

JOINT VENTURE FORESTRY

**MCKAY (1259 OKAU ROAD) FORESTRY JOINT VENTURE
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021**



MCKAY (1259 OKAU ROAD) FORESTRY JOINT VENTURE

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**MCKAY (1259 OKAU ROAD) FORESTRY JOINT VENTURE
STATEMENT OF SERVICE PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2021**

PERFORMANCE TARGETS

1. Financial performance

	Actual 2020/21 \$000	SOI Forecast		
		2020/21 \$000	2021/22 \$000	2022/23 \$000
Net operating surplus/(deficit)	357	(7)	(7)	1,691
Council funding support	7	7	7	9
Net equity	2,146	1,202	1,202	-

2. Silviculture and harvesting

The performance of the joint venture is measured by ensuring that the trees are managed in accordance with accepted silvicultural practice. The joint venture agreement sets out the following regime:

- (a) Planting at 833 stems per hectare.
- (b) Plantation thinned to waste to 360 stems per hectare at age seven years.
- (c) Pruning of 360 stems per hectare to 6.5 metres at age seven years.

Harvesting is not anticipated until 2022/23. Upgrading farm tracks for logging trucks will be required in advance of harvesting. No silvicultural activities, other than inspection and maintenance were required during the year ended 30 June 2021.

Objective: To complete all programmes outlined in the Forest Management Plans and agreements.

Assessment: The regime set out in the joint venture agreement was fully completed historically. Aside from inspection and general maintenance, no further work has been required subsequent to this.

All programmes outlined in the Forest Management Plan for 2020/21 have been completed.

Objective: To report annually in compliance with the agreements.

Assessment: The joint venture forest has been inspected by PF Olsen Limited with reports sent to the owners annually.

**MCKAY (1259 OKAU ROAD) FORESTRY JOINT VENTURE
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2021**

	Note	2020/21 Actual \$	2020/21 Budget \$	2019/20 Actual \$
Income				
Gain on revaluation	2	365,043	-	579,954
Total income		365,043	-	579,954
Expenditure				
Audit fee		3,204	2,000	1,874
Administration and general expenses		1,300	1,800	320
Operations and maintenance		3,254	2,800	7,762
Total expenditure		7,758	6,600	9,956
Surplus/(deficit) before tax		357,285	(6,600)	569,998
Income tax expense		-	-	-
Surplus/(deficit) after tax		357,285	(6,600)	569,998
Other comprehensive revenue and expense		-	-	-
Total comprehensive revenue and expense		357,285	(6,600)	569,997
<i>Attributable to:</i>				
New Plymouth District Council		198,491	(6,600)	317,718
McKay		158,794	-	252,280

The accompanying notes form part of these financial statements.

Budget variations

- Forestry is revalued annually. Due to the number of variables which can impact the valuation any gain or loss is not budgeted for.
- Actual audit fee is higher than budget due to increases in the audit fee to better align fee with actual time required to complete the audit.
- Budgeted administration and general expenses included contingencies as extra costs were expected during the financial year.
- Actual operations and maintenance expenditure is greater than budgeted due to increased insurance premium and additional works.

**MCKAY (1259 OKAU ROAD) FORESTRY JOINT VENTURE
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2021**

	2020/21 Actual \$	2020/21 Budget \$	2019/20 Actual \$
Balance at 1 July	1,782,161	1,202,000	1,202,047
Total comprehensive revenue and expense	357,285	(6,600)	569,998
Contribution from New Plymouth District Council	6,720	6,600	10,116
Balance at 30 June	2,146,166	1,202,000	1,782,161

The accompanying notes form part of these financial statements.

**MCKAY (1259 OKAU ROAD) FORESTRY JOINT VENTURE
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2021**

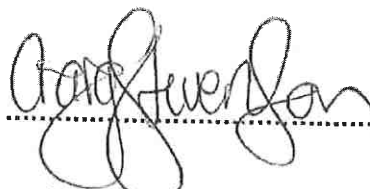
	Note	2020/21 Actual \$	2020/21 Budget \$	2019/20 Actual \$
ASSETS				
Current assets				
Cash and cash equivalents		-	-	-
Total current assets		-	-	-
Non-current assets				
Forestry	2	2,149,552	1,202,000	1,784,509
Total non-current assets		2,149,552	1,202,000	1,784,509
TOTAL ASSETS		2,149,552	1,202,000	1,784,509
LIABILITIES				
Current liabilities				
Creditors and other payables		3,386	-	2,348
Total current liabilities		3,386	-	2,348
TOTAL LIABILITIES		3,386	-	2,348
NET ASSETS		2,146,166	1,202,000	1,782,161
EQUITY				
Joint venture ownership				
New Plymouth District Council		1,211,110	679,130	1,005,899
McKay		935,056	522,870	776,262
TOTAL EQUITY		2,146,166	1,202,000	1,782,161

The accompanying notes form part of these financial statements.

Budget variations

Forestry is revalued annually. Due to the number of variables which can impact the valuation any gain or loss is not budgeted for.

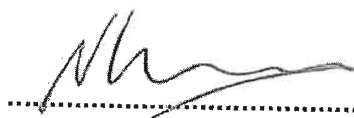
Chief Executive



Date

30 November 2021

Mayor



Date

30 November 2021



**MCKAY (1259 OKAU ROAD) FORESTRY JOINT VENTURE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2021**

	2020/21 Actual \$	2020/21 Budget \$	2019/20 Actual \$
Cash flows from operating activities			
Payments to suppliers and employees	(6,720)	(6,600)	(10,116)
Net cash from operating activities	<u>(6,720)</u>	<u>(6,600)</u>	<u>(10,116)</u>
Cash flows from financing activities			
Contribution from New Plymouth District Council	6,720	6,600	10,116
Net cash from financing activities	<u>6,720</u>	<u>6,600</u>	<u>10,116</u>
Net increase/(decrease) in cash and cash equivalents	<u>-</u>	<u>-</u>	<u>-</u>
Cash and cash equivalents at 1 July	-	-	-
Cash at cash equivalents at 30 June	<u>-</u>	<u>-</u>	<u>-</u>

There were no cash flows from investing activities in the current or prior years.

The accompanying notes form part of these financial statements.

RECONCILIATION OF NET SURPLUS/DEFICIT AFTER TAX TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2020/21 Actual \$	2019/20 Actual \$
Net surplus	357,285	569,998
Add/(less) non-cash items:		
Increase/(Decrease) in payables	1,038	(160)
Change in forestry asset valuation	(365,043)	(579,954)
Net cash outflows from operating activities	<u>(6,720)</u>	<u>(10,116)</u>

The accompanying notes form part of these financial statements.

MCKAY (1259 OKAU ROAD) FORESTRY JOINT VENTURE NOTES TO THE FINANCIAL STATEMENTS

1 STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

McKay (1259 Okau Road) Forestry Joint Venture (joint venture) is a forestry joint venture between McKay (43.5 per cent) and the New Plymouth District Council (56.5 per cent). The ownership and operation of the forest (83.5ha) is undertaken as a joint venture between the two joint venture partners. The land was previously 100 per cent owned by McKay but has since been sold to G & S Evans Limited. However, McKay has retained their interest in the forest. The operating costs are met by the New Plymouth District Council (the Council).

The joint venture is a Council-Controlled Organisation as defined in part 1, section 6, of the Local Government Act 2002. The joint venture is domiciled in New Zealand and is classified as a profit-oriented entity, whose primary objective is to grow and harvest trees.

The financial statements of the joint venture are for the year ended 30 June 2021. The financial statements were authorised for issue by the Council on 30 November 2021. While there is no intention to amend the financial statements after being issued, the Council has the power to do so.

BASIS OF PREPARATION

Statement of compliance

These financial statements have been prepared on a going concern basis and the accounting policies have been applied consistently throughout the year.

The financial statements of the joint venture have been prepared in accordance with Generally Accepted Accounting Practice (GAAP). The financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other New Zealand accounting standards and authoritative notices that are applicable to entities that apply to NZ IFRS Reduced Disclosure Regime (NZ IFRS RDR).

The joint venture is eligible and has elected to report in accordance with Tier 2 for-profit accounting standards. NZ IFRS RDR has been applied on the basis that the joint venture has no public accountability and is not a large for-profit public sector entity.

The financial statements have been prepared so as to take advantage of all reporting concessions available to the joint venture, except for NZ IAS 7 *Statement of Cash Flows*, as the joint venture has elected to report cash flows on a Tier 1 basis.

Measurement base

The financial statements have been prepared on a historical costs basis, modified by the revaluation of forestry assets.

Functional and presentation currency

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest dollar. The functional currency of the joint venture is New Zealand dollars.

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the joint venture have been applied consistently to all periods presented in these financial statements.

Significant accounting policies are included in the notes to which they relate. Significant accounting policies that do not relate to a specific note are outlined below.

**MCKAY (1259 OKAU ROAD) FORESTRY JOINT VENTURE
NOTES TO THE FINANCIAL STATEMENTS (continued)**

Cash and cash equivalents

Cash and cash equivalents includes cash on hand and deposits held at call with banks with original maturities of three months or less.

Income Tax

The joint venture is not a taxable entity. The parties to the joint venture are responsible for meeting their own obligations for taxation in relation to their share of the earnings.

Application of new and revised accounting standards, interpretations and amendments

There have been no new or revised accounting standards, interpretations and amendments effective during the period which have a material impact on the joint venture's accounting policies or disclosures.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Financial statement preparation requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from those estimates. Estimates are continually evaluated and are based on historical experience and other factors, including expectations or future events that are considered reasonable under the circumstances.

The significant estimates and assumptions that have the greatest risk of causing a material adjustment to the reported amounts are estimating the value of forestry assets (refer to note 2).

2 Forestry assets

Accounting policy

Forestry assets are valued on an annual basis by PF Olsen Limited, an independent external consultant, to the fair value less estimated point of sale costs.

Fair value is determined based on the present value of expected net cash flows discounted at a current market determined rate. This calculation is based on existing sustainable felling plans and assessments regarding growth, timber prices, felling costs and silvicultural costs. The calculation also takes into consideration environmental, operational, and market restrictions.

Any gains or losses on revaluation, including impairment, are recognised in the Statement of Comprehensive Income. The costs to maintain the forestry assets are recognised in the Statement of Comprehensive Income and expense.

	2020/21 Actual \$	2019/20 Actual \$
Balance at 1 July		
Gains arising from changes in fair value	1,784,509	1,204,555
Balance at 30 June	<u>365,043</u>	<u>579,954</u>
	<u>2,149,552</u>	<u>1,784,509</u>

(a) Valuation

Independent registered valuers, PF Olsen Limited, have valued forestry assets as at 30 June 2021 based on methodology recommended by the New Zealand Institute of Forestry. The valuation complies with the requirements of NZ IAS 41 *Agriculture*, which applies to the valuation of tree crops.

MCKAY (1259 OKAU ROAD) FORESTRY JOINT VENTURE NOTES TO THE FINANCIAL STATEMENTS (continued)

The following significant valuation assumptions have been adopted in determining the fair value of forestry assets:

- A post-tax discount rate of 7 per cent (2019/20: 7 per cent) has been used in discounting the present value of expected cash flows.
- The forest has been valued on a going concern basis and only includes the value of the existing crops on a single rotation basis less point of sale costs estimated at 2 per cent (2019/20: 2 per cent).
- Costs are average costs. No allowance has been made for cost improvements in future operations.
- Fair value of forestry assets has been determined using observable inputs (level 2).
- Near-term log prices were subdued due to the impacts from Covid-19 in 2019/20, but have recovered strongly during 2020/21.
- Long-term log prices will recover and revert to the long-term averages by 2026 if there aren't any structural changes to the log export markets (2019/20: revert to long-term averages by 2025).
- The harvesting cost class assigned is medium.
- The roading cost assigned is very high to reflect the erosion susceptibility of the forestry block.

(b) Financial risk management strategies

Key financial risks arise from increase in costs associated with logging/loads and cartage harvesting costs. There is also a risk in sale price of forestry. The joint venture is a long-term forestry investor and does not expect timber prices to decline significantly in the foreseeable future. Therefore, no measures have been taken to manage the risks of a decline in timber prices. The joint venture reviews its outlook for harvested log prices regularly in considering the need for active financial risk management.

(c) Impact of the Emission Trading Scheme

The forestry valuation does not include any impact in respect of the Emission Trading Scheme. Any liability will be the responsibility of the land owner rather than the joint venture.

3 Related parties

As a joint venture partner, the Council is deemed to be a related party of the joint venture.

Transactions between the two parties consist of: reimbursement of expenses, incurred by the Council, on behalf of the joint venture; and charges to the joint venture for the provision of services.

For the year ended 30 June 2021, the total value of transactions between the Council and the joint venture was \$7,758 (2019/20: \$9,956). Transactions between the two parties consist of:

- Reimbursement of costs incurred by the Council on behalf of the joint venture of \$6,458 (2019/20: \$9,636).
- The Council charged the joint venture \$1,300 (2019/20: \$320) for the provision of accounting and administrative services.

For the year ending 30 June 2021:

- No debts between the parties were written off or forgiven, and no transactions between the parties took place at nil or nominal value.
- No members of the Council or its senior management entered into any transactions with the joint venture.

**MCKAY (1259 OKAU ROAD) FORESTRY JOINT VENTURE
NOTES TO THE FINANCIAL STATEMENTS (continued)**

4 Capital commitments

As at 30 June 2021, there are no capital commitments (2019/20: nil).

5 Contingent assets and liabilities

As at 30 June 2021, there are no contingent assets or liabilities (2019/20: nil).

6 Events after the balance sheet date

There were no significant events after the balance sheet date (2019/20: nil).

7 Covid-19 impact

There has been no significant impact on the joint venture other than as noted in the forestry valuation assumptions in note 2.

Independent Auditor's Report

To the readers of McKay (1259 Okau Road) Forestry Joint Venture's financial statements and performance information for the year ended 30 June 2021

The Auditor-General is the auditor of McKay (1259 Okau Road) Forestry Joint Venture (the joint venture). The Auditor-General has appointed me, Debbie Perera, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and performance information of the joint venture on his behalf.

Opinion

We have audited:

- the financial statements of the joint venture on pages 4 to 10, that comprise the statement of financial position as at 30 June 2021, 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 joint venture on page 3

In our opinion:

- the financial statements of the joint venture on pages 4 to 10:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2021; 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 Reduced Disclosure Regime; and
- the performance information of the joint venture on page 3 presents fairly, in all material respects, the joint venture's actual performance compared against the performance targets and other measures by which performance was judged in relation to the joint venture's objectives for the year ended 30 June 2021.

Our audit was completed on 30 November 2021. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the New Plymouth District Council and our responsibilities relating to the financial statements and the performance information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the New Plymouth District Council for the financial statements and the performance information

The New Plymouth District Council is responsible on behalf of the joint venture for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand. The New Plymouth District Council is also responsible for preparing the performance information for the joint venture.

The New Plymouth District Council is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the New Plymouth District Council is responsible on behalf of the joint venture for assessing the joint venture's ability to continue as a going concern. The New Plymouth District Council is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the New Plymouth District Council intends to liquidate the joint venture or to cease operations, or has no realistic alternative but to do so.

The New Plymouth District Council's responsibilities arise from the Local Government Act 2002.

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material

misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the joint venture's statement of intent.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit 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 joint venture's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the New Plymouth District Council.
- We evaluate the appropriateness of the reported performance information within the joint venture's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the New Plymouth District Council and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the joint venture's ability to continue as a going concern. If we conclude that a material uncertainty exists we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the joint venture to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the New Plymouth District Council regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Independence

We are independent of the joint venture in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: International Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

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



Debbie Perera
Audit New Zealand
On behalf of the Auditor-General
Palmerston North, New Zealand