

South Australian Forestry Corporation

Financial report
for the year ended
30 June 2021



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To the Chair of the Board South Australian Forestry Corporation

Opinion

I have audited the financial report of South Australian Forestry Corporation for the financial year ended 30 June 2021.

In my opinion, the accompanying financial report gives a true and fair view of the financial position of the South Australian Forestry Corporation as at 30 June 2021, its financial performance and its cash flows for the year then ended in accordance with relevant Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2021
- a Statement of Financial Position as at 30 June 2021
- a Statement of Changes in Equity for the year ended 30 June 2021
- a Statement of Cash Flows for the year ended 30 June 2021
- notes, comprising significant accounting policies and other explanatory information
- a Certificate from the Chair and the Chief Executive.

Basis for opinion

I conducted the audit in accordance with the *Public Finance and Audit Act 1987* and Australian Auditing Standards. My responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial report' section of my report. I am independent of the South Australian Forestry Corporation. The *Public Finance and Audit Act 1987* establishes the independence of the Auditor-General. In conducting the audit, the relevant ethical requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* have been met.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Chief Executive and members of the Board for the financial report

The Chief Executive is responsible for the preparation of the financial report that gives a true and fair view in accordance with relevant Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and the Australian Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Chief Executive is responsible for assessing the entity's ability to continue as a going concern. The Chief Executive is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

The members of the Board are responsible for overseeing the entity's financial reporting process.

Auditor's responsibilities for the audit of the financial report

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* and section 32(4) of the *Public Corporations Act 1993*, I have audited the financial report of the South Australian Forestry Corporation for the financial year ended 30 June 2021.

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

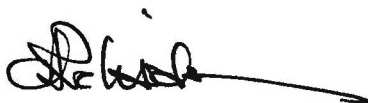
As part of an audit in accordance with Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial report, 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 my 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
- 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 South Australian Forestry Corporation's internal control

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief Executive
- conclude on the appropriateness of the Chief Executive's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify the opinion. My conclusion is based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause an entity to cease to continue as a going concern
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

My report refers only to the financial report described above and does not provide assurance over the integrity of electronic publication by the entity on any website nor does it provide an opinion on other information which may have been hyperlinked to/from the report.

I communicate with the Chief Executive and members of the Board about, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during the audit.



Andrew Richardson

Auditor-General

27 September 2021

South Australian Forestry Corporation

**Financial Statements
for the year ended
30 June 2021**

South Australian Forestry Corporation


Certification of the 2020/21 Financial Statements

We certify that the:

- financial statements of the South Australian Forestry Corporation (ForestrySA):
 - are in accordance with the accounts and records of ForestrySA;
 - comply with the relevant Treasurer's Instructions;
 - comply with relevant Australian accounting standards; and
 - present a true and fair view of the financial position of ForestrySA at the end of the financial year and the results of its operations and cash flows for the financial year.
- internal controls employed by ForestrySA for the financial year over its financial reporting and its preparation of financial statements have been effective.




Julian Speed
CHIEF EXECUTIVE
SOUTH AUSTRALIAN FORESTRY CORPORATION

 September 2021



June Roache
CHAIR
SOUTH AUSTRALIAN FORESTRY CORPORATION

 September 2021

South Australian Forestry Corporation
Statement of Comprehensive Income
For the year ended 30 June 2021

	Note	2021 \$'000	2020 \$'000
Income			
Sales - timber products	2.1	12,589	12,431
Revenues from SA Government	2.2	4,712	4,628
Interest	2.3	44	213
Net gain from the disposal of property, plant and equipment	2.4	-	5
Other income	2.5	1,267	1,296
Total income		18,612	18,573
Expenses			
Employee benefits	3.3	3,878	4,210
Contractors		8,616	9,332
Materials		498	418
Equipment and vehicle costs		360	490
Council rates		301	292
Depreciation and amortisation	4.1	1,303	1,243
Borrowing costs	4.2	20	23
Net loss from the disposal of property, plant and equipment	2.4	89	-
Other expenses	4.3	4,003	3,416
Total expenses		19,068	19,424
Trading profit/(loss) before revaluation of non-current assets		(456)	(851)
Net change in value of forest assets	5.5	1,764	9,145
Profit/(loss) before income tax equivalent		1,308	8,294
Income tax equivalent expense		-	-
Profit/(loss) after income tax equivalent		1,308	8,294
Other Comprehensive Income			
Items that will not be reclassified to profit and loss			
Changes in land revaluation surplus	5.2	(1,934)	6,665
Changes in property, plant and equipment asset revaluation surplus	5.2	49	-
Total other comprehensive income		(1,885)	6,665
Total comprehensive result		(577)	14,959

The accompanying notes form part of these financial statements. The net result and total comprehensive result are attributable to the SA Government as owner.

South Australian Forestry Corporation
Statement of Financial Position
As at 30 June 2021

	Note	2021 \$'000	2020 \$'000
Current assets			
Cash and cash equivalents	6.1	23,320	20,005
Receivables	6.2	5,317	4,607
Inventories	5.6	54	199
Forest assets	5.5	6,776	6,323
Assets classified as held for sale	5.7	7,629	7,073
Total current assets		43,096	38,207
Non-current assets			
Receivables	6.2	53,592	-
Forest assets	5.5	49,736	48,425
Property, plant and equipment	5.1	46,168	49,291
Intangible assets	5.4	28	93
Total non-current assets		149,524	97,809
Total assets		192,620	136,016
Current liabilities			
Payables	7.1	1,894	1,531
Financial liabilities	7.2	118	141
Contract liabilities	7.3	3,594	2,899
Employee benefits	3.4	436	493
Other provisions	7.4	217	108
Other liabilities	7.5	2,532	405
Total current liabilities		8,791	5,577
Non-current liabilities			
Payables	7.1	77	92
Financial liabilities	7.2	432	513
Contract liabilities	7.3	53,592	-
Employee benefits	3.4	503	601
Other provisions	7.4	1,049	393
Other liabilities	7.5	5,048	5,135
Total non-current liabilities		60,701	6,734
Total liabilities		69,492	12,311
Net Assets		123,128	123,705
Equity			
Retained earnings		26,661	27,117
Other reserves		96,467	96,588
Total Equity		123,128	123,705

The accompanying notes form part of these financial statements. The net result and total comprehensive result are attributable to the SA Government as owner.

South Australian Forestry Corporation
Statement of Changes in Equity
For the year ended 30 June 2021

	Note	Asset revaluation surplus \$'000	Forest assets reserve \$'000	Retained earnings \$'000	Total Equity \$'000
Balance at 1 July 2019		40,152	40,626	27,968	108,746
Net result for 2019-20					
Gain/loss on revaluation of land	5.2	6,665	-	-	6,665
Profit/(loss) for the period		-	-	8,294	8,294
Total comprehensive result for 2019-20		6,665	-	8,294	14,959
Transfer between equity components		-	9,145	(9,145)	-
Balance at 30 June 2020		46,817	49,771	27,117	123,705
Net result for 2020-21					
Gain/loss on revaluation of land	5.2	(1,934)	-	-	(1,934)
Gain/loss on revaluation of plant and equipment	5.2	49	-	-	49
Profit/(loss) for the period		-	-	1,308	1,308
Total comprehensive result for 2020-21		(1,885)	-	1,308	(577)
Transfer between equity components		-	1,764	(1,764)	-
Balance at 30 June 2021		44,932	51,535	26,661	123,128

The accompanying notes form part of these financial statements. The net result and total comprehensive result are attributable to the SA Government as owner.

South Australian Forestry Corporation
Statement of Cash Flows
For the year ended 30 June 2021

	Note	2021 \$'000	2020 \$'000
<u>Cash flows from operating activities</u>			
<i>Cash inflows</i>			
Receipts from customers		17,606	17,199
Receipts from SA Government		4,725	4,628
Interest received		48	193
GST recovered from the ATO		(666)	(527)
Cash generated from operations		21,713	21,493
<i>Cash outflows</i>			
Employee benefits payments		(4,033)	(4,204)
Payments for supplies and services		(13,503)	(15,029)
Interest paid		(20)	(23)
Cash used in operations		(17,556)	(19,256)
Net cash provided by/(used in) operating activities	8.2	4,157	2,237
<u>Cash flows from investing activities</u>			
<i>Cash inflows</i>			
Proceeds from the sale of property, plant and equipment		60	5
Cash generated from investing activities		60	5
<i>Cash outflows</i>			
Purchase of property, plant and equipment		(649)	(188)
Purchase of intangible assets		(109)	(93)
Cash used in investing activities		(758)	(281)
Net cash provided by/(used in) investing activities		(698)	(276)
<u>Cash flows from financing activities</u>			
<i>Cash outflows</i>			
Repayment of leases		(144)	(150)
Cash used in financing activities		(144)	(150)
Net cash provided by/(used in) financing activities		(144)	(150)
Net increase/(decrease) in cash and cash equivalents		3,315	1,811
Cash and cash equivalents at the beginning of the period		20,005	18,194
Cash and cash equivalents at the end of the period	8.2	23,320	20,005

The accompanying notes form part of these financial statements.

South Australian Forestry Corporation
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For the year ended 30 June 2021

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1 About the South Australian Forestry Corporation

The South Australian Forestry Corporation (ForestrySA) was established under the *South Australian Forestry Corporation Act 2000* on 1 January 2001. ForestrySA is subject to the provisions of the *Public Corporations Act 1993*.

Key responsibilities of ForestrySA are to:

- Manage state-owned plantation forests for commercial production in line with best practice standards for forestry operations and environmental management;
- Undertake directly, or with industry partners, and, where appropriate, commercialise forestry related research for the benefit of the Corporation and the State;
- Maximise the value of the Corporation whilst achieving other key requirements of government;
- Encourage and facilitate regionally based economic activities based on forestry and other industries;
- Support regional resource protection initiatives and programs;
- Support the concept of environmental sustainability which assists in the protection of natural assets and market accessibility; and
- Support cooperative research activities within the forestry industry.

Green Triangle agency agreement

The South Australian Government retains obligations in the Green Triangle region as stipulated under the Operations Deed related to the South Australian Plantation Lease Agreement with OneFortyOne Plantations Pty Ltd (OFO). These include community forestry and fire protection activities performed by ForestrySA on behalf of government under a Memorandum of Administrative Arrangement for delivery of Community Service Obligations.

1.1 Basis of preparation

The financial statements are general purpose financial statements prepared in compliance with:

- section 23 of the *Public Finance and Audit Act 1987*;
- Treasurer's Instructions and Accounting Policy Statements issued by the Treasurer under the *Public Finance and Audit Act 1987*; and
- relevant Australian Accounting Standards.

For the purposes of preparing the financial statements, Forestry SA is a for-Profit entity. The financial statements are prepared based on a 12 month reporting period and presented in Australian currency. The historical cost convention is used unless a different measurement basis is specifically disclosed in the note associated with the item measured.

Income, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods or services is not recoverable from the Australian Taxation Office, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable; and
- receivables and payables, which are stated with the amount of GST included.

Assets and liabilities that are to be sold, consumed or realised as part of the normal operating cycle have been classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

Where asset and liability line items combine amounts expected to be realised within 12 months and more than 12 months, ForestrySA has separately disclosed the amounts expected to be recovered or settled after more than 12 months.

South Australian Forestry Corporation
Notes to the Financial Statements
For the year ended 30 June 2021

1.2 Segment reporting

For management purposes ForestrySA is organised into two segments. The reportable segments are:

- Commercial: plantation operations etc, establishment activities and all overheads.
- Non-commercial: operations performed for the South Australian Government under ForestrySA's Charter.

Statement of Comprehensive Income by Operating Segment
For the year ended 30 June 2021

	Commercial		Non-Commercial		Total	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Income						
Sales - timber products	12,589	12,431	-	-	12,589	12,431
Revenues from SA Government	-	-	4,712	4,628	4,712	4,628
Interest	44	213	-	-	44	213
Other income	786	1,296	481	-	1,267	1,296
Net gain from the disposal of property, plant and equipment	-	5	-	-	-	5
Total income	13,419	13,945	5,193	4,628	18,612	18,573
Expenses						
Employee benefits	2,135	2,305	1,743	1,905	3,878	4,210
Contractors	7,359	8,104	1,257	1,228	8,616	9,332
Depreciation and amortisation	832	773	471	470	1,303	1,243
Materials	315	342	183	76	498	418
Equipment and vehicle costs	64	93	296	397	360	490
Council rates	301	292	-	-	301	292
Other expenses	2,170	2,401	1,833	1,015	4,003	3,416
Net loss from the disposal of property, plant and equipment	89	-	-	-	89	-
Borrowing costs	2	2	18	21	20	23
Total expenses	13,267	14,312	5,801	5,112	19,068	19,424
Net result	152	(367)	(608)	(484)	(456)	(851)
Net change in value of forest assets	1,764	9,145	-	-	1,764	9,145
Net result before income tax equivalent	1,916	8,778	(608)	(484)	1,308	8,294
Income tax equivalent expense	-	-	-	-	-	-
Net result after income tax equivalent	1,916	8,778	(608)	(484)	1,308	8,294
Other Comprehensive Income						
Items that will not be reclassified to net result						
Changes in land revaluation surplus	(1,934)	6,665	-	-	(1,934)	6,665
Changes in property, plant and equipment asset revaluation surplus	49	-	-	-	49	-
Total other comprehensive income	(1,885)	6,665	-	-	(1,885)	6,665
Total comprehensive result	31	15,443	(608)	(484)	(577)	14,959

South Australian Forestry Corporation
Notes to the Financial Statements
For the year ended 30 June 2021

1.3 Impact of COVID-19 pandemic

With market demand remaining positive, the COVID-19 pandemic has had little impact on the operations of ForestrySA despite minor interruptions to logistics and contractor availability.

1.4 Significant transactions with government related entities

Significant transactions with the SA Government are identifiable throughout this financial report.
 In addition:

- ForestrySA receives funding from the SA Government for the provision of certain non-commercial operations. These are the community service obligations (CSOs):
 1. Native forest management,
 2. Community use of forests,
 3. Forest industry development, and
 4. Community fire protection and forest industry support activities.
- Lease payments relate to vehicles supplied by Fleet SA.

2 Income

2.1 Revenues from sales - timber products

	2021 \$'000	2020 \$'000
Revenue from log sales	12,558	12,431
Revenue from other timber sales	31	-
Total revenues from sales - timber products	12,589	12,431

All revenue from the sales of goods and services is revenue recognised from contracts with customers.

AASB 15 Revenue from Contracts with Customers has had an impact on the financial statements since its adoption on 1 July 2018. This is because some Log Sales Agreements contain a clause which guarantees 85% of the value of the Contracted Annual Log Supply as income to ForestrySA, even if the customer does not achieve the agreed monthly purchase volumes. Under the definitions within AASB 15, guaranteed volumes of log sales classify as an 'unconditional right to consideration' and are recorded as a receivable (asset). An offsetting contract liability is also recognised. (Refer to Notes 6.2 and 7.3 respectively for these disclosures.) As the contract liability offsets the receivable, there is no net impact on equity.

Contract balances	2021 \$'000	2020 \$'000
Receivables from contracts with customers, included in Receivables (Note 6.2)		
Contract receivables	57,186	2,899
Contract liabilities	57,186	2,899

Income is recognised as performance obligations are met i.e. logs are delivered, or when ForestrySA realises its right to income for customers not achieving their required monthly log purchase.

ForestrySA has entered into new long-term log sale agreements with two customers commencing 1 July 2021.

South Australian Forestry Corporation
Notes to the Financial Statements
For the year ended 30 June 2021

2.2 Net revenues from SA Government

	2021 \$'000	2020 \$'000
Revenues from SA Government		
Community Service Obligation funding (1)	4,218	4,116
Government radio network funding	440	429
Deferred revenues from SA Government (1)	54	83
Net revenues from SA Government	4,712	4,628

(1) CSO funding used for capital expenditure is recognised in revenue over the life of the asset.

Revenues from SA Government comprise funding from the Department of Primary Industries and Regions for the operation of the Government radio network and provision of Community Service Obligation (CSO) activities, including community forestry, community fire protection and forestry industry research and development. This funding is recognised where there is reasonable assurance that the funding will be received and ForestrySA will comply with all attached conditions. There are no unfulfilled conditions or other contingencies attached to this funding.

2.3 Interest Revenue

	2021 \$'000	2020 \$'000
Interest received	44	213
Total interest revenue	44	213

2.4 Net gain/(loss) from the disposal of property, plant and equipment

	2021 \$'000	2020 \$'000
Plant and equipment:		
Proceeds from disposal	60	5
Less carrying amount of assets disposed	(149)	-
Net gain/(loss) from disposal of plant and equipment	(89)	5
Total assets:		
Total proceeds from disposal	60	5
Less total carrying amount of assets disposed	(149)	-
Total net gain (loss) from disposal of assets	(89)	5

2.5 Other income

	2021 \$'000	2020 \$'000
Leases and Licences	414	619
Other revenue from non SA Government entities	602	670
Grant funding	251	7
Other income	1,267	1,296

Leases and Licences

Income from licences for grazing or other activities on forest reserves, leases for commercial tenancies in the office building in Mt Gambier and Crown leases on land in the Mid North region.

Other Revenue

Other revenue includes income from recreational activities, weighbridge and recoupment of costs relating to the commercial lease of the office building.

Grant Funding

Grant funding includes income received from the Commonwealth Government National Bushfire Recovery Fund via the Local Economic Recovery Program for the redevelopment of the Fox Creek Bike Park. The funding is initially recorded as a liability until project expenditure has occurred at which time an offsetting amount is recorded as revenue.

South Australian Forestry Corporation
Notes to the Financial Statements
For the year ended 30 June 2021

3 Board, committees and employees

3.1 Key management personnel

Key management personnel of ForestrySA include the Minister for Primary Industries and Regional Development, Board, committee members, the Chief Executive and the members of the Leadership Team.

Total compensation for key management personnel was \$904,000 in 2020-21 and \$936,000 in 2019-20.

The compensation disclosed in this note excluded salaries and other benefits the Minister for Primary Industries and Regional Development receives. The Minister's remuneration and allowances are set by the *Parliamentary Remuneration Act 1990* and the Remuneration Tribunal of SA respectively and are payable from the Consolidated Account (via the Department of Treasury and Finance) under section 6 the *Parliamentary Remuneration Act 1990*.

	2021 \$'000	2020 \$'000
Compensation		
Salaries and other short term employee benefits	811	803
Post-employment benefits	76	74
Termination Benefits	17	59
Total	904	936

Transactions with key management personnel and other related parties

ForestrySA did not enter into any transactions with key management personnel or their close families during the financial year that were not consistent with the normal course of business.

3.2 Board and committee members

Members during the 2020-21 financial year were:

Board

J. Roache (Chair)
T. Stollznow
G. Pelton*

Audit and Risk Committee

T. Stollznow (Chair)
J. Roache
G. Pelton*

Board and committee remuneration	2021 \$'000	2020 \$'000
The number of governing board members whose remuneration received or receivable falls within the following bands:		
\$0 - \$19,999*	1	1
\$40,000 - \$59,999	2	2
Total number of members	3	3

*In accordance with the Department of Premier and Cabinet Circular No. 016, government employees did not receive any remuneration for board/committee duties during the financial year.

The total remuneration received and receivable by those governing board members was \$98,000 (2020: \$98,000) which includes fringe benefits and superannuation contributions.

South Australian Forestry Corporation
Notes to the Financial Statements
For the year ended 30 June 2021

3.3 Employee benefits expenses

	2021 \$'000	2020 \$'000
Salaries and wages	2,993	3,166
Long service leave	74	57
Skills and experience retention leave	9	10
Annual leave	240	248
Employment on-costs - superannuation	313	558
Targeted Voluntary Separation Packages	85	-
Employment on-costs - other	164	171
Total employee benefits expenses	3,878	4,210

Employment on-costs – superannuation

The superannuation employment on-cost charge represents ForestrySA's contributions to superannuation plans in respect of current services of current employees.

Executive remuneration

	2021 No	2020 No
The number of employees whose remuneration received or receivable falls within the following bands:		
\$154,001 to \$174,000	1	2
\$254,001 to \$274,000	1	1
Total number of employees	2	3

The total remuneration received by executive employees for the year was \$0.418 million (2020: \$0.583 million).

The table includes all employees who received remuneration equal to or greater than the base executive remuneration level during the year. Remuneration of employees reflects all costs of employment including salaries and wages, payments in lieu of leave, superannuation contributions, salary sacrifice benefits and fringe benefits and any fringe benefits tax paid or payable in respect of those benefits.

Targeted Voluntary Separation Packages (TVSPs)

The number of employees who received or are entitled to receive TVSPs during the reporting period was 1 (2020: nil).

	2021 \$'000	2020 \$'000
Amount paid to separated employees:		
Targeted Voluntary Separation Packages	85	-
Leave paid to separated employees	25	-
Net cost	110	-

3.4 Employee benefits liability

	2021 \$'000	2020 \$'000
Current		
Accrued salaries and wages	115	114
Annual leave	199	234
Long service leave	113	133
Skills and experience retention leave	9	12
Total current employee benefits	436	493
Non-current		
Long service leave	503	601
Total non-current employee benefits	503	601
Total employee benefits	939	1,094

Employee benefits accrue as a result of services provided up to the reporting date that remain unpaid. Long-term employee benefits are measured at present value and short-term employee benefits are measured at nominal amounts.

Salaries and wages, annual leave, skills and experience retention leave (SERL) and sick leave

The liability for salaries and wages is measured as the amount unpaid at the reporting date at remuneration rates current at the reporting date.

The annual leave liability and the SERL liability in full is expected to be payable within 12 months and is measured at the undiscounted amount expected to be paid.

No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees is estimated to be less than the annual entitlement for sick leave.

Long service leave

The liability for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Details about the measurement of long service leave liability is provided at note 10.1.

4 Expenses

Employee benefits expenses are disclosed in note 3.3.

4.1 Depreciation and amortisation

	2021 \$'000	2020 \$'000
Buildings and structures	559	582
Plant and equipment	337	315
Right-of-use vehicles	151	160
Roads and land improvements	175	164
Intangible assets	81	22
Total depreciation and amortisation	1,303	1,243

All non-current assets, with a limited useful life, are systematically depreciated/amortised over their useful lives in a manner that reflects the consumption of their service potential.

Useful life

Depreciation and amortisation are calculated on a straight-line basis. Property, plant and equipment and intangible assets depreciation are calculated over the estimated useful life as follows:

Class of asset	Useful life (years)
Buildings and structures	25-60
Plant and equipment	3-25
Right-of-use plant and equipment	Lease term
Road and land improvements	10-25
Intangibles	1-3

Review of accounting estimates

Assets' residual values, useful lives and amortisation methods are reviewed and adjusted, if appropriate, on an annual basis. Changes in the expected life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the time period or method, as appropriate. There were no changes during the year.

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4.2 Borrowing costs

	2021 \$'000	2020 \$'000
Interest expense on lease liabilities	20	23
Total borrowing costs	20	23

ForestrySA does not capitalise borrowing costs.

4.3 Other Expenses

	2021 \$'000	2020 \$'000
Consultants	61	23
Information and communications technology	846	691
Government Radio Network	440	429
Workers compensation	901	340
University of South Australia Research Agreement	500	500
Short term leases	-	7
Legal and professional fees	155	120
Utilities	126	149
Building and facility maintenance	235	252
Insurance	92	83
Sponsorship and membership fees	143	88
Employee expenses	110	115
External audit fees	70	71
Other	324	548
Total other expenses	4,003	3,416

Consultants

The number of consultancies and the dollar amount paid/payable (included in other expenses) to consultants that fell within the following bands:

	No	2021 \$'000	No	2020 \$'000
Below \$10,000	3	12	2	10
Above \$10,000	3	49	1	13
Total	6	61	3	23

Audit fees paid / payable to the Auditor-General's Department relating to work performed under the *Public Finance and Audit Act* were \$70,000 (2020: \$71,000). No other services were provided by the Auditor-General's Department.

4.4 Taxation

In accordance with Treasurer's Instruction 22, Tax Equivalent Payments are required to be paid by ForestrySA to the Treasurer if a profit is achieved. When applicable, income tax equivalent is calculated as 30% of profit before tax, adjusted for forest assets revaluation gains or losses and after deducting any approved forest operating costs which have been capitalised to the forest assets. Land revaluation increments included in Comprehensive Income are also excluded from tax calculations.

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Notes to the Financial Statements
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5 Non-financial assets

5.1 Property, plant and equipment by asset class

Property, plant and equipment comprises owned and right-to-use (leased) tangible assets that do not meet the definition of investment property.

	2021 \$'000	2020 \$'000
<u>Land and buildings</u>		
Land at fair value	36,343	39,201
Buildings at fair value	6,578	6,578
Accumulated depreciation at the end of the period	(1,622)	(1,063)
Total land and buildings	41,299	44,716
<u>Road and land improvements</u>		
Road and land improvements at fair value	4,162	3,883
Accumulated depreciation at the end of the period	(2,397)	(2,223)
Total road and land improvements	1,765	1,660
<u>Plant and equipment</u>		
Plant and equipment at fair value	3,610	3,469
Accumulated depreciation at the end of the period	(1,408)	(1,198)
Total plant and equipment	2,202	2,271
<u>Right-of-use plant and equipment</u>		
Right-of-use plant and equipment at cost	804	787
Accumulated depreciation at the end of the period	(271)	(143)
Total right-of-use plant and equipment	533	644
<u>Work in progress</u>		
Work in progress at cost	369	-
Total work in progress	369	-
Total property, plant and equipment	46,168	49,291

5.2 Property, Plant and equipment owned by Forestry SA

Property, plant and equipment owned by ForestrySA with a value equal to or in excess of \$10,000 is capitalised, otherwise it is expensed. Property, plant and equipment owned by ForestrySA is recorded at fair value. Detail about ForestrySA's approach to fair value is set out in note 10.2.

Plant and equipment includes \$315,000 of fully depreciated plant and equipment still in use.

Impairment

Property, plant and equipment owned by ForestrySA has not been assessed for impairment as they are non-cash generating assets, that are specialised in nature and held for continual use of their service capacity.

Revaluation of property, plant and equipment is undertaken on a regular cycle as detailed in Note 10.2. If at any time management considers that the carrying amount of an asset materially differs from its fair value, then the asset will be revalued regardless of when the last valuation took place.

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Reconciliation 2020-21

	Land \$'000	Buildings and structures \$'000	Roads and land improvements \$'000	Plant and equipment \$'000	Work in progress \$'000	Total \$'000
Carrying amount at 1 July 2020	39,201	5,515	1,660	2,271	-	48,647
Additions / transfers	-	-	280	-	369	649
Disposals	-	-	-	(149)	-	(149)
Assets reclassified to/from assets held for sale	-	-	-	368	-	368
Revaluation increments	-	-	-	49	-	49
Revaluation decrements*	(2,858)	-	-	-	-	(2,858)
Depreciation charge for the year	-	(559)	(175)	(337)	-	(1,071)
Carrying amount at 30 June 2021	36,343	4,956	1,765	2,202	369	45,635

Reconciliation 2019-20

	Land \$'000	Buildings and structures \$'000	Roads and land improvements \$'000	Plant and equipment \$'000	Work in progress \$'000	Total \$'000
Carrying amount at 1 July 2019	33,388	6,055	1,715	2,533	-	43,691
Additions / transfers	-	43	107	38	-	188
Transfers between classes	-	(1)	2	(1)	-	-
Assets reclassified to/from assets held for sale	-	-	-	16	-	16
Revaluation increments*	5,813	-	-	-	-	5,813
Revaluation decrements	-	-	-	-	-	-
Impairment	-	-	-	-	-	-
Depreciation charge for the year	-	(582)	(164)	(315)	-	(1,061)
Carrying amount at 30 June 2020	39,201	5,515	1,660	2,271	-	48,647

	2021 \$'000	2020 \$'000
*Reconciliation of changes in land revaluation surplus		
Revaluation (decrement)/increment per Statement of Comprehensive Income	(1,934)	6,665
<i>Made up of:</i>		
Revaluation (decrement)/increment of land classified as property, plant and equipment	(2,858)	5,813
Revaluation increment of land classified as held for sale (note 5.7)	924	852
	(1,934)	6,665

5.3 Property, plant and equipment leased by ForestrySA

Property, plant and equipment leased by ForestrySA is recorded at cost. Additions to leased property, plant and equipment during 2020-21 were \$45,000 (2019-20: \$118,000).

Short-term leases of 12 months or less and low value leases where the underlying asset value is less than \$15,000 are not recognised as right-of-use assets. The associated lease payments are recognised as an expense and are disclosed in note 4.3.

ForestrySA has a limited number of leases:

- 22 motor vehicle leases with the South Australian Government Financing Authority (SAFA). Motor vehicle leases are non-cancelled, with rental payments monthly in arrears. Motor vehicle lease terms can range from 3 years (60,000km) up to 5 years (100,000km). No contingent rental provisions exist within the lease agreements and no options exist to renew the leases at the end of their term.

The lease liabilities related to the right-of-use assets are disclosed in note 7.2. ForestrySA's maturity analysis of its lease liabilities is disclosed in note 10.3. Expenses related to leases, including depreciation and interest expenses, are disclosed in note 4. Cash outflows related to leases are disclosed in note 8.2.

Impairment

Property, plant and equipment leased by ForestrySA has been assessed for impairment. There was no indication of impairment. No impairment loss or reversal of impairment loss was recognised.

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5.4 Intangible assets

	2021 \$'000	2020 \$'000
Computer software		
Purchased computer software	2,701	2,592
Accumulated amortisation	(2,673)	(2,592)
Total computer software	28	-
Work in Progress		
Additions	-	93
Total work in progress	-	93
Total intangible assets	28	93

Intangible assets are initially measured at cost and are tested for indications of impairment at each reporting date. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

The acquisition of or internal development of software is capitalised only when the expenditure meets the definition and recognition criteria and when the amount of expenditure is greater than or equal to \$10,000.

Reconciliation 2020-21

	Total \$'000
Carrying amount at 1 July 2020	93
Additions	16
Amortisation charge for the year	(81)
Carrying amount at 30 June 2021	28

Reconciliation 2019-20

	Total \$'000
Carrying amount at 1 July 2019	22
Additions	93
Amortisation charge for the year	(22)
Carrying amount at 30 June 2020	93

5.5 Forest assets

Forest assets are recorded at fair value. Detail about ForestrySA's approach to fair value is set out in note 10.2.

	2021 \$'000	2020 \$'000
Current		
Current portion of forest assets valuation	6,776	6,323
Total current forest assets	6,776	6,323

	2021 \$'000	2020 \$'000
Non-current		
Non-current portion of forest assets valuation	49,736	48,425
Total non-current forest assets	49,736	48,425

Reconciliation 2020-21

	Total \$'000
Carrying amount at 1 July 2020	54,748
Other revaluation (impairment) recorded in statement of comprehensive income	1,764
Carrying amount at 30 June 2021	56,512

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<i>Reconciliation 2019-20</i>	Total \$'000
Carrying amount at 1 July 2019	45,603
Other revaluation (impairment) recorded in statement of comprehensive income	9,145
Carrying amount at 30 June 2020	54,748

ForestrySA recognises the multiple rotation forest valuation, being \$56,512,000 (2020: \$54,748,000). More information is provided at Note 10.2.

5.6 Inventories

	2021 \$'000	2020 \$'000
Current – held for distribution at no or nominal amount		
Materials at cost	13	20
Total current inventories held for distribution at no or nominal amount	13	20
Current – held for sale		
Materials at cost	41	179
Total current other inventories – other than those held for distribution at no or nominal amount	41	179
Total inventories	54	199

Inventories held for distribution at no or nominal consideration are measured at cost and adjusted when applicable for any loss of service potential. Inventories held for sale are measured at the lower of cost or their net realisable value.

Cost for all other inventory is measured based on the first-in, first-out method. Net realisable value is determined using the estimated sales proceeds less costs incurred in marketing, selling and distribution to customers.

5.7 Non-current assets classified as held for sale

	2021 \$'000	2020 \$'000
Land	7,327	6,403
Buildings	151	142
Property, plant and equipment	151	528
Total non-current assets classified as held for sale	7,629	7,073

Non-current assets are classified as held for sale and stated at the lower of their carrying amount or fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset's sale is expected to be completed one year from the date of classification, except for events or circumstances beyond the entity's control where it is still committed to sell the asset.

Land held for sale relates to the divestment of commercial forest reserve in the Mid North Region in accordance with the Mid North Forests Future Strategy. Most of the parcels held for sale are currently under Crown Leases with individuals and businesses aiming to establish a range of commercial uses for the land at Wirrabara and Bundaleer.

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6 Financial assets

6.1 Cash and cash equivalents

	2021 \$'000	2020 \$'000
Cash	-	1
Deposits	5,538	4,253
Cash Management Fund	17,782	15,751
Total cash and cash equivalents	23,320	20,005

Deposits and cash management fund

Deposits include funds held with the Commonwealth Bank of Australia (CBA). These funds are used for operational purposes in accordance with the Treasurer's/Under Treasurer's approval. Cash Management Fund (CMF) deposits are lodged with SAFA and earn interest at the respective CMF rate.

6.2 Receivables

	2021 \$'000	2020 \$'000
Current		
Trade receivables - SA Gov	2	15
Trade receivables - Non SA Gov	1,407	1,848
Contract receivables - guaranteed log volume sales	3,594	2,899
Less impairment loss on receivables	(15)	(218)
Accrued revenue	111	5
Prepayments	218	58
Total current receivables	5,317	4,607
	2021 \$'000	2020 \$'000
Non-current		
Contract receivables non current- guaranteed log volume sales	53,592	-
Total non-current receivables	53,592	-

Trade receivables arise in the normal course of selling goods and services to other government agencies and to the public. Trade receivables are normally settled within 30 days after the issue of an invoice or the goods/services have been provided under a contractual arrangement.

Under the definitions within AASB 15, guaranteed volumes of log sales classify as an 'unconditional right to consideration' and are recorded as a receivable (asset). An offsetting contract liability is also recognised (refer to note 7.3).

Other than as recognised in the allowance for impairment loss on receivables, it is anticipated that counterparties will discharge their obligations. The carrying amount of receivables approximates net fair value due to being receivable on demand. There is no concentration of credit risk.

Refer to note 10.3 for further information on risk management.

Statutory receivables do not arise from contracts with customers. They are recognised and measured similarly to contractual receivables (except impairment) but are not classified as financial instruments for disclosure purposes.

Receivables, prepayments and accrued revenues are non-interest bearing. Receivables are held with the objective of collecting the contractual cash flows and they are measured at amortised cost.

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<i>Allowance for impairment loss on receivables</i>	2021 \$'000	2020 \$'000
Carrying amount at the beginning of the period	218	30
Increase / (Decrease) in allowance recognised in profit or loss	(203)	188
Carrying amount at the end of the period	15	218

All the above impairment losses are from receivables arising from contracts with customers and licences with licensees.

Refer to note 10.3 for details regarding credit risk and the methodology for determining impairment.

7 Liabilities

Employee benefits liabilities are disclosed in note 3.4.

7.1 Payables

	2021 \$'000	2020 \$'000
<u>Current</u>		
Trade payables	944	1,237
Accrued expenses	621	90
<u>Statutory payables</u>		
GST payable	280	146
Employment on-costs	49	58
Total current payables	1,894	1,531
<u>Non-current</u>		
<u>Statutory payables</u>		
Employment on-costs	77	92
Total non-current payables	77	92
Total payables	1,971	1,623

Payables and accruals are raised for all amounts owing but unpaid. Sundry payables are normally settled within 30 days from the date the invoices is first received. All payables are non-interest bearing. The carrying amount of payables represents fair value due to their short-term nature.

Statutory payables do not arise from contracts.

The net amount of GST recoverable from the ATO is included as part of receivables. However, if a net GST payable arises then this amount would be disclosed in this Payables note.

Employment on-costs

Employment on-costs include payroll tax, Return to Work SA levies and superannuation contributions and are settled when the respective employee benefit that they relate to is discharged.

ForestrySA contributes to several State Government and externally managed superannuation schemes. These contributions are treated as an expense when they occur. There are no liabilities for payments to beneficiaries as they have been assumed by the respective superannuation schemes. The only liability outstanding at reporting date relates to any contributions due but not yet paid to the South Australian Superannuation Board.

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As a result of an actuarial assessment performed by the Department of Treasury and Finance, the proportion of long service leave taken as leave is 42% (2020: 42%). The average factor for the calculation of employer superannuation on-costs has increased to 10.1% (2020: 9.8%). These rates are used in the employment on-cost calculation. The net financial effect of the changes in the current financial year is immaterial.

7.2 Financial liabilities

	Note	2021 \$'000	2020 \$'000
Current			
Lease liabilities	5.3	118	141
Total current financial liabilities		118	141
Non-current			
Lease liabilities	5.3	432	513
Total non-current financial liabilities		432	513
Total financial liabilities		550	654

ForestrySA measures financial liabilities at amortised cost.

All lease liabilities relate to right-of-use vehicle assets.

7.3 Contract liabilities

	2021 \$'000	2020 \$'000
Current		
Contract liability	3,594	2,899
Total current contract liabilities	3,594	2,899
Non-current		
Contract liability	53,592	-
Total non-current contract liabilities	53,592	-
Total contract liabilities	57,186	2,899

Under the definitions within AASB 15, guaranteed volumes of log sales classify as an 'unconditional right to consideration'. A contract liability has been recognised to reflect ForestrySA's obligation to meet the terms of the log sale contracts. An offsetting receivable is also recognised (refer to note 6.2).

7.4 Other provisions

	2021 \$'000	2020 \$'000
Current		
Provision for workers compensation	217	108
Total current provisions	217	108
Non-current		
Provision for workers compensation	1,049	393
Total non-current provisions	1,049	393
Total provisions	1,266	501

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<i>Movement in provisions</i>	2021 \$'000
Carrying amount at the beginning of the period	501
Additional provisions recognised	765
Carrying amount at the end of the period	1,266

A provision has been reported to reflect unsettled workers compensation claims. The workers compensation provision is based on actuarial assessment of the outstanding liability as at 30 June 2021 provided by a consulting actuary engaged through the Office of the Commissioner for Public Sector Employment. The provision is for the estimated cost of ongoing payments to employees as required under current legislation. The movement in the provision has been recorded as an expense and is disclosed in Note 4.3.

ForestrySA is responsible for payment of workers compensation claims.

7.5 Other liabilities

	2021 \$'000	2020 \$'000
Current		
Unearned revenue	2,532	405
Total current other liabilities	2,532	405
Non-current		
Unearned revenue	5,048	5,135
Total non-current other liabilities	5,048	5,135
Total other liabilities	7,580	5,540

ForestrySA has leases and licences for which payment has been received in advance, \$4,341,000 of which relates to Crown Leases over land in the Mid North of South Australia (2020: \$4,386,000).

Forestry SA received grant funding of \$2,500,000 from the Commonwealth Government National Bushfire Recovery Fund via the Local Economic Recovery Program for the redevelopment of the Fox Creek Bike Park. The funding is initially recorded as a liability until project expenditure has occurred at which time an offsetting amount is recorded as revenue. As at 30 June 2021 ForestrySA has recorded \$223,000 of income related to this funding. Grant funding is disclosed in Note 2.5.

<i>Movement in deferred income</i>	2021 \$'000	2020 \$'000
Carrying amount at the beginning of the period	5,540	5,731
Received during the year	3,138	525
Recognised as income in the Statement of Comprehensive Income	(1,098)	(716)
Carrying amount at the end of the period	7,580	5,540

8 Other disclosures

8.1 Equity

The asset revaluation surplus is used to record increments and decrements in the fair value of property and plant and equipment to the extent that they offset one another. Relevant amounts are transferred to retained earnings when an asset is derecognised.

The forest assets reserve is used to record increments and decrements in the fair value of forest assets to the extent that they offset one another.

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8.2 Cash flow

Cash flows are included in the Statement of Cash Flow on a gross basis and the GST component of cash flow arising from investing and financing activities, which is recoverable from, or payable to, the ATO is classified as part of operating cash flows.

Leases	2021 \$'000	2020 \$'000
Plant and equipment - right-of-use vehicles	228	232
Total cash outflow for leases	228	232
Cash flow reconciliation	2021 \$'000	2020 \$'000
<u>Reconciliation of cash and cash equivalents at the end of the reporting period</u>		
Cash and cash equivalents disclosed in the Statement of Financial Position	23,320	20,005
Balance as per the Statement of Cash Flows	23,320	20,005
<u>Reconciliation of net cash provided by operating activities to net result</u>		
Net cash provided by/(used in) operating activities	4,157	2,237
<u>Add/less non-cash items</u>		
Depreciation and amortisation expense of non-current assets	(1,303)	(1,243)
Reclassified work in progress	(93)	-
(Gain)/loss on sale or disposal of non-current assets	(89)	5
(Gain)/loss on revaluation of forest assets	1,764	9,145
(Gain)/loss on revaluation of other non-current assets	-	-
<u>Movement in assets and liabilities</u>		
Increase/(decrease) in receivables	54,302	(4,717)
Increase/(decrease) in inventories	(145)	39
(Increase)/decrease in payables	(348)	(20)
(Increase)/decrease in employee benefits	155	(6)
(Increase)/decrease in provisions	(765)	(235)
(Increase)/decrease in contract liabilities	(54,287)	2,899
(Increase)/decrease in other liabilities	(2,040)	190
Net result	1,308	8,294

9 Outlook

9.1 Unrecognised commitments

Commitments include operating, capital and outsourcing arrangements arising from contractual or statutory sources and are disclosed at their nominal value.

Capital commitments	2021 \$'000	2020 \$'000
Within one year	1,707	-
Later than one year but not longer than five years	200	-
Total capital commitments	1,907	-

Forestry SA's capital commitments are for the refurbishment of four fire trucks and for the redevelopment of the Fox Creek Bike Creek including reinstating the trail network, building works on restrooms, shelters, road surfacing and fencing.

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Expenditure commitments	2021 \$'000	2020 \$'000
Within one year	6,189	5,819
Later than one year but not longer than five years	417	5,240
Total expenditure commitments	6,606	11,059

ForestrySA's contracting commitment include agreements for the harvesting and transport of log and associated logistics. The calculations, based on assumptions about variables that impact the future dollar outcome of the commitments to ForestrySA, are indicative amounts.

ForestrySA has also entered into supply agreements to sell timber that is harvested. The terms and conditions of these agreements vary.

Lease receivable commitments	2021 \$'000	2020 \$'000
<u>Commitments in relation to leases contracted for at the reporting date but not recognised as receivables are as follows:</u>		
Within one year	246	294
Later than one year but not longer than five years	570	1,013
Later than five years	-	61
Total lease receivable commitments	816	1,368

Lease receivable commitments relate to the office building located in Mt Gambier where two tenants lease office space from ForestrySA.

9.2 Contingent assets and liabilities

Contingent assets and contingent liabilities are not recognised in the Statement of Financial Position, but are disclosed by way of a note and, if quantifiable, are measured at nominal value.

ForestrySA has contingent assets in the form of bank guarantees issued by various banks for ForestrySA customers.

ForestrySA and the SA Superannuation Board entered an arrangement at the time of incorporation of ForestrySA to allow officers and employees of ForestrySA, who were immediately before incorporation of ForestrySA contributors to the State Superannuation Scheme, to remain contributors under the *Superannuation Act 1988*.

In April 2017, ForestrySA was notified by the SA Superannuation Board of a \$2 million actuarially assessed funding deficit as at 30 June 2016 relating to defined benefit members employed by ForestrySA as at 1 July 2014. The funding deficit was expected to be funded over the next 10 to 12 years by making additional contributions to the fund. Results of an actuarial review conducted as at 30 June 2019 and provided to ForestrySA in October 2020 indicated a \$4,000 deficit. It was recommended that no additional contributions were made. Consequently ForestrySA made no further payments in the current financial year related to the benefit funding deficit (2020: \$249,000). On 30 June 2021 the SA Superannuation Board resolved to close the Forestry SA employer account on the basis that there was only one contributing defined benefit member remaining who will be transferred to the SSS Scheme and ForestrySA's funding deficit was close to nil. Super SA has since notified ForestrySA that they will be paying an amount equal to the last four payments made to Super SA after 30 June 2019. The estimated amount to be received by ForestrySA is \$200,000 however Super SA is yet to calculate the final amount to be paid.

9.3 Impact of standards not yet effective

ForestrySA has assessed the impact of new and changed Australian Accounting Standards Board Standards and Interpretations not yet effective and has assessed there will be no impact on ForestrySA.

9.4 COVID-19 pandemic outlook

The COVID-19 pandemic may impact the operations of ForestrySA in 2021-22. The key expected impacts are:

- The availability of contractors to perform various activities.
- Potential impacts on the log market.

9.5 Events after the reporting period

There were no events after the reporting period that required adjustments.

10 Measurement and risk

10.1 Long service leave liability - measurement

AASB 119 *Employee Benefits* contains the calculation methodology for long service leave liability.

The actuarial assessment performed by the Department of Treasury and Finance has provided a basis for the measurement of long service leave and is based on actuarial assumptions on expected future salary and wage levels, experience of employee departures and periods of service. These assumptions are based on employee data over SA Government entities.

AASB 119 *Employee Benefits* requires the use of the yield on long-term Commonwealth Government bonds as the discount rate in the measurement of the long service leave liability. The yield on long-term Commonwealth Government bonds has increased from 2020 (0.75%) to 2021 (1.25%).

This increase in the bond yield, which is used as the rate to discount future long service leave cash flow, results in a decrease in the reported long service leave liability.

The net financial effect of the changes to actuarial assumptions in the current financial year is a decrease in the long service leave liability of \$65,000 and employee benefits expense of \$65,000. The impact on future periods is impracticable to estimate as the long service leave liability is calculated using several demographical and financial assumptions – including the long-term discount rate.

The actuarial assessment performed by the Department of Treasury and Finance maintained the salary inflation rate at 2.5% for long service leave liability. As a result, there is no net financial effect resulting from changes in the salary inflation rate.

Current long service leave reflects the portion of leave expected to be settled within the next 12 months, based on previous experience.

10.2 Fair value

AASB 13 *Fair Value Measurement* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, in the principal or most advantageous market, at the measurement date.

Initial recognition

Non-current tangible assets are initially recorded at cost or at the value of any liabilities assumed, plus any incidental cost involved with the acquisition.

Where assets are acquired at no value, or minimal value, they are recorded at fair value in the Statement of Financial Position. However, if the assets are acquired at no or nominal value as part of a restructure of administrative arrangements, then the assets are recognised at book value (i.e. the amount recorded by the transferor public authority immediately prior to the restructure).

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Revaluation

Property, plant and equipment are subsequently measured at fair value after allowing for accumulated depreciation.

The revaluation process is reviewed by the Chief Finance Officer and Audit and Risk Committee as required.

Non-current tangible assets are valued at fair value and revaluation of non-current assets or a group of assets is only performed when fair value at the time of acquisition is greater than \$1.5 million and estimated useful life is greater than three years.

Revaluation is undertaken on a regular cycle as detailed below. If at any time management considers that the carrying amount of an asset materially differs from its fair value, then the asset will be revalued regardless of when the last valuation took place.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the asset.

Fair value hierarchy

ForestrySA classifies fair value measurement using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements, based on the data and assumptions used in the most recent revaluation.

- Level 1 – traded in active markets and is based on unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at measurement date.
- Level 2 – not traded in an active market and are derived from inputs (inputs other than quoted prices included within level 1) that are observable for the asset, either directly or indirectly.
- Level 3 – not traded in an active market and are derived from unobservable inputs.

ForestrySA's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period.

During 2021 and 2020, ForestrySA had no valuations categorised into level 1; there were no transfers of assets between level 1 and 2 fair value hierarchy levels and there were no changes in valuation technique.

Fair value classification – non-financial assets at 30 June 2021

	Note	Level 2 \$'000	Level 3 \$'000	Total \$'000
<u>Recurring fair value measurements</u>				
Forest assets	5.5	-	56,512	56,512
Land	5.1	36,343	-	36,343
Buildings and structures	5.1	-	4,956	4,956
Roads and land improvements	5.1	-	1,765	1,765
Plant and equipment	5.1	-	2,202	2,202
Total recurring fair value measurements		36,343	65,435	101,778
<u>Non-recurring fair value measurements</u>				
Assets held for sale	5.7	-	7,629	7,629
Total non-recurring fair value measurements		-	7,629	7,629
Total		36,343	73,064	109,407

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Fair value classification – non-financial assets at 30 June 2020

	Note	Level 2 \$'000	Level 3 \$'000	Total \$'000
Recurring fair value measurements				
Forest assets	5.5	-	54,748	54,748
Land	5.1	39,201	-	39,201
Buildings and structures	5.1	-	5,515	5,515
Roads and land improvements	5.1	-	1,660	1,660
Plant and equipment	5.1	-	2,271	2,271
Total recurring fair value measurements		39,201	64,194	103,395
Non-recurring fair value measurements				
Assets held for sale	5.7	-	7,073	7,073
Total non-recurring fair value measurements		-	7,073	7,073
Total		39,201	71,267	110,468

Forest assets

ForestrySA engaged Indufor to establish the valuation for its plantation estate in the Mt Lofty Ranges as at 30 June 2021.

Indufor considered the "income" and "comparable sales" methods in deriving the fair value for the forest plantation assets and used an appropriate weighting of these two valuation methods with the latter recognising Implied Discount Rates demonstrated by wider evidence. Through this device, both approaches to valuation involve a Discounted Cash Flow methodology which is based on the same set of projected cashflows. The discount rate applied to the projected cash flows was 7.5% (2020:7.0%). The cash flows are those for multiple rotations extending across a 60-year period.

This value opinion is considered to be compliant with Australian Accounting Standards Board (AASB) 141 Agriculture and International Accounting Standards (IAS) 41 Agriculture, AASB 13 and International Financial Reporting Standards (IFRS) 13 Fair Value Measurement and Uniform Standards of Professional Appraisal Practice 2018-19 (USPAP) market value. This value assumes that the asset will have received full exposure to the market over a period of one year.

The valuation assumes that the commercial plantation land has no value because it is not freehold land and cannot be traded in an open and competitive market. It is reserved by the state in perpetuity for production forestry or public reserve as Crown land, thereby negating any fair market value. No notional land rental has been applied.

The difference between the fair value of Forest Assets held at the reporting date and the fair value at the previous reporting date is recognised in the Statement of Comprehensive Income as the net change in the value of Forest Assets. All forest expenditure is recognised as an expense in the year it is incurred. The change in value is also disclosed in note 5.5.

The net change in the value of Forest Assets is accounted for in the Forest Assets reserve.

Sensitivity analysis for forest assets

The effects of modifying a range of input variables is demonstrated in this sensitivity analysis:

Factor level	90%	95%	100%	105%	110%
	AUD million				
Revenue	37.616	47.064	56.512	65.96	75.409
Production Costs	63.132	59.822	56.512	53.202	49.892
Transport Costs	60.041	58.277	56.512	54.748	52.983
Operational Expenditure	57.723	57.117	56.512	55.907	55.302
SG&A Expenditure	58.398	57.455	56.512	55.569	54.626
Discount Rate	7.00%	7.25%	7.50%	7.75%	8.00%
	60.957	58.655	56.512	54.514	52.646

Land

An independent valuation of land owned by ForestrySA was performed by a Certified Practising Valuer from the State Valuation Office, as at 30 June 2021.

Fair value of land has been determined using the market approach. Relevant general and economic factors were considered in arriving at a value opinion, including investigation of recent sales of comparable properties. Discounts by region were applied to reflect restrictions on potential highest and best use imposed by legislation on land operated by ForestrySA. The discount rates used this year are Mount Lofty Ranges 60% (2020: 60%), Green Triangle 45% (2020: 45%) and Mid North 55% (2020: 55%).

Buildings and structures

At least every five years, an independent valuation appraisal of ForestrySA's buildings and structures will be performed. However, if at any time management considers that the carrying amount of an asset class materially differs from its fair value, then the asset class will be revalued regardless of when the last valuation took place. ForestrySA undertook an independent valuation appraisal of its buildings and structures in June 2019.

Plant and equipment

All items of plant and equipment owned by ForestrySA had a fair value at the time of acquisition less than \$1.5 million or had an estimated useful life less than three years. Plant and equipment has not been revalued in accordance with APS 116.D, with the exception of seven items which were internally valued by ForestrySA. A revaluation increment of \$48,000 was recorded in the Statement of Comprehensive Income. The carrying value of the remaining items of plant and equipment are deemed to approximate fair value.

Reconciliation of level 3 recurring fair value measurements as at 30 June 2021

The following table is a reconciliation of fair value measurements using significant unobservable inputs (level 3).

	Forest assets \$'000	Buildings and structures \$'000	Roads and land improvements \$'000	Plant and equipment \$'000
Opening balance at the beginning of the period	54,748	5,515	1,660	2,271
Acquisitions	-	-	280	-
Disposals	-	-	-	(149)
Assets reclassified to or out of assets held for sale	-	-	-	368
Gains/(Losses) for the period recognised in net result:				
Revaluation increment / (decrement)	1,764	-	-	-
Depreciation	-	(559)	(175)	(337)
Total gains/(losses) recognised in net result	1,764	(559)	105	(118)
Carrying amount at the end of the period	56,512	4,956	1,765	2,153
Revaluation increments/(decrements)	-	-	-	49
Total gains/(losses) recognised in OCI	-	-	-	49
Carrying amount at the end of the period	56,512	4,956	1,765	2,202

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Reconciliation of level 3 recurring fair value measurements as at 30 June 2020

The following table is a reconciliation of fair value measurements using significant unobservable inputs (level 3).

	Forest assets \$'000	Buildings and structures \$'000	Roads and land improvements \$'000	Plant and equipment \$'000
Opening balance at the beginning of the period	45,603	6,055	1,715	2,533
Acquisitions	-	43	107	38
Assets reclassified to or out of assets held for sale	-	-	-	16
Transfers within asset classes	-	(1)	2	(1)
Gains/(Losses) for the period recognised in net result:				
Revaluation increment / (decrement)	9,145	-	-	-
Depreciation	-	(582)	(164)	(315)
Total gains/(losses) recognised in net result	9,145	(540)	(55)	(262)
Carrying amount at the end of the period	54,748	5,515	1,660	2,271
Revaluation increments/(decrements)	-	-	-	-
Total gains/(losses) recognised in OCI	-	-	-	-
Carrying amount at the end of the period	54,748	5,515	1,660	2,271

ForestrySA's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period.

10.3 Financial instruments

Financial risk management

Risk management is overseen by the Audit and Risk Committee. ForestrySA's risk management policies are in accordance with the Risk Management Policy Statement issued by the Premier and Treasurer and the principles established in the Australian Standard Risk Management Principles and Guidelines.

Forestry SA's exposure to financial risk (liquidity risk, credit risk, and market risk) is low due to the nature of the financial instruments held.

Liquidity risk

ForestrySA maintains a strong working capital position so current liquidity risk is low.

Credit risk

ForestrySA has policies and procedures in place to ensure that transactions occur with customers with appropriate credit history.

Bank guarantees or cash deposits are obtained for specific customers.

Impairment of financial assets

Loss allowances for receivables are measured at an amount equal to lifetime expected credit loss (ECL) using the simplified approach in AASB 9. ForestrySA uses an allowance matrix to measure the expected credit loss of receivables from non-government debtors which comprise a small number of large balances and a few small balances.

To measure the expected credit losses, receivables are grouped based on shared risk characteristics and the days past due. When estimating expected credit loss, ForestrySA considers reasonable and supportable information that is relevant and available without undue cost of effort. This includes both quantitative and qualitative information and analysis, based on ForestrySA's historical experience and informed credit assessment, including forward-looking information.

The maximum period considered when estimating expected credit losses is the maximum contractual period over which ForestrySA is exposed to credit risk.

The expected credit loss of government debtors is nil based on the external credit ratings and nature of the counterparties.

Loss rates are calculated based on the probability of a receivable progressing through stages to write off based on the common risk characteristics of the transaction and debtor.

The following table provides information about the exposure to credit risk and ECL for non-government debtors.

	Debtor unsecured carrying amount \$'000	Loss %	Lifetime expected losses \$'000
Current (non past due)	432	2.79%	11
1-30 days past due	39	5.00%	2
31-60 days past due	1	99.97%	1
61-90 days past due	1	100.00%	1
90+ days past due	0	0.00%	-
Loss allowance			15

Loss rates are based on actual history of credit loss. These rates have been adjusted to reflect difference between previous economic conditions, current conditions and ForestrySA's view of the forecast economic conditions over the expected life of the receivables.

Impairment losses are presented as net impairment losses within net result; subsequent recoveries of amounts previously written off are credited against the same line item.

Receivables are written off when there is no reasonable expectation of recovery.

ForestrySA considers that its cash and cash equivalents have low credit risk due to financial security held for customers with material contracts.

The allowance was recognised when there was objective evidence that a receivable was impaired. The allowance for impairment was recognised in other expenses for specific debtors and debtors assessed on a collective basis for which such evidence existed.

No impairment losses were recognised in relation to contract receivables during the year.

Market risk

ForestrySA does not trade in foreign currency, nor enter transactions for speculative purposes, nor for hedging. ForestrySA does not undertake any hedging in relation to interest or foreign currency risk.

Exposure to interest rate risk related to interest bearing liabilities or borrowings is minimal and only related to right-of-use vehicle assets managed through the South Australian Government Financing Authority (SAFA).

Some forest product sales are made to customers with exposure to international market risks including foreign currencies, hence ForestrySA maintains a level of market risk related to its core business of forest product sales.

There have been no changes in risk exposure since the last reporting period.

Categorisation of financial instruments

Details of the significant accounting policies and methods adopted including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised with respect to each class of financial asset, financial liability and equity instrument are disclosed in the respective financial asset note and financial liability note per below.

Classification of financial instruments

ForestrySA measures all financial instruments at amortised cost.

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Category of financial asset and financial liability	Note	2021 Carrying amount / Fair value (\$'000)	Contractual maturities *		
			Within 1 year (\$'000)	1-5 years (\$'000)	More than 5 years (\$'000)
Financial assets					
Cash and cash equivalents					
Cash and cash equivalents	6.1	23,320	n/a	n/a	n/a
Financial assets at amortised cost					
Receivables **	6.2	58,691	5,100	28,590	25,001
Total financial assets		82,011	5,100	28,590	25,001
Financial liabilities					
Financial liabilities at amortised cost					
Payables **	7.1	1,565	1,565	-	-
Lease liabilities	7.2	550	118	349	83
Other financial liabilities	7.3	57,186	3,595	28,590	25,001
Total financial liabilities		59,301	5,278	28,939	25,084

Category of financial asset and financial liability	Note	2020 Carrying amount / Fair value (\$'000)	2020 Contractual maturities *		
			Within 1 year (\$'000)	1-5 years (\$'000)	More than 5 years (\$'000)
Financial assets					
Cash and cash equivalents					
Cash and cash equivalents	6.1	20,005	n/a	n/a	n/a
Financial assets at amortised cost					
Receivables **	6.2	4,549	n/a	n/a	n/a
Total financial assets		24,554	-	-	-
Financial liabilities					
Financial liabilities at amortised cost					
Payables **	7.1	1,327	1,327	-	-
Lease liabilities	7.2	654	141	363	150
Other financial liabilities	7.3	2,899	2,899	-	-
Total financial liabilities		4,880	4,367	363	150

*Maturities analysis is presented using the undiscounted cash flows and therefore may not total to equal the carrying amount/fair value of the financial instrument.

** Total amounts disclosed here exclude statutory amounts. Receivables do not include prepayments as these are not financial instruments. Prepayments are presented in note 6.2.

Statutory receivables and payables

The receivable and payable amounts disclosed here exclude amounts relating to statutory receivables and payables. This includes Commonwealth, State and Local Government taxes and equivalents, fees and charges; Auditor-General's Department audit fees. This is in addition to employee related payables, such as payroll tax, Fringe Benefits Tax, Pay As You Go Withholding and ReturnToWorkSA levies. In government, certain rights to receive or pay cash may not be contractual but have their source in legislation and therefore, in these situations, the disclosure requirements of AASB 7 will not apply. The standard defines contract as enforceable by law. All amounts recorded are carried at cost.