
DUNEDIN CITY
TREASURY LIMITED

Annual Report
2015

Dunedin City Treasury Limited

Table of Contents

COMPANY PARTICULARS	2
DIRECTORS' REPORT	3
TRENDS STATEMENT	6
INFORMATION ON THE DIRECTORS OF DUNEDIN CITY TREASURY LTD	7
STATEMENT OF SERVICE PERFORMANCE	9
STATEMENT OF COMPREHENSIVE INCOME.....	11
STATEMENT OF CHANGES IN EQUITY.....	12
BALANCE SHEET	13
STATEMENT OF CASH FLOWS	15
NOTES TO FINANCIAL STATEMENTS	17

Dunedin City Treasury Limited

COMPANY PARTICULARS

As at 30 June 2015

Directors

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

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

Linda M Robertson - B.Com., C.F.Inst.D

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

Keith T Cooper – M.Inst.D

Registered Office

50 The Octagon

Dunedin

New Zealand

Bankers

ANZ Bank New Zealand Limited

Solicitors

Anderson Lloyd, Barristers and Solicitors

Taxation Advisers

Deloitte

Auditor

Audit New Zealand on behalf of the Auditor-General

Dunedin City Treasury Limited

DIRECTORS' REPORT **For the Year Ended 30 June 2015**

The Directors of Dunedin City Treasury Limited are pleased to report on the trading results of the company for the year ended 30 June 2015.

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 services
- investment portfolio management.

Results for the Year Ended 30 June 2015

	\$'000
Loss before Income Tax	(330)
Income Tax Benefit	107
Net Loss for the Year	<u>(223)</u>

The trading loss arises because of a loss on a fair value hedge. There has also been an interest rate adjustment that has been paid to members of the DCC Group in December 2014 and June 2015 amounting to \$3,050,000 (2014 \$1,163,966).

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.

Dividends

The Directors recommend that no dividend be paid.

Reserves

The following net transfer has been made to reserves:	\$'000
Retained Earnings	<u>(223)</u>

Dunedin City Treasury Limited

DIRECTORS' REPORT - continued **For the Year Ended 30 June 2015**

Review of Operations

The Company continues to achieve good results with its promissory note programme. Over the year the average rate achieved was 6.66 basis points over the 90 Day Bank Bill Reference Rate, which when compared to our peers in the market was an excellent result given the uncertainty in the financial markets.

Group companies and the Dunedin City Council, using facilities arranged through the company, have had the benefit of very good interest rates on both the funds they have borrowed and surplus funds which they have invested through the Company. In addition, an interest rate/fees adjustment totalling \$3,050,000 has been paid to members of the Dunedin City Council Group in December 2014 and June 2015.

The Company's Standard and Poor's long term credit rating was reaffirmed at AA in December 2014. The A1+ short term rating remained the same as previously reported.

The Company continues to provide management services to the Waipori Fund which is a large Dunedin City Council investment fund. The result for the year was a \$9,886,090 surplus, before an inflation adjustment, of \$79,880 which was a return of 13.1%. With an inflation factor of 0.1% the return after inflation was 13%.

Financial Statements

The audited financial statements for the year ended 30 June 2015 are attached to this report.

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 2015 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 \$20,263 (2014 - \$19,900).

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.

Dunedin City Treasury Limited

DIRECTORS' REPORT - continued For the Year Ended 30 June 2015

Information on the Directors of Dunedin City Treasury Limited

In October 2013 the Board of Dunedin City Treasury Ltd was reconstituted with the result that the members of the Board of Dunedin City Holdings Limited were appointed as the members of the Board of Dunedin City Treasury Limited.

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.

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.

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

G W Crombie
Chairman

Dated

Dunedin City Treasury Limited

TRENDS STATEMENT

	<i>2015</i>	<i>2014</i>	<i>2013</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
<i>Financial Assets Managed by the Company</i> (\$ millions)						
Dunedin City Treasury Limited	586	613	620	609	560	488
Dunedin City Council	81	80	79	85	81	70
Other		-	-	1	7	10
Total Financial Assets Managed	667	693	699	695	648	568

Dunedin City Treasury Limited

INFORMATION ON THE DIRECTORS OF DUNEDIN CITY TREASURY LTD

Director and Qualifications	Responsibilities	Declarations of Interests
Graham W Crombie B.Com, F.C.A. (CPP), A.F.Inst.D., M.D.Ent. Date appointed – 17 October 2013	Chairperson	Chair, Otago Museum Trust Independent Chairman, Action Engineering Limited Director, Surf Life Saving NZ Chair, NZ Genomics Limited Director and Shareholder, Innovatio Limited Chair, Dunedin City Treasury Limited Chair, Dunedin City Holdings Limited Chair, Dunedin Venues Limited Deputy Commissioner, Southern District Health Board Associate Member, Commerce Commission Independent Chair, Innovative Health Technologies New Zealand Limited Trustee, Arai Te Uru Kokiri Centre Charitable Trust
Kathleen E Grant B.A., L.L.B., Dip.Law, M.Inst.D. Date appointed – 17 October 2013	Non-Executive Director	Consultant, Gallaway Cook Allan Chair, Council, Otago Polytechnic Trustee, Sport Otago Director, Dunedin City Treasury Limited Director, Dunedin City Holdings Limited Director, Dunedin International Airport Limited Director, Southern Sinfonia Director, Dunedin Venues Limited Commissioner, Southern District Health Board
Linda M Robertson B.Com., A.M.Inst.D., F.C.I.S. Date appointed – 17 October 2013	Non-Executive Director	Director, Dunedin City Treasury Limited Director, Dunedin City Holdings Limited Director, Hunter Downs Development Company Limited Shareholder, Meridian Energy Limited Director and Shareholder, RML Consulting Limited Director, Dunedin Venues Limited Member, Audit and Risk Committee, Ministry of Social Development Director, New Zealand Registry Services Director, King Country Energy Technical Advisory Committee for NZ Export Office Chair, Statistics New Zealand Audit and Risk Committee Employee, Meridian Energy Limited (ceased)
Brian J Wood M.B.A. (Otago), F.N.Z.I.M., A.F.Inst.D. Date appointed 17 October 2013	Non-Executive Director	Chair, Abley Transportation Consultants Limited Chair, Buller Holdings Limited Chair, Buller Recreation Limited Chair, Canterbury Linen Services Limited Chair, Westport Harbour Limited Chair, Westreef Services Limited Director, Dunedin City Holdings Limited Director, Dunedin City Treasury Limited Director, Dunedin Venues Limited Member, Governance Board for Maintenance Contract, West Coast State Highways, Fulton Hogan Director, Harrison Grierson Holdings Limited Director, Interpret Geospatial Solutions Limited Director, Lyttelton Port of Christchurch Limited

Dunedin City Treasury Limited

**Director and
Qualifications**

Keith T Cooper
C.M.Inst.D

Date appointed
2 February 2015

Responsibilities

Non-Executive
Director

Declarations of Interests

Owner/Director, Littlebrook Farm Limited
Director, Otago Rugby Football Union (Inc)
Director, Dunedin City Holdings Limited
Director, Dunedin City Treasury Limited
Director, Dunedin Venues Limited
Chartered Member Institute of Directors

Dunedin City Treasury Limited

STATEMENT OF SERVICE PERFORMANCE For the Year Ended 30 June 2015

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: <ul style="list-style-type: none">- twenty tranches of promissory notes- one tranches of Floating rate notes- one tranche of Fixed rate bonds at rates which were consistent or better than organisations with similar ratings.
2. Through the successful utilisation of facilities available, maintain the required level of liquidity for the Dunedin City Council Group at margins in line with market movements.	2. Achieved – Twenty tranches of promissory notes were successfully offered for tender or privately placed during the year, plus one tranche of Floating rate notes and one tranche of Fixed rate notes were issued at competitive rates.
3. All surplus funds deposited outside the Dunedin City Council Group have satisfied the investment criteria approved by the Board; and at least 80% of investments are placed with organisations with a Standard & Poors credit rating of investment grade or better.	3. Achieved – All funds deposited outside the Dunedin City Council Group have satisfied the investment criteria approved by the board with not less than 80% of the funds managed being invested with organisations having a Standard and Poor's rating of investment grade or better.
4. Derivatives to protect Dunedin City Council Group debt in accordance with the policies adopted by each member of the Group will be put in place within 90 days of any change in policy requiring additional cover to be established.	4. Not Achieved – During the year a new Treasury Policy was approved by the Dunedin City Council which specifies the Interest Rate Risk Policy for the Dunedin City Council Group of Companies. Interest Rate Risk for the Dunedin City Council Group of Companies is now managed by Dunedin City Treasury Limited using a portfolio approach where interest rate risk parameters are specified over multiple time frames. Members of the Dunedin City Council Group of Companies will no longer manage their own interest rate risk.
5. Preparation of a report for every quarter assessing the company's achievement against the benchmark, and achieve an improvement in the actual portfolio performance against the benchmark.	5. Not achieved - No formal report was prepared against a benchmark, but regular reviews were undertaken to compare the margins achieved for promissory floating and fixed rate note issues.

Dunedin City Treasury Limited

Performance Targets

6. To have produced and circulated at least 10 monthly interest rate newsletters during the year.
7. To manage the fund fully in accordance with the Statement of Policy and Objectives set by Council.
8. There will be "nil" instances of non-compliance with the Company's EEO policy.
9. To under taken an annual review of the Company's operations to identify any social or environmental issues by 30 June 2015.

Performance Targets Achieved

6. Not achieved – The new Treasury policy adopted by the Dunedin City Council Group no longer requires individual Companies to hedge their interest rate risk. Given that Dunedin City Treasury Limited manages interest rate risk for the Group monthly interest rate newsletters became unnecessary.
7. Achieved - The Waipori Fund recorded a return for the year of \$9,886,090 which is a return of 13.1%. After deduction of inflation of 0.1%, the "real" return is 13%.
8. Achieved - There have been "nil" instances of non-compliance with the Company's EEO Policy.
9. Not achieved - A review of the Company's operations for any potential social or environmental issues was carried out before 30 June 2014 and no issues were detected. It was considered unnecessary to complete another review given the timing of the most recent review.

Dunedin City Treasury Limited

STATEMENT OF COMPREHENSIVE INCOME For the Year Ended 30 June 2015

	Note	2015 \$'000	2014 \$'000
Financial Income	1	39,018	39,825
Total Income		39,018	39,825
Less Expenses:			
Financial expenses	2	38,445	39,300
Depreciation			-
Employee expenses		34	270
Directors fees			9
Other Expenses:	3		
Audit fees		20	29
Fees		409	71
Other expenses		109	121
Ineffectiveness on fair value hedge		331	
Total Expenditure		39,348	39,800
Surplus/(Loss) before tax		(330)	25
Income tax expense/(benefit)	4	(107)	3
Surplus/(Loss) for the Year		(223)	22
Other Comprehensive Income:			
Gain (loss) of cash flow hedges taken to equity		5,678	9,694
Gain (loss) of cash flow hedges to related parties taken to equity		(4,932)	(9,694)
Deferred taxation impact of cash flow hedge gains		(209)	
Total other Comprehensive Income for the year, net of tax		537	-
Total Comprehensive Income for the year		314	22
Earnings per share	6	00.0 cents	22.0 cents

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

Dunedin City Treasury Limited

STATEMENT OF CHANGES IN EQUITY For the Year Ended 30 June 2015

	Share Capital	Hedge Reserve	Retained Earnings	Total Equity
Equity as at 1 July 2013	100		133	233
Total comprehensive income			22	22
Equity as at 30 June 2014	100		155	255
	Share Capital	Hedge Reserve	Retained Earnings	Total Equity
Equity as at 1 July 2014	100		155	255
Total comprehensive income		537	(223)	314
Equity as at 30 June 2015	100	537	(68)	569

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 2015

	Note	2015 \$'000	2014 \$'000
Equity			
Share capital	8	100	100
Retained earnings and Reserves	9	469	155
Total Equity		569	255
Current Liabilities			
Short term borrowings	10	4,808	7,527
Current portion of term borrowing	10	140,000	140,000
Trade and other payables	13	6,723	6,984
Derivative financial instruments	14	22,765	17,834
Provisions	16		19
Provision for tax		(6)	1
Total current liabilities		174,290	172,365
Non-Current Liabilities			
Term borrowings	10	445,128	464,517
Deferred Taxation		105	
Total non-current liabilities		445,233	464,517
Total Liabilities		619,523	636,882
TOTAL EQUITY AND LIABILITIES		620,092	637,137

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 2015

	Note	2015 \$'000	2014 \$'000
Current Assets			
Cash and cash equivalents	20	13,281	34,586
Trade and other receivables	21	6,202	5,816
Derivative financial instruments	14	26,590	17,834
Prepayments		365	454
Investments	22	17,224	16,354
Total current assets		63,662	75,044
Non-Current Assets			
Investments	22	556,430	562,093
Property, plant and equipment	23	0	0
Total non-current assets		556,430	562,093
TOTAL ASSETS		620,092	637,137

For and on behalf of the Board of Directors

G W Crombie Director

K E Grant 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 2015

	Note	2015 \$'000	2014 \$'000
Cash Flows from Operating Activities			
<i>Cash was provided from</i>			
Receipts from customers		1,246	1,264
Interest received		37,304	38,630
		<u>38,550</u>	<u>39,894</u>
<i>Cash was disbursed to</i>			
Payments to suppliers and employees		572	512
Interest paid		38,556	39,247
Income tax paid / (received)		3	14
		<u>39,131</u>	<u>39,773</u>
Net Cash Inflows/(Outflows) from Operating Activities	24	(581)	121
Cash Flows from Investing Activities			
<i>Cash was provided from</i>			
Net investments realised		4,792	31,180
		<u>4,792</u>	<u>31,180</u>
<i>Cash was disbursed to</i>			
Net purchase of investments		0	1,200
		<u>4,792</u>	<u>1,200</u>
Net Cash Inflows / (Outflows) from Investing Activities		<u>4,792</u>	<u>29,980</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 2015

	Note	2015 \$'000	2014 \$'000
Cash Flows from Financing Activities			
<i>Cash was provided from</i>			
Net proceeds from borrowings		0	0
		0	0
<i>Cash was disbursed to</i>			
Net repayment of borrowings		25,516	7,690
		25,516	7,690
Net Cash Inflows/(Outflows) from Financing Activities		(25,516)	(7,690)
Net Increase/(Decrease) in Cash, Cash Equivalents and Bank Overdraft		(21,305)	22,411
Cash and cash equivalents at the beginning of the year		34,586	12,175
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	20	13,281	34,586

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

Dunedin City Treasury Limited

NOTES TO FINANCIAL STATEMENTS For the Year Ended 30 June 2015

1. REPORTING ENTITY

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

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

The financial statements of Dunedin City Treasury Limited are for the year ended 30 June 2015.

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

Dunedin City Treasury Limited is a profit-oriented entity.

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

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

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

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

The functional currency is NZ Dollars.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

The financial statements were authorised for issue by the directors on 21 August 2015.

Basis of Accounting

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

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

Dunedin City Treasury Limited

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

Changes in Accounting Policy

There have been no changes in accounting policy during the financial period.

Critical Judgements and Estimates in Applying Accounting Policies

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

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

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

Standards Issued but not yet Effective

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

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.

Fee income is accrued on a time basis, by reference to the agreement in force with the client.

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.

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.

Dunedin City Treasury Limited

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.

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.

Dunedin City Treasury Limited

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.

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.

Dunedin City Treasury Limited

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 and fair value hedges 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	2015 \$'000	2014 \$'000
Interest on advances to related parties	34,391	35,738
Fees from related parties	3,688	3,724
Interest on other investments	939	363
	<u>39,018</u>	<u>39,825</u>

4. FINANCIAL EXPENSES	2015 \$'000	2014 \$'000
Interest and fees - related parties	53	107
Interest and fees - term loans	38,392	39,193
	<u>38,445</u>	<u>39,300</u>

Dunedin City Treasury Limited

5. OTHER EXPENSES	2015 \$'000	2014 \$'000
Audit fees - for audit of financial statements	20	20
- Internal Audit		9
Total audit fees	20	29
Fees		
Related Party Management Fees	300	
Other Fees	109	71
Total Fees	409	71
Other expenses		
Rental expense on operating leases		5
Other expenses	109	116
Total other expenses	109	121
Ineffectiveness on fair value hedge	331	

6. INCOME TAX	2015 \$'000	2014 \$'000
Operating surplus before income tax	(330)	25
Taxable income	(330)	25
Tax thereon at 28%	(92)	7
<i>Plus/(Less) the Tax Effect of Differences</i>		
Revenue not liable for taxation		0
Expenditure not deductible for taxation		(4)
Under/(over) tax provision in prior years	(15)	0
Tax effect of differences	(15)	(4)
Tax expense	(107)	3

The Taxation charge is represented by:

Current tax	0	3
Prior period adjustment	(3)	
Deferred tax	(104)	
Tax expense	(107)	3

Deferred Tax Liability	Derivatives	Tax losses	Total
Balance at the beginning of the year	0	0	0
Charge to surplus (loss)	(93)	(11)	(104)
Charge to other comprehensive income	209	0	209
Balance at the end of the year	116	(11)	105

Dunedin City Treasury Limited

7. IMPUTATION CREDIT ACCOUNT	2015	2014
Balance at the beginning of the year	53	50
Net Taxation payments made	(2)	3
Prior period adjustments	11	
Balance at the end of the year available for use in subsequent periods	62	53

8. EARNINGS PER SHARE	2015 \$'000	2014 \$'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
--	---------	---------

Basic earnings per share	00.0 cents	22.0 cents
---------------------------------	------------	------------

9. DIVIDENDS

No dividends have been paid. (2014 - Nil).

10. EQUITY - SHARE CAPITAL	2015 \$'000	2014 \$'000
-----------------------------------	------------------------	------------------------

Issued Capital

100,000 ordinary shares	100	100
-------------------------	-----	-----

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

11. RETAINED EARNINGS AND RESERVES	Share Capital	Hedge Reserve	Retained Earnings	Total Equity
Equity as at 1 July 2014	100		155	255
Total comprehensive income		537	(223)	314
Equity as at 30 June 2015	100	537	(68)	569

Dunedin City Treasury Limited

12. BORROWINGS	2015 \$'000	2014 \$'000
Current:		
Short term borrowing	1,314	1,877
Related parties	3,494	5,650
Current portion term borrowings	140,000	140,000
Total Current borrowing	144,808	147,527
Non-current:		
Promissory notes issued	86,719	59,517
Bonds issued	358,409	405,000
Total Term borrowing	445,128	464,517
Total borrowings	589,936	612,044

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

Three independent banks have underwritten the facility to an amount of \$135.0 million (2014 - \$100 mil).

The amount of unamortized premium or (discount) on bonds on issue at 30/06/15 is nil (2014 - \$Nil).

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) \$90m floating notes, maturing 15/04/16 @ a margin of 107 bp over BKBM
- b) \$50m issued for 10 years, maturing 15/11/16 @ a coupon rate of 6.79%
- c) \$20m issued for 4 years, maturing 15/02/17 @ a margin of 80 bp over BKBM
- d) \$60m issued for 10 years, maturing 15/10/17 @ a coupon rate of 7.81%
- e) \$20m issued for 4 years, maturing 15/05/18 @ a margin of 43 bp over BKBM
- f) \$20m issued for 3 years, maturing 9/10/17 @ a margin of 38 bp over BKBM
- g) \$50m issues for 7.5 years, maturing 15/07/18 @ a coupon rate of 6.57%
- h) \$15m issued for 10 years, maturing 17/12/18 @ a coupon rate of 6.85%
- i) \$50m issued for 7 years, maturing 16/11/20 @ a coupon rate of 5.56%
- j) \$70m issued for 7 years, maturing 25/11/21 @ a coupon rate of 4.88%

Dunedin City Treasury Limited

13. MATURITY ANALYSIS

2015
\$'000

2014
\$'000

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

Less than one year	144,808	147,527
Weighted average interest rate	4.61%	5.12%
Later than one year but not more than five	321,719	414,517
Weighted average interest rate	5.56%	5.32%
Later than five years	123,409	50,000
Weighted average interest rate	5.22%	5.56%
	<u>589,936</u>	<u>612,044</u>

14. 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:

	2015 \$'000	2014 \$'000
Total borrowings	604,459	626,236

15. TRADE AND OTHER PAYABLES

2015
\$'000

2014
\$'000

Due to related parties -

- DCC Group

3

Accruals

6,723

6,981

6,723

6,984

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

16. DERIVATIVE FINANCIAL INSTRUMENTS

2015
\$'000

2014
\$'000

Assets:

Interest rate swaps- cash flow hedges - DCHL Group	3,021	1,414
Interest rate swaps- cash flow hedges - DCC Group	19,744	14,913
Interest rate swaps- cash flow hedges - Bank	747	1,507
Interest rate swaps- fair value hedges - Bank	3,078	
	<u>26,590</u>	<u>17,834</u>

Liabilities:

Interest rate swaps-cash flow hedges - Bank	22,765	16,327
Interest rate swaps-cash flow hedges- DCHL Group		1,491
Interest rate swaps-cash flow hedges - DCC Group		16
	<u>22,765</u>	<u>17,834</u>

The ineffective portion recognised in the Statement of Comprehensive Income that arises from fair value hedges amounts to a loss of \$331,122 (2014: nil) (note3)

Dunedin City Treasury Limited

17. INTEREST RATE SWAPS

2015 \$'000	2014 \$'000
----------------	----------------

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

Counterparties outside the group:

Maturing in less than one year	120,400	2,500
Maturing between one and five years	120,000	210,400
Maturing after five years	286,500	138,000
	<u>526,900</u>	<u>350,900</u>

Counterparties within the Dunedin City Council group:

Maturing in less than one year	120,400	2,500
Maturing between one and five years	120,000	210,400
Maturing after five years	108,000	138,000
	<u>348,400</u>	<u>350,900</u>

18. PROVISIONS

2015 \$'000	2014 \$'000
----------------	----------------

Annual leave	0	19
	<u>0</u>	<u>19</u>

19. CONTINGENT LIABILITIES

2015 \$'000	2014 \$'000
----------------	----------------

Performance bonds	<u>1,698</u>	<u>2,442</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.

20. CAPITAL EXPENDITURE COMMITMENTS

The company has no capital expenditure commitments. (2014 Nil)

Dunedin City Treasury Limited

21. COMMITMENTS	2015 \$'000	2014 \$'000
(i) <u>Non-Cancellable Operating Lease Commitments</u>		
Payable within one year	0	59
Payable between one to five years	0	0
Payable later than five years	0	0
	<u>0</u>	<u>59</u>

(ii) Undrawn Facilities

The level of committed facilities undrawn at 30 June 2015 amounts to \$135.0 mil (2014 - \$98.5 mil).

22. CASH AND CASH EQUIVALENTS	2015 \$'000	2014 \$'000
Cash at Bank	714	1,428
Short term deposits	12,567	33,158
	<u>13,281</u>	<u>34,586</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.

The weighted average effective interest rate for cash at bank is 0.0% (2014 - 0.0%).

The weighted average effective interest rate for deposits is 3.25%. (2014 – 3.48%).

23. TRADE AND OTHER RECEIVABLES	2015 \$'000	2014 \$'000
Due from related parties		
- DCHL Group	1,998	1,845
- DCC	4,129	3,925
Other current receivables	75	46
	<u>6,202</u>	<u>5,816</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.

Dunedin City Treasury Limited

24. INVESTMENTS	2015 \$'000	2014 \$'000
<u>Current Investments</u>		
Advances to Dunedin City Council Group	17,175	16,317
Mortgage Recoverables	49	37
Total Current Investments	17,224	16,354
<u>Non-Current Investments</u>		
Advances to Dunedin City Council Group	324,321	341,481
Mortgage Receivables	0	236
Advances to DCHL Group	232,109	220,376
Total Non-Current investments	556,430	562,093
Total Investments	573,654	578,447

Maturity Analysis

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

	2015 \$'000	2014 \$'000
Maturity within one year	17,224	16,354
Weighted average interest rate	6.57%	6.67%
Maturity one to five years	83,152	80,250
Weighted average interest rate	6.58%	6.68%
Maturity over five years	473,278	481,843
Weighted average interest rate	6.28%	6.39%
Total Investments	573,654	578,447
Weighted average interest rate	6.33%	6.44%

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

The carrying amount of investments approximate their fair value. If interest rates on investments at June 30 fluctuated by plus or minus 1.0%, the effect would be to decrease/increase the surplus/deficit by \$5,739,384 (\$5,784,473 - 2014).

There have been no indications of impairment of any investment.

25. PROPERTY, PLANT AND EQUIPMENT	2015 \$'000	2014 \$'000
Cost		
Balance at beginning of year	15	15
Balance at end of year	15	15
Accumulated depreciation		
Balance at beginning of year	15	15
Depreciation	-	-
Balance at end of year	15	15
Total Property, Plant and Equipment	-	-

Dunedin City Treasury Limited

26. RECONCILIATION OF NET SURPLUS FOR THE YEAR TO CASHFLOWS FROM OPERATING ACTIVITIES	2015 \$'000	2014 \$'000
Net surplus/(deficit) for the year	314	22
<i>Items Not Involving Cash Flows</i>		
Fair value change in SWAPS	(416)	
Increase in Deferred Tax	105	
<i>Impact of Changes in Working Capital Items</i>		
(Increase)/Decrease in receivables	(386)	30
(Increase)/Decrease in prepayments	90	14
Increase / (Decrease) in trade and other payables	(261)	65
Increase / (Decrease) in provisions	(27)	(10)
Net cash inflows / (outflows) from operating activities	<u>(581)</u>	<u>121</u>

27. CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

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

	2015 \$'000	2014 \$'000
Loans and receivables		
Cash and cash equivalents (note 20)	13,281	34,586
Trade and other receivables (note 21)	6,202	5,816
Investments (note 22)	573,654	578,447
Total loans and receivables	<u>593,137</u>	<u>618,849</u>
Financial assets at fair value through equity		
Derivative financial instrument assets (note 14)	26,590	17,834
Financial liabilities measured at amortised cost		
Income tax payable	0	1
Trade and other payables (note 13) and provisions (note 16)	6,723	7,003
Borrowings (note 10)	589,936	612,044
Total financial liabilities measured at amortised cost	<u>623,249</u>	<u>619,048</u>
Financial liabilities at fair value through equity		
Derivative financial instrument liabilities (note 14)	<u>22,765</u>	<u>17,834</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.

Dunedin City Treasury Limited

- 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.

	Carrying value	Fair Value	Valuation Technique		
			Quoted market price	Observable inputs	Significant non- observable inputs
	\$000	\$000	\$000	\$000	\$000
30 June 2015					
Cash and cash equivalents	13,281	13,281		13,281	
Trade and other receivables	6,202	6,202			6,202
Investments	573,654	573,654		573,654	-
Derivatives	26,590	26,590		26,590	
Financial liabilities					
Derivatives	22,765	22,765		22,765	-
30 June 2014					
Cash and cash equivalents	34,586	34,586		34,586	
Trade and other receivables	5,816	5,816			5,816
Investments	578,447	578,447		578,447	
Derivatives	17,834	17,834	-	17,834	-
Financial liabilities					
Derivatives	17,834	17,834	-	17,834	-

Dunedin City Treasury Limited

28. FINANCIAL INSTRUMENT RISKS

In the normal course of business the company is exposed to a variety of financial risks. The Company has policies to manage these risks and 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.

Risk	Exposure arising from	Monitoring	Management
Market risk			
Interest risk	Interest bearing liabilities at floating rates	Cash flow forecasting	Interest rate derivatives to achieve specific Fixed Rate maturity profile.
Credit risk	Loss that could accrue from the non-settlement of financial transactions	Regular external credit limit reviews	Individual and maximum counterparty credit limits. Specific limit calculations for individual financial instruments recognising potential changes in fair value of the instrument
Liquidity risk	Unforeseen events that may curtail cash flows	Cash flow forecasting	Regular cash flow forecasting Ensuring sufficient size of Underwriting facilities
		Management reporting on maturity profile	No more than \$200,000,000 to mature in any single year Spreading of Underwriting Facilities, Floating rate and Fixed rate Note issues
		Management Reporting on percentage of funding beyond specific term	More than 20% of debt must mature greater than five years

Market Risk

The interest rates on the Company's investments are disclosed in note 22 and on the Company's borrowings in note 10.

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

Dunedin City Treasury Limited

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.

Interest Rate Risk

Nature of the risk

Interest rate risk is the risk that fluctuations in interest rates impact the Company's financial performance or the fair value of its holding of financial instruments.

Risk Management

The Company has a small but increasing exposure to interest rate risk. Previously borrowings were generally matched to advances to group companies or the Dunedin City Council. As part of the Dunedin City Council Treasury Risk Management Policy approved on 15 December 2014, all interest rate hedges are entered into by the Company with external counterparties. To maintain the Fixed Rate Maturity Profile outlined in the Policy the Company will be required to enter into more hedges externally that are not matched to advances of group companies or the Dunedin City Council. This will occur as existing arrangements unwind or mature over time.

Exposure

Each company with material debt within the Dunedin City Council group previously had its own interest rate risk management policy approved by its own board or Council.

Under the Dunedin City Council Treasury Risk Management Policy approved on 15 December 2014, the Company will utilise a portfolio approach to manage interest rate risk for the group. Other group companies and the Council are precluded from entering into financial transactions with external counterparties.

Sensitivity Analysis

As at the 30 June 2015 if interest rates moved by plus or minus 1% across the yield curve the impact on the profit and loss would be nil and the movement in equity would also be nil.

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

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

Dunedin City Treasury Limited

Credit Risk

Nature of the 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.

Risk Management

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.

Exposure

The Company's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash equivalents (note 20), investments (note 22) and trade receivables (note 21). 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:

	2015	2014
	\$'000	\$'000
Cash and cash equivalents	13,281	34,586
Debtors and other receivables	6,202	5,816
Related party loans	573,605	578,174
Loans - other	47	273
Derivative financial instrument assets	26,590	17,834
Total Credit Risk	619,725	636,683

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.

Current Year 30 June 2015

	AA	AA-	No rating
	\$'000	\$'000	\$'000
Counterparties with credit ratings			
Cash and cash equivalents AA-		13,281	
Debtors – related parties AA	2,262		
Debtors AA-		75	
Derivative financial instrument assets – related parties AA	19,744		
Derivative financial instruments AA-		3,825	
Loans – related parties AA	238,116		

Counterparties without credit ratings

Debtors - related parties			3,863
Loans - related parties			335,489
Derivative financial instrument - related parties			3,021
Loans - other			49

Last year 30 June 2014

	AA	AA-	No rating
	\$'000	\$'000	\$'000
Counterparties with credit ratings			
Cash and cash equivalents AA-		34,586	
Debtors – related parties AA	2,131		
Debtors AA-		46	
Derivative financial instrument assets – related parties AA	12,456		
Derivative financial instruments AA-		1,507	
Loans – related parties AA	219,211		

Counterparties without credit ratings

Debtors - related parties			3,639
Loans - related parties			358,963
Derivative financial instrument - related parties			3,871
Loans - other			273

Counter parties without credit rating. There have been no defaults during the year (2014- Nil).

Liquidity Risk

Nature of the risk

Liquidity risk is the risk that the Company will encounter difficulty raising liquid funds to meet commitments as they fall due.

Dunedin City Treasury Limited

Risk Management

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Company aims to maintain flexibility in funding by keeping committed credit lines available. The Company has committed bank lines available that can be drawn of \$100 mil (2014 - \$90 mil).

Exposure

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

Where the amount payable is not fixed, the amount disclosed in the analysis below is determined by reference to the conditions existing at balance date. The swap settlement rate as at 30 Jun 2015 was 3.26%

Contractual maturity analysis of financial assets

2015 Year

	Carrying Amount \$000's	Contractual cash flows \$000's	Less than 1 year \$000's	1 to 2 years \$000's	2 to 5 years \$000's	More than 5 years \$000's
Cash and cash equivalents	13,281	13,281	13,281			
Debtors and other receivables	6,202	6,202	6,202			
Derivative financial instruments	26,590	34,938	8,595	6,744	15,257	4,342
Investments	573,654	662,099	50,848	51,599	559,652	
Total	619,727	716,520	78,926	58,343	574,909	4,342

2014 Year

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

Dunedin City Treasury Limited

Contractual maturity analysis of financial liabilities

2015 Year

	Carrying Amount \$000's	Contractual cash flows \$000's	Less than 1 year \$000's	1 to 2 years \$000's	2 to 5 years \$000's	More than 5 years \$000's
Creditors and other payables	6,723	6,723	6,723			
Derivative financial instruments	22,765	27,565	7,461	5,610	11,856	2,639
Borrowings	589,936	665,485	256,406	89,132	193,462	126,484
Total	619,424	699,773	270,590	94,742	205,318	129,123

2014 Year

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

The maturity profiles of the Company's interest bearing investments and borrowings are disclosed in notes 22 and 10 respectively.

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

29. 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:

	2015 \$'000	2014 \$'000
Sales of services to the Group:		
Interest income DCHL Group	12,292	12,625
Interest income DCC Group	22,093	23,113
Financial services DCHL Group	2,012	2,078
Financial services DCC Group	1,515	1,645
	<u>37,912</u>	<u>39,461</u>
Purchases of services from the Group:		
Interest – DCHL Group	20	66
Interest – DCC Group	33	40
Rentals	0	5
Administration and office services	313	24
	<u>366</u>	<u>135</u>
Advances:		
Opening balance	578,174	607,875
Plus additional advances	239,462	195,434
Less repayments	244,030	225,135
Balance at end of year	<u>573,605</u>	<u>578,174</u>
Deposits:		
Opening balance	5,650	7,762
Plus additional advances	7,917	35,135
Less repayments	10,073	37,247
Balance at end of year	<u>3,494</u>	<u>5,650</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).

	2015 \$'000	2014 \$'000
Receivable from related parties in the Dunedin City Council Group (including DCHL Group)	602,573	600,124
Payable to related parties in the Dunedin City Council Group (including DCHL Group)	3,494	7,159

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

Receivable from Dunedin City Holdings Limited	37,369	37,951
Payable to Dunedin City Holdings Limited	0	0

Compensation of key management personnel

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

Short-term benefits	14	229
---------------------	----	-----

The management of Dunedin City Treasury Limited underwent change during the year. The Dunedin City Council concluded a management agreement with Dunedin City Treasury Limited to provide management resources to Dunedin City Treasury Limited. Dunedin City Treasury Limited no longer has employees and as the Dunedin City Holdings Limited Board provides the necessary Governance there are no Directors fees for Dunedin City Treasury Limited.

30. 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 performance information for the year ended 30 June 2015

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 performance information of the company on her behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the company on pages 11 to 41, that comprise the balance sheet as at 30 June 2015, 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 performance information of the company on pages 9 to 10.

In our opinion:

- the financial statements of the company:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2015; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards.
- the performance information of the company presents fairly, in all material respects, the company's achievements measured against the performance targets adopted for the year ended 30 June 2015.

Our audit was completed on 21 August 2015. 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 the performance information 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 the performance information. 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 in the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information, 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 performance information 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 the disclosures in the financial statements and in the performance information; and
- the overall presentation of the financial statements and the performance information.

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

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 the preparation and fair presentation of financial statements for the company that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparation of the performance information for the company.

The Board of Directors' responsibilities arise from the Local Government Act 2002.

The Board of Directors is responsible for such internal control as it determines is necessary to enable the preparation of financial statements and performance information 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 the performance information, whether in printed or electronic form.

Responsibilities of the Auditor

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

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.

A handwritten signature in black ink, appearing to read 'Ian Lothian', with a stylized, cursive script.

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