JOINT VENTURE FORESTRY

MCKAY (1259 OKAU ROAD) FORESTRY JOINT VENTURE
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2026

MCKAY (1259 OKAU ROAD) FORESTRY JOINT VENTURE

CONTENTS

3	**Statement of Service Performance**
4	**Statement of Comprehensive Income**
5	**Statement of Changes in Equity**
6	**Statement of Financial Position**
7	**Statement of Cash Flows**
8	**Notes to the Financial Statements**
12	**Independent Auditor's Report**

MCKAY (1259 OKAU ROAD) FORESTRY JOINT VENTURE
STATEMENT OF SERVICE PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2026

PERFORMANCE TARGETS

1. Financial performance

	Actual	SOI Forecast		
	2025/26 $000	2025/26 $000	2026/27 $000	2027/28 $000
Net operating (deficit)/surplus	(660)	697	-	-
Council funding support	12	14	-	-
Net equity	672	-	-	-

2. Silvicultury 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.

The McKay Joint Venture is now expected to begin harvesting in the 2027/28 financial year. This is later than forecast in previous Statements of Intent, which expected harvesting to begin in October 2023, and subsequently in October 2025. Harvesting has been deferred due to an increase in fuel prices throughout the year to 30 June 2026 and the high cost of traversing Mt Messenger to Port Taranaki. No silvicultural activities, other than inspection and maintenance were required during the year ended 30 June 2026.

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 after this.

All programmes outlined in the Forest Management Plan for 2025/26 have been completed.

Objective: To report annually in compliance with the agreements.

Assessment: The joint venture forest has been inspected by Taranaki Forestry Services with reports sent to the owners annually.

MCKAY (1259 OKAU ROAD) FORESTRY JOINT VENTURE
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2026

	Note	2025/26 Actual $	2025/26 Budget $	2024/25 Actual $
Income				
Income from harvesting		-	7,575,226	-
Total income		**-**	**7,575,226**	**-**
Expenditure				
Loss on revaluation	2	647,701	-	423,549
Audit fee		4,749	5,180	4,817
Administration and general expenses		1,431	1,300	1,310
Operations and maintenance		5,755	2,933	5,118
Harvesting expenditure		-	5,120,023	-
Cost of timber sold		-	1,748,639	-
Total expenditure		**659,636**	**6,878,075**	**434,794**
(Deficit)/surplus before tax		(659,636)	**697,151**	**(434,794)**
Income tax expense		-	-	-
(Deficit)/surplus after tax		(659,636)	**697,151**	**(434,794)**
Other comprehensive revenue and expense		-	-	-
Total comprehensive revenue and expense		(659,636)	**697,151**	**(434,794)**
Attributable to:				
New Plymouth District Council		(377,886)	(389,795)	(250,550)
McKay		(281,750)	(307,356)	(184,244)

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.
- Budgeted harvesting revenue and expenditure was finalised prior to deferral of harvest to a future financial year. Moreover, budgeted operations and maintenance expenditure was based on three months of maintenance, given harvest was anticipated to start following winter 2025.

MCKAY (1259 OKAU ROAD) FORESTRY JOINT VENTURE
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2026

	2025/26 Actual $	2025/26 Budget $	2024/25 Actual $
Balance at 1 July	**1,320,000**	**1,743,896**	**1,743,896**
Total comprehensive revenue and expense	(659,636)	697,151	(434,794)
Contribution from New Plymouth District Council	12,003	14,067	10,898
Distributions to joint venture partners	-	(2,455,203)	-
Balance at 30 June	**672,367**	**-**	**1,320,000**

The accompanying notes form part of these financial statements.

MCKAY (1259 OKAU ROAD) FORESTRY JOINT VENTURE
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2026

	Note	2025/26 Actual $	2025/26 Budget $	2024/25 Actual $
ASSETS				
Current assets				
Cash and cash equivalents		-	-	-
Total current assets				-
Non-current assets				
Forestry	2	677,389	-	1,325,090
Total non-current assets		**677,389**	**-**	**1,325,090**
TOTAL ASSETS		**677,389**	**-**	**1,325,090**
LIABILITIES				
Current liabilities				
Creditors and other payables		5,022	-	5,090
Total current liabilities		**5,022**	**-**	**5,090**
TOTAL LIABILITIES		**5,022**	**-**	**5,090**
NET ASSETS		**672,367**	**-**	**1,320,000**
EQUITY				
Joint venture ownership				
New Plymouth District Council		377,702	-	743,585
McKay		294,665	-	576,415
TOTAL EQUITY		**672,367**	**-**	**1,320,000**

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.
- The 2025/26 budget column was finalised prior to the deferral of harvest to a future financial year. As such, budgets were set based on understanding that harvest would be completed at 30 June 2026.

Chief Executive .....

Date 30 September 2026

Mayor .....

Date 30 September 2026

MCKAY (1259 OKAU ROAD) FORESTRY JOINT VENTURE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2026

	2025/26 Actual $	2025/26 Budget $	2024/25 Actual $
Cash flows from operating activities			
Receipts from harvesting sales	-	7,575,226	-
Payments to suppliers and employees	(12,003)	(5,134,090)	(10,898)
Net cash from operating activities	**(12,003)**	**2,441,136**	**(10,898)**
Cash flows from financing activities			
Contribution from New Plymouth District Council	12,003	14,067	10,898
Distributions to joint venture partners	-	(2,455,203)	-
Net cash from financing activities	**12,003**	**(2,441,136)**	**10,898**
Net increase in cash and cash equivalents	**-**	**-**	**-**
Cash and cash equivalents at 1 July	-	-	-
Cash at cash equivalents at 30 June	**-**	**-**	**-**

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

Budget variations
- The 2025/26 budget column was finalised prior to the deferral of harvest to a future financial year. As such, budgets were set based on understanding that harvest would be completed at 30 June 2026.

The accompanying notes form part of these financial statements.

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

	2025/26 Actual $	2024/25 Actual $
Net deficit	**(659,636)**	**(434,794)**
(Decrease)/increase in payables	(68)	347
Change in forestry asset valuation	647,701	423,549
Net cash outflows from operating activities	**(12,003)**	**(10,898)**

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 (83.5 hectares) 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 2026. The financial statements were authorised for issue by the Council on 23 September 2026. 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.

Budget figures
The budget figures are those approved in the Statement of Intent at the beginning of the financial year. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted in preparing these financial statements. Note that budget figures in the Statement of Intent have been rounded to the nearest thousand dollars, whereas the financial statements present these figures to the nearest dollar.

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.

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 Alan Bell & Associates, 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.

	2025/26 Actual $	2024/25 Actual $
Balance at 1 July	1,325,090	1,748,639
Losses arising from changes in fair value	(647,701)	(423,549)
Balance at 30 June	**677,389**	**1,325,090**

(a) Valuation

Independent registered valuers, Alan Bell & Associates have valued forestry assets as at 30 June 2026 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.

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

- A post-tax discount rate of seven point eight per cent (2024/25: seven point eight 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 four point five per cent (2024/25: four point five per cent).
- The effect of recent fuel increases has been incorporated by adding a 10% factor to harvest costs. This has had a major effect on forest value.
- 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).
- Long term average log prices have not changed but a recent revision of Jas conversion factors has resulted in slight increases in at wharf gate (AWG) prices. (2024/25: Export log prices over the last 8 years have been very unpredictable with no obvious trend. For this reason, the 3-year average log prices at wharf gate have been used without adjustment.).
- The site will require significant roading and skid formation prior to commencement of harvest. The tree crop at McKay comprises several separate blocks and will be costly to harvest and to access. An indicative harvest plan includes considerable new roading and skid sites, as well as multiple stream crossings.

(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 landowner 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 2026, the total value of transactions between the Council and the joint venture was $11,935 (2024/25: $11,245). Transactions between the two parties consist of:

- Reimbursement of costs incurred by the Council on behalf of the joint venture of $10,504 (2024/25: $9,935).
- The Council charged the joint venture $1,431 (2024/25: $1,310) for the provision of accounting and administrative services.

For the year ending 30 June 2026:

- 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.

4 Capital commitments

As at 30 June 2026, there are no capital commitments (2024/25: nil).

5 Contingent assets and liabilities

As at 30 June 2026, there are no contingent assets or liabilities (2024/25: nil).

6 Events after the balance sheet date

Subsequent to year end, the Joint Venture partners have agreed to delay harvesting until at least October 2027 due to low log prices and elevated diesel costs.

The Audit Office
Te Mana Arotake

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 2026

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

Opinion

We have audited:

- the financial statements of the Joint Venture that comprise the statement of financial position as at 30 June 2026, 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 material accounting policy information and other explanatory information on pages 4 to 11; and
- the performance information that consists of the statement of service performance for the year ended 30 June 2026 on page 3.

In our opinion:

- the financial statements of the Joint Venture present fairly, in all material respects its financial position as at 30 June 2026 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime.
- the performance information accurately reports, in all material respects, the Joint Venture's actual performance compared against the performance targets and other measures adopted for the year ended 30 June 2026, and has been prepared, in material respects, in accordance with section 68 of the Local Government Act 2002 (the Act).

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 performance information

The Council is responsible on behalf of the Joint Venture for preparing financial statements that are fairly presented and comply with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime. The Council is also responsible for preparing the performance information contained in the statement of service performance of the Joint Venture in accordance with the Act.

The 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 performance information, the Council is responsible on behalf of the Joint Venture for assessing the Joint Venture's ability to continue as a going concern. The Council is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the Joint Venture or to cease operations, or there is no realistic alternative but to do so.

The Council' responsibilities arise from the Local Government Act 2002.

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

Our objectives are to obtain reasonable assurance about whether the financial statements and 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 performance information.

For the budget information reported in the financial statements and 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 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 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 Council.

- We conclude on the appropriateness of the use of the going concern basis of accounting by the 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 information we audited 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, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- We evaluate the overall presentation, structure and content of the performance information, including the disclosures, and assess whether the performance information achieves its statutory purpose of enabling the Joint Venture's readers to judge the actual performance of the Joint Venture against its objectives in its statement of intent.

We communicate with the 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 Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board.

Other than in our capacity as auditor, we have no relationship with, or interests in, the Joint Venture.



Chris Webby
The Audit Office
On behalf of the Auditor-General
Palmerston North, New Zealand
30 September 2026