
DUNEDIN CITY
TREASURY LIMITED

Annual Report
2016

Dunedin City Treasury Limited

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Dunedin City Treasury Limited

COMPANY PARTICULARS

As at 30 June 2016

Directors

Graham W Crombie
Kathy E Grant
Linda M Robertson
Brian J Wood
Keith T Cooper

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 2016

The Directors of Dunedin City Treasury Limited are pleased to report on the trading results of the company for the year ended 30 June 2016.

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 on-going 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 2016

	\$'000
Surplus before Income Tax	161
Income Tax	(122)
Surplus for the Year	<u>39</u>

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.

Retained earnings and reserves as at 30 June 2016 included a negative hedge reserve of \$5.918 million. This reserve reflected the impact of the effective portion of the cumulative net change in the fair value of the cash flow hedging instruments relating to interest payments that have not yet occurred. The negative equity has no long term impact on the Company's viability as all interest costs in a given financial year are passed on to the group companies in the form of interest charged on monies borrowed from the Company.

Dividends

The Directors recommend that no dividend be paid.

Dunedin City Treasury Limited

DIRECTORS' REPORT - continued **For the Year Ended 30 June 2016**

Review of Operations

The past year covered by this report has been a period of falling interest rates.

Dunedin City Treasury Limited has diminished the reliance on short term funding and has reduced the amount of promissory notes on issue from \$87.5m (face value) to \$65.0m (face value) as at 30 June 2016. The company continues to achieve good results with its promissory note programme. Over the year the average rate achieved was 3.4 basis points over the 90 day bank bill reference rate, which when compared to our peers in the market was an excellent result.

In October 2015, the \$50 million October 2015 floating rate note maturity was refinanced with a new floating rate note issue for \$50 million for a term of 7 years. The new issue was priced at an attractive margin of +0.56% over the 90 day bank bill reference rate compared to +0.90% for the maturing issue. This was a very good outcome as floating rate notes are not commonly issued in the New Zealand market for terms as long as 7 years.

In April 2016, the \$90 million April 2016 floating rate note maturity was refinanced with two new medium term notes of \$30 million and \$65 million issued for terms of 5 and 10 years respectively. The issues attracted a significant number of different investors and the amount of bids was 1.6 times the amount of notes being offered. The issues were priced at margins of +0.68% and +1.05% over the underlying benchmark swap yield.

The above issuance by Dunedin City Treasury Limited assisted in lengthening the maturity profile of funding significantly reducing refinancing risk and providing greater flexibility for future issuance. The company maintained at least 20% of funding for a period of 5 years or longer. In addition to this, there is less than \$200m of funding maturing in any one year period from 30 June 2016 onwards.

The Company's Standard and Poor's long term credit rating was reaffirmed at AA in December 2015. The Company's short term rating was reaffirmed at A1+ also.

Financial Statements

The audited financial statements for the year ended 30 June 2016 are attached to this report.

Changes in Accounting Policies

There have been no changes in accounting policies.

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 \$20,655 (2015 \$20,263).

Directors' Interests in Contracts

No material contracts involving Directors' interests were entered into during the year ended 30 June 2016 or existed at the end of this twelve month period.

Dunedin City Treasury Limited

DIRECTORS' REPORT - continued **For the Year Ended 30 June 2016**

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 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
Chair

7 September 2016

Dunedin City Treasury Limited

TRENDS STATEMENT

	2016	2015	2014	2013	2012	2011
<i>Financial Assets Managed by the Company</i> (\$ millions)						
Dunedin City Treasury Limited	567	587	613	620	609	560
Dunedin City Council	82	82	80	79	85	81
Other			-	-	1	7
Total Financial Assets Managed	649	669	693	699	695	648

Dunedin City Treasury Limited

INFORMATION ON THE DIRECTORS OF DUNEDIN CITY TREASURY LTD

Director	Responsibilities	Declarations of Interests
Graham W Crombie Date appointed – 17 October 2013	Chair	Chair, Otago Museum Trust Independent Chair, 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 Director, Dunedin Venues Limited Deputy Commissioner, Southern District Health Board Associate Commissioner, Commerce Commission (appointed) Trustee, Arai Te Uru Kokiri Centre Charitable Trust (retired) Director, Dunedin Venues Management Limited (appointed and retired)
Kathleen E Grant Date appointed – 17 October 2013	Non-Executive Director	Consultant, Gallaway Cook Allan Chair of Council, Otago Polytechnic Trustee, Sport Otago Director, Dunedin City Treasury Limited Director, Dunedin City Holdings Limited Director, Dunedin Symphony Orchestra Commissioner, Southern District Health Board Director, Dunedin International Airport Limited (retired) Director, Dunedin Venues Limited (retired)
Linda M Robertson Date appointed – 17 October 2013	Non-Executive Director	Director, Dunedin City Treasury Limited Director, Dunedin City Holdings Limited Director and Shareholder, RML Consulting Limited Member, Audit and Risk Committee, Ministry of Social Development Director, New Zealand Registry Services Limited Director, King Country Energy Limited Technical Advisory Committee for NZ Export Office (appointed) Director, NZPM Group Limited (appointed) Director, Auckland Council Investments Limited (appointed) Director, Crown Irrigation Investments Limited (appointed) Director, NZ Local Government Funding Agency (appointed) Chair, Audit and Risk Committee, Central Otago District Council Director, Hunter Downs Development Company Limited (retired) Director, Dunedin Venues Limited (retired)
Brian J Wood Date appointed 17 October 2013	Non-Executive Director	Chair, Buller Holdings Limited Chair, Westreef Services Limited Chair, Buller Recreation Limited Chair, Westport Harbour Limited Chair, Canterbury Linen Services Limited Chair, Abley Transportation Consultants Ltd Director, Dunedin City Holdings Limited Director, Dunedin City Treasury Limited Director, Interpret Geospatial Solutions Ltd

Dunedin City Treasury Limited

Director	Responsibilities	Declarations of Interests
Keith T Cooper Date appointed 2 February 2015	Non-Executive Director	Director, Lyttelton Port of Christchurch Ltd Director, Harrison Grierson Holdings Limited Member, Governance Board for Maintenance Contract, West Coast State Highway, Fulton Hogan Chair, Project Steering Group, Christchurch Learning Centre, Christchurch City Council (appointed) Chair, Project Steering Group, Christchurch Town Hall Rebuild (appointed) Director, Dunedin Venues Limited (retired) Shareholder/Director, Littlebrook Farm Limited Chair, Otago Rugby Football Union (Inc) Director, Dunedin City Treasury Limited Director, Dunedin City Holdings Limited Chair, Highlanders Provincial Union Limited Partnership (appointed) Director, Miller Creative Group Limited (appointed) Director, Designability Limited (appointed) Director, Miller Construction (SI) Limited (appointed) Director, Dunedin Venues Limited (retired)

Dunedin City Treasury Limited

STATEMENT OF SERVICE PERFORMANCE For the Year Ended 30 June 2016

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. Implementation of the Dunedin City Council Treasury Risk Management Policy approved on 15 December 2014 taking existing arrangements into consideration.	1. Achieved. The Dunedin City Council Treasury Risk Management Policy was implemented taking existing arrangements into consideration.
2. Completion of the issue of range of debt instruments at rates which are consistent with, or better than organisations with similar credit ratings.	2. Achieved. During the year the Company successfully issued: <ul style="list-style-type: none">- 19 tranches of promissory notes- 1 tranche of Floating rate notes- 2 tranches of Fixed rate bonds at rates which were consistent or better than organisations with similar ratings.
3. 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.	3. Achieved. 19 tranches of promissory notes were successfully offered for tender or privately placed during the year, plus 1 tranche of Floating rate notes and 2 tranches of Fixed rate bonds were issued at competitive rates.
4. 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 & Poor's credit rating of investment grade or better.	4. 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.
5. Derivatives to protect Dunedin City Council Group debt in accordance with the policies of the Group.	5. Achieved. Interest Rate Risk for the Dunedin City Council Group is managed by Dunedin City Treasury Limited using a portfolio approach where interest rate risk parameters are specified over multiple time frames.
6. 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.	6. Not achieved. The report assessing the company's achievement against the benchmark was implemented from March 2016.

Dunedin City Treasury Limited

Performance Targets	Performance Targets Achieved
7. To manage the 'Waipori Fund' in accordance with the Statement of Policy and Objectives set by Council.	7. Achieved - The 'Waipori Fund' recorded a return for the year of \$3,971,981 which is a return of 4.8%. After deduction of inflation of 0.4%, the 'real' return is 4.4%.
8. Complete a review of the Company's operations for any potential social or environmental issues by 30 June 2016.	8. Not achieved. A review of the Company's operations for any potential social or environmental issues was last carried out prior to 30 June 2014.

Dunedin City Treasury Limited

STATEMENT OF COMPREHENSIVE INCOME For the Year Ended 30 June 2016

	Note	2016 \$'000	2015 \$'000
Financial Income	3	36,448	39,018
Subvention Receipt		7	-
Ineffectiveness on fair value hedge (gain)		90	-
Total Income		36,545	39,018
Less Expenses:			
Financial expenses	4	35,765	38,445
Operating Expenses	5	619	572
Ineffectiveness on fair value hedge (loss)		-	331
Total Expenditure		36,384	39,348
Surplus/(Loss) before tax		161	(330)
Income tax expense/(benefit)	6	122	(107)
Surplus/(Loss) for the Year		39	(223)
Other Comprehensive Income:			
Gain/(loss) of cash flow hedges taken to equity		(9,441)	(7,198)
Gain/(loss) of cash flow hedges to related parties taken to equity		2,777	7,944
Deferred taxation impact of cash flow hedge movements		209	(209)
Total Other Comprehensive Income for the year, net of tax		(6,455)	537
Total Comprehensive Income for the year		(6,416)	314

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 2016

	Share Capital \$'000	Hedge Reserve \$'000	Retained Earnings \$'000	Total Equity \$'000
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
Equity as at 1 July 2015	100	537	(68)	569
Total comprehensive income	-	(6,455)	39	(6,416)
Equity as at 30 June 2016	100	(5,918)	(29)	(5,847)

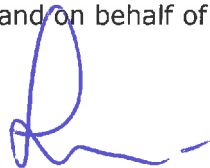
The accompanying notes and accounting policies form an integral part of these audited financial statements.

Dunedin City Treasury Limited

BALANCE SHEET As at 30 June 2016

	Note	2016 \$'000	2015 \$'000
Equity			
Share capital	8	100	100
Retained earnings and Reserves	9	(5,947)	469
Total Equity		(5,847)	569
Current Liabilities			
Short term borrowings	11	2,857	4,808
Trade and other payables	12	6,246	6,723
Derivative financial instruments	13	272	2,095
Provision for tax		17	(6)
Total current liabilities		9,392	13,620
Non-Current Liabilities			
Term borrowings	11	573,413	585,128
Derivative financial instruments	13	31,187	20,670
Deferred taxation	6	-	105
Total non-current liabilities		604,600	605,903
Total Liabilities		613,992	619,523
TOTAL EQUITY AND LIABILITIES		608,145	620,092
Current Assets			
Cash and cash equivalents	10	12,617	13,281
Trade and other receivables	19	6,315	6,202
Derivative financial instruments	13	272	2,095
Prepayments		483	365
Investments	18	23,388	17,224
Total current assets		43,075	39,167
Non-Current Assets			
Investments	18	531,247	556,430
Derivative financial instruments	13	33,823	24,495
Property, plant and equipment	20	-	-
Total non-current assets		565,070	580,925
TOTAL ASSETS		608,145	620,092

For and on behalf of the Board of Directors


G W Crombie Chair


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 2016

	Note	2016 \$'000	2015 \$'000
Cash Flows from Operating Activities			
<i>Cash was provided from</i>			
Receipts from customers		156	1,246
Interest received		36,942	37,304
		<u>37,098</u>	<u>38,550</u>
<i>Cash was disbursed to</i>			
Payments to suppliers and employees		618	572
Interest paid		38,919	38,556
Income tax paid / (received)		-	3
		<u>39,537</u>	<u>39,131</u>
Net Cash Inflows/(Outflows) from Operating Activities	21	(2,439)	(581)
Cash Flows from Investing Activities			
<i>Cash was provided from</i>			
Net investments realised		19,020	4,792
		<u>19,020</u>	<u>4,792</u>
<i>Cash was disbursed to</i>			
Net purchase of investments		-	-
		<u>-</u>	<u>-</u>
Net Cash Inflows / (Outflows) from Investing Activities		19,020	4,792
Cash Flows from Financing Activities			
<i>Cash was provided from</i>			
Net proceeds from borrowings		-	-
		<u>-</u>	<u>-</u>
<i>Cash was disbursed to</i>			
Net repayment of borrowings		17,245	25,516
		<u>17,245</u>	<u>25,516</u>
Net Cash Inflows/(Outflows) from Financing Activities		(17,245)	(25,516)
Net Increase/(Decrease) in Cash, Cash Equivalents and Bank Overdraft		(664)	(21,305)
Cash and cash equivalents at the beginning of the year		<u>13,281</u>	<u>34,586</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	10	12,617	13,281

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 2016

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 2016.

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 and the Companies 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 Board on 7 September 2016.

Basis of Accounting

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

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

Changes in Accounting Policy

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

Dunedin City Treasury Limited

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 on-going 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

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.

Borrowing Costs

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

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

Income tax expense includes components relating to both current and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net surplus as reported in the statement of comprehensive income 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.

Dunedin City Treasury Limited

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.

Impairment of financial assets

Financial Assets are assessed for objective evidence of impairment at each balance date. Impairment losses are recognised in the surplus or loss.

Impairment is established when there is objective evidence that the company will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, receivership, or liquidation and default in payments are considered indicators that the asset is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. For debtors and other receivables, the carrying amount of the asset is reduced through the use of an allowance accounts, and the amount of the loss is recognised in the surplus or loss. When the receivable is uncollectible, it is written-off against the allowance account. Overdue receivables that have been renegotiated are reclassified as current (that is, not past due). Impairment in term deposits, local authority stock, government bonds, and community loans, are recognised directly against the instrument's carrying amount.

For equity investments, a significant or prolonged decline in the fair value of the investment below its cost is considered objective evidence of impairment.

For debt investments, significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered objective indicators that the asset is impaired.

If impairment evidence exists for investments at fair value through other comprehensive income, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognised in the surplus or loss) recognised in other comprehensive income is reclassified from equity to the surplus or loss.

Equity instrument impairment losses recognised in the surplus ore loss are not reversed through the surplus or loss.

If in a subsequent period the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impaired loss is reversed on the surplus or loss.

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 statement of comprehensive income.

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 re-measured 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 accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The company designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges), or
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

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.

The gain or loss from re-measuring the hedging instrument at fair value, along with the changes in the fair value on the hedged item attributable to the hedged risk, is recognised in the surplus or loss. Fair value hedge account is applied only for hedging fixed interest risk on borrowings.

If the hedge relationship no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the surplus or loss over the period to maturity.

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 statement of comprehensive income. 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 statement of comprehensive income in the same period in which the hedged item affects net surplus or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the statement of comprehensive income 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.

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.

Dunedin City Treasury Limited

3. FINANCIAL INCOME

	2016 \$'000	2015 \$'000
Interest on advances to related parties	35,966	34,391
Fees from related parties	161	3,688
Interest on other investments	321	939
Total financial income	36,448	39,018

4. FINANCIAL EXPENSES

	2016 \$'000	2015 \$'000
Interest and fees - related parties	16	53
Interest and fees - term loans	35,749	38,392
Total financial expenses	35,765	38,445

5. OPERATING EXPENSES

	2016 \$'000	2015 \$'000
Audit fees - for audit of financial statements	21	20
Related Party Management Fees	300	300
Other expenses	298	252
Total operating expenses	619	572

6. INCOME TAX

	2016 \$'000	2015 \$'000
Operating surplus before income tax	161	(330)
Tax thereon at 28%	45	(92)
<i>Plus/(Less) the Tax Effect of Differences</i>		
Revenue not liable for taxation	(27)	-
Expenditure not deductible for taxation	-	-
Deferred tax adjustment	104	-
Under/(over) tax provision in prior years	-	(15)
Tax effect of differences	77	(15)
Tax expense	122	(107)

The Taxation charge is represented by:

Current tax	18	-
Prior period adjustment	-	(3)
Deferred tax	104	(104)
Tax Expense	122	(107)

Dunedin City Treasury Limited

Deferred Tax Liability	Derivatives \$'000	Tax losses \$'000	Total \$'000
Balance as at 1 July 2014	-	-	-
Charge to surplus/(loss)	(93)	(11)	(104)
Charge to other comprehensive income	209	-	209
Balance as at 30 June 2015	116	(11)	105
Balance as at 1 July 2015	116	(11)	105
Charge to surplus (loss)	93	11	104
Charge to other comprehensive income	(209)	-	(209)
Balance as at 30 June 2016	-	-	-

A deferred tax asset has not been recognised in relation to temporary differences of \$5,918,000.

7. IMPUTATION CREDIT ACCOUNT

	2016 \$'000	2015 \$'000
Imputation credits available for use in subsequent periods	66	62

8. EQUITY - SHARE CAPITAL

	2016 \$'000	2015 \$'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.

9. RETAINED EARNINGS AND RESERVES

	2016 \$'000	2015 \$'000
Retained Earnings at the beginning of the year	(68)	155
Surplus for the year	39	(223)
Balance at the end of the year	(29)	(68)
Hedge Reserve at the beginning of the year	537	-
Gain/(loss) loss of cash flow hedges taken to Equity	(6,664)	746
Deferred taxation impact of cash flow hedge movements	209	(209)
Balance at the end of the year	(5,918)	537
Total Retained Earnings & Reserves	(5,947)	469

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of the cash flow hedging instruments relating to interest payments that have not yet occurred.

Dunedin City Treasury Limited

10. CASH AND CASH EQUIVALENTS

	2016 \$'000	2015 \$'000
Cash at Bank	617	714
Short term deposits	12,000	12,567
	<u>12,617</u>	<u>13,281</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% (2015 0.0%).

The weighted average effective interest rate for deposits is 2.25% (2015 3.25%).

11. FINANCIAL LIABILITIES

BORROWINGS

	2016 \$'000	2015 \$'000
Current		
Short term borrowing	857	1,314
Related parties	2,000	3,494
Total Current borrowing	<u>2,857</u>	<u>4,808</u>
Non-current		
Promissory notes issued	64,619	86,719
Bonds issued	508,794	498,409
Total Term borrowing	<u>573,413</u>	<u>585,128</u>
Total borrowings	<u>576,270</u>	<u>589,936</u>

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

Three independent banks have underwritten the facility to an amount of \$130.0 million (2015 \$135 million).

The amount of unamortized premium or (discount) on bonds on issue at 30 June 2016 is nil (2015 nil).

The tender of promissory notes under the multi-option facility generally raises debt for a term of 90 days before being re-tendered. In addition to this, the issue of floating rate notes under the multi-option facility also raises floating rate debt. This type of borrowing is executed at the floating rate at the date of drawdown or at the start of the floating rate reset and exposes the group to cash flow interest rate risk. Interest rate derivatives are taken out to manage that risk. Floating rate debt is also created by converting fixed rate bond issuance from fixed to floating using interest rate swaps. The associated credit risk from each derivative is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Dunedin City Treasury Limited

Term Borrowings		2016 \$'000	2015 \$'000
	<i>Interest Rate</i>		
Promissory Notes		64,619	86,719
Floating Notes 15/10/15	90bp over BKM	-	50,000
Floating Notes 15/4/16	107bp over BKM	-	90,000
Bonds 15/11/16	Coupon rate 6.79%	50,000	50,000
Floating Notes 15/2/17	80bp over BKM	20,000	20,000
Bonds 15/10/17	Coupon rate 7.81%	60,000	60,000
Floating Notes 7/10/17	38bp over BKM	20,000	20,000
Floating Notes 15/5/18	43bp over BKM	20,000	20,000
Bonds 17/7/18	Coupon rate 6.57%	50,000	50,000
Bonds 17/12/18	Coupon rate 6.85%	15,000	15,000
Bonds 16/11/20	Coupon rate 5.56%	50,000	50,000
Bonds 15/4/21	Coupon rate 3.15%	30,000	-
Bonds 25/11/21	Coupon rate 4.88%	70,000	70,000
Floating Notes 15/10/22	56bp over BKM	50,000	-
Bonds 15/4/26	Coupon rate 3.98%	65,000	-
Fair Value Impact on Bonds		8,794	3,409
		573,413	585,128

Contractual Maturity Analysis of Term Borrowings	2016 \$'000	2015 \$'000
The following is a maturity analysis of the Company's borrowings:		
Less than one year	70,000	140,000
Weighted average interest rate	5.75%	4.61%
Later than one year but not more than five	379,619	321,719
Weighted average interest rate	4.88%	5.56%
Later than five years	123,794	123,409
Weighted average interest rate	3.51%	5.22%
	573,413	585,128

While these are the contractual maturities of the Company's term borrowings, the Company expects and has the discretion to refinance term borrowings under the Multi-option debt issuance facility. As per the face of the accounts, the Company has therefore determined that all term borrowings are non-current as per the provisions of NZ IAS 1.

Fair Value of Borrowings

Interest rate swaps are fair valued using forward interest rates extracted from observable yield curves. Debt instruments are fair valued using a discounted cash flow approach, which discounts the contractual cash flows using discount rates derived from observable market prices of other quoted debt instruments of the counterparties.

Directors estimate the fair value of the company's borrowings at year end to be as follows:

	2016 \$'000	2015 \$'000
Total borrowings	586,526	604,459

Dunedin City Treasury Limited

12. TRADE AND OTHER PAYABLES

	2016 \$'000	2015 \$'000
Due to related parties - DCC Group	2,000	-
Accruals	4,246	6,723
	<u>6,246</u>	<u>6,723</u>

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

13. DERIVATIVE FINANCIAL INSTRUMENTS

	2016 \$'000	2015 \$'000
Assets:		
Interest rate swaps- cash flow hedges - DCHL Group	9,734	3,021
Interest rate swaps- cash flow hedges - DCC Group	15,808	19,744
Interest rate swaps- cash flow hedges - Bank	-	747
Interest rate swaps- fair value hedges - Bank	8,553	3,078
	<u>34,095</u>	<u>26,590</u>
Liabilities:		
Interest rate swaps-cash flow hedges - Bank	31,459	22,765
	<u>31,459</u>	<u>22,765</u>

The ineffective portion recognised in the Statement of Comprehensive Income that arises from fair value hedges amounts to a profit of \$89,450 (2015 \$(331,122) loss). This represents the current year net movement in the value of the fair value hedge swaps of \$5.475 million (gain) and fair value hedge adjustment to debt of \$5.385 million (loss).

14. INTEREST RATE SWAPS

	2016 \$'000	2015 \$'000
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The notional principal outstanding with regard to the interest rate swaps is:

Counterparties outside the group:

<i>Maturing in less than one year</i>	15,000	120,400
<i>Maturing between one and five years</i>	200,000	120,000
<i>Maturing after five years</i>	409,000	286,500
	<u>624,000</u>	<u>526,900</u>

Counterparties within the Dunedin City Council group:

<i>Maturing in less than one year</i>	15,000	120,400
<i>Maturing between one and five years</i>	150,000	120,000
<i>Maturing after five years</i>	63,000	108,000
	<u>228,000</u>	<u>348,400</u>

15. CONTINGENT LIABILITIES

	2016 \$'000	2015 \$'000
Performance bonds	950	1,698

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.

Dunedin City Treasury Limited

16. CAPITAL EXPENDITURE COMMITMENTS

The company has no capital expenditure commitments (2015 nil).

17. COMMITMENTS

(i) Non-Cancellable Operating Lease Commitments

The company has no non-cancellable operating leases (2015 nil).

(ii) Undrawn Facilities

The level of committed facilities undrawn at 30 June 2016 amounts to \$130.0 million (2015 \$135.0 million).

18. FINANCIAL ASSETS

INVESTMENTS	2016 \$'000	2015 \$'000
Current		
Advances to DCC Group	17,738	17,175
Advances to DCHL Group	5,275	-
Investment at Bank	350	-
Mortgage Recoverables	25	49
Total Current Investments	23,388	17,224
Non-Current		
Advances to DCC Group	197,862	324,321
Advances to DCHL Group	333,385	232,109
Total Non-Current investments	531,247	556,430
Total Investments	554,635	573,654

Maturity Analysis of Investments	2016 \$'000	2015 \$'000
The following is a maturity analysis of the company's investments.		
Maturity within one year	23,388	17,224
Weighted average interest rate	6.71%	6.57%
Maturity one to five years	72,228	83,152
Weighted average interest rate	6.70%	6.58%
Maturity over five years	459,019	473,278
Weighted average interest rate	6.36%	6.28%
Total Investments	554,635	573,654
Weighted average interest rate	6.42%	6.33%

On 30 June 2016, the ownership of Dunedin Venues Limited and Dunedin Venues Management Limited was transferred from the Dunedin City Council to Dunedin City Holdings Limited. The increase in Advances to DCHL Group in 2016 over the 2015 balance reflects this ownership change. Similarly, there has been a corresponding reduction in the 2016 balance from 2015 in the Advances to DCC Group.

The carrying amount of investments approximate their fair value.
There have been no indications of impairment of any investment.

Dunedin City Treasury Limited

19. TRADE AND OTHER RECEIVABLES	2016 \$'000	2015 \$'000
Interest due from related parties - DCHL Group	3,600	1,998
- DCC	2,513	4,129
Other current receivables	202	75
	<u>6,315</u>	<u>6,202</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.

No accounts receivable at balance date are past due.

20. PROPERTY, PLANT AND EQUIPMENT	2016 \$'000	2015 \$'000
Cost		
Balance at beginning of year	15	15
Disposals	(15)	-
Balance at end of year	<u>-</u>	<u>15</u>
Accumulated depreciation		
Balance at beginning of year	15	15
Depreciation on Disposals	(15)	-
Balance at end of year	<u>-</u>	<u>15</u>
Total Property, Plant and Equipment	<u>-</u>	<u>-</u>

21. RECONCILIATION OF NET SURPLUS FOR THE YEAR TO CASHFLOWS FROM OPERATING ACTIVITIES	2016 \$'000	2015 \$'000
Net surplus/(loss) for the year after taxation	39	(223)
<i>Items Not Involving Cash Flows</i>		
Fair value change in SWAPS	(90)	331
Deferred Tax	105	(105)
	<u>54</u>	<u>3</u>
<i>Impact of Changes in Working Capital Items</i>		
(Increase)/Decrease in receivables	(113)	(386)
(Increase)/Decrease in prepayments	(118)	90
Increase / (Decrease) in trade and other payables	(2,285)	(261)
Increase / (Decrease) in provisions	23	(27)
Net cash inflows / (outflows) from operating activities	<u>(2,439)</u>	<u>(581)</u>

Dunedin City Treasury Limited

22. CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

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

	2016 \$'000	2015 \$'000
Loans and receivables		
Cash and cash equivalents (note 10)	12,617	13,281
Trade and other receivables (note 19)	6,315	6,202
Investments (note 18)	554,635	573,654
Total loans and receivables	573,567	593,137

Financial assets at fair value through equity

Derivative financial instrument assets (note 13)	34,095	26,590
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Financial liabilities measured at amortised cost

Trade and other payables (note 12)	6,246	6,723
Borrowings (note 11)	573,413	589,936
Total financial liabilities measured at amortised cost	579,659	596,659

Financial liabilities at fair value through equity

Derivative financial instrument liabilities (note 13)	31,459	22,765
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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.

	Carrying value	Fair Value	Valuation Technique		
			Quoted market price	Observable inputs	Significant non- observable inputs
	\$000	\$000	\$000	\$000	\$000
30 June 2016					
Cash and cash equivalents	12,617	12,617	-	12,617	-
Trade and other receivables	6,315	6,315	-	-	6,315
Investments	554,635	554,635	-	554,635	-
Financial Assets					
Derivatives	34,095	34,095	-	34,095	-
Financial Liabilities					
Derivatives	31,459	31,459	-	31,459	-

Dunedin City Treasury Limited

	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	-
Financial Assets					
Derivatives	26,590	26,590	-	26,590	-
Financial Liabilities					
Derivatives	22,765	22,765	-	22,765	-

23. 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/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

Dunedin City Treasury Limited

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 18 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.

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, 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, 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.

Dunedin City Treasury Limited

Sensitivity Analysis

As at the 30 June 2016 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.

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 10), investments (note 18) 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:

	2016	2015
	\$'000	\$'000
Cash and cash equivalents	12,617	13,281
Debtors and other receivables	6,315	6,202
Related party loans	554,260	573,605
Loans - other	25	47
Derivative financial instrument assets	34,095	26,590
Total Credit Risk	607,312	619,725

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 2016	AA	AA-	No rating
	\$'000	\$'000	\$'000
<i>Counterparties with credit ratings</i>			
Cash and cash equivalents AA-		12,617	
Debtors – related parties AA	2,513		
Debtors AA-		199	
Derivative financial instruments – related parties AA	15,808		
Derivative financial instruments AA-		8,553	
Loans – related parties AA	215,600		

<i>Counterparties without credit ratings</i>			
Debtors - related parties			3,603
Loans - related parties			338,660
Derivative financial instruments - related parties			9,734
Loans - other			25

Last year 30 June 2015	AA	AA-	No rating
	\$'000	\$'000	\$'000
<i>Counterparties with credit ratings</i>			
Cash and cash equivalents AA-		13,281	
Debtors – related parties AA	2,262		
Debtors AA-		75	
Derivative financial instruments – related parties AA	19,744		
Derivative financial instruments AA-		3,825	
Loans – related parties AA	238,116		

<i>Counterparties without credit ratings</i>			
Debtors - related parties			3,863
Loans - related parties			335,489
Derivative financial instruments - related parties			3,021
Loans - other			49

Counter parties without credit rating, there have been no defaults during the year (2015 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 \$130.0 million (2015 \$135.0 million).

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 2016 was 2.41% (2015 3.26%).

Contractual maturity analysis of financial assets

	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
2016 Year						
Cash and cash equivalents	12,617	12,617	12,617	-	-	-
Debtors and other receivables	6,315	6,315	6,315	-	-	-
Derivative financial instruments	34,095	36,342	8,992	8,330	12,592	6,428
Investments	554,635	659,865	50,857	51,067	557,941	-
Total	607,662	715,139	78,781	59,397	570,533	6,428
2015 Year						
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

Contractual maturity analysis of financial liabilities

	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
2016 Year						
Creditors and other payables	6,246	6,246	6,246	-	-	-
Derivative financial instruments	31,459	49,536	10,235	9,855	23,759	5,687
Borrowings	576,270	635,493	161,295	118,521	219,154	136,523
Total	613,975	691,275	177,776	128,376	242,913	142,210

Dunedin City Treasury Limited

	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
2015 Year						
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

The maturity profiles of the Company's interest bearing investments and borrowings are disclosed in notes 18 and 11 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.

24. 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:

	2016 \$'000	2015 \$'000
Sales of services to the Group		
Interest income DCHL Group	14,139	12,292
Interest income DCC Group	21,827	22,093
Financial services DCHL Group	10	2,012
Financial services DCC Group	151	1,515
Subvention Receipt	7	-
	<u>36,134</u>	<u>37,912</u>
Purchases of services from the Group		
Interest – DCHL Group	-	20
Interest – DCC Group	16	33
Administration and office services	311	313
	<u>327</u>	<u>366</u>

Dunedin City Treasury Limited

	2016	2015
	\$'000	\$'000
Advances		
Opening balance	573,605	578,174
Plus additional advances	124,961	239,461
Less repayments	(144,306)	(244,030)
Balance at end of year	554,260	573,605
Deposits		
Opening balance	3,494	5,650
Plus additional advances	3,926	7,917
Less repayments	(5,420)	(10,073)
Balance at end of year	2,000	3,494

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

	2016	2015
	\$'000	\$'000
Receivable from related parties in the Dunedin City Council Group (including DCHL Group)	585,918	602,573
Payable to related parties in the Dunedin City Council Group (including DCHL Group)	2,001	3,494

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

	2016	2015
	\$'000	\$'000
Receivable from Dunedin City Holdings Limited	33,708	37,369
Payable to Dunedin City Holdings Limited	-	-

Compensation of key management personnel

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

	2016	2015
	\$'000	\$'000
Short-term benefits	-	14

The management of Dunedin City Treasury Limited underwent change during the 2015 financial 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.

25. 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 2016

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

Opinion

We have audited:

- the financial statements of the company on pages 11 to 34, that comprise the balance sheet as at 30 June 2016, 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 and 10.

In our opinion:

- the financial statements of the company:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2016; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.
- the performance information of the company presents fairly, in all material respects, the company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the company's objectives, for the year ended 30 June 2016.

Our audit was completed on 7 September 2016. 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 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 the 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 appropriateness of the reported performance information within the company's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and 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' responsibilities arise from the Local Government Act 2002.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements and the 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 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 'Scott Tobin', with a long horizontal line extending from the top of the signature.

Scott Tobin
Audit New Zealand
On behalf of the Auditor-General
Dunedin, New Zealand