
DUNEDIN CITY TREASURY LIMITED

Annual Report
2013

Dunedin City Treasury Limited

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Dunedin City Treasury Limited

COMPANY PARTICULARS

As at 30 June 2013

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.

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

DIRECTORS' REPORT

For the Year Ended 30 June 2013

The Directors of Dunedin City Treasury Limited are pleased to report on the trading results of the company for the year ended 30 June 2013.

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 2013

	\$'000
Profit before Income Tax	28
Income Tax	<u>12</u>
Net Profit for the Year	<u><u>16</u></u>

The trading surplus arises after an interest rate adjustment had been paid to members of the DCC Group in December 2012 and June 2013 amounting to \$1,435,956 (2012 \$1,621,024).

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

DIRECTORS' REPORT - continued **For the Year Ended 30 June 2013**

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>16</u>
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Review of Operations

The Company continues to achieve good results with its promissory note programme. Over the year the average rate achieved was 14.4 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 \$1,435,956 has been paid to members of the Dunedin City Council Group in December 2012 and June 2013.

The Company's Standard and Poor's long term credit rating was reaffirmed at AA in November 2012. 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 extremely pleasing with a surplus, before an inflation adjustment, of \$7,572,907 which was a return of 10.86%. With an inflation factor of 0.80% the return after inflation was 10.06%.

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

Financial Statements

The audited financial statements for the year ended 30 June 2013 are attached to this report.

Dunedin City Treasury Limited

DIRECTORS' REPORT - continued **For the Year Ended 30 June 2013**

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 2013 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 \$19,790.

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

Messrs R. D. Liddell and G. W. Cameron retire by rotation in accordance with the Constitution of the Company. Grady Cameron, being eligible, offers himself for re-election. Ross Liddell has been a director of the Company for more than 20 years and since January 1995 has been Chairman of the Board. Under his chairmanship the Company has weathered the Global Financial Crisis and the Waipori Fund, which is managed by the Company, has achieved extremely pleasing results. Ross Liddell does not seek re-election.

Athol Stephens resigned from his role as General Manager Finance and Resources at the Dunedin City Council and also ceased as a director of the Company in March 2013. Mr Stephens had been a director since May 1996. The Board would like to formally acknowledge the contribution of Mr Stephens over close to 17 years to the success of Dunedin City Treasury Ltd and thanks him sincerely for his guidance 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.

Dunedin City Treasury Limited

DIRECTORS' REPORT - continued **For the Year Ended 30 June 2013**

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 \$37,313 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.

Employee Remuneration

One employee received remuneration in the \$200,000 to \$210,000 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

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

R D Liddell
Chairman

Dated:

Dunedin City Treasury Limited

TRENDS STATEMENT

	2013	2012	2011	2010	2009	2008
<i>Financial Assets Managed by the Company</i>						
(\$ millions)						
Dunedin City Treasury Limited	620	609	560	488	367	312
Dunedin City Council	79	85	81	70	80	73
Other	-	1	7	10	20	23
<hr/>						
Total Financial Assets Managed	699	695	648	568	467	408

Dunedin City Treasury Limited

Information on The Directors of Dunedin City Treasury Ltd

Director and Qualifications	Responsibilities	Declarations of Interests
<p>Ross D Liddell B.Com., C.A.(P.P.), A.C.I.S., A.F. Inst.D.</p> <p>Date appointed - June 1993</p>	<p>Chairman Member-Audit Committee Member-Remuneration Committee</p>	<p>Deputy Chairman – Aurora Energy Limited (resigned 31/10/12) Director - A B Lime Limited Chairman – Browns Barkly Limited Chairman – City Forests Limited Deputy Chairman – Delta Utility Services Limited (resigned 31/10/12) Chairman – Palmers Mechanical Limited Chairman – James Maurice Properties Limited Chairman – Palmer & Son Limited Chairman – Palmer MH Limited Chairman – Viblock Limited Chairman – Victory Lime 2000 Limited Director – Hunterfields Investments Limited Director – McMahan Investments Ltd (resigned 08/08/12)</p>
<p>Grady W Cameron B.E., M.E.M.</p> <p>Date appointed - November 2011</p>	<p>Non-Executive Director</p>	<p>Chief Executive - Aurora Energy Limited Chief Executive - Delta Utility Services Limited Director - Electricity Network Association Director - Smart Co Limited Director – Delta Investments Limited (resigned 29/04/13)</p>
<p>Bevan R N Dodds B.C.A. (Hons), C.A., F.C.I.S.</p> <p>Date appointed - December 1999</p>	<p>Non-Executive Director</p>	<p>Chief Executive - Dunedin City Holdings Limited Director – Taieri Gorge Railway Limited Director – Intellogic Online Limited</p>
<p>Grant A A Dodson B.For.Sc., M.N.Z.I.F., M.Inst.D.</p> <p>Date appointed – February 2006</p>	<p>Non-Executive Director</p>	<p>Chief Executive – City Forests Limited Chairman – Otago Chipmill Limited Director – Highway 88 Limited</p>
<p>Athol J Stephens B.A., B.Com., C.A.</p> <p>Resigned March 2013</p>	<p>Non-Executive Director Member-Audit Committee Member- Remuneration Committee</p>	<p>General Manager, Finance and Resources - Dunedin City Council</p>

Dunedin City Treasury Limited

STATEMENT OF SERVICE PERFORMANCE For the Year Ended 30 June 2013

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-two tranches of promissory notes - three tranches of Floating rate notes 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-two tranches of promissory notes were successfully offered for tender or privately placed during the year, plus three tranches of Floating 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 2013 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 – A report was prepared for the first part of the financial year. When the new treasury system was introduced the output did not efficiently provide appropriate information and performance measures have been changed.
6. To have produced and circulated at least 10 monthly interest rate newsletters during the year.	6. Not achieved – Eight newsletters were prepared and circulated during the year.
7. To achieve the return agreed with Council from time to time.	7. Achieved - The Waipori Fund recorded a return for the year of \$7,572,907 which is a return of 10.86%. After deduction of inflation of 0.80%, the "real" return is 10.06%.
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 2013.	9. Achieved - A review was completed by 30 June 2013 with no potential social or environmental issues identified.

Dunedin City Treasury Limited

Statement of Comprehensive Income

For the Year Ended 30 June 2013

	Note	2013 \$'000	2012 \$'000
Financial income	3	40,367	39,635
Total Income		<u>40,367</u>	<u>39,635</u>
Less expenses:			
Audit fees	4	29	20
Depreciation		-	-
Directors fees		37	36
Employee expenses		262	247
Financial expenses	5	39,829	39,124
Other expenses	4	182	193
Total Expenditure		<u>40,339</u>	<u>39,620</u>
Surplus before tax		<u>28</u>	<u>15</u>
Income tax expense	6	12	5
Surplus for the Year		<u>16</u>	<u>10</u>
Other Comprehensive Income:			
Gain (loss) of cash flow hedges taken to equity		9,121	(16,044)
Gain (loss) of cash flow hedges to related parties taken to equity		(9,121)	16,044
Total other Comprehensive Income for the year, net of tax		<u>-</u>	<u>-</u>
Total Comprehensive Income for the year		<u>16</u>	<u>10</u>
Earnings per share	7	15.9 cents	10.2 cents

Statement of Changes in Equity

For the Year Ended 30 June 2013

Equity at beginning of year	217	207
Total comprehensive income	<u>16</u>	<u>10</u>
Equity at the end of the year	<u>233</u>	<u>217</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 2013

	Note	2013 \$'000	2012 \$'000
Equity			
Share capital	9	100	100
Retained earnings	10	133	117
Total Equity		<u>233</u>	<u>217</u>
Current Liabilities			
Short term borrowings	11	9,153	3,720
Current portion of term borrowing	11	60,079	60,188
Trade and other payables	12	6,905	6,841
Derivative financial instruments	13	27,529	36,649
Provisions	14	33	33
Provision for tax		11	(2)
Total current liabilities		<u>103,710</u>	<u>107,429</u>
Non-Current Liabilities			
Term borrowings	11	550,503	546,336
Total non-current liabilities		<u>550,503</u>	<u>546,336</u>
Total Liabilities		<u>654,213</u>	<u>653,765</u>
TOTAL EQUITY AND LIABILITIES		<u><u>654,446</u></u>	<u><u>653,982</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 2013

	Note	2013 \$'000	2012 \$'000
Current Assets			
Cash and cash equivalents	18	12,175	3,120
Trade and other receivables	19	5,846	4,696
Derivative financial instruments	13	27,529	36,649
Prepayments		468	527
Investments	20	20,662	19,128
Total current assets		66,680	64,120
Non-Current Assets			
Investments	20	587,766	589,862
Property, plant and equipment	21	-	-
Total non-current assets		587,766	589,862
TOTAL ASSETS		654,446	653,982

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 2013

	Note	2013 \$'000	2012 \$'000
Cash Flows from Operating Activities			
<i>Cash was provided from</i>			
Receipts from customers		1,387	1,062
Interest received		37,829	38,960
		<u>39,216</u>	<u>40,022</u>
<i>Cash was disbursed to</i>			
Payments to suppliers and employees		511	501
Interest paid		39,704	38,876
Income tax paid / (received)		(1)	4
		<u>40,214</u>	<u>39,381</u>
Net Cash Inflows / (Outflows) from Operating Activities	22	<u>(998)</u>	<u>641</u>
Cash Flows from Investing Activities			
<i>Cash was provided from</i>			
Net investments realised		563	-
		<u>563</u>	<u>-</u>
<i>Cash was disbursed to</i>			
Net purchase of investments		-	58,668
		<u>-</u>	<u>58,668</u>
Net Cash Inflows / (Outflows) from Investing Activities		<u>563</u>	<u>(58,668)</u>

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

Dunedin City Treasury Limited

Statement of Cash Flows (continued)

For the Year Ended 30 June 2013

	Note	2013 \$'000	2012 \$'000
Cash Flows from Financing Activities			
<i>Cash was provided from</i>			
Net proceeds from borrowings		9,490	51,121
		<u>9,490</u>	<u>51,121</u>
<i>Cash was disbursed to</i>			
Net repayment of borrowings		-	-
		<u>-</u>	<u>-</u>
Net Cash Inflows / (Outflows) from Financing Activities		<u>9,490</u>	<u>51,121</u>
Net Increase / (Decrease) in Cash, Cash Equivalents and Bank Overdraft		9,055	(6,906)
Cash and cash equivalents at the beginning of the year		3,120	10,026
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	18	<u>12,175</u>	<u>3,120</u>

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

Dunedin City Treasury Limited

Notes to the Financial Statements

For the Year Ended 30 June 2013

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 2013.

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.

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

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 30 June 2016.

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

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.

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

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.

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.

Dunedin City Treasury Limited

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.

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.

Dunedin City Treasury Limited

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 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.

3. FINANCIAL INCOME	2013	2012
	\$'000	\$'000
Interest on advances to related parties	36,004	35,337
Fees from related parties	4,074	3,904
Interest on other investments	289	394
	<u>40,367</u>	<u>39,635</u>
	<u><u>40,367</u></u>	<u><u>39,635</u></u>

Dunedin City Treasury Limited

4. OTHER EXPENSES	2013	2012
	\$'000	\$'000
Audit fees - for audit of financial statements	20	19
- Internal Audit	9	1
Total audit fees	<u>29</u>	<u>20</u>
	<u><u> </u></u>	<u><u> </u></u>
Rental expense on operating leases	5	5
Other expenses	177	188
Total other expenses	<u>182</u>	<u>193</u>
	<u><u> </u></u>	<u><u> </u></u>
5. FINANCIAL EXPENSES		
Interest and fees - related parties	58	18
Interest and fees - term loans	39,771	39,106
Total financial expenses	<u>39,829</u>	<u>39,124</u>
	<u><u> </u></u>	<u><u> </u></u>
6. INCOME TAX		
Operating surplus before income tax	28	15
Tax thereon at 28%	8	5
<i>Plus / (Less) the Tax Effect of Differences</i>		
Revenue not liable for taxation	-	-
Expenditure not deductible for taxation	8	-
Under / (over) tax provision in prior years	(4)	-
Tax effect of differences	<u>4</u>	<u>-</u>
Tax expense	<u>12</u>	<u>5</u>
	<u><u> </u></u>	<u><u> </u></u>
Imputation Credit Account		
Balance at the beginning of the year	50	45
Taxation payments made	-	5
Prior period adjustment	-	-
Balance at the end of the year	<u>50</u>	<u>50</u>
	<u><u> </u></u>	<u><u> </u></u>

Dunedin City Treasury Limited

7. EARNINGS PER SHARE	2013	2012
	\$'000	\$'000

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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Basic earnings per share	16.0 cents	10.2 cents
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8. DIVIDENDS

No dividends have been paid. (2012 Nil).

9. EQUITY - Share Capital

Issued Capital

100,000 ordinary shares	100	100
	<u> </u>	<u> </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	117	107
	<u> </u>	<u> </u>
Net profit for the year	16	10
	<u> </u>	<u> </u>
Balance at the end of the year	133	117
	<u> </u>	<u> </u>

Dunedin City Treasury Limited

11. BORROWINGS	2013 \$'000	2012 \$'000
Current:		
Short term borrowing	1,391	1,710
Related parties	7,762	2,010
Current portion term borrowings	60,079	60,188
Total Current borrowing	<u>69,232</u>	<u>63,908</u>
Non-current:		
Promissory notes issued	75,503	106,257
Bonds issued	475,000	440,079
Total Term borrowing	<u>550,503</u>	<u>546,336</u>
Total borrowings	<u><u>619,735</u></u>	<u><u>610,244</u></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 \$90.0 million (2012 - \$65 mil).

The amount of unamortized premium or (discount) on bonds on issue at 30/06/13 is \$79,098 (2012 - \$267,413).

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) \$50m issued for 8 years, maturing 15/11/13 @ a coupon rate of 7.07%
- b) \$10m issued for 1.5 years, maturing 15/05/14 @ a margin of 65 bp over BKBM
- c) \$40m issued for 15 months maturing 15/09/14 @ a margin of 28 bp over BKBM
- d) \$25m issued for 2 years, maturing 07/10/14 @ a margin of 65 bp over BKBM
- e) \$75m issued for 5 years, maturing 25/11/14 @ a coupon rate of 6.40%
- f) \$50m floating rate notes, maturing 15/10/15 @ margin of 90 bp over BKBM
- g) \$90m floating notes, maturing 15/04/16 @ a margin of 107 bp over BKBM
- h) \$50m issued for 10 years, maturing 15/11/16 @ a coupon rate of 6.79%
- i) \$20m issued for 4 years, maturing 15/02/17 @ a margin of 80 bp over BKBM
- j) \$60m issued for 10 years, maturing 15/10/17 @ a coupon rate of 7.81%
- k) \$50m issues for 7.5 years, maturing 15/07/18 @ a coupon rate of 6.57%
- l) \$15m issued for 10 years, maturing 17/12/18 @ a coupon rate of 6.85%

Dunedin City Treasury Limited

	2013 \$'000	2012 \$'000
--	----------------	----------------

Maturity Analysis

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

Less than one year	69,232	63,908
Weighted average interest rate	5.63%	4.64%
Later than one year but not more than five	485,503	421,336
Weighted average interest rate	4.69%	4.68%
Later than five years	65,000	125,000
Weighted average interest rate	6.63%	7.20%
	619,735	610,244

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	642,344	639,936
------------------	---------	---------

12. TRADE AND OTHER PAYABLES

Due to related parties	4	-
- DCHL Group	1	7
- DCC Group	6,900	6,834
Accruals	6,905	6,841

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

13. DERIVATIVE FINANCIAL INSTRUMENTS

Assets:

Interest rate derivatives - DCHL Group	2,316	3,171
Interest rate derivatives - DCC Group	23,863	33,478
Interest rate derivatives - Bank	1,350	-
	27,529	36,649

Liabilities:

Interest rate derivatives - Bank	26,179	36,649
Interest rate derivatives - DCHL Group	1,350	-
	27,529	36,649

Dunedin City Treasury Limited

	2013 \$'000	2012 \$'000
--	----------------	----------------

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	7,500	16,500
Maturing between one and five years	168,000	143,000
Maturing after five years	155,500	132,500
	331,000	292,000

Counterparties within the Dunedin City Council group:

Maturing in less than one year	7,500	16,500
Maturing between one and five years	168,000	143,000
Maturing after five years	155,500	132,500
	331,000	292,000

14. PROVISIONS

Annual leave	33	33
	33	33

15. CONTINGENT LIABILITIES

Performance bonds	4,168	4,062

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. (2012 Nil)

Dunedin City Treasury Limited

17. COMMITMENTS

	2013 \$'000	2012 \$'000
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(i) Non-Cancellable Operating Lease Commitments

Payable within one year	5	5
Payable between one to five years	10	15
Payable later than five years	-	-
	15	20
	15	20

(ii) Undrawn Facilities

The level of committed facilities undrawn at 30 June 2013 amounts to \$96.1 mil (2012 - \$53.0 mil).

(iii) Future bond contract of \$50 mil to replace tranche maturing 15/11/13

18. CASH AND CASH EQUIVALENTS

Cash at Bank	215	23
Short term deposits	11,960	3,097
	12,175	3,120
	12,175	3,120

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 deposits is 2.5%. (2012 – 3.00%).

19. TRADE AND OTHER RECEIVABLES

Due from related parties		
- DCHL Group	1,884	1,982
- DCC	3,948	2,701
Other current receivables	14	13
	5,846	4,696
	5,846	4,696

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

20. INVESTMENTS	2013 \$'000	2012 \$'000
<u>Current Investments</u>		
Advances to Dunedin City Council Group	20,615	19,128
Mortgage Recoverables	47	-
	<u>20,662</u>	<u>19,128</u>
<u>Non-Current Investments</u>		
Advances to Dunedin City Council Group	351,435	346,998
Mortgage Receivables	505	981
Advances to DCHL Group	235,826	241,883
	<u>587,766</u>	<u>589,862</u>
Total Non-Current investments	<u>587,766</u>	<u>589,862</u>
Total Investments	<u><u>608,428</u></u>	<u><u>608,990</u></u>

Maturity Analysis

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

Maturity within one year	20,662	19,128
Weighted average interest rate	6.34%	6.35%
Maturity one to five years	74,142	65,859
Weighted average interest rate	6.34%	6.26%
Maturity over five years	513,624	524,003
Weighted average interest rate	6.08%	6.02%
Total Investments	608,427	608,990
Weighted average interest rate	6.12%	6.06%

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 \$6,084,277 (\$6,089,895 - 2012).

There have been no indications of impairment of any investment.

Dunedin City Treasury Limited

21. PROPERTY, PLANT AND EQUIPMENT	2013	2012
	\$'000	\$'000
Cost		
Balance at beginning of year	15	15
Balance at end of year	<u>15</u>	<u>15</u>
Accumulated depreciation		
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>
 22. RECONCILIATION OF NET SURPLUS FOR THE YEAR TO CASHFLOWS FROM OPERATING ACTIVITIES		
Net surplus/(deficit) for the year	16	10
<i>Items Not Involving Cash Flows</i>		
Depreciation	-	-
<i>Impact of Changes in Working Capital Items</i>		
(Increase)/Decrease in receivables	(1,164)	386
(Increase)/Decrease in prepayments	73	69
Increase / (Decrease) in trade and other payables	64	180
Increase / (Decrease) in provision for tax	13	(4)
Net cash inflows / (outflows) from operating activities	<u>(998)</u>	<u>641</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:

	2013 \$'000	2012 \$'000
Loans and receivables		
Cash and cash equivalents (note 18)	12,175	3,120
Trade and other receivables (note 19)	5,846	4,696
Investments (note 20)	608,428	608,990
Total loans and receivables	<u>626,449</u>	<u>616,806</u>
Financial assets at fair value through equity		
Derivative financial instrument assets (note 13)	27,529	36,649
Financial liabilities measured at amortised cost		
Income tax payable	11	-
Trade and other payables (note 12) and provisions (note 14)	6,938	6,841
Borrowings (note 11)	619,735	610,244
Total financial liabilities measured at amortised cost	<u>626,684</u>	<u>617,085</u>
Financial liabilities at fair value through equity		
Derivative financial instrument liabilities (note 13)	<u>27,529</u>	<u>36,649</u>

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

	Total	Valuation Technique		
		Quoted market price	Observable inputs	Significant non-observable inputs
	\$000	\$000	\$000	\$000
30 June 2013				
Financial assets				
Derivatives	27,529	-	27,529	-
Financial liabilities				
Derivatives	27,529	-	27,529	-
30 June 2012				
Financial assets				
Derivatives	36,649	-	36,649	-
Financial liabilities				
Derivatives	36,649	-	36,649	-

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

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:

	2013	2012
	\$'000	\$'000
Cash and cash equivalents	12,175	3,120
Debtors and other receivables	5,846	4,696
Related party loans	607,875	608,009
Loans - other	553	981
Derivative financial instrument assets	27,528	36,649
Total Credit Risk	653,977	653,455

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.

Counterparties with credit ratings

Cash and cash equivalents AA-	12,175	3,120
Debtors – related parties AA	2,145	1,956
Debtors AA-	14	13
Derivative financial instrument assets – related parties AA	18,574	24,899
Derivative financial instruments AA-	1,350	-
Loans – related parties AA	227,358	218,266

Counterparties without credit ratings

Debtors - related parties	3,687	2,727
Loans - related parties	380,517	389,743
Derivative financial instrument - related parties	7,604	11,750
Loans - other	553	981

Counter parties without credit rating. There have been no defaults during the year (2012-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 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.

Sensitivity Analysis

As at the 30 June 2013 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.

Dunedin City Treasury Limited

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:

	2013	2012
	\$'000	\$'000
Sales of services to the Group:		
Interest income DCHL Group	13,049	13,228
Interest income DCC Group	22,955	22,109
Financial services DCHL Group	2,209	2,007
Financial services DCC Group	1,865	1,897
	<u>40,078</u>	<u>39,241</u>
	<u><u>40,078</u></u>	<u><u>39,241</u></u>
Purchases of services from the Group:		
Interest – DCHL Group	40	13
Interest – DCC Group	18	-
Rentals	5	5
Administration and office services	25	29
	<u>88</u>	<u>47</u>
	<u><u>88</u></u>	<u><u>47</u></u>
Advances:		
Opening balance	608,009	548,754
Plus additional advances	226,774	475,815
Less repayments	226,908	416,560
	<u>607,875</u>	<u>608,009</u>
	<u><u>607,875</u></u>	<u><u>608,009</u></u>
Deposits:		
Opening balance	2,010	2,000
Plus additional advances	25,056	4,559
Less repayments	19,304	4,549
	<u>7,762</u>	<u>2,010</u>
	<u><u>7,762</u></u>	<u><u>2,010</u></u>

Dunedin City Treasury Limited

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

	2013	2012
	\$'000	\$'000
Receivable from related parties in the Dunedin City Council Group (including DCHL Group)	639,885	649,340
Payable to related parties in the Dunedin City Council Group (including DCHL Group)	9,117	2,012

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

Receivable from Dunedin City Holdings Limited	38,304	38,717
Payable to Dunedin City Holdings Limited	2,001	-

Compensation of key management personnel

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

Short-term benefits	244	247
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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 2013

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 35, that comprise the balance sheet as at 30 June 2013, 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 35:
 - 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 2013; 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 2013.

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 31 July 2013. 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 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 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