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# DUNEDIN CITY TREASURY LIMITED

## Annual Report 2012

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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 2012

### Directors

Ross D Liddell (Chairman) – B.Com., C.A.(P.P.), A.C.I.S., A.F.Inst.D.  
Grady W Cameron - B.E., M.E.M.  
Bevan R N Dodds – B.C.A. (Hons.), C.A., F.C.I.S.  
Grant A A Dodson – B.For.Sc., M.N.Z.I.F., M.Inst.D.  
Athol J Stephens – B.A., B.Com., C.A.

### Chief Executive

M John Knight – B.Com., C.A..

### Registered Office

50 The Octagon  
Dunedin  
New Zealand

### Bankers

National Bank of New Zealand

### 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 2012**

The Directors of Dunedin City Treasury Limited are pleased to report on the trading results of the company for the year ended 30 June 2012.

### ***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 2012***

|                          | <b>\$'000</b>    |
|--------------------------|------------------|
| Profit before Income Tax | 15               |
| Income Tax               | <u>5</u>         |
| Net Profit for the Year  | <u><u>10</u></u> |

The trading surplus arises after an interest rate adjustment had been paid to members of the DCC Group in December 2011 and June 2012 amounting to \$1,621,024 (2011 \$1,211,460).

### ***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 2012**

### ***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: | \$'000    |
| Retained Earnings                                     | <u>10</u> |

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

The Company continues to achieve good results with its promissory note programme. Over the year the average rate achieved was 10.1 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 continued 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 \$1,621,024 has been paid to members of the Dunedin City Council Group in December 2011 and June 2012.

The Company's Standard and Poor's long term credit rating was reaffirmed at AA in August 2011. 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. In a year of very difficult investment conditions, the fund has achieved what the directors consider is a reasonable result given the significant global economic situation. The fund returned a surplus before inflation of 1.26%. This is the fourteenth year that the fund has been managed by the Company.

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

### ***Financial Statements***

The audited financial statements for the year ended 30 June 2012 are attached to this report.

## Dunedin City Treasury Limited

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### **DIRECTORS' REPORT - continued** **For the Year Ended 30 June 2012**

#### ***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 2012 or existed at the end of this twelve month period.

#### ***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 \$19,230.

#### ***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***

Messrs G. A. A. Dodson and B. R. N. Dodds retire by rotation in accordance with the Constitution of the Company. Both are eligible and offer themselves for re-election.

Mr S. M. Wilson, who has been a Director since the formation of the Company in June 1993, retired from the Board in October 2011, when he also retired from General Manager Finance and Systems of Delta Utility Services Ltd. The Board would like to formally acknowledge the contribution of Mr Wilson over more than 18 years to the success of Dunedin City Treasury Ltd and thank him sincerely for his wise counsel over the period.

#### ***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.

#### ***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 which amounted to \$36,416 during the year.

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.

## Dunedin City Treasury Limited

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### **DIRECTORS' REPORT - continued** **For the Year Ended 30 June 2012**

#### ***Employee Remuneration***

One employee received remuneration in the \$180,000 to \$190,000 bracket during the current year.

#### ***Staff***

Financial markets have been extremely volatile during the year and the Board extends its thanks to the Chief Executive, Mr John Knight, for his significant contribution in achieving another very successful year of operations in sometimes extremely difficult conditions.

#### ***Outlook***

The Dunedin City Holdings Group 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



R D Liddell  
Chairman



Dated:

## Dunedin City Treasury Limited

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### TRENDS STATEMENT

|  | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|--|------|------|------|------|------|------|
| <b><i>Financial Assets Managed by the Company</i></b><br>(\$ millions) |      |      |      |      |      |      |
| Dunedin City Treasury Limited  | 609  | 560  | 488  | 367  | 312  | 254  |
| Dunedin City Council   | 85   | 81   | 70   | 80   | 73   | 87   |
| Other  | 1    | 7    | 10   | 20   | 23   | 30   |
| <hr/>  |      |      |      |      |      |      |
| Total Financial Assets Managed   | 695  | 648  | 568  | 467  | 408  | 370  |



# Dunedin City Treasury Limited

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## Information on The Directors of Dunedin City Treasury Ltd

| Director and Qualifications  | Responsibilities  | Declarations of Interests  |
|--|---|--|
| <p>Ross D Liddell<br/>B.Com., C.A.(P.P.),<br/>A.C.I.S., A.F. Inst.D.</p> <p>Date appointed - June 1993</p> | <p>Chairman<br/>Member-Audit Committee<br/>Member-Remuneration Committee</p>                | <p>Deputy Chairman – Aurora Energy Limited<br/>Director - A B Lime Limited<br/>Director - Blackhead Quarries Limited<br/>Chairman – Browns Barkly Limited<br/>Chairman – City Forests Limited<br/>Deputy Chairman – Delta Utility Services Limited<br/>Chairman – James Maurice Properties Limited<br/>Chairman – Palmer &amp; Son Limited<br/>Chairman – Palmer MH Limited<br/>Chairman – Viblock Limited<br/>Chairman – Victory Lime 2000 Limited<br/>Director - Hunterfields Investments Ltd<br/>Director - McMahon Investments Ltd</p> |
| <p>Grady W Cameron<br/>B.E., M.E.M.</p> <p>Date appointed - November 2011</p>                              | <p>Non-Executive Director</p>   | <p>Chief Executive - Aurora Energy Limited<br/>Chief Executive - Delta Utility Services Limited<br/>Director - Electricity Network Association<br/>Director - Smart Co Limited<br/>Director - Delta Investments Limited</p>  |
| <p>Bevan R N Dodds<br/>B.C.A. (Hons.), C.A.,<br/>F.C.I.S.</p> <p>Date appointed - December 1999</p>        | <p>Non-Executive Director</p>   | <p>Chief Executive - Dunedin City Holdings Limited<br/>Director – Taieri Gorge Railway Limited<br/>Director – The Street NZ Limited</p>  |
| <p>Grant A A Dodson<br/>B.For.Sc., M.N.Z.I.F.,<br/>M.Inst.D.</p> <p>Date appointed – February 2006</p>     | <p>Non-Executive Director</p>   | <p>Chief Executive – City Forests Limited<br/>Chairman – Otago Chipmill Limited<br/>Director – Highway 88 Limited</p>  |
| <p>Athol J Stephens<br/>B.A., B.Com., C.A.</p> <p>Date appointed - May 1996</p>                            | <p>Non-Executive Director<br/>Member-Audit Committee<br/>Member- Remuneration Committee</p> | <p>General Manager, Finance and Resources - Dunedin City Council</p>   |
| <p>Stephen M Wilson<br/>B.Com., C.A.</p> <p>Date of resignation - October 2011</p>                         | <p>Non-Executive Director</p>   | <p>Company Secretary - Aurora Energy Limited<br/>General Manager, Finance and Systems - Delta Utility Services Limited</p>   |

# Dunedin City Treasury Limited

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## STATEMENT OF SERVICE PERFORMANCE For the Year Ended 30 June 2012

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. To use a variety of funding sources to achieve appropriate levels of funds as required by the Dunedin City Council Group.  | 1. During the year the Company successfully issued: <ul style="list-style-type: none"><li>- twenty-one tranches of promissory notes</li><li>- two tranches of Floating rate notes.</li></ul>  |
| 2. To enhance the Company's reputation and presence in the money market and the successful raising of funds for the Dunedin City Council Group during the twelve months.  | 2. Twenty-one tranches of promissory notes were successfully offered for tender or privately placed during the year, plus two tranches of Floating rate notes.  |
| 3. To ensure 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 and Poor's credit rating of investment grade or better. | 3. 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. To manage Dunedin City Council Group interest rate sensitive funding in accordance with the policies adopted by each member of the Group.  | 4. Throughout the 12 months to 30 June 2012 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. To maintain a benchmarking system to measure the Company's performance.  | 5. A monthly report was prepared and submitted to the Board measuring the actual interest paid and received against the benchmark BKBM rate.  |
| 6. To provide additional treasury management services to entities outside the Dunedin City Council Group and advances secured by way of mortgage to persons associated with the Dunedin City Council Group.   | 6. During the year the Company's client base has decreased by three clients. A decision was taken to cease offering mortgage advances and this is the reason for the decline in client numbers.   |
| 7. To prepare and circulate a monthly newsletter on future interest rate trends and economic and political factors likely to affect future rates.   | 7. Ten newsletters were prepared and circulated during the year.  |
| 8. To maximise the return from a diversified balanced portfolio with a reasonable risk profile for the benefit of the Dunedin City Council.   | 8. The Waipori Fund recorded a return for the year of \$889,281 which is a return of 1.26%. After deduction of inflation of 1.60%, the "real" return is (0.34)% which is less than the 6.25% after inflation guidelines set by the Council.                                 |
| 9. To comply with the EEO policy of the Company.  | 9. There have been "nil" instances of non-compliance with the Company's EEO Policy.   |
| 10. To undertake an annual review of the Company's operations to identify any social or environmental issues.   | 10. A review was completed by 30 June 2012 with no potential social or environmental issues identified.   |

## Dunedin City Treasury Limited

### Statement of Comprehensive Income

For the Year Ended 30 June 2012

|  | Note | 2012<br>\$'000 | 2011<br>\$'000 |
|--|------|----------------|----------------|
| Financial income   | 3    | 39,635         | 33,799         |
| Total Income   |      | <u>39,635</u>  | <u>33,799</u>  |
| Less expenses:   |      |                |                |
| Audit fees   | 4    | 20             | 28             |
| Depreciation   |      | -              | -              |
| Directors fees   |      | 36             | 33             |
| Employee expenses  |      | 247            | 235            |
| Financial expenses   | 5    | 39,124         | 33,269         |
| Other expenses   | 4    | 193            | 220            |
| Total Expenditure  |      | <u>39,620</u>  | <u>33,785</u>  |
| <b>Surplus before tax</b>  |      | <u>15</u>      | <u>14</u>      |
| Income tax expense   | 6    | 5              | 5              |
| <b>Surplus for the Year</b>  |      | <u>10</u>      | <u>9</u>       |
| Other Comprehensive Income:  |      |                |                |
| Gain (loss) of cash flow hedges taken to equity                    |      | (16,044)       | (7,861)        |
| Gain (loss) of cash flow hedges to related parties taken to equity |      | 16,044         | 7,861          |
| Total other Comprehensive Income for the year, net of tax          |      | <u>-</u>       | <u>-</u>       |
| <b>Total Comprehensive Income for the year</b>                     |      | <u>10</u>      | <u>9</u>       |
| Earnings per share   | 7    | 10.2 cents     | 9.4 cents      |

### Statement of Changes in Equity

For the Year Ended 30 June 2012

|                                      |            |            |
|--------------------------------------|------------|------------|
| Equity at beginning of year          | 207        | 198        |
| Total comprehensive income           | <u>10</u>  | <u>9</u>   |
| <b>Equity at the end of the year</b> | <u>217</u> | <u>207</u> |

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

# Dunedin City Treasury Limited

## Balance Sheet

As at 30 June 2012

|                                     | Note | 2012<br>\$'000        | 2011<br>\$'000        |
|-------------------------------------|------|-----------------------|-----------------------|
| <b>Equity</b>                       |      |                       |                       |
| Share capital                       | 9    | 100                   | 100                   |
| Retained earnings                   | 10   | 117                   | 107                   |
| <b>Total Equity</b>                 |      | <u>217</u>            | <u>207</u>            |
| <b>Current Liabilities</b>          |      |                       |                       |
| Short term borrowings               | 11   | 3,720                 | 5,199                 |
| Current portion of term borrowing   | 11   | 60,188                | 30,179                |
| Trade and other payables            | 12   | 6,841                 | 6,661                 |
| Derivative financial instruments    | 13   | 36,649                | 20,605                |
| Provisions                          | 14   | 33                    | 33                    |
| Provision for tax                   |      | (2)                   | 2                     |
| Total current liabilities           |      | <u>107,429</u>        | <u>62,679</u>         |
| <b>Non-Current Liabilities</b>      |      |                       |                       |
| Term borrowings                     | 11   | 546,336               | 523,745               |
| Total non-current liabilities       |      | <u>546,336</u>        | <u>523,745</u>        |
| <b>Total Liabilities</b>            |      | <u>653,765</u>        | <u>586,424</u>        |
| <b>TOTAL EQUITY AND LIABILITIES</b> |      | <u><u>653,982</u></u> | <u><u>586,631</u></u> |

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

## Dunedin City Treasury Limited

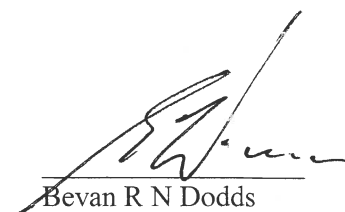
### Balance Sheet (continued)

As at 30 June 2012

|                                  | Note | 2012<br>\$'000 | 2011<br>\$'000 |
|----------------------------------|------|----------------|----------------|
| <b>Current Assets</b>            |      |                |                |
| Cash and cash equivalents        | 18   | 3,120          | 10,026         |
| Trade and other receivables      | 19   | 4,696          | 5,082          |
| Derivative financial instruments | 13   | 36,649         | 20,605         |
| Prepayments                      |      | 527            | 596            |
| Investments                      | 20   | 19,128         | 6,656          |
| Total current assets             |      | 64,120         | 42,965         |
| <b>Non-Current Assets</b>        |      |                |                |
| Investments                      | 20   | 589,862        | 543,666        |
| Property, plant and equipment    | 21   | -              | -              |
| Total non-current assets         |      | 589,862        | 543,666        |
| <b>TOTAL ASSETS</b>              |      | 653,982        | 586,631        |

For and on behalf of the Board of Directors

  
Ross D Liddell Director

  
Bevan R N Dodds Director

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

# Dunedin City Treasury Limited

## Statement of Cash Flows

For the Year Ended 30 June 2012

|  | Note      | 2012<br>\$'000 | 2011<br>\$'000 |
|--|-----------|----------------|----------------|
| <b>Cash Flows from Operating Activities</b>                        |           |                |                |
| <i>Cash was provided from</i>                                      |           |                |                |
| Receipts from customers  |           | 1,062          | 754            |
| Interest received  |           | 38,960         | 36,341         |
|  |           | 40,022         | 37,095         |
| <i>Cash was disbursed to</i>                                       |           |                |                |
| Payments to suppliers and employees                                |           | 501            | 512            |
| Interest paid  |           | 38,876         | 34,758         |
| Income tax paid / (received)                                       |           | 4              | 5              |
|  |           | 39,381         | 35,275         |
| <b>Net Cash Inflows / (Outflows)<br/>from Operating Activities</b> | <b>22</b> | 641            | 1,820          |
| <b>Cash Flows from Investing Activities</b>                        |           |                |                |
| <i>Cash was provided from</i>                                      |           |                |                |
| Net investments realised   |           | -              | -              |
|  |           | -              | -              |
| <i>Cash was disbursed to</i>                                       |           |                |                |
| Net purchase of investments  |           | 58,668         | 108,006        |
|  |           | 58,668         | 108,006        |
| <b>Net Cash Inflows / (Outflows)<br/>from Investing Activities</b> |           | (58,668)       | (108,006)      |

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 2012

|   | Note      | 2012<br>\$'000 | 2011<br>\$'000 |
|---|-----------|----------------|----------------|
| <b>Cash Flows from Financing Activities</b>                                       |           |                |                |
| <i>Cash was provided from</i>   |           |                |                |
| Net proceeds from borrowings  |           | 51,121         | 68,821         |
|   |           | <u>51,121</u>  | <u>68,821</u>  |
| <i>Cash was disbursed to</i>  |           |                |                |
| Net repayment of borrowings   |           | -              | -              |
|   |           | <u>-</u>       | <u>-</u>       |
| <b>Net Cash Inflows / (Outflows)<br/>from Financing Activities</b>                |           | <u>51,121</u>  | <u>68,821</u>  |
| <b>Net Increase / (Decrease) in Cash, Cash<br/>Equivalents and Bank Overdraft</b> |           | (6,906)        | (37,365)       |
| Cash and cash equivalents at the beginning of the year                            |           | 10,026         | 47,391         |
| <b>CASH AND CASH EQUIVALENTS AT<br/>THE END OF THE YEAR</b>                       | <b>18</b> | <u>3,120</u>   | <u>10,026</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 2012

### 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 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 2012.

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 annual financial statements have been prepared in accordance with NZ GAAP. They comply with New Zealand Equivalents to IFRSs, and other applicable Financial Reporting Standards, as appropriate for profit orientated entities.

The financial statements were authorised for issue by the directors on 20 July 2012.

#### Basis of Accounting

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.



# Dunedin City Treasury Limited

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## **Changes in Accounting Policy**

There has been no change in accounting policies. Policies for the current year and comparative year have been applied on a consistent basis.

## **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 1 January 2015.

## **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.

## Dunedin City Treasury Limited

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### **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 expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 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.

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.

## Dunedin City Treasury Limited

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### ***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 |

### **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.

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### ***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.

### **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.

For a hedge of an exposure to changes in the fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the income statement. Gains or losses from re-measuring the derivative, are recognised in the income statement.

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

## Dunedin City Treasury Limited

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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.

### 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>2012</b>          | <b>2011</b>          |
|  | <b>\$'000</b>        | <b>\$'000</b>        |
| Interest on advances to related parties        | 35,337               | 29,201               |
| Fees from related parties                      | 3,904                | 3,476                |
| Interest on other investments                  | 394                  | 1,120                |
| Fees and other income                          | -                    | 2                    |
|  | <u>39,635</u>        | <u>33,799</u>        |
|  | <u><u>39,635</u></u> | <u><u>33,799</u></u> |
| <br><b>4. OTHER EXPENSES</b>                   |                      |                      |
| Audit fees - for audit of financial statements | 19                   | 19                   |
| - Internal Audit                               | 1                    | 9                    |
|  | <u>20</u>            | <u>28</u>            |
|  | <u><u>20</u></u>     | <u><u>28</u></u>     |
| <br>Rental expense on operating leases         | 5                    | 5                    |
| Other expenses                                 | 188                  | 215                  |
|  | <u>193</u>           | <u>220</u>           |
|  | <u><u>193</u></u>    | <u><u>220</u></u>    |
| <br><b>5. FINANCIAL EXPENSES</b>               |                      |                      |
| Interest and fees - related parties            | 18                   | 5                    |
| Interest and fees - term loans                 | 39,106               | 33,264               |
|  | <u>39,124</u>        | <u>33,269</u>        |
|  | <u><u>39,124</u></u> | <u><u>33,269</u></u> |

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| 6. INCOME TAX                                      | 2012<br>\$'000 | 2011<br>\$'000 |
|--|----------------|----------------|
| Operating surplus before income tax                | 15             | 14             |
| Tax thereon at 28%                                 | 5              | 4              |
| <i>Plus / (Less) the Tax Effect of Differences</i> |                |                |
| Revenue not liable for taxation                    | -              | -              |
| Expenditure not deductible for taxation            | -              | 1              |
| Under / (over) tax provision in prior years        | -              | -              |
| Tax effect of differences                          | <u>-</u>       | <u>1</u>       |
| Tax expense  | <u>5</u>       | <u>5</u>       |

### Imputation Credit Account

|                                      |           |           |
|--------------------------------------|-----------|-----------|
| Balance at the beginning of the year | 45        | 40        |
| Taxation payments made               | 5         | 5         |
| Prior period adjustment              | -         | -         |
| Balance at the end of the year       | <u>50</u> | <u>45</u> |

## 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   |
| <b>Basic earnings per share</b>            | 10.2 cents | 9.4 cents |

## 8. DIVIDENDS

No dividends have been paid. (2011 Nil).

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| 9. EQUITY - Share Capital | 2012<br>\$'000 | 2011<br>\$'000 |
|---------------------------|----------------|----------------|
| <b>Issued Capital</b>     |                |                |
| 100,000 ordinary shares   | 100            | 100            |
|                           | <u>100</u>     | <u>100</u>     |

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 | 107        | 98         |
|                                      | <u>107</u> | <u>98</u>  |
| Net profit for the year              | 10         | 9          |
|                                      | <u>10</u>  | <u>9</u>   |
| Balance at the end of the year       | 117        | 107        |
|                                      | <u>117</u> | <u>107</u> |

### 11. BORROWINGS

#### Current:

|                                 |               |               |
|---------------------------------|---------------|---------------|
| Short term borrowing            | 1,710         | 3,199         |
| Related parties                 | 2,010         | 2,000         |
| Current portion term borrowings | 60,188        | 30,179        |
|                                 | <u>63,908</u> | <u>35,378</u> |
| Total Current borrowing         | 63,908        | 35,378        |

#### Non-current:

|                         |                |                |
|-------------------------|----------------|----------------|
| Promissory notes issued | 106,257        | 93,445         |
| Bonds issued            | 440,079        | 430,300        |
|                         | <u>546,336</u> | <u>523,745</u> |
| Total Term borrowing    | 546,336        | 523,745        |
| <b>Total borrowings</b> | <u>610,244</u> | <u>559,123</u> |

The Company has a \$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 \$65.0 million (2011 - \$65 mil).

The amount of unamortized premium or (discount) on bonds on issue at 30/06/12 is \$267,413 (2011 - \$479,627).

## Dunedin City Treasury Limited

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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 3 years, maturing 14/06/13 @ a coupon rate of 5.555%
- b) \$20m floating rate notes, maturing 15/02/13 @ a margin of 50bp over BKBM
- c) \$50m issued for 8 years, maturing 15/11/13 @ a coupon rate of 7.07%
- d) \$75m issued for 5 years, maturing 25/11/14 @ a coupon rate of 6.40%
- e) \$50m floating rate notes, maturing 15/10/15 @ margin of 90bp over BKBM
- f) \$90m floating notes, maturing 15/04/16 @ a margin of 107 bp over BKBM
- g) \$50m issued for 10 years, maturing 15/11/16 @ a coupon rate of 6.79%
- h) \$60m issued for 10 years, maturing 15/10/17 @ a coupon rate of 7.81%
- i) \$50m issues for 7.5 years, maturing 15/07/18 @ a coupon rate of 6.57%
- j) \$15m issued for 10 years, maturing 17/12/18 @ a coupon rate of 6.85%

### Maturity Analysis

The following is a maturity analysis of the Company's borrowings.

|  | 2012<br>\$'000 | 2011<br>\$'000 |
|--|----------------|----------------|
| Less than one year                         | 63,908         | 35,378         |
| Weighted average interest rate             | 4.64%          | 3.55%          |
| Later than one year but not more than five | 421,336        | 348,745        |
| Weighted average interest rate             | 4.68%          | 4.73%          |
| Later than five years                      | 125,000        | 175,000        |
| Weighted average interest rate             | 7.20%          | 7.08%          |
|  | 610,244        | 559,123        |
|  |                |                |

### 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:

|                 |         |         |
|-----------------|---------|---------|
| Term borrowings | 639,936 | 573,800 |
|-----------------|---------|---------|

## 12. TRADE AND OTHER PAYABLES

|                        |              |       |       |
|------------------------|--------------|-------|-------|
| Due to related parties | - DCHL Group | -     | 4     |
|                        | - DCC Group  | 7     | 3     |
| Accruals               |              | 6,834 | 6,654 |
|                        |              | 6,841 | 6,661 |
|                        |              |       |       |



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

| 13. DERIVATIVE FINANCIAL INSTRUMENTS   | 2012<br>\$'000 | 2011<br>\$'000 |
|--|----------------|----------------|
| Assets:                                |                |                |
| Interest rate derivatives - DCHL Group | 3,171          | 2,367          |
| Interest rate derivatives - DCC Group  | 33,478         | 18,238         |
|  | <u>36,649</u>  | <u>20,605</u>  |
| Liabilities:                           |                |                |
| Interest rate derivatives              | 36,649         | 20,605         |
|  | <u>36,649</u>  | <u>20,605</u>  |

### 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      | 16,500         | 20,000         |
| Maturing between one and five years | 143,000        | 157,500        |
| Maturing after five years           | 132,500        | 147,500        |
|                                     | <u>292,000</u> | <u>325,000</u> |

Counterparties within the Dunedin City Council group:

|                                     |                |                |
|-------------------------------------|----------------|----------------|
| Maturing in less than one year      | 16,500         | 20,000         |
| Maturing between one and five years | 143,000        | 157,500        |
| Maturing after five years           | 132,500        | 147,500        |
|                                     | <u>292,000</u> | <u>325,000</u> |

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| 14. PROVISIONS | 2012<br>\$'000   | 2011<br>\$'000   |
|----------------|------------------|------------------|
| Annual leave   | 33               | 33               |
|                | <u>33</u>        | <u>33</u>        |
|                | <u><u>33</u></u> | <u><u>33</u></u> |

### 15. CONTINGENT LIABILITIES

|                   |              |              |
|-------------------|--------------|--------------|
| Performance bonds | 4,062        | 4,194        |
|                   | <u>4,062</u> | <u>4,194</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. (2011 Nil)

### 17. COMMITMENTS

#### (i) Non-Cancellable Operating Lease Commitments

|                                   |                  |                  |
|-----------------------------------|------------------|------------------|
| Payable within one year           | 5                | 5                |
| Payable between one to five years | 15               | 20               |
| Payable later than five years     | -                | -                |
|                                   | <u>20</u>        | <u>25</u>        |
|                                   | <u><u>20</u></u> | <u><u>25</u></u> |

#### (ii) Undrawn Facilities

The level of committed facilities undrawn at 30 June 2012 amounts to \$53.0 mil (2011 - \$44.8 mil).

### 18. CASH AND CASH EQUIVALENTS

|                     |                     |                      |
|---------------------|---------------------|----------------------|
| Cash at Bank        | 23                  | 26                   |
| Short term deposits | 3,097               | 10,000               |
|                     | <u>3,120</u>        | <u>10,026</u>        |
|                     | <u><u>3,120</u></u> | <u><u>10,026</u></u> |

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.

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The weighted average effective interest rate for deposits is 3.00%. (2011 3.26%).

| 19. TRADE AND OTHER RECEIVABLES | 2012<br>\$'000 | 2011<br>\$'000 |
|---------------------------------|----------------|----------------|
| Due from related parties        |                |                |
| - DCHL Group                    | 1,982          | 1,963          |
| - DCC                           | 2,701          | 3,095          |
| Other current receivables       | 13             | 24             |
|                                 | <u>4,696</u>   | <u>5,082</u>   |

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.

## 20. INVESTMENTS

### Current Investments

|  |        |       |
|--|--------|-------|
| Advances to Dunedin City Council Group | 19,128 | 6,656 |
|--|--------|-------|

### Non-Current Investments

|  |                |                |
|--|----------------|----------------|
| Advances to Dunedin City Council Group | 346,998        | 318,230        |
| Mortgage receivables                   | 981            | 1,568          |
| Advances to DCHL Group                 | 241,883        | 223,868        |
| Total Non-Current investments          | <u>589,862</u> | <u>543,666</u> |

|                   |                |                |
|-------------------|----------------|----------------|
| Total Investments | <u>608,990</u> | <u>550,322</u> |
|-------------------|----------------|----------------|

### Maturity Analysis

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

|                                |         |         |
|--------------------------------|---------|---------|
| Maturity within one year       | 19,128  | 6,656   |
| Weighted average interest rate | 6.35%   | 4.14%   |
| Maturity one to five years     | 65,859  | 19,881  |
| Weighted average interest rate | 6.26%   | 6.36%   |
| Maturity over five years       | 524,003 | 523,785 |
| Weighted average interest rate | 6.02%   | 6.36%   |
| Total Investments              | 608,990 | 550,322 |
| Weighted average interest rate | 6.06%   | 6.28%   |

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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 \$6,089,895 (\$5,503,220 - 2011).

There have been no indications of impairment of any investment.

| 21. PROPERTY, PLANT AND EQUIPMENT  | 2012<br>\$'000 | 2011<br>\$'000 |
|--|----------------|----------------|
| <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>       |
| <br><b>22. RECONCILIATION OF NET SURPLUS FOR THE YEAR TO CASHFLOWS FROM OPERATING ACTIVITIES</b> |                |                |
| Net surplus/(deficit) for the year   | 10             | 9              |
| <i>Items Not Involving Cash Flows</i>  |                |                |
| Depreciation   | -              | -              |
| <i>Impact of Changes in Working Capital Items</i>  |                |                |
| (Increase)/Decrease in receivables   | 386            | 653            |
| (Increase)/Decrease in prepayments   | 69             | (129)          |
| Increase / (Decrease) in trade and other payables  | 180            | 1,287          |
| Increase / (Decrease) in provision for tax   | (4)            | -              |
| Net cash inflows / (outflows) from operating activities  | <u>641</u>     | <u>1,820</u>   |

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### 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:

|   | 2012<br>\$'000 | 2011<br>\$'000 |
|---|----------------|----------------|
| <b>Financial assets measured at amortised cost</b>        |                |                |
| Cash and cash equivalents (note 18)                       | 3,120          | 10,026         |
| <b>Loans and receivables</b>                              |                |                |
| Trade and other receivables (note 19)                     | 4,696          | 5,082          |
| Investments (note 20)                                     | 608,990        | 550,222        |
| Total loans and receivables                               | 613,686        | 555,304        |
| <b>Financial assets at fair value through equity</b>      |                |                |
| Derivative financial instrument assets (note 13)          | 36,649         | 20,605         |
| <b>Financial liabilities measured at amortised cost</b>   |                |                |
| Trade and other payables (note 12)                        | 6,841          | 6,661          |
| Borrowings (note 11)                                      | 610,244        | 559,123        |
| Total financial liabilities measured at amortised cost    | 617,085        | 565,784        |
| <b>Financial liabilities at fair value through equity</b> |                |                |
| Derivative financial instrument liabilities               | 36,649         | 20,605         |

#### 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.

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|                       | Total  | Valuation Technique |                   |                                   |
|-----------------------|--------|---------------------|-------------------|-----------------------------------|
|                       |        | Quoted market price | Observable inputs | Significant non-observable inputs |
|                       | \$000  | \$000               | \$000             | \$000                             |
| <b>30 June 2012</b>   |        |                     |                   |                                   |
| Financial assets      |        |                     |                   |                                   |
| Derivatives           | 36,649 | -                   | 36,649            | -                                 |
| Financial liabilities |        |                     |                   |                                   |
| Derivatives           | 36,649 | -                   | 36,649            | -                                 |
| <b>30 June 2011</b>   |        |                     |                   |                                   |
| Financial assets      |        |                     |                   |                                   |
| Derivatives           | 20,605 | -                   | 20,605            | -                                 |
| Financial liabilities |        |                     |                   |                                   |
| Derivatives           | 20,605 | -                   | 20,605            | -                                 |

### 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.

##### *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.

#### 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.

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

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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.

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 in trade receivables.

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

### **Sensitivity Analysis**

As at the 30 June 2012 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.

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.

### **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.

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### 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:

|                                       | 2012<br>\$'000 | 2011<br>\$'000 |
|---------------------------------------|----------------|----------------|
| Sales of services to the Group:       |                |                |
| Interest income DCHL Group            | 13,228         | 12,681         |
| Interest income DCC Group             | 22,109         | 16,521         |
| Financial services DCHL Group         | 2,007          | 1,507          |
| Financial services DCC Group          | 1,897          | 1,969          |
|                                       | <u>39,241</u>  | <u>32,678</u>  |
| Purchases of services from the Group: |                |                |
| Interest – DCHL Group                 | 13             | 5              |
| Rentals                               | 5              | 5              |
| Administration and office services    | 29             | 26             |
|                                       | <u>47</u>      | <u>36</u>      |
| Advances:                             |                |                |
| Opening balance                       | 548,754        | 440,685        |
| Plus additional advances              | 475,815        | 375,895        |
| Less repayments                       | 416,560        | 267,826        |
| Balance at end of year                | <u>608,009</u> | <u>548,754</u> |
| Deposits:                             |                |                |
| Opening balance                       | 2,000          | -              |
| Plus additional advances              | 4,559          | 2,000          |
| Less repayments                       | 4,549          | -              |
| Balance at end of year                | <u>2,010</u>   | <u>2,000</u>   |



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At year end, the following amounts were owed to and from related parties in the Dunedin City Council Group:

|   | <b>2012</b>   | <b>2011</b>   |
|---|---------------|---------------|
|   | <b>\$'000</b> | <b>\$'000</b> |
| Receivable from related parties in the Dunedin City Council Group | 649,340       | 574,417       |
| Payable to related parties in the Dunedin City Council Group      | 2,012         | 2,007         |

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

|   |        |        |
|---|--------|--------|
| Receivable from Dunedin City Holdings Limited | 38,717 | 34,504 |
| Payable to Dunedin City Holdings Limited      | -      | -      |

### Compensation of key management personnel

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

|                     |     |     |
|---------------------|-----|-----|
| Short-term benefits | 247 | 223 |
|---------------------|-----|-----|

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 2012**

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 10 to 32, that comprise the balance sheet as at 30 June 2012, 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 9.

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

In our opinion:

- the financial statements of the company on pages 10 to 32:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of the company's:
    - financial position as at 30 June 2012; and
    - financial performance and cash flows for the year ended on that date; and
- the statement of service performance of the company on page 9:
  - 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 2012.

## **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 8 August 2012. 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 would affect a reader's 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. 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 also 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' 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 New Zealand Institute of Chartered Accountants.

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