a maturity analysis of the Company's borrowings.		
Less than one year	147,527	69,232
Weighted average interest rate	5.12%	5.63%
Later than one year but not more than five	414,517	485,503
Weighted average interest rate	5.32%	4.69%
Later than five years	50,000	65,000
Weighted average interest rate	5.56%	6.63%
	<u>612,044</u>	<u>619,735</u>
	<u><u>612,044</u></u>	<u><u>619,735</u></u>

### **Fair Value of Borrowings**

Directors estimate the fair value of the company's borrowings, by discounting their future cash flows at the market rate, to be as follows:

Total borrowings	626,236	642,344
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### **12. TRADE AND OTHER PAYABLES**

Due to related parties - DCHL Group	-	4
- DCC Group	3	1
Accruals	6,981	6,900
	<u>6,984</u>	<u>6,905</u>
	<u><u>6,984</u></u>	<u><u>6,905</u></u>

The directors consider that the carrying amount of trade payables approximates their fair value.

### **13. DERIVATIVE FINANCIAL INSTRUMENTS**

Assets:

Interest rate derivatives - DCHL Group	1,414	2,316
Interest rate derivatives - DCC Group	14,913	23,863
Interest rate derivatives - Bank	1,507	1,350
	<u>17,834</u>	<u>27,529</u>
	<u><u>17,834</u></u>	<u><u>27,529</u></u>

Liabilities:

Interest rate derivatives - Bank	16,327	26,179
Interest rate derivatives - DCHL Group	1,491	1,350
Interest rate derivatives - DCC Group	16	-
	<u>17,834</u>	<u>27,529</u>
	<u><u>17,834</u></u>	<u><u>27,529</u></u>

# Dunedin City Treasury Limited

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<b>2014</b>	<b>2013</b>
<b>\$'000</b>	<b>\$'000</b>

## Interest Rate Swaps

The notional principal outstanding with regard to the interest rate swaps is:

Counterparties outside the group:

Maturing in less than one year	2,500	7,500
Maturing between one and five years	210,400	168,000
Maturing after five years	138,000	155,500
	<u>350,900</u>	<u>331,000</u>
	<u><u>350,900</u></u>	<u><u>331,000</u></u>

Counterparties within the Dunedin City Council group:

Maturing in less than one year	2,500	7,500
Maturing between one and five years	210,400	168,000
Maturing after five years	138,000	155,500
	<u>350,900</u>	<u>331,000</u>
	<u><u>350,900</u></u>	<u><u>331,000</u></u>

## 14. PROVISIONS

Annual leave	19	33
	<u>19</u>	<u>33</u>
	<u><u>19</u></u>	<u><u>33</u></u>

## 15. CONTINGENT LIABILITIES

Performance bonds	2,442	4,168
	<u>2,442</u>	<u>4,168</u>

The performance bonds issued are principally in favour of South Island Local Authorities for contract work. There is no indication that any of the above contingent liabilities will crystallise in the foreseeable future.

## 16. CAPITAL EXPENDITURE COMMITMENTS

The company has no capital expenditure commitments. (2013 Nil)

## Dunedin City Treasury Limited

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### 17. COMMITMENTS

	2014 \$'000	2013 \$'000
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#### (i) Non-Cancellable Operating Lease Commitments

Payable within one year	59	5
Payable between one to five years	0	10
Payable later than five years	0	-
	59	15
	59	15

#### (ii) Undrawn Facilities

The level of committed facilities undrawn at 30 June 2014 amounts to \$98.5 mil (2013 - \$96.1 mil).

(iii) Future bond contract of \$20 mil to replace tranche maturing 08/10/14

### 18. CASH AND CASH EQUIVALENTS

Cash at Bank	1,428	215
Short term deposits	33,158	11,960
	34,586	12,175
	34,586	12,175

Cash and short-term deposits comprise cash held by the company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

The weighted average effective interest rate for cash at bank is 0.0% (2013 - 0.0%).

The weighted average effective interest rate for deposits is 3.48%. (2013 – 2.50%).

### 19. TRADE AND OTHER RECEIVABLES

Due from related parties		
- DCHL Group	1,845	1,884
- DCC	3,925	3,948
Other current receivables	46	14
	5,816	5,846
	5,816	5,846

The directors consider that the carrying amount of the trade and other receivables approximates their fair value. There have been no indicators of impairment.

#### **Maturity Analysis**

No accounts receivable at balance date are past due.

## Dunedin City Treasury Limited

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20. INVESTMENTS	2014 \$'000	2013 \$'000
<u>Current Investments</u>		
Advances to Dunedin City Council Group	16,317	20,615
Mortgage Recoverables	37	47
Total Current Investments	<u>16,354</u>	<u>20,662</u>
<u>Non-Current Investments</u>		
Advances to Dunedin City Council Group	341,481	351,435
Mortgage Receivables	236	505
Advances to DCHL Group	220,376	235,826
Total Non-Current investments	<u>562,093</u>	<u>587,766</u>
Total Investments	<u><u>578,447</u></u>	<u><u>608,428</u></u>

### Maturity Analysis

The following is a maturity analysis of Current and Non-Current investments.

Maturity within one year	16,354	20,662
Weighted average interest rate	6.67%	6.34%
Maturity one to five years	80,250	74,142
Weighted average interest rate	6.68%	6.34%
Maturity over five years	481,843	513,624
Weighted average interest rate	6.39%	6.08%
Total Investments	578,447	608,427
Weighted average interest rate	6.44%	6.12%

Approved facilities for Dunedin City Council and Dunedin City Holdings Group companies are generally on an evergreen 2 or 3 year basis.

The carrying amount of investments approximate their fair value. If interest rates on investments at June 30 fluctuated by plus or minus 1.0%, the effect would be to decrease/increase the surplus/deficit by \$5,784,473 (\$6,084,277 - 2013).

There have been no indications of impairment of any investment.

## Dunedin City Treasury Limited

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<b>21. PROPERTY, PLANT AND EQUIPMENT</b>	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Cost</b>		
Balance at beginning of year	15	15
Balance at end of year	<u>15</u>	<u>15</u>
<b>Accumulated depreciation</b>		
Balance at beginning of year	15	15
Depreciation	-	-
Balance at end of year	<u>15</u>	<u>15</u>
Total Property, Plant and Equipment	<u>-</u>	<u>-</u>
<b>22. RECONCILIATION OF NET SURPLUS FOR THE YEAR TO CASHFLOWS FROM OPERATING ACTIVITIES</b>		
Net surplus/(deficit) for the year	22	16
<i>Items Not Involving Cash Flows</i>		
Depreciation		-
<i>Impact of Changes in Working Capital Items</i>		
(Increase)/Decrease in receivables	30	(1,164)
(Increase)/Decrease in prepayments	14	73
Increase / (Decrease) in trade and other payables	65	64
Increase / (Decrease) in provision for tax	(10)	13
Net cash inflows / (outflows) from operating activities	<u>121</u>	<u>(998)</u>

# Dunedin City Treasury Limited

## 23. CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

The carrying amount of financial assets and liabilities in each of the NZ IAS39 categories is as follows:

	2014 \$'000	2013 \$'000
<b>Loans and receivables</b>		
Cash and cash equivalents (note 18)	34,586	12,175
Trade and other receivables (note 19)	5,816	5,846
Investments (note 20)	578,447	608,428
Total loans and receivables	618,849	626,449
<b>Financial assets at fair value through equity</b>		
Derivative financial instrument assets (note 13)	17,834	27,529
<b>Financial liabilities measured at amortised cost</b>		
Income tax payable	1	11
Trade and other payables (note 12) and provisions (note 14)	7,003	6,938
Borrowings (note 11)	612,044	619,735
Total financial liabilities measured at amortised cost	619,048	626,684
<b>Financial liabilities at fair value through equity</b>		
Derivative financial instrument liabilities (note 13)	17,834	27,529

### Fair Value Hierarchy Disclosures

For those instruments recognised at fair value in the statement of financial position, fair values are determined according to the following hierarchy:

- Quoted market price (level 1) - Financial instruments with quoted prices for identical instruments in active markets.
- Valuation technique using observable inputs (level 2) - Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Valuation techniques with significant non-observable inputs (level 3) - Financial instruments valued using models where one or more significant inputs are not observable.

The following table analyses the basis of the valuation of classes of financial instruments measured at fair value in the statement of financial position.

## Dunedin City Treasury Limited

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	Total	Valuation Technique		
		Quoted market price	Observable inputs	Significant non-observable inputs
	\$000	\$000	\$000	\$000
<b>30 June 2014</b>				
Financial assets				
Derivatives	17,834	-	17,834	-
Financial liabilities				
Derivatives	17,834	-	17,834	-
<b>30 June 2013</b>				
Financial assets				
Derivatives	27,529	-	27,529	-
Financial liabilities				
Derivatives	27,529	-	27,529	-

### 24. FINANCIAL INSTRUMENT RISKS

The Company has policies to manage the risks associated with financial instruments. The Company is risk averse and seeks to minimise exposure from its treasury activities. The Company has established a Treasury Management Policy covering both investment and borrowing policies. These policies do not allow any transactions to be entered into that are speculative in nature.

#### Market Risk

The interest rates on the Company's investments are disclosed in note 20 and on the Company's borrowings in note 11.

##### *Fair value interest rate risk*

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Company's exposure to fair value interest rate risk is limited to its borrowings and short-term bank deposits, at fixed interest rates and derivatives at fixed interest rates.

##### *Cash flow interest rate risk*

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. Borrowings and investments issued at variable interest rates expose the Company to cash flow interest rate risk. The Company manages the interest rate risk by using derivatives to convert floating interest to fixed interest.

#### Credit Risk

Credit risk is the risk that a third party will default on its obligation to the Company, causing the Company to incur a loss.



## Dunedin City Treasury Limited

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The Company has processes in place to review the credit quality of customers prior to the granting of credit.

The Company also has processes in place to review the credit quality of Banks to ensure they maintain an investment grade rating.

The Company's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash equivalents (note 18), investments (note 20) and trade receivables (note 19). The credit risk on liquid funds and derivative financial instruments is limited because counterparties are banks with high credit ratings assigned by international credit rating agencies.

Credit risk principally arises within the company from its core business of providing lending and other financial facilities to members of the Dunedin City Council Group.

Exposure and the credit ratings of its counterparties are continually monitored and the aggregate value of transactions undertaken is spread among the approved counterparties.

Contracts have been entered into with various counterparties having approved and satisfactory credit ratings and in accordance with dollar limits as set forth by the Board of Directors.

Industry and product concentrations are determined by the activities within the Dunedin City Council Group.

There is security held over the investments but there is no security held over cash equivalents and trade receivables.

### **Maximum exposure to credit risk**

The Company's maximum credit risk exposure for each class of financial instrument is as follows:

	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash and cash equivalents	34,586	12,175
Debtors and other receivables	5,816	5,846
Related party loans	578,174	607,875
Loans - other	273	553
Derivative financial instrument assets	17,834	27,528
<b>Total Credit Risk</b>	<b>636,683</b>	<b>653,977</b>

# Dunedin City Treasury Limited

## Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to Standard & Poor's credit ratings.

	2014 \$'000	2013 \$'000
<b>Counterparties with credit ratings</b>		
Cash and cash equivalents AA-	34,586	12,175
Debtors – related parties AA	2,131	2,145
Debtors AA-	46	14
Derivative financial instrument assets – related parties AA	12,456	18,574
Derivative financial instruments AA-	1,507	1,350
Loans – related parties AA	219,211	227,358
<b>Counterparties without credit ratings</b>		
Debtors - related parties	3,639	3,687
Loans - related parties	358,963	380,517
Derivative financial instrument - related parties	3,871	7,604
Loans - other	273	553

Counter parties without credit rating. There have been no defaults during the year (2013- Nil).

## Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty raising liquid funds to meet commitments as they fall due. Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Company aims to maintain flexibility in funding by keeping committed credit lines available. The Company has committed bank lines available that can be drawn of \$100 mil (2013 - \$90 mil).

The table below analyses the Company's financial assets and liabilities into relevant maturity groupings based on remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows and includes interest receipts.

Where the amount payable is not fixed, the amount disclosed in the analysis below is determined by reference to the conditions existing at balance date. The swap settlement rate as at 30 Jun 2014 was 3.64%

## Contractual maturity analysis of financial assets

### 2014 year

	Carrying Amount \$000's	Contractual cash flows \$000's	Less than 1 year \$000's	1 to 2 years \$000's	2 to 5 years \$000's	More than 5 years \$000's
Cash and cash equivalents	34,586	34,586	34,586			
Debtors and other receivables	5,816	5,816	5,816			
Derivative financial instruments	17,834	30,200	6,728	6,434	12,577	4,461
Investments	608,428	666,499	66,832	57,318	542,349	
<b>Total</b>	<b>666,664</b>	<b>737,101</b>	<b>113,962</b>	<b>63,752</b>	<b>554,926</b>	<b>4,461</b>

## Dunedin City Treasury Limited

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### 2013 year

	Carrying Amount \$000's	Contractual cash flows \$000's	Less than 1 year \$000's	1 to 2 years \$000's	2 to 5 years \$000's	More than 5 years \$000's
Cash and cash equivalents	12,175	12,175	12,175			
Debtors and other receivables	5,846	5,846	5,846			
Derivative financial instruments	27,529	48,627	8,533	9,207	20,782	10,105
Investments	608,428	686,533	61,707	44,461	580,365	
<b>Total</b>	<b>653,978</b>	<b>753,181</b>	<b>88,261</b>	<b>53,668</b>	<b>601,147</b>	<b>10,105</b>

### Contractual maturity analysis of financial liabilities

#### 2014 year

	Carrying Amount \$000's	Contractual cash flows \$000's	Less than 1 year \$000's	1 to 2 years \$000's	2 to 5 years \$000's	More than 5 years \$000's
Creditors and other payables	6,984	6,984	6,984			
Derivative financial instruments	17,834	30,200	6,728	6,434	12,577	4,461
Borrowings	604,517	661,573	220,002	162,259	225,142	54,170
<b>Total</b>	<b>629,335</b>	<b>698,757</b>	<b>233,714</b>	<b>168,693</b>	<b>237,719</b>	<b>58,631</b>

#### 2013 year

	Carrying Amount \$000's	Contractual cash flows \$000's	Less than 1 year \$000's	1 to 2 years \$000's	2 to 5 years \$000's	More than 5 years \$000's
Creditors and other payables	6,905	6,905	6,905			
Derivative financial instruments	27,529	48,627	8,533	9,207	20,782	10,105
Borrowings	619,735	697,123	153,061	171,740	305,165	67,157
<b>Total</b>	<b>654,169</b>	<b>752,655</b>	<b>168,499</b>	<b>180,947</b>	<b>325,947</b>	<b>77,262</b>

The maturity profiles of the Company's interest bearing investments and borrowings are disclosed in notes 20 and 11 respectively.

### Interest Rate Risk

The Company has a small exposure to interest rate risk as borrowings are generally matched with advances to group companies or the Dunedin City Council.

Each company with material debt within the Dunedin City Council group and the Dunedin City Council has its own interest rate risk management policy approved by its own board or Council. These policies determine for economic reasons the proportion of projected debt that is fixed by the issue of fixed rate debt or by interest rate swaps. The Company monitors, on a monthly basis, the level of fixed interest rates for the next ten years and compares this against anticipated debt levels.

# Dunedin City Treasury Limited

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## **Sensitivity Analysis**

As at the 30 June 2014 if interest rates moved by plus or minus 1% across the yield curve the impact on the profit and loss would be nil and the movement in equity would also be nil.

This is because the impact of any interest rate movements from third parties is immediately reflected in the interest rates charges to members of the Dunedin City Council Group.

The company's derivatives contracted with third parties are offset by corresponding contractual arrangement with members of the Dunedin City Holdings Ltd Group and the Dunedin City Council Group.

## **Currency Market Risk**

The Company has no currency market risk. The Company does not invest or borrow in foreign currencies.

## **Capital Management**

The Company's capital is its equity, which comprises issued-capital and retained surpluses. Equity is represented by net assets.

The Company's equity is largely managed as a by-product of managing revenues, expenses, assets, liabilities, investments, and general financial dealings.

# Dunedin City Treasury Limited

## 25. RELATED PARTY TRANSACTIONS

Dunedin City Treasury Ltd is a wholly owned subsidiary of Dunedin City Holdings Limited. Dunedin City Holdings Limited is wholly owned by Dunedin City Council.

Dunedin City Treasury Limited undertakes transactions with Dunedin City Holdings Limited Group and Dunedin City Council on an arms length commercial basis. The company provided services to the Group in respect of the following transactions:

	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Sales of services to the Group:		
Interest income DCHL Group	12,625	13,049
Interest income DCC Group	23,113	22,955
Financial services DCHL Group	2,078	2,209
Financial services DCC Group	1,645	1,865
	<u>39,461</u>	<u>40,078</u>
	<u><u>39,461</u></u>	<u><u>40,078</u></u>
Purchases of services from the Group:		
Interest – DCHL Group	66	40
Interest – DCC Group	40	18
Rentals	5	5
Administration and office services	24	25
	<u>135</u>	<u>88</u>
	<u><u>135</u></u>	<u><u>88</u></u>
Advances:		
Opening balance	607,875	608,009
Plus additional advances	195,434	226,774
Less repayments	225,135	226,908
	<u>578,174</u>	<u>607,875</u>
	<u><u>578,174</u></u>	<u><u>607,875</u></u>
Deposits:		
Opening balance	7,762	2,010
Plus additional advances	35,135	25,056
Less repayments	37,247	19,304
	<u>5,650</u>	<u>7,762</u>
	<u><u>5,650</u></u>	<u><u>7,762</u></u>

## Dunedin City Treasury Limited

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At year end, the following amounts were owed to and from related parties in the Dunedin City Council Group (including DCHL Group).

	<b>2014</b> <b>\$'000</b>	<b>2013</b> <b>\$'000</b>
Receivable from related parties in the Dunedin City Council Group (including DCHL Group)	600,124	639,885
Payable to related parties in the Dunedin City Council Group (including DCHL Group)	7,159	9,117

At year end the following amounts were owed to and from Dunedin City Holdings Limited

Receivable from Dunedin City Holdings Limited	37,951	38,304
Payable to Dunedin City Holdings Limited	0	2,001

Deposits have been accepted from Southern Sinfonia which Kathy Grant is a director of. This is recorded as a liability of \$195,078. Market interest rates are paid on this deposit and the amount earned for the period 17 October 2013 to 30 June 2014 was \$5,916.

### Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

Short-term benefits	229	244
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The remuneration of directors is determined by Dunedin City Holdings Limited and agreed annually by the Dunedin City Council in accordance with the policies that it sets from time to time. The remuneration of management is determined by the remuneration committee of the board having regard to the performance of individuals and market trends.

### **26. EVENTS AFTER BALANCE SHEET DATE**

There are no significant events after balance date.

**Independent Auditor's Report**

**To the readers of  
Dunedin City Treasury Limited's  
financial statements and statement of service performance  
for the year ended 30 June 2014**

The Auditor-General is the auditor of Dunedin City Treasury Limited (the company). The Auditor-General has appointed me, Ian Lothian, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and statement of service performance of the company on her behalf.

We have audited:

- the financial statements of the company on pages 11 to 37, that comprise the balance sheet as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the company on page 10.

**Opinion****Financial statements and statement of service performance**

In our opinion:

- the financial statements of the company on pages 11 to 37:
  - comply with generally accepted accounting practice in New Zealand;
  - comply with International Financial Reporting Standards; and
  - give a true and fair view of the company's:
    - financial position as at 30 June 2014; and
    - financial performance and cash flows for the year ended on that date; and
- the statement of service performance of the company on page 10:
  - complies with generally accepted accounting practice in New Zealand; and
  - gives a true and fair view of the company's service performance achievements measured against the performance targets adopted for the year ended 30 June 2014.

## **Other legal requirements**

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company as far as appears from an examination of those records.

Our audit was completed on 28 July 2014. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

## **Basis of opinion**

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and statement of service performance are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and statement of service performance. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and statement of service performance whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company's financial statements and statement of service performance that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements and statement of service performance; and
- the overall presentation of the financial statements and statement of service performance.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance. Also we did not evaluate the security and controls over the electronic publication of the financial statements and statement of service performance.



In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

### **Responsibilities of the Board of Directors**

The Board of Directors is responsible for preparing financial statements and a statement of service performance that:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the company's financial position, financial performance and cash flows; and
- give a true and fair view of its service performance.

The Board of Directors is responsible for such internal control as it determines is necessary to enable the preparation of financial statements and a statement of service performance that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements and statement of service performance, whether in printed or electronic form.

The Board of Directors' responsibilities arise from the Local Government Act 2002 and the Financial Reporting Act 1993.

### **Responsibilities of the Auditor**

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 69 of the Local Government Act 2002.

### **Independence**

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, we have no relationship with or interests in the company.



Ian Lothian  
Audit New Zealand  
On behalf of the Auditor-General  
Dunedin, New Zealand