



Annual Report 2020



INVERCARGILL CITY FORESTS LTD



Table of Contents

Company Directory	3
Approval by Directors	3
Chairman's Report	4
Statutory Information	5
Statement of Financial Position	6
Statement of Comprehensive Income	7
Statement of Changes in Equity	8
Statement of Cash Flows	9
Notes to the Financial Statements	11
Company Statement of Service Performance	23
Auditors Report	24

Company Directory

Approval by Directors

Directors

B Wood (from 20 April 2020)
T Loan (from 20 April 2020)
J Bestwick (from 20 April 2020)
W Schol (from 20 April 2020)
P Carnahan (from 20 April 2020)
M Montgomery (until 20 April 2020)
R Keoghnan (until 20 April 2020)
B Nettleton (until 20 April 2020)

General Manager

A Cameron (Acting)

Registered Office

C/- Invercargill City Council
101 Esk Street, Invercargill

Postal Address

Private Bag 90104, Invercargill 9840
Phone (03) 211 1777
Fax (03) 211 1433

Auditor

Audit New Zealand, Dunedin

Bankers

BNZ

Solicitors

Cruickshank Pryde
42 Don Street, Invercargill

Forestry Consultant

IFS Growth

The Directors have approved for issue the financial statements of Invercargill City Forests Limited for the year ended 30 June 2020.



B Wood
Director



T Loan
Director

For and on behalf of the Board of Directors.
1 September 2020

Chairman's Report

As noted in the 2019 Annual Report, Invercargill City Holdings Limited resolved to divest of its forestry assets in that year. As a result this financial year Invercargill City Forests Limited (ICFL) focussed on steps to ensure that its estate was presented in a manner that ensured the best return to its shareholder.

Fortunately this has meant that the operations of ICFL were not impacted by the events surrounding COVID-19. To the extent that COVID-19 has impacted ICFL it has resulted in a delay in completion of the sales process for the estate.

ICFL would like to acknowledge the efforts of the previous board of directors, contractors and all others involved in achieving the successful sale of the forest estate. ICFL appreciates that the process

has required a significant change in plans and approach for all parties and that the requirements and impact on all involved was complicated by the events surrounding COVID-19.

ICFL has now completed the sale of its estate, subject to completion of overseas investment office requirements by the successful purchaser. ICFL will continue to maintain the estate pending completion of the sale and release those funds to its shareholder.



Brian Wood
Chairman



Statutory Information

REMUNERATION AND OTHER BENEFITS TO DIRECTORS

INVERCARGILL CITY FORESTS LIMITED

M Montgomery	\$46,667
R Keoghan	\$23,333
B Nettleton	\$23,333

There was no remuneration or other benefits paid to Directors during the year for any of the following:

- Compensation for loss of office.
- Guarantees given by the Company for debts incurred by a Director.

SHAREHOLDINGS BY DIRECTORS

No Director has an interest in Company shares held, acquired or disposed of during the period.

RECOMMENDED DIVIDEND

There is no dividend recommended.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company has insured all its Directors against liabilities to other parties that may arise from their positions.

DONATIONS

The Company has made no donations during the period.

AUDITOR'S REMUNERATION

Auditor's fees of \$26,237 were paid during the year. There were no other fees payable for other services provided by the Auditor.

USE OF COMPANY INFORMATION BY DIRECTORS

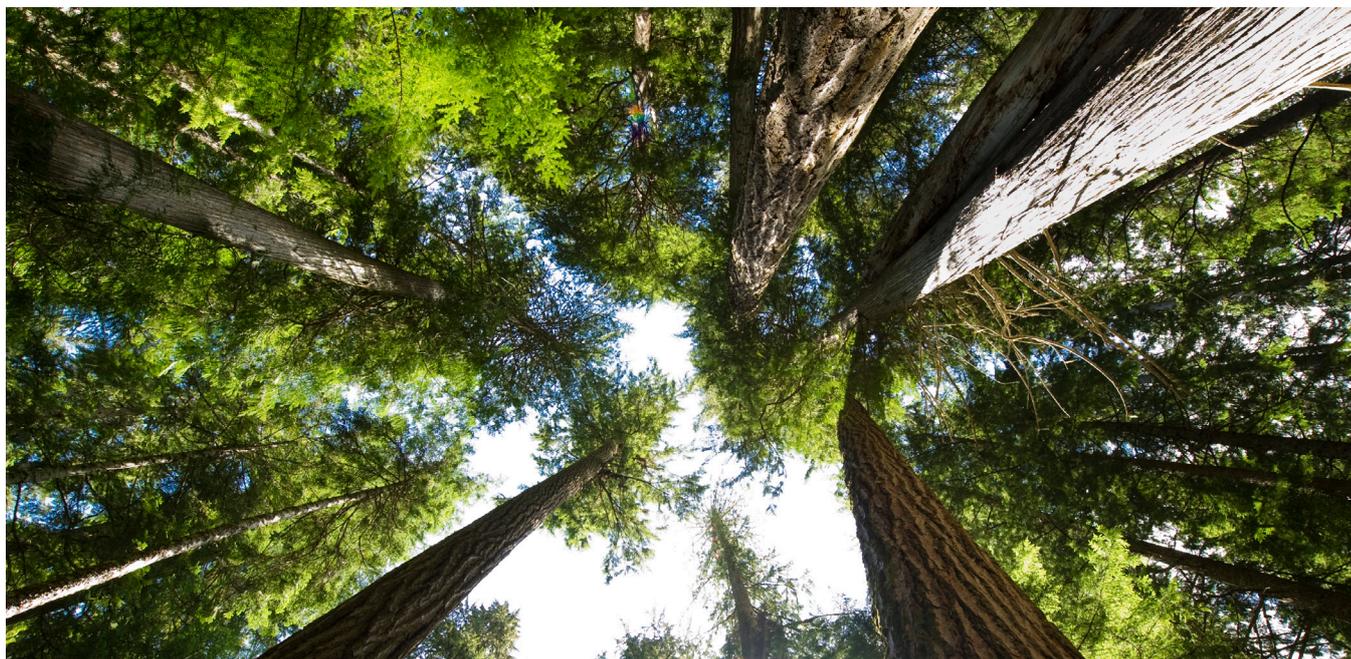
During the period the Board received no notice from Directors of the Company requesting to use Company information received in their capacity as Directors which would not otherwise be available to them.

INTERESTS IN TRANSACTIONS

During the period, no Directors had an interest in any transaction or proposed transaction with the Company.

REMUNERATION

No employees received remuneration and other benefits exceeding \$100,000 during the period.



Statement of Financial Position

AS AT JUNE 30, 2020

	NOTE	PARENT 2020 \$000	GROUP 2019 \$000
ASSETS			
Current assets			
Cash and cash equivalents		76	600
Trade and other receivables	6	29	60
Non-current assets held for sale		11,396	-
Forestry assets held for sale	8	31,041	-
Property, plant and equipment		4	-
Intangible assets	9	3,195	-
Total current assets		45,741	660
Non-current assets			
Property, plant and equipment	7	-	10,576
Forestry assets	8	-	24,249
Intangible assets	9	-	320
Total non-current assets		-	35,145
Total assets		45,741	35,805
LIABILITIES			
Current liabilities			
Trade and other payables	10	103	136
Borrowings	11	23,980	-
Provisions	17	1,000	-
Total current liabilities		25,083	136
Non-current liabilities			
Borrowings	11	-	22,500
Deferred tax liability	12	5,349	3,518
Total non-current liabilities		5,349	26,018
Total liabilities		30,432	26,154
EQUITY			
Share capital	13	2,774	2,774
Retained earnings	13	7,206	3,763
Other reserves	13	5,329	3,115
Total equity attributable to the equity holders of the company		15,309	9,652

The Statement of Accounting Policies and Notes to the Financial Statements are an integral part of, and should be read in conjunction with the financial statements.

Statement of Comprehensive Income

FOR THE YEAR ENDED JUNE 30, 2020

	NOTE	PARENT 2020 \$000	GROUP 2019 \$000
INCOME			
Operating revenue	1	744	15,442
Other gains	2	8,044	(2,522)
Total income		8,788	12,920
EXPENDITURE			
Cost of sales		-	4,308
Depreciation and amortisation	7	94	100
Biological asset Cost of Goods Sold		228	3,412
Forestry costs		2,245	6,972
Administration expenses	3	391	714
Total operating expenditure		2,958	15,506
Finance income	4	3	34
Finance expenses	4	(1,062)	(1,242)
Net finance expense		(1,059)	(1,208)
Profit/(loss) before tax		4,771	(3,794)
Income tax expense	5	1,328	(1,158)
Profit/(loss) after tax		3,443	(2,636)
OTHER COMPREHENSIVE INCOME			
Increase/(decrease) in fair value of carbon credits	13	1,291	(24)
Increase/(decrease) in fair value of property, plant and equipment - land	13	923	-
Total other comprehensive income		2,214	(24)
TOTAL COMPREHENSIVE INCOME		5,657	(2,660)

The Statement of Accounting Policies and Notes to the Financial Statements are an integral part of, and should be read in conjunction with the financial statements.

Statement of Changes in Equity

FOR THE YEAR ENDED JUNE 30, 2020

	NOTE	PARENT 2020 \$000	GROUP 2019 \$000
BALANCE AT 1 JULY		9,652	12,862
Total Comprehensive Income for the year	13	5,657	(2,660)
Distributions to shareholders			
Dividends paid	13	-	(550)
Balance at 30 June		15,309	9,652

The Statement of Accounting Policies and Notes to the Financial Statements are an integral part of, and should be read in conjunction with the financial statements.



Statement of Cash Flows

FOR THE YEAR ENDED JUNE 30, 2020

	PARENT 2020 \$000	GROUP 2019 \$000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	4	36
Receipts from customers	762	15,256
Payments to suppliers and employees	(1,695)	(7,455)
Interest paid	(1,062)	(1,242)
Income tax (paid)/refund	-	5
Goods and services tax [net]	55	(4)
Net cash/(to) from operating activities	(1,936)	6,596
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	10	-
Purchase of biological assets	-	(6,130)
Purchase of intangible assets	(1,082)	(337)
Purchase of property, plant and equipment	-	(426)
Advances made to non-subidiaries	-	650
Proceeds from sale of biological assets	1,004	-
Net cash/(to) from investing activities	(68)	(6,243)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from advance from Invercargill City Holdings Limited	1,480	2,400
Repayment of advance from Invercargill City Holdings Limited	-	(2,131)
Dividends paid	-	(550)
Net cash cash/(to) financing activities	1,480	(281)
NET (DECREASE)/INCREASE IN CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS	(524)	72
Cash, cash equivalents and bank overdrafts at the beginning of the year	600	528
Cash, cash equivalents and bank overdrafts at the end of the year	76	600

The GST (net) component of operating activities reflects the net GST paid and received with the Inland Revenue Department. The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

The Statement of Accounting Policies and Notes to the Financial Statements are an integral part of, and should be read in conjunction with, the financial statements.

**RECONCILIATION OF NET PROFIT/(LOSS) TO NET CASH INFLOWS
(OUTFLOWS) FROM OPERATING ACTIVITIES**

	PARENT 2020 \$000	GROUP 2019 \$000
RECONCILIATION WITH REPORTED OPERATING SURPLUS		
Net profit after tax	3,443	(2,636)
Add/(deduct) non-cash items		
Depreciation	94	100
Net (profit)/loss on sale of fixed assets	4	-
Change in fair value of biological assets	(8,035)	2,521
Change in fair value of loan	-	(24)
Biological assets - Cost of Goods Sold	228	3,412
Increase/(decrease) in deferred taxation	1,328	(1,147)
Increase/(decrease) in current years tax	-	(11)
Net (profit)/loss on disposed of investment	-	294
	<u>(6,381)</u>	<u>(5,145)</u>
Add/(less) movements in working capital		
(Increase)/decrease in receivables	19	66
(Increase)/decrease in prepayments	(27)	(2)
(Increase)/decrease in inventories	-	4,058
Increase/(decrease) in accounts payable and accruals	(45)	(37)
Increase/(decrease) in provisions	1,000	-
Increase/(decrease) in GST/taxation	55	2
	<u>1,002</u>	<u>4,087</u>
Net cash inflow (outflow) from operating activities	<u>(1,936)</u>	<u>6,596</u>

**RECONCILIATION OF CHANGES IN LIABILITIES ARISING FROM
FINANCING ACTIVITIES**

The changes in the liabilities arising from financing activities can be classified as follows:

	LONG-TERM BORROWINGS \$000
1 July 2019	22,500
CASHFLOWS	
Proceeds	1,480
Repayments	-
30 June 2020	<u>23,980</u>

Notes to the Financial Statements

FOR THE YEAR ENDED JUNE 30, 2020

REPORTING ENTITY

Invercargill City Forests Limited (the Company) is a company incorporated in New Zealand under the Companies Act 1993 and is domiciled in New Zealand. The Company is a wholly owned subsidiary of Invercargill City Holdings Limited.

The Company is a Council Controlled Trading Organisation as defined in Section 6(1) of the Local Government Act 2002. The financial statements have been prepared in accordance with the requirements of the Local Government Act 2002, Companies Act 2013 and Financial Reporting Act 1993.

The Company is primarily involved in forestry activities. Accordingly, the Company has designated itself and the group as a profit orientated entity for the purposes of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements are for the year ended 30 June 2020. The financial statements were authorised for issue by the Directors on 1 September 2020. The entities directors do not have the right to amend the financial statements after issue.

BASIS OF PREPARATION

The financial statements of the Company have been prepared in accordance with the requirements of the Local Government Act 2002, the Financial Reporting Act 2013 and the Companies Act 1993.

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and comply with the New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR).

The Company is a Tier 2 for-profit entity and has elected to report in accordance with the NZ IFRS Reduced Disclosure Regime on the basis that it does not have public accountability and is not a large for-profit public sector entity.

The general accounting principles as appropriate for the measurement and reporting of results and financial position under the historical cost method have been followed in preparation of these

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

The accounting policies that have been applied to these financial statements are based on the External Reporting Board A1, Accounting Standards Framework (For-profit Entities Update). The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand (\$'000). The functional currency of the Company is New Zealand dollars.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the Statement of Comprehensive Income.

Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange at the reporting date.

ACCOUNTING POLICIES AND STANDARDS

Accounting policies that summarise the measurement basis used and are relevant to the understanding of the financial statements are provided throughout the accompanying notes.

DISESTABLISHMENT BASIS

The financial statements have been prepared on a disestablishment basis. The shareholder, Invercargill City Holdings Limited has resolved to divest of its interest in the Company. A substantial portion of the forestry assets are under contract for sale, but is subject to approval from the Overseas Investment Office. This is anticipated to occur within the next 12 months.

SUBSIDIARIES

The Company consolidates as subsidiaries in the group financial statements all entities where the Company has the capacity to control their financing and operating policies so as to obtain benefits from the activities of the entity.

This power exists where the Company controls the majority voting power on the governing body or where such policies have been irreversibly predetermined by the Company or where the determination of such policies is unable to materially impact the level of potential ownership benefits that arise from the activities of the subsidiary.

The Company measures the cost of a business combination as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, in exchange for control of the subsidiary plus any costs directly attributable to the business combination.

Any excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill.

In June 2019 the subsidiary company, Forest Growth Holdings Limited was wound up and it was removed from the Companies Office register in September 2019.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

GOODS AND SERVICES TAX (GST)

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated 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 Inland Revenue Department (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 an operating cash flow in the Statement of Cash Flows.

Commitments and contingencies are disclosed exclusive of GST.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Goodwill and indefinite life intangible assets are not subject to amortisation but are tested annually

for impairment. Assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

The value in use for cash-generating assets is the present value of expected future cash flows.

If an asset's carrying amount exceeds its recoverable amount the asset is impaired and the carrying amount is written down to the recoverable amount. For revalued assets, the impairment loss is recognised against the revaluation reserve for that asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the Statement of Comprehensive Income.

For assets not carried at a revalued amount, the total impairment loss is recognised in the Statement of Comprehensive Income.

The reversal of an impairment loss on a revalued asset is credited to the revaluation reserve. However, to the extent that an impairment loss for that asset was previously recognised in Statement of Comprehensive Income, a reversal of the impairment loss is also recognised in the Statement of Comprehensive Income.

For assets not carried at a revalued amount (other than goodwill) the reversal of an impairment loss is recognised in the Statement of Comprehensive Income.

NEW STANDARDS ADOPTED

The Company has applied the following standards for the first time for the annual reporting period commencing 1 July 2019:

NZ IFRS 16 - Leases

The Company has changed its accounting policies to reflect the new standards but the adoption has had no material effects on the financial statements. Accordingly, there has been no change to opening equity.

The Company has not elected to early adopt any new standards or interpretations that are issued but not yet effective.

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the period except for those arising from the adoption of the new standards. All accounting policies have been consistently applied throughout the period covered by these financial statements.

1. OPERATING REVENUE

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Interest income is recognised using the effective interest method.

	PARENT	GROUP
	2020	2019
	\$000	\$000
Rendering of services	-	43
Harvesting income	744	10,014
Sale of land and trees	-	5,385
	744	15,442

2. OTHER GAINS AND LOSSES

Change in fair value of biological assets	8,035	(2,522)
Gain on sale of property, plant and equipment	9	-
	8,044	(2,522)

3. ADMINISTRATION EXPENSES (INCLUDES)

Director fees	93	142
Loss on disposal of investment	-	294
Loss on sale of property plant and equipment	14	-
Auditor's remuneration to Audit New Zealand comprises:		
- audit of financial statements	26	23

4. FINANCE INCOME AND EXPENSE

Finance income

Interest income	3	34
Total finance income	3	34

Finance expense

Interest expense	1,062	1,242
Total finance expense	1,062	1,242
Net finance costs	(1,059)	(1,208)

5. INCOME TAX EXPENSE IN THE INCOME STATEMENT

Income tax expense in relation to the surplus or deficit for the period comprises current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using rates that have been enacted or substantively enacted by balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset and liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is recognised on taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company and Group can control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, using tax rates that have been enacted or substantively enacted by balance date.

Current tax and deferred tax is charged or credited to the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with in equity.

	PARENT	GROUP
	2020	2019
	\$000	\$000
Current tax expense		
Current period	-	-
Adjustment for prior periods	-	(11)
Total current tax expense	-	(11)
Deferred tax expense		
Origination and reversal of temporary differences	1,335	(1,147)
Adjustment for prior periods	(7)	-
Total deferred tax expense	1,328	(1,147)
Total income tax expense	1,328	(1,158)
Reconciliation of effective tax rate		
Profit for the year	4,771	(3,794)
Profit excluding income tax	4,771	(3,794)
Tax at 28%	1,335	(1,063)
Permanent differences	-	-
Imputation credits utilised	-	-
Change in recognised temporary differences	-	(14)
Loss offset	-	(70)
	1,335	(1,147)
Under/(over) provided in prior periods	(7)	(11)
Total income tax expense	1,328	(1,158)

6. TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost, using the effective interest method, less any provision for expected credit losses.

The Company applies the simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance. The measurement of expected credit losses is a function of the probability of default, loss given default and the exposure at default.

The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

	PARENT	GROUP
	2020	2019
	\$000	\$000
Trade receivables	-	19
GST receivables	-	39
Prepayment	29	2
	<u>29</u>	<u>60</u>
Less provision for impairment of receivables	-	-
	<u>29</u>	<u>60</u>

Trade receivables are non-interest bearing and are generally on terms of 30 days.

As at 30 June, the ageing analysis of trade receivables is as follows:

	Total	Neither past due nor impaired
2020	-	-
2019	19	19

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is shown at cost or valuation, less accumulated depreciation and impairment losses.

Property consists of land and roading improvements. Land is held in two classes being Land and Roding improvements. Roding improvements are carried at depreciated historical cost.

Land is revalued to fair value and carried at valuation and is not depreciated. The fair value is determined by independent registered valuers based on the highest and best use of the land. In determining the highest and best use consideration is given as to whether the land has been registered under the New Zealand Emissions Trading Scheme and hence whether there are restrictions on the land use.

Land is revalued with sufficient regularity to ensure carrying value does not differ materially from that which would be determined as fair value. It is anticipated that the Land revaluation will occur every three years, unless circumstances require otherwise.

Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Company and the cost of the item can be measured reliably.

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the Statement of Comprehensive Income.

When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to retained earnings.

Subsequent Costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Company and the cost of the item can be measured reliably.

Depreciation

Depreciation is provided on all property, plant and equipment other than land, at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives.

The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

(a) Roading Improvements
6% Diminishing Value

(b) Plant
13%-67% Diminishing Value

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

PARENT (\$000)	1 July 2019								30 June 2020			
	COST/ REVALUATION	ACCUMULATED DEPRECIATION	CARRYING AMOUNT	CURRENT YEAR ADDITIONS - COST	CURRENT YEAR DISPOSALS - COST	CURRENT YEAR DISPOSALS - DEPRECIATION	CURRENT YEAR DEPRECIATION	CURRENT YEAR REVALUATION	RE- CLASSIFICATION TO NON- CURRENT ASSETS HELD FOR SALE	COST/ REVALUATION	ACCUMULATED DEPRECIATION	CARRYING AMOUNT
2020	1 July 2019								30 June 2020			
Land	9,037	-	9,037	-	-	-	-	923	(9,960)	-	-	-
Plant and equipment	36	25	11	-	25	20	2	-	-	11	7	4
Roading	2,151	623	1,528	-	-	-	92	-	(1,436)	-	-	-
Total assets	11,224	648	10,576	-	25	20	94	923	(11,396)	11	7	4
GROUP												
(\$000)												
2019	1 July 2018								30 June 2019			
Land	8,414	-	8,414	623	-	-	-	-	-	9,037	-	9,037
Plant and equipment	34	20	14	2	-	-	5	-	-	36	25	11
Roading	2,100	528	1,572	51	-	-	95	-	-	2,151	623	1,528
Total assets	10,548	548	10,000	676	-	-	100	-	-	11,224	648	10,576

No depreciation is charged on land and there have been no impairments throughout the period.

Forestry land is revalued with sufficient regularity to ensure the carrying value does not differ materially from that which would be determined as fair value.

In 2019 the Company resolved to place its forest estate on the market. While the parties had agreed the terms of sale of the estate prior to 30 June the sale will not be completed until late 2020. The assets held for sale have been reclassified as non-current assets held for sale. The recorded value reflects the terms of the negotiated sale less the costs to sell.

The value of the land owned by Invercargill City Forests Limited, had it been carried at the cost model, would be \$5,868,438 at 30th June 2020 (\$5,868,438 at 30 June 2019).

8. BIOLOGICAL ASSETS

Forestry assets are independently revalued annually at 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 pre-tax rate.

Gains or losses arising on initial recognition of forestry assets at fair value less estimated point of sale costs and from a change in fair value less estimated point of sale costs are recognised in the Statement of Comprehensive Income.

The costs to maintain the forestry assets are included in the Statement of Comprehensive Income.

	FORESTRY GROUP \$000
Balance at 1 July 2018	23,965
Additions	6,119
Forest Assets logged at cost	(3,314)
Change in fair value less estimated point-of-sale costs	(2,521)
Balance at 30 June 2019	24,249

	PARENT \$000
Balance at 1 July 2019	24,249
Additions	-
Disposals	(1,015)
Forest Assets logged at cost	(228)
Change in fair value less estimated point-of-sale costs	8,035
Balance at 30 June 2020	31,041

At 30 June 2020, standing timber comprised approximately 3,301 hectares of plantations at 16 different locations. At 30 June 2019, standing timber comprised approximately 3,174 hectares of plantations at 16 different locations.

The forests are valued annually effective 30 June. In 2019 the Company resolved to place its forest estate on the market. While the parties had agreed the terms of sale of the estate prior to 30 June 2020 the sale will not be completed until late 2020. The assets held for sale have been reclassified as forestry assets held for sale. The recorded value reflects the terms of the negotiated sale less the costs to sell. The 2019 valuation was performed by Brian Johnson, an independent valuer from Margules Groome. The valuation excludes funding and taxation. The discount rate is based on the implied pre-tax discount rates from actual transactions. The pre-tax discount rate chosen for the 2019 valuations is 6.50%.

The Company is exposed to a number of risks related to its forestry assets.

Pre-1990 Forest:

Pre-1990 forests are forests that were established before 1 January 1990. NZUs cannot be earned for an increase in the carbon stock (through forest growth) in a pre-1990 forest, but NZU's are allocated based on the size of the forested area in three tranches. Provided that pre-1990 forests are re-established after harvesting (by replanting or regeneration), there are no liabilities or obligations under the ETS. Landowners of pre-1990 forests must surrender NZUs equivalent to the carbon emissions from any deforestation.

Post-1989 Forests:

Post-1989 forests are exotic or indigenous forests established after 31 December 1989 on land that was not forest land on 31 December 1989. These forests earn credits under the Kyoto Protocol rules. Therefore, they are also known as "Kyoto Protocol-compliant" forests. Participating in the ETS is voluntary for post-1989 forest owners. If they are part of the ETS, then they earn NZUs for the carbon sequestered in the forest from 1 January 2008, but will need to surrender NZUs to the Crown when the carbon held in their trees decreases, whether through harvest or natural causes (such as by fire or storm). Any liability for post-1989 participants is capped at the amount of NZUs previously claimed for that area of forest land.

Invercargill City Forests has harvested a total of 47 hectares of pre-1990 forest that has yet to be replanted.

Supply and Demand Risk

The Company is exposed to risks arising from fluctuations in the price and sales volume of timber. Where possible the Company manages this risk by aligning its harvest volume to market supply and demand.

The Company is exposed to movements in the price of NZU's to the extent that, the Company has insufficient NZU's to offset a deforestation liability and has to purchase NZU's on the market.

Management performs regular industry trend analysis to ensure that the Company's pricing structure is in line with the market and to ensure that projected harvest volumes are consistent with the expected demand.

Climate and Other Risks

The Company's pine plantations are exposed to the risk of damage from climatic changes, diseases, forest fires and other natural forces.

The Company has extensive processes in place aimed at monitoring and mitigating those risks, including regular forest health inspections and industry pest and disease surveys.

The Company also insures itself against natural disasters such as fire and lightning.

9. INTANGIBLE ASSETS

	CARBON CREDITS \$000
Costs	
Balance at 01 July 2018	8
Additions	336
Change in fair value	(24)
Balance at 30 June 2019	<u>320</u>
Balance at 01 July 2019	320
Additions	1,082
Change in fair value	1,793
Balance at 30 June 2020	<u>3,195</u>
Amortisation and impairment changes	
Balance at 01 July 2018	-
Balance at 30 June 2019	<u>-</u>
Balance at 01 July 2019	-
Balance at 30 June 2020	<u>-</u>
Carrying amounts	
Balance at 01 July 2018	8
Balance at 30 June 2019	<u>320</u>
At 01 July 2019	320
Balance at 30 June 2020	<u>3,195</u>

Amortisation and impairment of intangible assets are recognised in the Statement of Comprehensive Income.

Carbon Credits

Carbon units have been assessed as having an indefinite useful life because they have no expiry date and will continue to have economic benefit for as long as the Emissions Trading Scheme is in place.

As NZUs are an indefinite life intangible asset, they are tested for impairment on an annual basis or when indications of impairment exist.

The unsold units have been valued based on the current market price and recognised in the financial statements.

Carbon units can be sold or surrendered towards the carbon liability generated from harvesting forests.

As at June 2020 there are 99,540 carbon credits units on hand (30 June 2019: 13,823).

10. TRADE AND OTHER PAYABLES

Trade and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method. Trade and other payables are non-interest bearing and are normally settle within 30 day terms.

	PARENT	GROUP
	2020	2019
	\$000	\$000
Trade payables	64	103
Accrued expenses	23	33
GST Payable	16	-
Total trade and other payables	103	136

11. BORROWINGS

Borrowings are initially recognised at their fair value. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.

Borrowing costs are recognised as an expense in the period in which they are incurred.

	PARENT	GROUP
	2020	2019
	\$000	\$000
Current		
Shareholder advances	23,980	-
Total current borrowings	23,980	-
Non-current		
Shareholder advances	-	22,500
Total non-current borrowings	-	22,500

The term loan has been advanced by Invercargill City Holdings Limited under its multi-option facility. The current average interest rate payable is 4.01% (2019: 4.63%). The advance and interest rate are renegotiated as required. The loan is expected to be repaid on the sale of the forestry assets within the next 12 months. The loan is unsecured. The fair value of the loan is also its carrying value.

12. DEFERRED TAX LIABILITIES/(ASSETS)

	BALANCE	RECOGNISED IN PROFIT OR LOSS	RECOGNISED IN EQUITY	BALANCE	RECOGNISED IN PROFIT OR LOSS	RECOGNISED IN EQUITY	RECOGNISED IN OCI	BALANCE
	GROUP (\$000)			PARENT (\$000)				
	30-Jun-18			30-Jun-19				30-Jun-20
Property, plant and equipment	(7)	(1)	-	(8)	(2)	-	-	(10)
Biological assets	4,748	(912)	-	3,836	2,819	-	-	6,655
Other items	(2)	(4)	-	(6)	(1)	-	-	(7)
Carbon credits	-	-	-	-	-	-	495	495
Provisions	-	-	-	-	(280)	-	-	(280)
Inventory	(74)	74	-	-	-	-	-	-
Tax losses	-	(303)	-	(303)	(1,201)	-	-	(1,504)
Total movements	4,665	(1,146)	-	3,518	1,335	-	495	5,349

13. EQUITY

	Share Capital	Revaluation reserve	Retained earnings	TOTAL
	\$000	\$000	\$000	\$000
Balance at 1 July 2018	2,774	3,139	6,949	12,862
Profit/(loss)	-	-	(2,636)	(2,636)
Other comprehensive income				
Increase/(decrease) in fair value of property, plant and equipment - land	-	-	-	-
Increase/(decrease) in fair value of carbon credits	-	(24)	-	(24)
Distributions to Shareholders				
Dividends paid	-	-	(550)	(550)
Balance at 30 June 2019	2,774	3,115	3,763	9,652
Balance at 1 July 2019	2,774	3,115	3,763	9,652
Profit/(loss)	-	-	3,443	3,443
Other comprehensive income				
Increase/(decrease) in fair value of property, plant and equipment - land	-	923	-	923
Increase/(decrease) in fair value of carbon credits	-	1,793	-	1,793
Deferred tax on revaluation	-	(502)	-	(502)
Distributions to Shareholders				
Dividends paid	-	-	-	-
Balance at 30 June 2020	2,774	5,329	7,206	15,309

At 30 June 2020, share capital comprised 2,774,070 ordinary, fully paid up shares with equal rights (2019: 2,774,070).

14. RELATED PARTY TRANSACTIONS

The company is a wholly owned subsidiary of Invercargill City Holdings Limited. During the year, the following transactions took place:

	PARENT 2020 \$000	GROUP 2019 \$000
(a) Invercargill City Holdings Limited		
Revenue		
Provision of services	-	-
Expenditure		
Provision of services and interest payments	1,131	1,312
Dividends from Subsidiary to Parent	-	550
Loan balance outstanding to Invercargill City Holdings	23,980	22,500
Outstanding at balance date by Invercargill City Holdings	-	-
Outstanding at balance date to Invercargill City Holdings	-	-

	PARENT	GROUP
	2020	2019
	\$000	\$000
(b) Invercargill City Council		
Revenue		
Provision of services	-	-
Expenditure		
Provision of services	23	28
Outstanding at balance date by Invercargill City Council	-	-
Outstanding at balance date to Invercargill City Council	-	-
Tax loss offset	-	70

Key management personnel include the Directors and Chief Executive. Short-term employment benefits consists of the Chief Executives salary.

No related party debts have been written off or were forgiven during the 2020 year (2019:nil).

	PARENT	GROUP
	2020	2019
	\$000	\$000
Key management personnel compensation comprises:		
Short term employment benefits	3	18
Directors Fees	93	142

15. CAPITAL AND OPERATING COMMITMENTS

There are no commitments contracted for at 30 June 2020 (2019: nil).

16. CONTINGENCIES

Invercargill City Forests has harvested a total of 47 hectares of pre-1990 forest (2019: 47 hectares). At balance date the land carried a potential deforestation liability of \$801,713 (2019: \$578,182). Refer note 8.

17. PROVISIONS

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required and the amount can be estimated reliably. The timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date.

	PARENT
	\$000
Balance at 1 July 2019	-
Other charges	1,000
Balance at 30 June 2020	<u><u>1,000</u></u>

The Company has entered into an agreement related to the termination of contracts associated with the forest estate which becomes payable on the completion of the sale of the forests estate.

18. EVENTS AFTER THE BALANCE SHEET DATE

The Company had entered into a contract for the sale of the forestry assets. The sale is subject to approval from the Overseas Investment Office and is anticipated to occur within the next 12 months. The Company has listed a small parcel of remaining bare land for sale.

19. FINANCIAL INSTRUMENTS

- **Receivables**

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for expected credit losses.

- **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant amount of risk of changes in value.

- **Trade and Other Payables**

Trade and other payables are initially measured at fair value, and subsequently measured at amortised cost using the effective interest method.

- **Borrowings**

Borrowings are recognised initially at fair value, net of any transaction costs incurred. Borrowings are subsequently stated at amortised cost; any differences between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

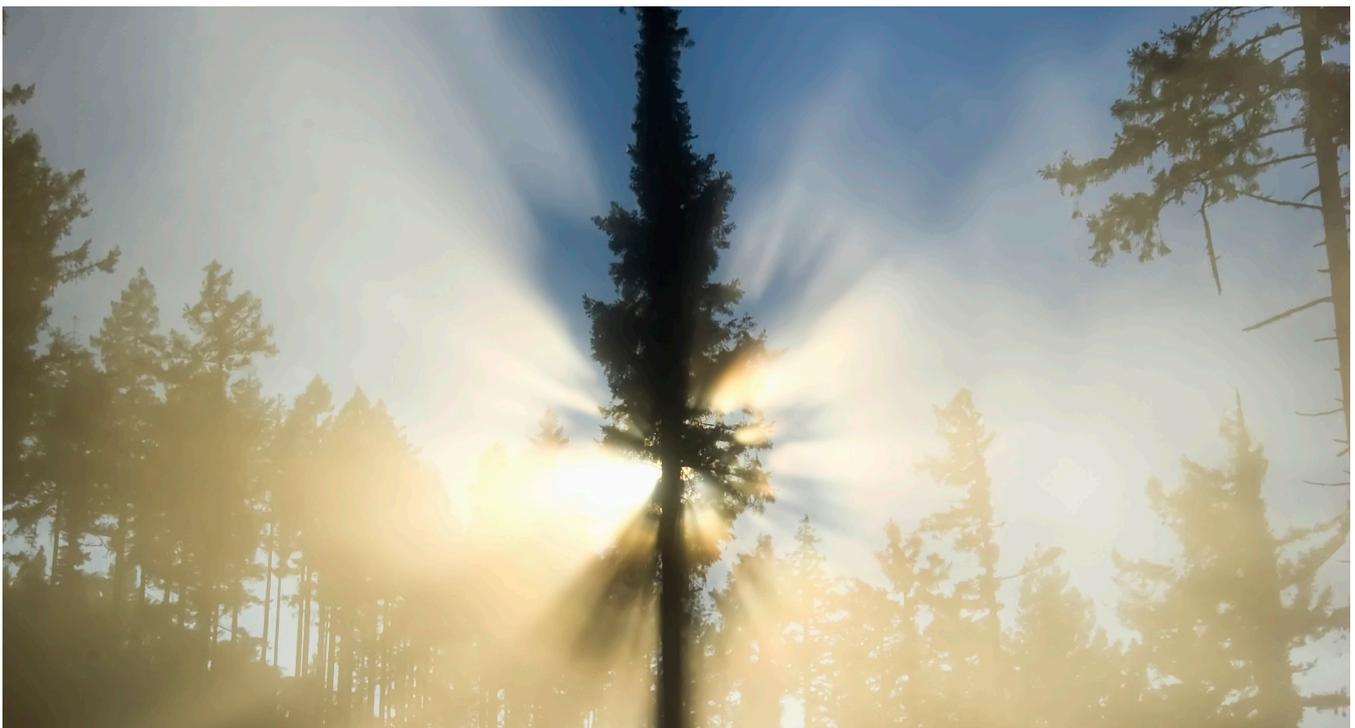
Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability at least 12 months after the balance date.

20. PUBLICATION OF FINANCIAL STATEMENTS

Invercargill City Forests Limited is a Council-Controlled Trading Organisation operating under the Local Government Act 2002. The Act requires the Board to deliver to the shareholders and make public the audited annual report within five months of the end of the financial year. This time frame has been met.

21. IMPACT OF COVID-19

On 11 March 2020, the World Health Organisation declared the outbreak of COVID-19 pandemic. New Zealand went into Level 4 lockdown from 26 March until 27 April and remained in Level 3 lockdown until 13 May. During this period all non-essential travel was suspended and potential purchasers were unable to travel to inspect the forests. This delayed the finalisation of the tender process as potential purchasers were given an additional seven weeks to finalise their tender from the move to level 2, with the tender process finalised prior to 30 June. COVID-19 had no other significant impacts as the Company has been largely dormant for the year pending the sale process.



Company Statement of Service Performance

FOR THE YEAR ENDED JUNE 30, 2020

The performance targets established in the 2020 Statement of Intent for Invercargill City Forests Limited and the results achieved for the year ended 30 June 2020 are as follows:

OBJECTIVE	KEY PERFORMANCE INDICATORS	TARGETS	RESULT
Health and Safety	Management and director safety observations	4	N/A
	Critical risks - Top five identified with action plans commenced and completed as per target	20%	N/A
	TRIFR - Total recordable injury frequency rate (per 1,000,000 hr)	<10	Achieved
	Serious harm accidents	Nil	Achieved
	LTI (Lost time injury)	Nil	Achieved
Operational	Net stocked area remains above 80% of productive area	>80%	Achieved
	Tree mortality rates	<10%	Not achieved*
	All silviculture is completed as per agreed work plan	95%	Achieved
	Average age of forest harvested	25yrs +/- 2	N/A
Financial (000's)	Net profit before tax	(2,143)	Achieved
	Net profit before tax and biological adjustments	(2,143)	Not achieved**
	Interest	1,171	Achieved
	Net profit before interest and taxation	(971)	Achieved
	Total assets	-	Not achieved**
	EBIT%	-	Not achieved**
Financial (000's)	Equity	-	Not achieved**
	Total debt	-	Not achieved**
	Total assets	-	Not achieved**
	Cash surplus	-	Not achieved**
	% Equity/total assets	-	Not achieved**
Environment	Number of enforcement notices	Nil	Achieved
Community	Support minimum three community activities	3	Not achieved**
Employee/Contractor Development and Satisfaction	Toolbox meeting attended/held	12	N/A
	Turnover of contractors	<10%	N/A

In May 2019, the Shareholder Invercargill City Holdings Limited announced their intention to sell Invercargill City Forests Limited. Due to this the company has been largely dormant for the year and has not measured against some of the performance targets contained in the Statement of Intent for the financial year ending 30 June 2020.

* The 2019 plantings have had a higher mortality rate due to mild winter conditions not allowing the seedlings to harden off as normal.

** Financial and community performance targets have not been met due to the company being largely dormant during the year and the sale not being completed prior to year end.

Auditor's Report

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of Invercargill City Forests Limited's financial statements and statement of service performance for the year ended 30 June 2020

The Auditor-General is the auditor of Invercargill City Forests Limited (the Company). The Auditor-General has appointed me, Andy Burns, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the statement of service performance of the Company on his behalf.

Opinion

We have audited:

- the financial statements of the Company on pages 6 to 22, that comprise the statement of financial position as at 30 June 2020, 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 page 23.

In our opinion:

- the financial statements of the Company on pages 6 to 22, which are prepared on a disestablishment basis:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2020; 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 statement of service performance of the Company on page 23 presents fairly, in all material respects, the Company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the Company's objectives, for the year ended 30 June 2020.

Our audit was completed on 01 September 2020. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw your attention to other matters. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the statement of service performance, we comment on other information, and we explain our independence.

Emphasis of matters

Without modifying our opinion, we draw your attention to the following disclosures.

The financial statements are appropriately prepared on a disestablishment basis

The basis of preparation section of the statement of accounting policies on page 11, which outlines that the financial statements have been prepared on a disestablishment basis because the shareholder, Invercargill City Holdings Limited, has resolved to divest of its interest in the Company. We consider the disestablishment basis of preparation of the financial statements, and the related disclosures, to be appropriate to the Company's circumstances.

Impact of COVID-19

Note 21 on page 22 of the financial statements, which explains the impact of COVID-19 on the Company.

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 Board of Directors for the financial statements and the statement of service performance

The Board of Directors is responsible on behalf of the Company for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparing the statement of service performance.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and statement of service performance that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the statement of service performance, the Board of Directors is responsible on behalf of the Company for assessing the Company's ability to continue as a going concern. If the Board of Directors concludes that the going concern basis of accounting is inappropriate,

the Board of Directors is responsible for preparing financial statements on a non-going concern basis and making appropriate disclosures.

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

Responsibilities of the auditor for the audit of the financial statements and the statement of service performance

Our objectives are to obtain reasonable assurance about whether the financial statements and the statement of service performance, 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 statement of service performance.

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

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 statement of service performance, 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 the 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 Company's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported performance information within the Company's framework for reporting performance.
- We conclude on the appropriateness of the disestablishment basis of accounting by the Board of Directors.
- We evaluate the overall presentation, structure and content of the financial statements and the statement of service performance, including the disclosures, and whether the financial

statements and the statement of service performance represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors 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 in our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board of Directors are responsible for the other information. The other information comprises the information included on pages 3 to 5, but does not include the financial statements and statement of service performance, and our auditor's report thereon.

Our opinion on the financial statements and the statement of service performance does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the statement of service performance, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the statement of service performance or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Company 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 Company.



Andy Burns
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand

