LGFA
NEW ZEALAND
LOCAL GOVERNMENT
FUNDING AGENCY

ANNUAL Report

30 JUNE 2014

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Cover and left: Whangarei's river crossing, 'Te Matau a Pohe' (the Fish Hook of Pohe), forms a new portion of the highway network aimed at reducing congestion in the city centre and improving access to the airport and Whangarei Heads.


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GOVERNANCE STRUCTURE

Shareholders, governance and management structure for the LGFA as at 30 June 2014.

LGFA Shareholders

Auckland Council
Bay of Plenty Regional Council
Christchurch City Council
Gisborne District Council
Greater Wellington Regional Council
Hamilton City Council
Hastings District Council
Hauraki District Council
Horowhenua District Council
Hutt City Council
Kapiti Coast District Council
Manawatu District Council
Marlborough District Council
Masterton District Council
New Plymouth District Council
Otorohanga District Council
Palmerston North City Council
Selwyn District Council
South Taranaki District Council
Tasman District Council
Taupo District Council
Tauranga City Council
Thames-Coromandel District Council
Waimakariri District Council
Waipa District Council
Wanganui District Council
Wellington City Council
Western Bay of Plenty District Council
Whakatane District Council
Whangarei District Council
New Zealand Government

LGFA Shareholders Council

Alan Adcock, Whangarei District Council
Chairman
Richard Briggs, Hamilton City Council
Mohan De Mel, Tauranga City Council
Mike Drummond, Tasman District Council
Douglas Marshall, Selwyn District Council
Matt Potton, Western Bay of Plenty District Council
Martin Read, Wellington City Council
Mat Taylor, Bay of Plenty Regional Council
Mike Timmer, Greater Wellington Regional Council
Damian Zelas, New Zealand Government

LGFA Board

Craig Stobo, Independent Chairman
Mark Butcher (resigned 30 June 2014 to take up Chief Executive Position)
Paul Anderson (Formerly Christchurch City Council)
John Avery, Independent
Philip Cory-Wright, Independent
Abigail Foote, Independent

LGFA Executive

Mark Butcher, Chief Executive Officer (from 1 July 2014)
Neil Bain, Chief Financial Officer

Left: Britomart train station is the public transport hub in the CBD of Auckland. The station is designed to serve up to 10,500 passengers during the peak hour.

CHAIRMAN'S REPORT

"During the last financial year we have overseen an increase in eligible borrowers, total borrowings, debt maturities, and operating profits, while reducing the base margin for borrowers and providing a steady dividend for shareholders."

Craig Stobo, Chairman LGFA Board

Directors of the New Zealand Local Government Funding Agency are pleased to report a satisfactory performance for the financial year to June 2014. During the last financial year we have overseen an increase in eligible borrowers, total borrowings, debt maturities, and operating profits, while reducing the base margin for borrowers and providing a steady dividend for shareholders.

Continued investor support has resulted in a reduction in the interest rate margins over benchmark government bonds for the Agency's bonds, the issuance of over a billion dollars (ensuring necessary liquidity for investors) and enabled the issuance of two new maturities – the 2021 and 2023 bonds. Due to our on-lending programme, Councils now have access to five bond maturities, and new longer tenors than in previous years.

Our investor base has widened from New Zealand Government institutions, local banks, fund managers and retail investors to now include non-resident institutional investors from Australia, Asia and the UK/Europe. From a zero base in the last financial year, the latter now represent over 15% of the Agency's investor register and include overseas central banks, private banks and institutional investors. Directors consider the growing support of non-resident investors to be critical to the continued success of the Agency's future borrowing programme, by increasing the liquidity of our bonds and leading to further margin reduction.

The continued performance of the Agency reflects increased support from the local authority sector. As at 30 June 2014, the number of eligible borrowers has increased from 40 in 2013 to 43 in 2014, while lending to council members has increased by $1.2 billion to a total of $3.7 billion at year end. We are pleased that early in the financial year, we were able to support borrowers by further reducing the base lending margin by five basis points to 15 basis points.

Local authority sector support is strong. Council borrowers representing approximately 90% of sector debt continue to use the Agency. Assuming savings for the sector of 25 basis points, we estimate interest cost savings to the sector of approximately $14 million over the last year.

Right: Upgrade to the Water Treatment Plant at Kerepehi, Hauraki District Council

The Agency's larger borrowing programme during the year resulted in net interest income of $10.2 million at year-end, almost twice that of the previous year.

Net operating profits for the year to 30 June 2014 rose to $6.9 million from $2.6 million in the previous financial year. This has meant that the Agency's original issued shareholder capital has been more than restored following a period of investment in the business and has enabled an annual dividend for the 2013-14 year of $1.765 million to be declared for our 30 local authority and Crown shareholders.

In the year ahead directors will be focussed on increasing the range of lending services provided to meet our council borrowers' funding needs; widening our investor base; and building LGFA's in-house capability to manage its own back office services.

The Agency's work cannot be implemented without the services of our staff, fellow directors and the NZ Debt Management Office, all of whose services should be acknowledged. In particular I want to thank the Agency's inaugural Chief Executive Philip Combes who retired in June 2014. Mr Combes successfully executed the Agency's business plans and gave it market credibility. His successor as Chief Executive is Mark Butcher, formerly Treasurer at Auckland Council, and also a former director of the Agency. Directors believe the Agency's future remains strong and look forward to working with all stakeholders in the year ahead.

STATEMENT OF SERVICE PERFORMANCE

Wet Oxidation Pilot Plant, joint project between
Rotorua District Council and Scion: the Terax Pilot Plan

STATEMENT OF SERVICE PERFORMANCE

Performance Against Objectives and Performance Targets

1 Primary objective

LGFA operates with the **primary objective** of optimising the debt funding terms and conditions for participating local authorities. Among other things this includes:

1.1 **Providing estimated savings in annual interest costs for all Participating Local Authorities of at least 30 basis points, based on the methodology set out in LGFA's Annual Report 2011-12**

LGFA measures the pricing performance of bond tenders against two key benchmarks:

- LGFA aims to reduce its margin over New Zealand Government bonds (NZGBs) in accordance with its Statement of Intent (SOI) performance target.
- LGFA also aims to minimise its margin over swap rates to provide cost effective funding to councils.

We have met our primary objective by achieving improvement in the pricing of our benchmark 15 December 2017 and 15 March 2019 bonds since they were first issued. These bonds are regarded as our benchmark bonds because they have large volumes outstanding, the most liquidity and greatest frequency of issuance.

Over the course of the twelve months ended 30 June 2014:

- LGFA margins to NZGB improved by 12 bps and 5 bps respectively for the December 2017 and March 2019 maturities.
- LGFA margins to swap improved by 18 bps and 17 bps respectively for our December 2017 and March 2019 bonds.

These secondary market pricing movements are summarised in the following tables:

15 December 2017	30 Jun 2013 (bps)	30 June 2014 (bps)	Pricing movement
LGFA margin to NZ Government Bonds	73	61	12
NZGB margin to swap	(40)	(46)	(6)
LGFA margin to swap	33	15	18

15 March 2019	30 Jun 2013 (bps)	30 June 2014 (bps)	Pricing movement
LGFA margin to NZ Government Bonds	77	72	5
NZGB margin to swap	(37)	(49)	(12)
LGFA margin to swap	40	23	17

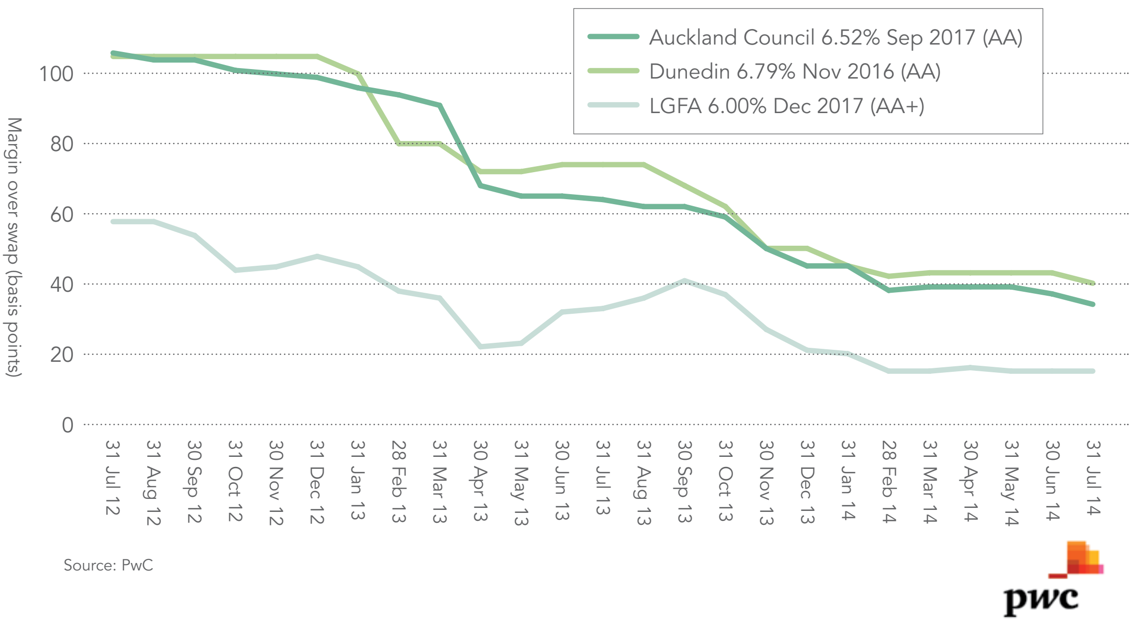
STATEMENT OF SERVICE PERFORMANCE

While LGFA margins have improved to both NZGB and swap rates, our estimate of annual interest cost savings for councils has fallen below the 30 bps target. This is because margins to swap for our benchmark councils (Auckland and Dunedin) also improved over the past year, in part due to the success of LGFA.

From the charts below we estimate that as at end June 2014, LGFA was saving AA rated councils approximately:

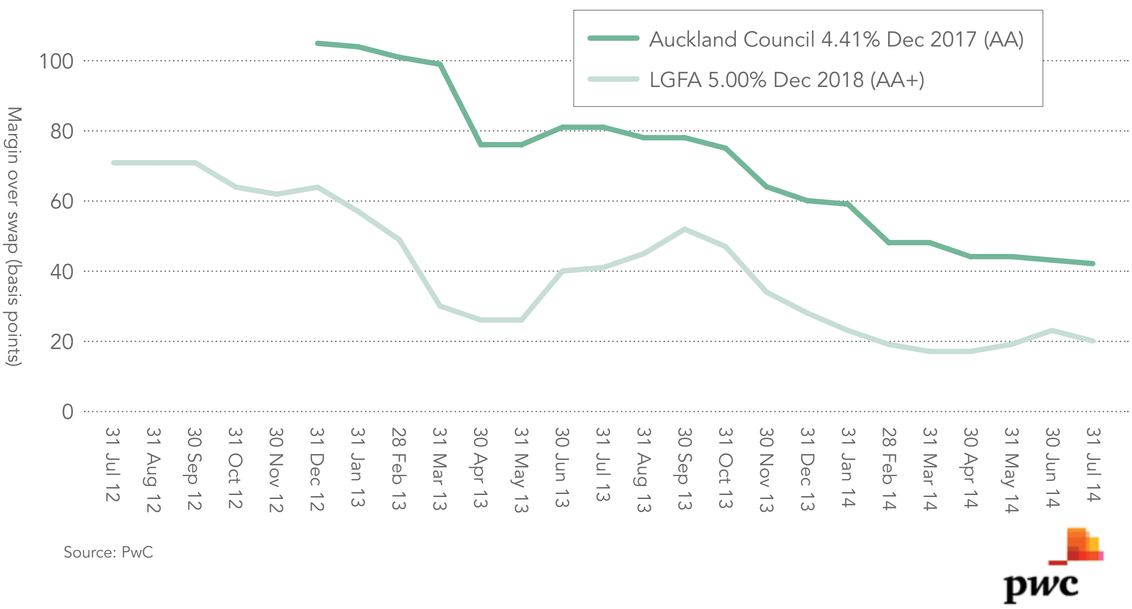
- 18 to 28 bps in annual interest costs on a December 2017 maturity, and
- 21 bps in annual interest costs on a March 2019 maturity.

LGFA December 2017 secondary market credit margin over swaps



Source: PwC

LGFA December 2019 secondary market credit margin over swaps



Source: PwC

The basis for these estimates is set out in the following table:

	December 2017 maturity (bps)	March 2019 maturity (bps)
AA rated councils margin to swap*	37 to 48	49
Less: LGFA margin to swap	(15)	(23)
LGFA Funding Advantage	22 to 33	26
Less: LGFA Base Margin	(15)	(15)
LGFA Net Funding Advantage	7 to 18	11
Add: 'LGFA Effect' **	10	10
Total saving for AA rated councils	**17 to 28**	**21**

* For the 2017 bond, the benchmark councils are Auckland (37 bps) and Dunedin (48 bps). For the 2019 bond, the benchmark is Auckland. Dunedin does not have a 2019 bond on issue.

** The 'LGFA effect' represents the estimated conservative reduction in AA rated councils' margin to swap as a result of LGFA operations. From May to June 2012, the margin to swap for AA rated councils fell by 10 bps, with no corresponding move in swap spreads for other borrowers. This suggests that potential access to cost effective LGFA funding has enabled these councils to reduce their borrowing margin by around 10 bps.

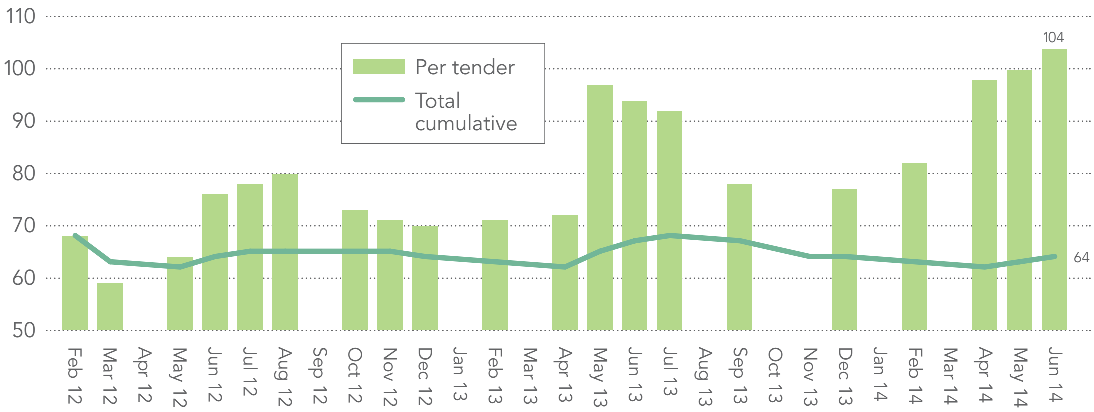
1.2 **Making longer term borrowings available to participating local authorities**

Over the past year, LGFA offered two maturity dates for borrowing in excess of seven years to participating councils:

- 15 May 2021 bond (seven years), first issued at the twelfth bond tender held on 15 May 2013, and
- 15 April 2023 bond (nine years), first issued at the nineteenth bond tender held on 2 April 2014.

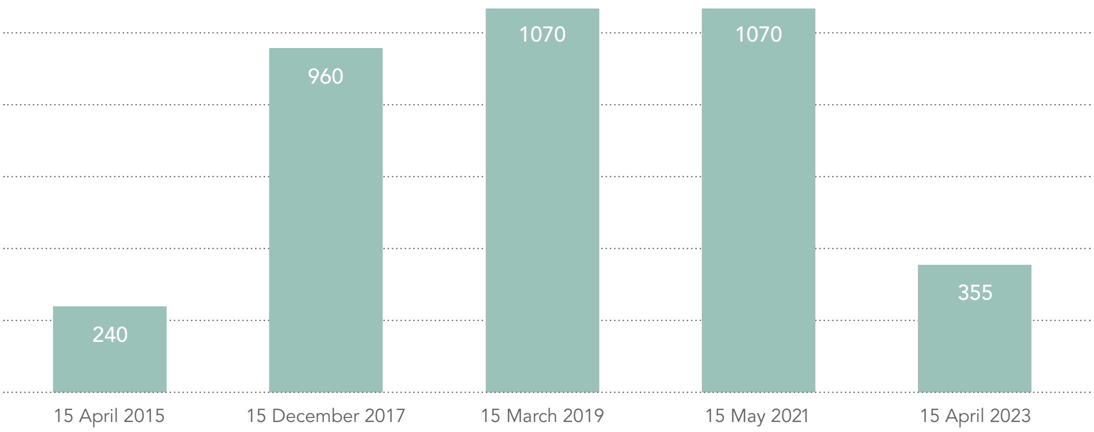
The following chart shows the average months to maturity for bonds issued at tender, and the aggregate average months to maturity for all bonds outstanding at each tender:

Average total months to maturity



The following chart shows the total LGFA bond outstandings by maturity as at 30 June 2014:

LGFA bond outstandings ($ million)



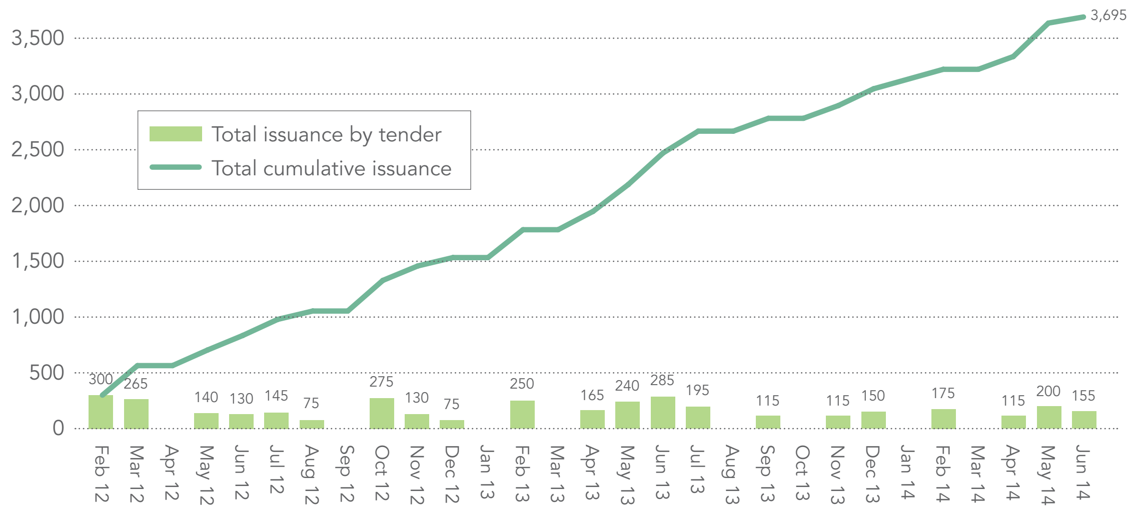
Over the 2013-14 year LGFA issued $1.22 billion of debt with 77% of the issuance concentrated in the May 2021 and April 2023 maturities.

Increase in LGFA debt by maturity 2013-14 ($ million)					
Apr 15	Dec 17	Mar 19	May 21	Apr 23	Total
75	110	95	585	355	1220

1.3 Enhancing the certainty of access to debt markets for Participating Local Authorities, subject always to operating in accordance with sound business practice

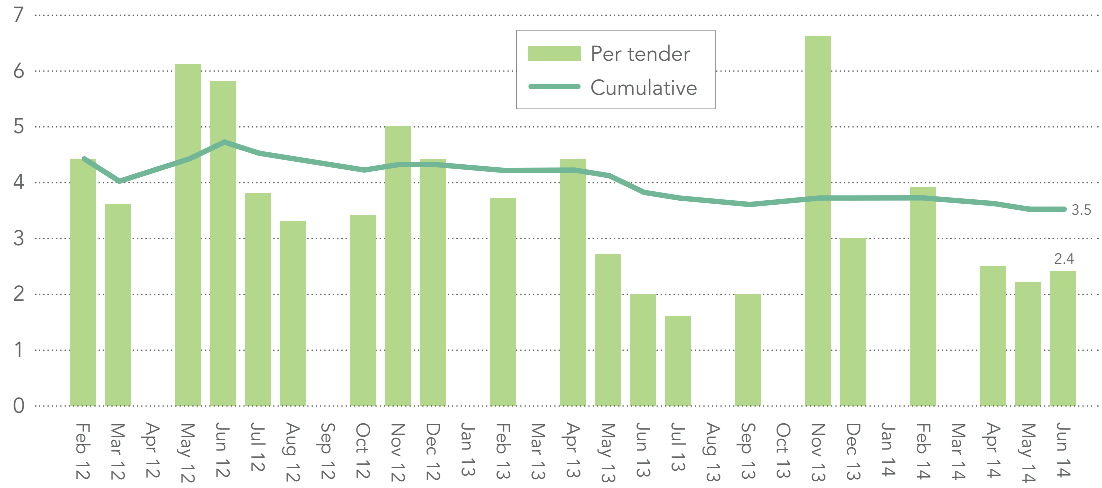
LGFA held eight tenders during the 2013-14 year, with an average tender volume of $152.5 million. The volume offered at each tender ranged from $115 million to $200 million. Total issuance during 2013-14 was $1.22 billion, bringing outstandings of LGFA bonds to $3.695 billion.

LGFA bond issuance by tender ($ million)



Over the 2013-14 year, total bids received across all tenders was $3.534 billion for the $1.220 billion of LGFA bonds offered resulting in a coverage ratio of 2.9 times. The LGFA cover ratio for each tender and the cumulative ratio for all tenders is shown in the following chart.

Tender cover ratio



While the coverage ratio for the past year is lower than the average coverage ratio of 3.5 times since LGFA first commenced issuing in February 2012, this is not surprising given the longer duration of LGFA bonds being tendered and the smaller tranche sizes being offered in the shorter dated LGFA maturities. Furthermore, offshore investor demand for LGFA securities has been noted in the secondary market rather than at LGFA tenders.

With bonds issued now totalling $3.695 billion, it is also pleasing to note that total bids received amount to $13.04 billion since LGFA commenced borrowing.

While LGFA issues fixed coupon debt to investors, Councils were provided the choice of either fixed or floating rate borrowing for their borrowing from LGFA. During 2013-14, 30% of borrowing by Councils from LGFA was fixed rate borrowing.

2 Additional objectives

LGFA has a number of additional objectives which complement the primary objective. These additional objectives are to:

2.1 Operate with a view to making a profit sufficient to pay a dividend in accordance with its stated Dividend Policy set out in section 6 of the Statement of Intent

The LGFA's policy is to pay a dividend that provides an annual rate of return to shareholders equal to LGFA cost of funds plus 2% over the medium term.

Due to higher lending volumes and expenditure being contained close to budget, net operating profit in the year ended 30 June 2014 was $6.974 million (before dividend).

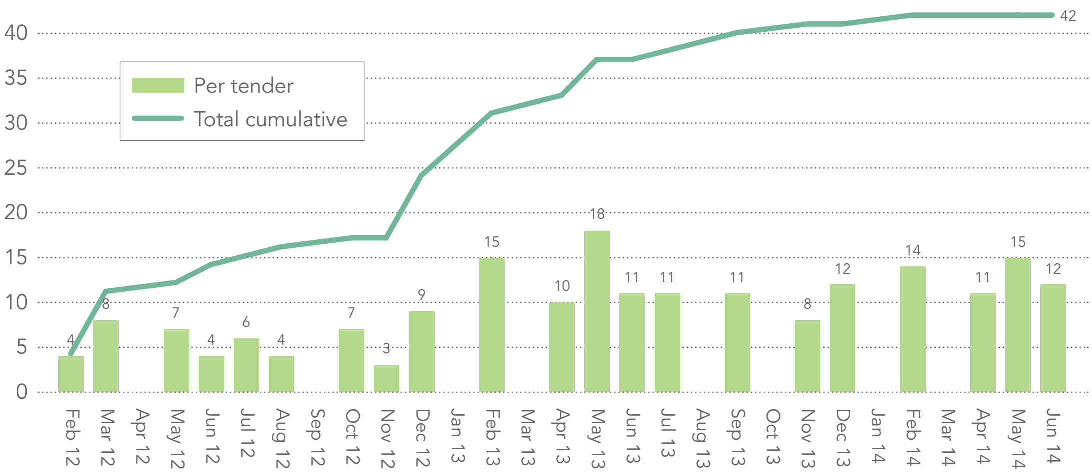
Due to this strong financial result, a dividend of $1.765 million has been declared by the LGFA Board for the year to June 2014. This is calculated on the LGFA cost of funds for the 2013-14 year of 5.06% plus the 2% margin.

2.2 **Provide at least 50% of aggregate long-term debt funding for Participating Local Authorities**

Councils have strongly supported LGFA and by 30 June 2014, 42 (out of 43) participating councils have borrowed from LGFA.

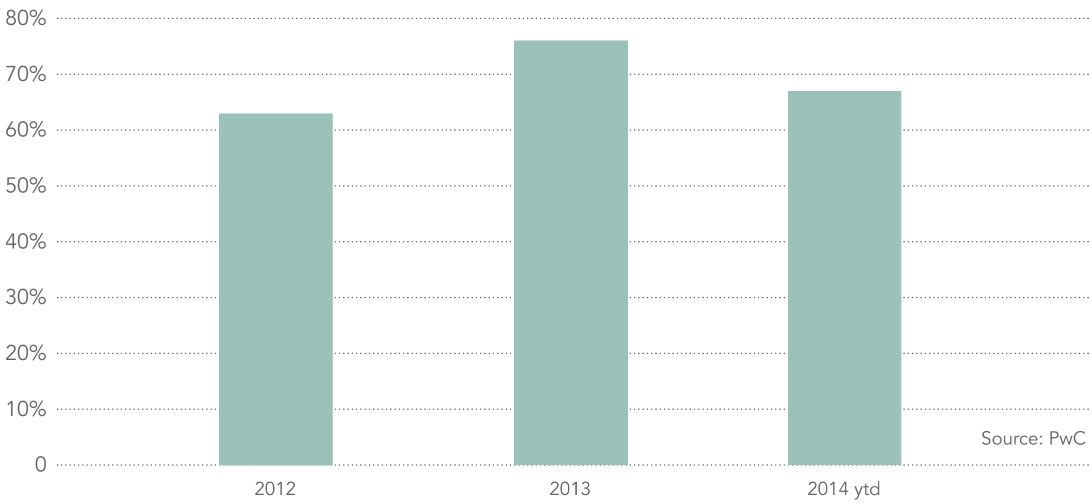
The strong council support for LGFA is demonstrated in the following chart which shows the progression of council participation from LGFA's commencement of issuance in February 2012.

Participating councils



The following chart shows LGFA's share of new local government debt issuance in the 2012 and 2013 calendar years and for the first six months of 2014. Our share of new long-term borrowing by the sector, including non-members of LGFA, was estimated at 67% for the six months to June 2014.

LGFA Share of Local Government Debt Issuance



Source: PwC

2.3 **Ensure its products and services are delivered at a cost that does not exceed the forecast for issuance and operating expenses set out in section 4 of the Statement of Intent**

Issuance and Operating Expenses for the 2013-14 year were $3.245 million compared to a SOI forecast of $3.2 million.

Over the course of the year, operating expenses were below budget, and issuance and on-lending costs were above budget.

2.4 **Maintain LGFA's credit rating equal to the New Zealand Government sovereign rating where both entities are rated by the same Rating Agency**

On 7 November 2013, Standard & Poor's (S&P) affirmed LGFA's local currency credit rating at AA+ and foreign currency credit rating at AA. The outlook on both ratings is stable.

On 26 November 2013, Fitch affirmed LGFA's local currency credit rating at AA+ and foreign currency credit rating at AA. The outlook on both ratings is stable.

Both the S&P and Fitch ratings for LGFA are the same as, and are capped by, New Zealand's sovereign credit ratings.

2.5 **Achieve the Financial Forecasts set out in section 4 of the Statement of Intent**

LGFA's financial results for key items set out in section 4 of the SOI for the year to 30 June 2014 are:

In $ million	30 Jun 2014 Actual	SOI Forecast
Total Net Income (net of borrower notes)	11.998	9.840
Overheads	(3.245)	(3.20)
Borrower Notes Interest	(1.779)	-
Net Profit	**6.974**	**6.640**

Due to the larger than forecast borrowing by Councils from LGFA the Total Net income and Net Profit was higher than forecast.

2.6 **Meet or exceed the Performance Targets outlined in section 5**

Current performance targets		Target	Result	Outcome
1	Average cost of funds relative to NZGS	<0.50%	0.85%	No (i)
2	Average base on lending margin above LGFA's cost of funds	<0.25%	0.15%	Yes
3	Annualised issuance and operating expenses	<$3.2 million	$3.245 million	No (ii)
4	Lending to participating councils	>$3,400 million	$3,696 million	Yes

(i) The average cost of funds relative to NZGS has remained similar to last year (0.84%) and has been within a 0.71% and 0.97% range during the year. The margin has not narrowed to our target because of the disproportionate amount of longer dated LGFA bonds issued (and hence a wider margin) over the year.

(ii) The annualised issuance and operating expenses were $45,000 above budget.

2.7 **Comply with its Treasury Policy, as approved by the Board**

(i) There was a breach of Treasury Policy during the 2013-14 year when the PDH and VaR limits were exceeded over the period 15 May to 27 May 2014 as the consequence of a hedging swap execution error. The error was corrected in appropriate time and there was no financial loss incurred by LGFA as a consequence of the limit breaches. LGFA and NZDMO have agreed procedural changes to mitigate the risk of a similar future breach of limits.

(ii) One of the Foundation Policies states "No more than the greater of NZD 100 million or 25% of a LG's borrowings from the LGFA will mature in any 12-month period".

As at 30 June 2014, our two largest borrowing councils have borrowings in a single LGFA maturity that is greater than both $100 million and 25% of their total borrowing from LGFA. This non-compliance is due to LGFA having until April 2014 only four borrowing maturities available to Councils. This non-compliance is expected to be remedied by June 2015 as the number of LGFA borrowing maturities increase.

FINANCIAL STATEMENTS

The Wairere Drive roundabout was completed as part of the Wairere Drive Extension Project. The roundabout forms part of the Hamilton City urban major arterial network, and provides provision for a future connection to the proposed Waikato Expressway.

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DIRECTORS' DECLARATION

In the opinion of the directors of the New Zealand Local Government Funding Agency Limited, the financial statements and notes on pages 22 to 45:

- comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Company as at 30 June 2014, and
- have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

The directors believe that proper accounting records have been kept which enables, with reasonable accuracy, the determination of the financial position of the Company and facilitates the compliance of the financial statements with the Financial Reporting Act 1993.

The directors consider that they have taken adequate steps to safeguard the assets of the Company, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of the financial statements.

For and on behalf of the Board of Directors:

C. Stobo, Director
26 September 2014

A. Foote, Director
26 September 2014

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2014 *in $000s*

	Note	Year ended **2014**	Year ended 2013
Interest income from			
Cash and cash equivalents		1,251	577
Loans to local government		122,201	59,544
Marketable securities		-	208
Deposits		1,248	834
Derivatives		24,415	12,564
Fair value hedge ineffectiveness	2(d)	-	-
Total interest income		**149,115**	**73,727**
Interest expense on			
Bonds		137,117	67,195
Borrower notes		1,779	859
Total interest expense		**138,896**	**68,054**
Net interest income		10,219	5,673
Operating expenses			
Issuance and on-lending expenses	3	1,464	1,199
Operating expenses	4	1,781	1,843
Total expenses		**3,245**	**3,042**
Net operating profit		**6,974**	**2,632**
Total comprehensive income for the year		**6,974**	**2,632**

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2014 *in $000s*

	Note	Share Capital	Retained earnings	Total equity
Equity as at 30 June 2012	9	25,000	(4,243)	20,757
Net operating profit		-	2,632	2,632
Total comprehensive income for the year		-	2,632	2,632
Equity as at 30 June 2013	9	**25,000**	**(1,611)**	**23,389**
Net operating profit		-	6,974	6,974
Total comprehensive income for the year		-	6,974	6,974
Transactions with owners:				
Dividend paid		-	(1,515)	(1,515)
Equity as at 30 June 2014		**25,000**	**3,848**	**28,848**

These statements are to be read in conjunction with the notes to the financial statements

STATEMENT OF FINANCIAL POSITION

For the year ended 30 June 2014 *in $000s*

	Note	2014	2013
Assets			
Financial assets			
Cash and cash equivalents		55,126	41,932
Trade and other receivables		40	51
Loans to local government	5	3,742,471	2,514,946
Marketable securities		-	-
Deposits		46,542	24,322
Derivatives in gain	2	73,779	106,725
Non-financial assets			
Prepayments		226	238
Property, plant and equipment		2	9
Total assets		**3,918,187**	**2,688,223**
Equity			
Share capital		25,000	25,000
Retained earnings		3,848	(1,611)
Total equity		**28,848**	**23,389**
Liabilities			
Financial liabilities			
Trade and other payables		253	436
Accrued expenses		194	137
Bonds	6	3,825,301	2,623,589
Borrower notes	7	61,892	40,672
Derivatives in loss	2	1,699	-
Total liabilities		**3,889,339**	**2,664,834**
Total equity and liabilities		**3,918,187**	**2,688,223**

These statements are to be read in conjunction with the notes to the financial statements

STATEMENT OF CASH FLOWS

For the year ended 30 June 2014 *in $000s*

	Note	Year ended **2014**	Year ended 2013
Cash flow from operating activities			
Cash applied to loans to local government		(1,223,789)	(1,679,276)
Interest paid on bonds issued		(159,066)	(67,346)
Interest received from cash and cash equivalents		1,252	577
Interest received from loans to local government		118,464	56,588
Interest received from marketable securities		-	666
Interest received on deposits		1,028	804
Net interest on derivatives		47,843	15,315
Payments to suppliers and employees		(3,346)	(2,669)
Net cash flow from operating activities	8	**(1,217,615)**	**(1,675,341)**
Cash flow from investing activities			
Maturity (Purchase) of marketable securities		-	10,250
Purchase of deposits		(22,000)	(600)
Purchase of plant and equipment		-	-
Net cash flow from investing activities		**(22,000)**	**9,650**
Cash flow from financing activities			
Dividend paid		(1,515)	-
Cash proceeds from borrower notes		19,440	26,592
Cash proceeds from bonds issued		1,260,763	1,769,012
Cash applied to derivatives		(25,879)	(106,344)
Net cash flow from financing activities		**1,252,809**	**1,689,260**
Net increase in cash		**13,194**	**23,569**
Cash and cash equivalents at beginning of year		41,932	18,363
Cash and cash equivalents at end of year		**55,126**	**41,932**

These statements are to be read in conjunction with the notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS

1 Statement of accounting policies

a) Reporting Entity

The New Zealand Local Government Funding Agency Limited (LGFA) is a company registered under the Companies Act 1993 and is subject to the requirements of the Local Government Act 2002.

LGFA is controlled by participating local authorities and is a council-controlled organisation as defined under section 6 of the Local Government Act 2002. LGFA is a limited liability company incorporated and domiciled in New Zealand.

The primary objective of LGFA is to optimise the debt funding terms and conditions for participating local authorities.

The registered address of LGFA is Level 13, 342 Lambton Quay, Wellington Central, Wellington 6011.

The financial statements are as at, and for the year ended, 30 June 2014.

These financial statements were authorised for issue by the Directors on 26 September 2014.

b) Statement of compliance

LGFA is registered under the Companies Act 1993 and is a reporting entity as defined by the Financial Reporting Act 1993. LGFA is a profit orientated entity as defined under the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

From 1 April 2014, the new Financial Reporting Act 2013 has come into force replacing the Financial Reporting Act 1993. This is effective for all for-profit entities with reporting periods beginning on or after 1 April 2014. This will be effective for LGFA's 30 June 2015 year end. It is expected that the change in legislation will have no material impact on LGFA's obligation to prepare general purpose financial statements.

The financial statements and accounting policies comply with the specific recognition, measurement and disclosure requirements of NZ IFRS and New Zealand Generally Accepted Accounting Practice (NZGAAP). The financial statements comply with International Financial Reporting Standards.

c) Basis of Preparation

Measurement base

The financial statements have been prepared on a historical cost basis modified by the revaluation of certain assets and liabilities.

The financial statements are prepared on an accrual basis.

Functional and presentation currency

The financial statements are presented in New Zealand dollars rounded to the nearest thousand, unless separately identified. The functional currency of LGFA is New Zealand dollars.

Foreign currency conversions

Transactions denominated in foreign currency are translated into New Zealand dollars using exchange rates applied on the trade date of the transaction.

Changes in accounting policies

There have been no changes in accounting policies.

Early adoption standards and interpretations

The following accounting standard has been early adopted by LGFA.

NZ IFRS 9: *Financial Instruments*. The first two phases of this new standard (which is incomplete as at 30 June 2014) were approved by the Accounting Standards Review Board in November 2009 and November 2010. The standard addresses the issues of classification and measurement of financial assets and financial liabilities and becomes effective for annual reporting periods commencing on or after 1 January 2015.

Standards not yet adopted

LGFA does not consider any standards or interpretations in issue but not yet effective to have a significant impact on its financial statements. Those which may be relevant to LGFA are as follows:

- Amendments to NZ IAS 32: Financial Instruments: Disclosures. Effective for periods beginning on or after 1 January 2014. This amendment provides clarification on the ability to set-off financial instruments.
- NZ IFRS 9: Financial Instruments (2013) Effective for periods beginning on or after 1 January 2018. This standard aligns hedge accounting more closely with risk management activities of the entity.
- NZ IFRS 9: Financial Instruments (2014) Effective for periods beginning on or after 1 January 2018. This standard adds requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit.

d) Financial instruments

Financial assets

Financial assets, other than derivatives, are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method.

Cash and cash equivalents include cash on hand; cash in transit, bank accounts and deposits with an original maturity of no more than three months.

Purchases and sales of all financial assets are accounted for at trade date.

At each balance date an assessment is made whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Financial liabilities

Financial liabilities, other than derivatives, are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method.

Derivatives

Derivative financial instruments are recognised both initially and subsequently at fair value. They are reported as either assets or liabilities depending on whether the derivative is in a net gain or net loss position respectively.

Fair value hedge

Where a derivative qualifies as a hedge of the exposure to changes in fair value of an asset or liability (fair value hedge) any gain or loss on the derivative is recognised in profit and loss together with any changes in the fair value of the hedged asset or liability.

The carrying amount of the hedged item is adjusted by the fair value gain or loss on the hedged item in respect of the risk being hedged. Effective parts of the hedge are recognised in the same area of profit and loss as the hedged item.

NOTES TO THE FINANCIAL STATEMENTS

e) Other assets

Property, plant and equipment (PPE)

Items of property, plant and equipment are initially recorded at cost.

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an item of property, plant and equipment, less any estimated residual value, over its remaining useful life.

f) Other liabilities

Employee entitlements

Employee entitlements to salaries and wages, annual leave and other similar benefits are recognised in the profit and loss when they accrue to employees.

g) Revenue and expenses

Revenue

Interest income

Interest income is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period.

Expenses

Expenses are recognised in the period to which they relate.

Interest expense

Interest expense is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash payments through the expected life of the financial liability to that liability's net carrying amount. The method applies this rate to the principal outstanding to determine interest expense each period.

Income tax

LGFA is exempt from income tax under Section 14 of the Local Government Borrowing Act 2011.

Goods and services tax

All items in the financial statements are presented exclusive of goods and service tax (GST), except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the IRD is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as a net operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

h) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

i) Segment reporting

LGFA operates in one segment being funding of participating local authorities in New Zealand.

j) Judgements and estimations

The preparation of these financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. For example, the present value of large cash flows that are predicted to occur a long time into the future depends critically on judgements regarding future cash flows, including inflation assumptions and the risk-free discount rate used to calculate present values. Refer note 2b for fair value determination for financial instruments.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Where these judgements significantly affect the amounts recognised in the financial statements they are described below and in the following notes.

2 Analysis of financial assets and financial liabilities

a) Categories of financial instruments

The fair value of financial assets and financial liabilities, together with the carrying amounts shown in the Statement of Financial Position, are as follows:

As at 30 June 2014 *in $000s*	Financial liabilities at amortised cost	Financial assets at amortised cost	Financial assets measured at fair value in accordance with IFRS 9	Fair value
Financial assets				
Cash and bank	-	55,126	-	55,126
Trade & other receivables	-	40	-	40
Loans to local government	-	3,742,471	-	3,786,785
Deposits	-	46,542	-	46,516
Derivatives	-	-	73,779	73,779
		3,844,180	**73,779**	**3,962,246**
Financial liabilities				
Trade & other payables	253	-	-	253
Bonds	3,825,301	-	-	3,853,808
Borrower notes	61,892	-	-	61,403
Derivatives		-	1,699	1,699
	3,887,446	**-**	**1,699**	**3,917,163**

As at 30 June 2013 *in $000s*	Financial liabilities at amortised cost	Financial assets at amortised cost	Financial assets measured at fair value in accordance with IFRS 9	Fair value
Financial assets				
Cash and bank	-	41,932	-	41,932
Trade & other receivables	-	51	-	51
Loans to local government	-	2,514,946	-	2,544,753
Deposits	-	24,322	-	24,322
Derivatives	-	-	106,725	106,725
		2,581,251	**106,725**	**2,717,783**
Financial liabilities				
Trade & other payables	436	-	-	436
Bonds	2,623,589	-	-	2,638,742
Borrower notes	40,672	-	-	40,581
	2,664,697	**-**	**-**	**2,679,759**

Cash and bank, trade & other receivables, trade & other payables

The carrying value of cash and bank, trade & other receivables, trade & other payables approximate their fair value as they are short-term instruments.

Marketable securities and bonds

The fair value of bonds is determined using the quoted price for the instrument (Fair value hierarchy level 1).

Deposits

The fair value for deposits is determined using a discounted cash flow analysis. The interest rates used to discount the estimated cash flows are based on current market interest rates (Fair value hierarchy level 2).

Loans to local government

The fair value of loans to local government authorities is determined using a discounted cash flow analysis. The interest rates used to discount the estimated cash flows are based on LGFA bond yields at the reporting date plus an appropriate credit spread to reflect the counterparty's credit risk (Fair value hierarchy level 2).

Borrower notes

The fair value of borrower notes is determined using a discounted cash flow analysis. The interest rates used to discount the estimated cash flows are based on LGFA bond yields at the reporting date (Fair value hierarchy level 2).

Derivative financial instruments

The fair value of derivative financial instruments is determined using a discounted cash flow analysis. Interest rates represent the most significant assumption used in valuing derivative financial instruments. The interest rates used to discount estimated cash flows are based on the New Zealand dollar swap curves at the reporting date (Fair value hierarchy level 2).

b) Fair value

The fair values of financial instruments recognised in the Statement of Financial Position are determined according to the following hierarchy:

- *Level 1* – Quoted market prices: Fair value based on quoted prices in active markets for identical assets or liabilities.
- *Level 2* – Valuation techniques using observable market inputs: Fair value based on a valuation technique using other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- *Level 3* – Valuation techniques using significant non-observable market inputs: Fair value based on a valuation technique using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the fair value is categorised shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

As at 30 June 2014 *in $000s*	Level 1	Level 2	Level 3	Total fair value
Financial assets				
Derivatives	-	73,779	-	73,779
	-	**73,779**	**-**	**73,779**
Financial liabilities				
Derivatives	-	1,699	-	1,699
	-	**1,699**	**-**	**1,699**

As at 30 June 2013 *in $000s*	Level 1	Level 2	Level 3	Total fair value
Financial assets				
Derivatives	-	106,725	-	106,725
	-	**106,725**	**-**	**106,725**

c) Financial risk management

The Board of Directors has overall responsibility for carrying out the business of LGFA in accordance with risk management policies, including those relating to investing, lending, borrowing and treasury activities. The use of financial instruments exposes LGFA to a number of financial risks, the most significant being market risk, credit risk, and liquidity risk. The exposure and management of these risks is outlined below.

Market risk

Market risk is the risk that changes in market prices will affect LGFA's income or value of financial instruments. The most significant market risk which LGFA is exposed to is interest rate risk. LGFA has no significant exposure to foreign exchange risk.

Interest rate risk

Interest rate risk is the risk that future cash flows or the fair value of financial instruments will decrease because of a change in market interest rates. LGFA is exposed to interest rate risk through its interest-bearing financial assets and liabilities. Interest rate risk is managed by matching the interest rate repricing profile of its assets against the repricing profile of its liabilities. Where mismatches occur, interest rate swaps are used to economically convert the repricing profile of financial liabilities.

The table below indicates the effective interest rate and the earliest period in which interest-bearing financial instruments reprice.

As at 30 June 2014 *in $000s*	Face value	Less than 6 months	6 months to 1 year	1 year to 2 years	2 years to 5 years	More than 5 years
Financial assets						
Cash and bank	55,126	55,126	-	-	-	-
Loans to local government	3,696,000	2,805,500	28,000	-	432,500	430,000
Deposits	46,000	46,000	-	-	-	-
Financial liabilities						
Bonds	(3,695,000)	-	(240,000)	-	(2,030,000)	(1,425,000)
Borrower notes	(59,136)	(44,888)	(448)	-	(6,920)	(6,880)
Derivatives	-	(2,812,700)	212,000	-	1,601,200	999,500
Total	**42,990**	**49,038**	**(448)**	**-**	**(3,220)**	**(2,380)**

As at 30 June 2013 *in $000s*	Face value	Less than 6 months	6 months to 1 year	1 year to 2 years	2 years to 5 years	More than 5 years
Financial assets						
Cash and bank	41,932	41,932	-	-	-	-
Loans to local government	2,481,000	1,962,000	-	25,000	130,500	363,500
Deposits	24,000	24,000	-	-	-	-
Financial liabilities						
Bonds	(2,475,000)	-	-	(165,000)	(850,000)	(1,460,000)
Borrower notes	(39,696)	(31,392)	-	(400)	(2,088)	(5,816)
Derivatives	-	(1,960,700)	-	140,000	720,500	1,100,200
Total	**32,236**	**35,840**	**-**	**(400)**	**(1,088)**	**(2,116)**

Interest rate sensitivity

Changes in interest rates impact the fair value of fixed rate assets and liabilities, cash flows on floating rate assets and liabilities, and the fair value and cash flows of interest rate swaps. A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) profit or loss and equity by the amounts shown in the following table.
This analysis assumes that all other variables remain constant

As at 30 June 2014 *in $000s*	**2014** Profit and loss		2013 Profit and loss	
	100 bps increase	100 bps decrease	100 bps increase	100 bps decrease
Fair value sensitivity analysis				
Derivatives	(116,912)	123,459	(89,519)	95,132
Fixed rate liabilities	116,912	(123,459)	89,519	(95,132)
	-	-	-	-
Cash flow sensitivity analysis				
Variable rate assets	28,055	(28,055)	19,620	(19,620)
Variable rate liabilities	(449)	449	(314)	314
Derivatives	(28,127)	28,127	(19,607)	19,607
	(521)	**521**	(301)	301

Credit risk

Credit risk is the risk of financial loss if a counterparty to a financial instrument fails to meet its contractual obligations. LGFA is exposed to credit risk through its lending and investing activities.

Credit risk associated with lending activities is managed by requiring local authorities that borrow from LGFA to meet specific credit lending criteria and to provide security against the borrowing. The LGFA's credit risk framework restricts credit exposures to specific counterparties.

Credit risk associated with investing activities, excluding on-lending, is managed by only investing with New Zealand Government Agencies or counterparties that meet a minimum credit rating of A (Standard & Poor's equivalent). The LGFA's credit risk framework limits concentrations of credit risk for any particular counterparty.

Exposure to credit risk

LGFA monitors the concentration of credit risk by the type of counterparty. The carrying value and maximum exposure to credit risk at the reporting date, before taking account of collateral or other credit enhancements, for significant counterparty types are shown in the table below.

As at 30 June 2014 *in $000s*	NZ Government agencies	NZ local authorities	NZ registered banks	Other counter-parties	Total carrying value
Financial assets					
Cash and bank balances	54,566	-	560	-	55,126
Trade & other receivables	-	-	-	40	40
Loans to local government	-	3,742,471	-	-	3,742,471
Deposits	-	-	46,542	-	46,542
Derivatives	73,779	-	-	-	73,779
	128,345	**3,742,471**	**47,102**	**40**	**3,917,959**

As at 30 June 2013 *in $000s*	NZ Government agencies	NZ local authorities	NZ registered banks	Other counter-parties	Total carrying value
Financial assets					
Cash and bank balances	41,401	-	531	-	41,932
Trade & other receivables	51	-	-	-	51
Loans to local government	-	2,514,946	-	-	2,514,946
Deposits	-	-	24,322	-	24,322
Derivatives	106,725	-	-	-	106,725
	148,177	**2,514,946**	**24,853**	**-**	**2,687,976**

Collateral and credit enhancements

LGFA holds collateral against borrowings from local authorities in the form of debenture securities and guarantees.

Credit quality of financial assets

All financial assets are neither past due or impaired. The carrying value of the financial assets is expected to be recoverable.

Liquidity risk

Liquidity risk is the risk that LGFA will encounter difficulty in meeting the obligations of its financial liabilities. LGFA manages liquidity risk by holding cash and a portfolio of liquid assets to meet obligations when they fall due.

The New Zealand Debt Management Office also provide a committed liquidity facility that LGFA can draw upon to meet any exceptional and temporary liquidity shortfall. As at 30 June 2014, the undrawn committed liquidity facility was $400 million (2013: $400 million).

Contractual cash flows of financial instruments

The contractual cash flows associated with financial assets and liabilities are shown in the table below.

As at 30 June 2014 *in $000s*	On demand	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total contract cash flows	Total carrying value
Financial assets							
Cash	55,126	-	-	-	-	55,126	55,126
Trade & other receivables	-	40	-	-	-	40	40
Loans to local government	-	35,894	337,460	2,740,879	1,664,510	4,778,742	3,742,471
Deposits	-	36,730	10,221	-	-	46,950	46,542
Financial liabilities							
Trade & other payables	-	(253)	-	-	-	(253)	(253)
Bonds	-	(26,750)	(422,475)	(2,722,900)	(1,631,500)	(4,803,625)	(3,825,301)
Borrower notes	-	-	(3,384)	(41,497)	(32,640)	(77,521)	(61,892)
Derivatives		(7,045)	44,638	39,597	3,566	80,756	72,080
	55,126	**38,616**	**(33,540)**	**16,079**	**3,936**	**80,215**	**28,813**

As at 30 June 2013 *in $000s*	On demand	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total contract cash flows	Total carrying value
Financial assets							
Cash	41,932	-	-	-	-	41,932	41,932
Trade & other receivables		51	-	-	-	51	51
Loans to local government		22,848	78,540	1,465,664	1,614,711	3,181,764	2,514,946
Deposits		24,415	-	-	-	24,415	24,322
Financial liabilities							
Trade & other payables		(436)	-	-	-	(436)	(436)
Bonds		(24,375)	(114,375)	(1,514,800)	(1,596,050)	(3,249,600)	(2,623,589)
Borrower notes		-	-	(19,504)	(31,064)	(50,568)	(40,672)
Derivatives		3,193	41,005	59,713	11,719	115,629	106,725
	41,932	**25,696**	**5,170**	**(8,927)**	**(684)**	**63,187**	**23,279**

d) Hedge accounting

LGFA is exposed to interest rate risk from fixed rate borrowing and variable rate lending to Councils. LGFA manages this interest rate risk through the use of interest rate swaps. For hedge accounting purposes, LGFA has designated these swaps in fair value relationships to its fixed rate borrowing.

The gain or loss on the hedging instrument and the hedged item attributable to the hedged risk for fair value hedge relationships is shown in the table below.

For the year ended 30 June 2014 *in $000s*	**2014** Gain/(loss)	2013 Gain/(loss)
Hedging instruments – interest rate swaps	(37,102)	(54,135)
Hedged item attributable to the hedged risk – fixed rate bonds	37,102	54,135
Ineffectiveness recognised in profit or loss from fair value hedges	**-**	**-**

The gains or losses on the hedging instrument (interest rate swaps) and the hedged item (bonds) are mapped to the same fair value account. For this reason, the Statement of Comprehensive Income will only report any ineffectiveness arising from the fair value hedge.

e) Offsetting

NZ IAS 32: Financial Instruments Presentation allows financial assets and liabilities to be offset only when there is a current legally enforceable right to set off the amounts and there is an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously. LGFA does not offset any amounts. The following table shows amounts subject to an enforceable master netting arrangement or similar agreement that are not offset in the statement of financial position:

For the year ended 30 June 2014 *in $000s*	Derivative assets	Derivative liabilities
Gross amounts	73,779	1,699
Amounts offset	-	-
Carrying amounts	73,779	1,699
Amounts that don't qualify for offsetting		
Financial assets & liabilities	(1,699)	(1,699)
Collateral	-	-
Net amount	**72,080**	**-**

For the year ended 30 June 2013 *in $000s*	Derivative assets	Derivative liabilities
Gross amounts	106,725	-
Amounts offset	-	-
Carrying amounts	106,725	-
Amounts that don't qualify for offsetting		
Financial assets & liabilities	-	-
Collateral	-	-
Net amount	**106,725**	**-**

3 Issuance and on-lending expenses

For the year ended 30 June 2014 *in $000s*	**2014**	2013
NZDMO processing fees	154	146
NZDMO standby facility fee	200	233
Rating agencies fees	515	555
Legal fees for issuance	90	106
Regulatory, registry, other fees	20	20
Trustee fees	110	86
Approved issuer levy	375	53
	1,464	**1,199**

4 Operating expenses

For the year ended 30 June 2014 *in $000s*	**2014**	2013
Consultants	82	2
Directors' fees	283	303
Insurance	60	61
Legal fees	104	264
Other expenses	270	291
Auditor's remuneration		
Statutory audit	80	80
Advisory services*	-	21
Personnel	863	821
Recruitment	39	-
	1,781	**1,843**

** Auditor's remuneration for advisory services relates to review of accounting policies.*

5 Loans to local government

As at 30 June 2014 *in $000s*	Face value	Unamortised premium/ (discount)	Accrued interest	Total
Auckland Council	1,175,000	20,816	6,610	1,202,426
Ashburton District Council	15,000	950	113	16,062
Christchurch City Council	571,500	2,045	2,386	575,931
Far North District Council	10,000	-	53	10,053
Gisborne District Council	10,000	-	13	10,013
Greater Wellington Regional Council	125,000	-	475	125,475
Grey District Council	20,000	685	145	20,830
Hamilton City Council	230,000	-	880	230,880
Hastings District Council	45,000	-	184	45,184
Hauraki District Council	23,000	-	112	23,112
Horizons Regional Council	10,000	-	18	10,018
Horowhenua District Council	33,000	616	273	33,889
Hurunui District Council	8,000	-	19	8,019
Hutt City Council	26,000	350	267	26,617
Kapiti Coast District Council	115,000	-	314	115,314
Manawatu District Council	29,000	303	189	29,492
Marlborough District Council	14,000	(149)	157	14,007
Masterton District Council	35,000	-	110	35,110
Matamata-Piako District Council	24,500	-	61	24,561
Nelson City Council	15,000	-	59	15,059
New Plymouth District Council	46,000	-	131	46,131
Otorohanga District Council	9,000	297	73	9,370
Palmerston North City Council	62,000	-	256	62,256
Queenstown Lakes District Council	50,000	1,240	329	51,569
Rotorua District Council	55,000	760	573	56,333
Selwyn District Council	35,000	-	65	35,065
South Taranaki District Council	42,000	-	109	42,109
Tararua District Council	7,000	-	32	7,032
Tasman District Council	85,000	-	254	85,254
Taupo District Council	80,000	-	330	80,330
Tauranga City Council	220,000	654	1,008	221,662
Thames-Coromandel District Council	35,000	-	83	35,083
Timaru District Council	51,000	61	304	51,366
Upper Hutt City Council	11,000	-	28	11,028
Waikato District Council	35,000	-	78	35,078
Waimakariri District Council	25,000	374	200	25,574
Waipa District Council	13,000	-	22	13,022
Wanganui District Council	24,000	-	77	24,077
Wellington City Council	83,000	-	256	83,256
Western Bay of Plenty District Council	70,000	-	126	70,126
Whakatane District Council	28,000	-	85	28,085
Whangarei District Council	96,000	100	514	96,614
	3,696,000	**29,102**	**17,370**	**3,742,471**

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2013 *in $000s*	Face value	Unamortised premium/ (discount)	Accrued interest	Total
Auckland Council	860,000	19,300	4,559	883,859
Ashburton District Council	10,000	940	75	11,015
Christchurch City Council	390,000	-	415	390,415
Far North District Council	10,000	-	39	10,039
Gisborne District Council	5,000	-	6	5,006
Greater Wellington Regional Council	75,000	-	246	75,246
Grey District Council	15,000	836	108	15,943
Hamilton City Council	195,000	-	444	195,444
Hastings District Council	30,000	-	79	30,079
Hauraki District Council	14,000	-	28	14,028
Horowhenua District Council	23,000	652	190	23,843
Hutt City Council	10,000	376	145	10,522
Kapiti Coast District Council	100,000	-	114	100,114
Manawatu District Council	14,000	408	65	14,473
Masterton District Council	25,000	-	31	25,031
Matamata-Piako District Council	11,000	-	14	11,014
Nelson City Council	10,000	-	24	10,024
New Plymouth District Council	21,000	-	26	21,026
Otorohanga District Council	6,000	266	51	6,317
Palmerston North City Council	32,000	-	47	32,047
Queenstown Lakes District Council	40,000	1,323	245	41,568
Rotorua District Council	20,000	291	291	20,582
Selwyn District Council	35,000	-	49	35,049
South Taranaki District Council	20,000	-	26	20,026
Tasman District Council	36,000	-	61	36,061
Taupo District Council	80,000	-	272	80,272
Tauranga City Council	110,000	308	335	110,642
Thames-Coromandel District Council	12,000	-	12	12,012
Timaru District Council	25,000	73	124	25,197
Waikato District Council	35,000	-	34	35,034
Waimakariri District Council	5,000	470	38	5,508
Waipa District Council	6,000	-	7	6,007
Wanganui District Council	19,000	-	38	19,038
Wellington City Council	30,000	-	84	30,084
Western Bay of Plenty District Council	70,000	-	93	70,093
Whakatane District Council	12,000	-	16	12,016
Whangarei District Council	70,000	-	273	70,273
	2,481,000	**25,242**	**8,704**	**2,514,946**

6 Bonds issued

As at 30 June 2014 *in $000s*		Face value	Unamortised premium	Accrued interest	Fair value hedge adjustment	Total
15 April 2015	6% coupon	240,000	4,257	2,990		
15 December 2017	6% coupon	960,000	51,251	2,361		
15 March 2019	5% coupon	1,070,000	40,424	15,556		
15 May 2021	6% coupon	1,070,000	73,598	8,025		
15 April 2023	5.5% coupon	355,000	4,781	4,054		
Total		**3,695,000**	**174,311**	**32,986**	**(76,996)**	**3,825,301**

As at 30 June 2013 *in $000s*		Face value	Unamortised premium	Accrued interest	Fair value hedge adjustment	Total
15 April 2015	6% coupon	165,000	6,262	2,056		
15 December 2017	6% coupon	850,000	58,372	2,090		
15 May 2021	5% coupon	975,000	47,614	14,174		
15 April 2023	6% coupon	485,000	54,276	3,638		
Total		**2,475,000**	**166,524**	**21,958**	**(39,893)**	**2,623,589**

7 Borrower notes

Borrower notes are subordinated debt instruments (which are required to be held by each local authority that borrows from LGFA in an amount equal to 1.6% of the aggregate borrowings by that local authority).

LGFA may convert borrower notes into redeemable shares if it has made calls for all unpaid capital to be paid in full and the LGFA Board determines it is still at risk of imminent default.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2014 *in $000s*	Face value	Accrued interest	Total
Auckland Council	18,800	1,054	19,854
Ashburton District Council	240	8	248
Christchurch City Council	9,144	368	9,512
Far North District Council	160	6	166
Gisborne District Council	160	4	164
Greater Wellington Regional Council	2,000	99	2,099
Grey District Council	320	11	331
Hamilton City Council	3,680	204	3,884
Hastings District Council	720	28	748
Hauraki District Council	368	13	381
Horizons Regional Council	160	4	164
Horowhenua District Council	528	23	551
Hurunui District Council	128	1	129
Hutt City Council	416	16	432
Kapiti Coast District Council	1,840	82	1,922
Manawatu District Council	464	14	478
Marlborough District Council	224	6	230
Masterton District Council	560	27	587
Matamata-Piako District Council	392	9	401
Nelson City Council	240	6	246
New Plymouth District Council	736	27	763
Otorohanga District Council	144	7	151
Palmerston North City Council	992	29	1,021
Queenstown Lakes District Council	800	32	832
Rotorua District Council	880	36	916
Selwyn District Council	560	41	601
South Taranaki District Council	672	22	694
Tararua District Council	112	2	114
Tasman District Council	1,360	43	1,403
Taupo District Council	1,280	93	1,373
Tauranga City Council	3,520	143	3,663
Thames-Coromandel District Council	560	12	572
Timaru District Council	816	22	838
Upper Hutt City Council	176	2	178
Waikato District Council	560	22	582
Waimakariri District Council	400	5	405
Waipa District Council	208	6	214
Wanganui District Council	384	14	398
Wellington City Council	1,328	45	1,373
Western Bay of Plenty District Council	1,120	77	1,197
Whakatane District Council	448	12	460
Whangarei District Council	1,536	82	1,618
	59,136	**2,756**	**61,892**

As at 30 June 2013 *in $000s*	Face value	Accrued interest	Total
Auckland Council	13,760	414	14,174
Ashburton District Council	160	1	161
Christchurch City Council	6,240	103	6,343
Far North District Council	160	1	161
Gisborne District Council	80	1	81
Greater Wellington Regional Council	1,200	40	1,240
Grey District Council	240	1	241
Hamilton City Council	3,120	86	3,206
Hastings District Council	480	9	489
Hauraki District Council	224	2	226
Horowhenua District Council	368	4	372
Hutt City Council	160	3	163
Kapiti Coast District Council	1,600	27	1,627
Manawatu District Council	224	3	227
Masterton District Council	400	11	411
Matamata-Piako District Council	176	2	178
Nelson City Council	160	1	161
New Plymouth District Council	336	6	342
Otorohanga District Council	96	3	99
Palmerston North City Council	512	5	517
Queenstown Lakes District Council	640	5	645
Rotorua District Council	320	5	325
Selwyn District Council	560	20	580
South Taranaki District Council	320	7	327
Tasman District Council	576	14	590
Taupo District Council	1,280	47	1,327
Tauranga City Council	1,760	53	1,813
Thames-Coromandel District Council	192	1	193
Timaru District Council	400	3	403
Waikato District Council	560	4	564
Waimakariri District Council	80	-	80
Waipa District Council	96	-	96
Wanganui District Council	304	4	308
Wellington City Council	480	16	496
Western Bay of Plenty District Council	1,120	38	1,158
Whakatane District Council	192	3	195
Whangarei District Council	1,120	35	1,155
	39,696	**976**	**40,672**

8 Reconciliation of net profit/(loss) to net cash flow from operating activities

For the year ended 30 June 2014 *in $000s*	**2014**	2013
Net profit/(loss) for the year	6,974	2,632
Cash applied to loans to local government	(1,223,789)	(1,679,276)
Non-cash adjustments		
Amortisation and depreciation	(733)	930
Working capital movements		
Net change in trade debtors and receivables	(157)	393
Net change in prepayments	12	(59)
Net change in accruals	78	39
Net cash flows from operating activities	**(1,217,615)**	**(1,675,341)**

9 Share capital

Share capital

As at 30 June 2014 LGFA had 45 million ordinary shares on issue, 20 million of which remain uncalled. All ordinary shares rank equally with one vote attached to each ordinary share. Ordinary shares are deemed to be valued at $1 each.

As at 30 June 2014 *in $000s*	**2014**		2013	
New Zealand Government	5,000,000	11.1%	5,000,000	11.1%
Auckland Council	3,731,960	8.3%	3,731,960	8.3%
Christchurch City Council	3,731,960	8.3%	3,731,960	8.3%
Hamilton City Council	3,731,960	8.3%	3,731,960	8.3%
Bay of Plenty Regional Council	3,731,958	8.3%	3,731,958	8.3%
Greater Wellington Regional Council	3,731,958	8.3%	3,731,958	8.3%
Tasman District Council	3,731,958	8.3%	3,731,958	8.3%
Tauranga City Council	3,731,958	8.3%	3,731,958	8.3%
Wellington City Council	3,731,958	8.3%	3,731,958	8.3%
Western Bay of Plenty District Council	3,731,958	8.3%	3,731,958	8.3%
Whangarei District Council	1,492,784	3.3%	1,492,784	3.3%
Hastings District Council	746,392	1.7%	746,392	1.7%
Marlborough District Council	400,000	0.9%	400,000	0.9%
Selwyn District Council	373,196	0.8%	373,196	0.8%
Gisborne District Council	200,000	0.4%	200,000	0.4%
Hauraki District Council	200,000	0.4%	200,000	0.4%
Horowhenua District Council	200,000	0.4%	200,000	0.4%
Hutt City Council	200,000	0.4%	200,000	0.4%
Kapiti Coast District Council	200,000	0.4%	200,000	0.4%
Manawatu District Council	200,000	0.4%	200,000	0.4%
Masterton District Council	200,000	0.4%	200,000	0.4%
New Plymouth District Council	200,000	0.4%	200,000	0.4%
Otorohanga District Council	200,000	0.4%	200,000	0.4%
Palmerston North City Council	200,000	0.4%	200,000	0.4%
South Taranaki District Council	200,000	0.4%	200,000	0.4%
Taupo District Council	200,000	0.4%	200,000	0.4%
Thames-Coromandel District Council	200,000	0.4%	200,000	0.4%
Waimakariri District Council	200,000	0.4%	200,000	0.4%
Waipa District Council	200,000	0.4%	200,000	0.4%
Wanganui District Council	200,000	0.4%	200,000	0.4%
Whakatane District Council	200,000	0.4%	200,000	0.4%
	45,000,000	**100%**	**45,000,000**	**100%**

Capital management

LGFA's capital is equity, which comprises share capital and retained earnings. LGFA's equity is largely managed as a result of its revenues, expenses, assets and liabilities incurred in the normal day-to-day operations of the entity. The objective of managing LGFA's equity is to ensure LGFA achieves its goals and objectives for which it has been established, whilst remaining a going concern.

10 Operating leases

The future aggregate minimum lease payments to be made under non-cancellable operating leases are as follows:

For the year ended 30 June 2014	**2014**	2013
Less than one year	84,536	42,268
Between one and five years	281,785	366,321
Total non-cancellable operating leases	**366,321**	**408,589**

The non-cancellable operating lease expense relates to the lease of the thirteenth floor of 342 Lambton Quay, Wellington. For the year-ended 30 June 2014, total payments under the lease were $79,248.

11 Capital commitments

As at 30 June 2014, there are no capital commitments.

12 Contingencies

There are no material contingent liabilities at balance date.

13 Related parties

Identity of related parties

The Company is related to the local authorities set out in the Shareholder Information by shareholding.

The Company operates under a Statement of Intent with the respective local authorities that requires the Company to provide debt to them at the lowest possible interest rates and to enhance their certainty of access to debt markets.

Shareholding local authorities, and non-shareholder local authorities who borrow more than $20 million, are required to enter into a guarantee when they join or participate in LGFA. The guarantee is in respect of the payment obligations of other guaranteeing local authorities to the LGFA (cross guarantee) and of the LGFA itself.

Related party transactions

LGFA was established for the purpose of raising funds from the market to lend to participating councils. The lending to individual councils is disclosed in note 5, and interest income recognised on this lending is shown in the Statement of Comprehensive Income.

The purchase of LGFA borrower notes by participating councils is disclosed in note 7, and the interest expense on these is shown in the Statement of Comprehensive Income.

LGFA has contracted the NZDMO to provide outsourced treasury services for LGFA. Services include operational processing associated with debt issuance, lending to local authorities, settlement services, investments, hedging and measuring risk. In addition, NZDMO provide some accounting services. The NZDMO is an operating unit of the Treasury and provides LGFA with a committed liquidity facility.

OCG were contracted during the financial year to provide recruitment and payroll services.

Transactions with key management personnel

Salaries $599,331

Fees paid to Directors are disclosed in operating overheads in Note 4.

14 Subsequent events

There have been no significant events after balance date that have affected the accuracy of these financial statements.

Subsequent to balance date, LGFA has issued $555 million in bonds through two tenders.

Subsequent to balance date, on 26 September 2014, the Directors of LGFA declared a dividend of $1,765,000 ($0.0706 per share). The dividend is based on the weighted average cost of funds for the 2013-14 year plus 2%.

INDEPENDENT AUDITOR'S REPORT
TO THE READERS OF
NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED'S
FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2014

The Auditor-General is the auditor of New Zealand Local Government Funding Agency Limited (the company). The Auditor-General has appointed me, Graeme Edwards, using the staff and resources of KPMG, to carry out the audit of the financial statements and statement of service performance of the company on her behalf.

We have audited:

- the financial statements of the company on pages 22 to 45, that comprise the statement of financial position as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the company on pages 10 to 17.

Opinion

Financial statements and statement of service performance

In our opinion,

- the financial statements of the company on pages 22 to 45:
    - comply with generally accepted accounting practice in New Zealand;
    - comply with International Financial Reporting Standards; and
    - give a true and fair view of the company's:
        - financial position as at 30 June 2014; and
        - financial performance and cash flows for the year ended on that date; and
    - the statement of service performance of the company on pages 10 to 17:
        - complies with generally accepted accounting practice in New Zealand; and
        - gives a true and fair view of the company's service performance achievements measured against the performance targets adopted for the year ended 30 June 2014.

Other legal requirements

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

Our audit was completed on 26 September 2014. This is the date at which our opinion is expressed.

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

Basis of opinion

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

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

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

An audit also involves evaluating:

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

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

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

Responsibilities of the Board of Directors

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

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

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

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

Responsibilities of the Auditor

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

Independence

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

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

Graeme Edwards
KPMG
On behalf of the Auditor-General
Wellington, New Zealand

BOARD OF DIRECTORS

Interests Register

Name of Director	Nature and extent of interest	
Craig Stobo (Chair)	**Director** Precinct Properties New Zealand Ltd OCG Consulting Ltd Elevation Capital Management Ltd Saturn Portfolio Management Ltd Stobo Group Ltd AIG Insurance NZ Ltd	**General Disclosure** LGNZ Review of insurance arrangements in the Local Government Sector
Paul Anderson	**Officer** CEO, NZ Ski Ltd Christchurch City Council*	**Director** Ecocentral Ltd Creative Licence Ltd
John Avery	**Director** Spider Tracks Ltd Fund Managers Auckland Ltd Regional Facilities Auckland Ltd Strategic Pay Ltd Office Products Depot Strategic Pay Trustee Service Ltd Signify Ltd*	**Trustee** The New Zealand School of Dance Stinger Trust
Mark Butcher**	**Officer** Auckland Council*	**Director** New Zealand Local Government Insurance Corporation Limited
Philip Cory-Wright	**Director** South Port New Zealand Ltd	
Abigail Foote	**Director** BNZ Life Insurance Limited Transpower New Zealand Ltd Z Energy Limited	**Other** Gambling Commissioner*

* Position held during the year, no longer current

** Resigned as Director 30 June 2014 to take up role of LGFA Chief Executive on 1 July 2014.

Remuneration

Non-Executive Directors	2014 ($)
Craig Stobo (Chair)	$75,000
Paul Anderson	$42,500
John Avery	$42,500
Mark Butcher	$35,500[1]
Philip Cory-Wright	$42,500
Abby Foote	$45,000
Total	$283,000

Staff Total remuneration	Staff Numbers 2014
$170,000 to $179,999	1
$230,000 to $239,999	1
$290,000 to $299,999	1
Total staff receiving $100,000 or more	3

1 Director fees for Mark Butcher were paid to Auckland Council.

DIRECTORY

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Right: Masterton District Council, wastewater treatment and disposal plant upgrade. An aerial photo of the construction site at Homebush with the old ponds at the bottom, the outline of the new ponds above them and the land disposal area above that before establishment of grass.

Back cover: The Ferrymead Bridge was being strengthened and widened when the February 2011 earthquake struck, causing significant damage and liquefaction in the riverbed. The bridge was demolished and construction of a new bridge began in 2013. It is scheduled for completion mid-2015.

LGFA

NEW ZEALAND
LOCAL GOVERNMENT
FUNDING AGENCY