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To the Chair of the Board South Australian Forestry Corporation

Opinion

I have audited the financial report of the South Australian Forestry Corporation for the financial year ended 30 June 2022.

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 2022, 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 2022
- a Statement of Financial Position as at 30 June 2022
- a Statement of Changes in Equity for the year ended 30 June 2022
- a Statement of Cash Flows for the year ended 30 June 2022
- notes, comprising material accounting policies and other explanatory information
- a Certificate from the Chair, Chief Executive and the Chief Financial Officer.

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 2022.

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.



Daniel O'Donohue
Assistant Auditor-General (Financial Audit)

28 September 2022

South Australian Forestry Corporation

**Financial Statements
for the year ended
30 June 2022**

South Australian Forestry Corporation

Certification of the 2021-22 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.



June Roache

CHAIR

SOUTH AUSTRALIAN FORESTRY CORPORATION

21 September 2022



Julian Speed

CHIEF EXECUTIVE

SOUTH AUSTRALIAN FORESTRY CORPORATION

21 September 2022



Michael Hanton

CHIEF FINANCIAL OFFICER

SOUTH AUSTRALIAN FORESTRY CORPORATION

21 September 2022

South Australian Forestry Corporation
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South Australian Forestry Corporation
Statement of Comprehensive Income
For the year ended 30 June 2022

	Note	2022 \$'000	2021 \$'000
Income			
Sales - timber products	2.1	15,004	12,589
Revenues from SA Government	2.2	4,331	4,712
Interest	2.3	32	44
Other income	2.5	3,267	1,222
Total income		22,634	18,567
Expenses			
Employee benefits	3.3	4,413	3,878
Contractors	4.1	11,582	8,616
Materials		934	498
Equipment and vehicle costs		483	360
Council rates		309	301
Depreciation and amortisation	4.2	1,192	1,303
Borrowing costs	4.3	12	20
Net loss from the disposal of property, plant and equipment	2.4	943	89
Other expenses	4.4	3,781	4,003
Total expenses		23,649	19,068
Trading profit/(loss) before revaluation of non-current assets		(1,016)	(501)
Net change in value of forest assets	5.5	52,024	1,764
Net revaluation decrement of other non-current assets	5.7	(57)	-
Profit/(loss) before income tax equivalent		50,952	1,263
Income tax equivalent expense		-	-
Profit/(loss) after income tax equivalent		50,952	1,263
Other Comprehensive Income			
Items that will not be reclassified to profit and loss			
Changes in land revaluation surplus	5.2	1,410	(2,636)
Changes in property, plant and equipment asset revaluation surplus	5.2	-	49
Total other comprehensive income		1,410	(2,587)
Total comprehensive result		52,361	(1,324)

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 2022

	Note	2022 \$'000	2021 \$'000
<u>Current assets</u>			
Cash and cash equivalents	6.1	20,834	23,320
Receivables	6.2	13,580	5,317
Inventories	5.6	129	54
Forest assets	5.5	8,718	6,776
Assets classified as held for sale	5.7	1,959	2,074
Total current assets		45,220	37,542
<u>Non-current assets</u>			
Receivables	6.2	110,688	53,592
Forest assets	5.5	99,818	49,736
Property, plant and equipment	5.1	46,625	46,168
Intangible assets	5.4	30	28
Total non-current assets		257,161	149,524
Total assets		302,381	187,066
<u>Current liabilities</u>			
Payables	7.1	1,507	1,894
Financial liabilities	7.2	125	118
Contract liabilities	7.3	11,867	3,594
Employee benefits	3.4	489	436
Other provisions	7.4	232	217
Other liabilities	7.5	191	2,487
Total current liabilities		14,410	8,746
<u>Non-current liabilities</u>			
Payables	7.1	47	77
Financial liabilities	7.2	238	432
Contract liabilities	7.3	110,688	53,592
Employee benefits	3.4	502	503
Other provisions	7.4	1,110	1,049
Other liabilities	7.5	1,117	759
Total non-current liabilities		113,702	56,412
Total liabilities		128,112	65,157
Net Assets		174,269	121,908
<u>Equity</u>			
Retained earnings		25,738	26,761
Other reserves		148,531	95,146
Total Equity		174,269	121,908

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 2022

	Note	Asset revaluation surplus \$'000	Forest assets reserve \$'000	Retained earnings \$'000	Total Equity \$'000
Balance at 1 July 2020		46,199	49,771	27,262	123,232
Net result for 2020-21					
Gain/loss on revaluation of land	5.2	(2,636)	-	-	(2,636)
Gain/loss on revaluation of plant and equipment	5.2	49	-	-	49
Net income or expense relating to non-current assets classified as held for sale		-	-	-	-
Profit/(loss) for the period		-	-	1,263	1,263
Total comprehensive result for 2020-21		(2,587)	-	1,263	(1,324)
Transfer between equity components			1,764	(1,764)	-
Balance at 30 June 2021		43,612	51,535	26,761	121,908
Net result for 2021-22					
Gain/loss on revaluation of land	5.2	1,410	-	-	1,410
Gain/loss on revaluation of plant and equipment	5.2	-	-	-	-
Profit/(loss) after income tax equivalent		-	-	50,952	50,952
Total comprehensive result for 2021-22		1,410	-	50,952	52,361
Transfer between equity components		(49)	52,024	(51,976)	-
Balance at 30 June 2022		44,973	103,559	25,738	174,269

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 2022

	Note	2022 \$'000	2021 \$'000
<u>Cash flows from operating activities</u>			
<i>Cash inflows</i>			
Receipts from customers		18,623	17,606
Receipts from SA Government		4,322	4,725
Interest received		22	48
GST recovered from the ATO		(646)	(666)
Cash generated from operations		22,321	21,713
<i>Cash outflows</i>			
Employee benefits payments		(4,362)	(4,033)
Payments for supplies and services		(19,108)	(13,503)
Interest paid		(12)	(20)
Cash used in operations		(23,481)	(17,556)
Net cash provided by/(used in) operating activities	8.2	(1,160)	4,157
<u>Cash flows from investing activities</u>			
<i>Cash inflows</i>			
Proceeds from the sale of property, plant and equipment		116	60
Cash generated from investing activities		116	60
<i>Cash outflows</i>			
Purchase of property, plant and equipment		(1,295)	(649)
Purchase of intangible assets		(21)	(109)
Cash used in investing activities		(1,316)	(758)
Net cash provided by/(used in) investing activities		(1,200)	(698)
<u>Cash flows from financing activities</u>			
<i>Cash outflows</i>			
Repayment of leases		(133)	(144)
Cash used in financing activities		(133)	(144)
Net cash provided by/(used in) financing activities		(133)	(144)
Net increase/(decrease) in cash and cash equivalents		(2,492)	3,315
Cash and cash equivalents at the beginning of the period		23,320	20,005
Cash and cash equivalents at the end of the period	8.2	20,828	23,320

The accompanying notes form part of these financial statements.

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;
- 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 native forest management, community use of forests, community fire protection and forest industry support activities performed by ForestrySA on behalf of government under a Memorandum of Administrative Arrangement for delivery of Community Service Obligations.

Dividend payments

In the event ForestrySA makes a profit it is required to pay a dividend to Government. When applicable, the dividend is calculated as 90% of the net profit after tax adjusted for forest 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 dividend calculations.

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.

Tax Equivalent Payments are required to be paid by ForestrySA to the Treasurer, in accordance with Treasurer's Instruction 22, 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.

1.2 Change in accounting treatment and restatement of prior year comparatives

Mid North Crown Leases previously recognised in Assets and Deferred income have been de-recognised as they have been reassessed as needing to be accounted for as a finance lease through application of AASB 117 & AASB 16 in 2018 & 2019.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. Analysis of the agreements and the substance of the transaction has concluded that it meets this definition based on the following:

- the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset;
- although legal title has not transferred the satisfaction of transferring the title is considered incidental to the overall agreement. This is because the normal responsibility for the risk and rewards of ownership have transferred through contractual terms.

Where agreements meet the definition of a finance lease, the appropriate accounting treatment would have been:

1. On commencement of the lease:
 - Derecognise land subject to the lease agreement;
 - Recognise a finance lease receivable measured at an amount equal to the net investment in the lease;
 - Recognise the difference between the carrying value of the land and the value of the financial lease receivable as a gain/loss on disposal of the land (or similar description).
2. On receipt of cash subject to lease:
 - Derecognise the finance lease receivable on receipt of cash.

The affects of making this change on the financial statements of ForestrySA are shown below:

	Note	Originally reported 2021	Impact	Restatement 2021
Statement of Comprehensive Income				
Income				
Other Income (Leases & Licenses)	2.5	1,267	(45)	1,222
Profit/(loss) after income tax equivalent		1,308	(45)	1,263
Other Comprehensive Income				
Items that will not be reclassified to profit and loss				
Changes in land revaluation surplus	5.2	(1,934)	(702)	(2,636)
Total comprehensive result		(577)	(747)	(1,324)
Statement of Financial Position				
Current assets				
Assets classified as held for sale	5.7	7,629	(5,555)	2,074
Total assets		192,620	(5,555)	187,066
Current liabilities				
Other liabilities	7.5	2,532	(45)	2,487
Non-current liabilities				
Other liabilities	7.5	5,048	(4,289)	759
Total liabilities		69,492	(4,335)	65,157
Net Assets		123,128	(1,220)	121,908
Equity				
Retained earnings		26,661	101	26,762
Other reserves		96,467	(1,321)	95,146
Total Equity		123,128	(1,220)	121,908

Statement of Changes in Equity

		Asset revaluation surplus \$'000	Forest assets reserve \$'000	Retained earnings \$'000	Total Equity \$'000
Balance at 1 July 2020	Originally reported 2021	46,817	49,771	27,117	123,705
Balance at 1 July 2020	Restatement 2021	46,199	49,771	27,262	123,232

South Australian Forestry Corporation
Notes to the Financial Statements
For the year ended 30 June 2022

1.3 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 2022

	Commercial		Non-Commercial		Total	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Income						
Sales - timber products	15,004	12,589	-	-	15,004	12,589
Revenues from SA Government	-	-	4,331	4,712	4,331	4,712
Interest	32	44	-	-	32	44
Other income	1,123	741	2,144	481	3,267	1,222
Net gain from the disposal of property, plant and equipment	-	-	-	-	-	-
Total income	16,159	13,374	6,475	5,193	22,634	18,567
Expenses						
Employee benefits	2,517	2,136	1,896	1,743	4,413	3,878
Contractors	8,089	7,359	3,493	1,257	11,582	8,616
Depreciation and amortisation	624	832	568	471	1,192	1,303
Materials	485	315	449	183	934	498
Equipment and vehicle costs	201	64	283	296	483	360
Council rates	309	301	-	-	309	301
Other expenses	2,382	2,170	1,399	1,833	3,781	4,003
Net loss from the disposal of property, plant and equipment	943	89	-	-	943	89
Borrowing costs	1	2	11	18	12	20
Total expenses	15,550	13,267	8,099	5,801	23,649	19,068
Net result	609	107	(1,624)	(608)	(1,016)	(501)
Net change in value of forest assets	52,024	1,764	-	-	52,024	1,764
Net result before income tax equivalent	52,576	1,871	(1,624)	(608)	50,952	1,263
Income tax equivalent expense	-	-	-	-	-	-
Net result after income tax equivalent	52,576	1,871	(1,624)	(608)	50,952	1,263
Other Comprehensive Income						
Items that will not be reclassified to net result						
Changes in land revaluation surplus	1,410	(2,636)	-	-	1,410	(2,636)
Changes in property, plant and equipment asset revaluation surplus	-	49	-	-	-	49
Total other comprehensive income	1,410	(2,587)	-	-	1,410	(2,587)
Total comprehensive result	53,986	(716)	(1,624)	(608)	52,361	(1,324)

South Australian Forestry Corporation
Notes to the Financial Statements
For the year ended 30 June 2022

1.4 Impact of COVID-19 pandemic

With market demand remaining positive, the COVID-19 pandemic has had little impact on the financial result of ForestrySA, however interruptions to logistics and contractor availability have delayed capital works projects related to Fire vehicle upgrades, the Fox Creek rebuild Grant and some non plantation commercial opportunities.

1.5 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. Community fire protection.
- Lease payments relate to vehicles supplied by Fleet SA.
- Funding for use of the Government Radio Network (GRN)
- MoAA with Department for Environment and Water for the sub-contracting of land and fire management requirements in the Green Triangle region.

2 Income

2.1 Revenues from sales - timber products

	2022 \$'000	2021 \$'000
Revenue from log sales	14,976	12,558
Revenue from other timber sales	27	31
Total revenues from sales - timber products	15,004	12,589

All revenue from timber product sales 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	2022 \$'000	2021 \$'000
Receivables from contracts with customers, included in Receivables (Note 6.2)		
Contract receivables	122,555	57,186
Contract liabilities	122,555	57,186

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 a new long-term sales agreement with one customer commencing 1 July 2022.

South Australian Forestry Corporation
Notes to the Financial Statements
For the year ended 30 June 2022

2.2 Net revenues from SA Government

	2022	2021
	\$'000	\$'000
Revenues from SA Government		
Community Service Obligation funding (1)	3,823	4,218
Government radio network funding	451	440
Deferred revenues from SA Government (1)	57	54
Net revenues from SA Government	4,331	4,712

(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 native forest management, community use of forests, community fire protection and forest industry support. 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

	2022	2021
	\$'000	\$'000
Interest received	32	44
Total interest revenue	32	44

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

	2022	2021
	\$'000	\$'000
Land and buildings:		
Proceeds from disposal	-	-
Less expenses on disposal	-	-
Less carrying amount of assets disposed	(919)	-
Net gain/(loss) from disposal of land and buildings	(919)	-
Plant and equipment:		
Proceeds from disposal	46	60
Less expenses on disposal	-	-
Less carrying amount of assets disposed	(70)	(149)
Net gain/(loss) from disposal of plant and equipment	(24)	(89)
Roads and land improvements		
Proceeds from disposal	-	-
Less expenses on disposal	-	-
Less carrying amount of assets disposed	-	-
Net gain/(loss) from disposal of plant and equipment	-	-
Total assets:		
Total proceeds from disposal	46	60
Less expenses on disposal	-	-
Less total carrying amount of assets disposed	(989)	(149)
Total net gain (loss) from disposal of assets	(943)	(89)

2.5 Other income

	2022	2021
	\$'000	\$'000
Leases and Licences	372	347
Other revenue from non SA Government entities	751	623
Grant funding	2,143	251
Other income	3,267	1,222

Leases and Licences

Income from licences for grazing or other activities on forest reserves and leases for commercial tenancies in the office building in Mt Gambier.

Other Revenue

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

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
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3 Board, committees and employees

3.1 Key management personnel

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

Total compensation for key management personnel was \$805,000 in 2021-22 and \$904,000 in 2020-21.

The compensation disclosed in this note excludes salaries and other benefits the Minister for Primary Industries and Regional Development and Minister for Forest Industries 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*.

	2022 \$'000	2021 \$'000
Compensation		
Salaries and other short term employee benefits	732	811
Post-employment benefits	73	76
Termination Benefits	-	17
Total	805	904

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 2021-22 financial year were:

<u>Board</u>	<u>Audit and Risk Committee</u>
J. Roache (Chair)	T. Stollznow (Chair) (resigned 31-12-2021)
T. Stollznow	S. Rodger (Chair) (commenced 01-01-2022)
G. Pelton*	J. Roache
	G. Pelton*

*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.

Board and committee remuneration	2022 \$'000	2021 \$'000
The number of members whose remuneration received or receivable falls within the following bands:		
\$0 - \$19,999	2	1
\$20,000 - \$39,999	1	-
\$40,000 - \$59,999	1	2
Total number of members	4	3

The total remuneration received and receivable by those governing members was \$98,000 (2021: \$98,000) which includes fringe benefits and superannuation contributions.

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3.3 Employee benefits expenses

	2022 \$'000	2021 \$'000
Salaries and wages	3,448	2,993
Long service leave	80	74
Skills and experience retention leave	10	9
Annual leave	270	240
Employment on-costs - superannuation	365	313
Targeted Voluntary Separation Packages & Public Sector Rejuvenation Termination Payments	50	85
Employment on-costs - other	189	164
Total employee benefits expenses	4,413	3,878

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

	2022 No	2021 No
The number of employees whose remuneration received or receivable falls within the following bands:		
\$154,001 to \$157,000*	-	1
\$157,001 to \$177,000	1	-
\$257,001+	1	1
Total number of employees	2	2

* This band has been included for the purpose of reporting comparative figures based on the executive base level remuneration rate for 2020-21.

The total remuneration received by those employees for the year was \$0.434 million (2021: \$0.418 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) and Public Sector Rejuvenation packages

The number of employees who received or are entitled to receive Separation Packages during the reporting period was 1 (2021: 1).

	2022 \$'000	2021 \$'000
Amount paid to separated employees:		
Targeted Voluntary Separation Packages & Public Sector Renewal Termination Payments	50	85
Leave paid to separated employees	36	25
Net cost	86	110

3.4 Employee benefits liability

	2022 \$'000	2021 \$'000
Current		
Accrued salaries and wages	176	115
Annual leave	195	199
Long service leave	106	113
Skills and experience retention leave	12	9
Total current employee benefits	489	436
Non-current		
Long service leave	502	503
Total non-current employee benefits	502	503
Total employee benefits	990	939

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.

South Australian Forestry Corporation
Notes to the Financial Statements
For the year ended 30 June 2022

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 Contractors

	2022 \$'000	2021 \$'000
Log Harvesting	3,124	2,664
Log Transport	3,347	2,516
Inter Governmental	908	-
Fox Creek Bike Park rebuild	1,109	183
Advanced Fire Protection project	427	121
Other Contractors	2,667	3,133
Total contractors	11,582	8,616

Log harvesting and transport have been impacted by higher log sales volumes as well as operating cost increases such as diesel.

Inter governmental contractors relate to the MoAA with Department for Environment & Water for the sub-contracting of land & fire management requirements in the Green Triangle region.

The redevelopment of the Fox Creek Bike Park is funded via a grant received from the Commonwealth Government National Bushfire Recovery Fund via the Local Economic Recovery Program.

Advanced fire protection project was a Government initiative for improved fire prevention and detection in the Green Triangle region funded by ForestrySA across the 2020-21 and 2021-22 financial years.

4.2 Depreciation and amortisation

	2022 \$'000	2021 \$'000
Buildings and structures	551	562
Plant and equipment	323	335
Right-of-use vehicles	114	151
Roads and land improvements	185	173
Intangible assets	20	81
Total depreciation and amortisation	1,192	1,303

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.

South Australian Forestry Corporation
Notes to the Financial Statements
For the year ended 30 June 2022

4.3 Borrowing costs

	2022	2021
	\$'000	\$'000
Interest expense on lease liabilities	12	20
Total borrowing costs	12	20

ForestrySA does not capitalise borrowing costs.

4.4 Other Expenses

	2022	2021
	\$'000	\$'000
Consultants	87	61
Information and communications technology	725	846
Government Radio Network	451	440
Workers compensation	124	901
University of South Australia Research Agreement	-	500
Short term leases	-	7
Legal and professional fees	416	161
Utilities	119	127
Building and facility maintenance	214	235
Insurance	107	92
Sponsorship and membership fees	96	143
Employee expenses	78	111
External audit fees	73	70
Fox Creek Bike Park Rebuild	608	-
Bad & Doubtful Debts	140	13
Forest valuation including tree measuring costs	115	87
Settlements in relation to legal disputes	92	-
Miscellaneous other costs	335	210
Total other expenses	3,781	4,003

Legal and professional fees

Costs driving the increase in legal and professional fees in order of significance are employment advice, Mid North land disposal, advice and assistance implementing the new Internal Procurement Framework (IPF) and legal disputes.

External audit fees

Audit fees paid / payable to the Auditor-General's Department relating to work performed under the *Public Finance and Audit Act* were \$73,800 (2021: \$70,000). No other services were provided by the Auditor-General's Department.

Other

Legal dispute settlements and increased activity required for transferring forest management data from current system to new system have been the primary driver of higher costs within this category.

South Australian Forestry Corporation
Notes to the Financial Statements
For the year ended 30 June 2022

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.

	2022 \$'000	2021 \$'000
Land and buildings		
Land at fair value	36,822	36,343
Buildings at fair value	6,939	6,579
Accumulated depreciation at the end of the period	(2,176)	(1,622)
Total land and buildings	41,585	41,299
Road and land improvements		
Road and land improvements at fair value	4,266	4,162
Accumulated depreciation at the end of the period	(2,581)	(2,396)
Total road and land improvements	1,685	1,766
Plant and equipment		
Plant and equipment at fair value	3,611	3,609
Accumulated depreciation at the end of the period	(1,731)	(1,408)
Total plant and equipment	1,881	2,201
Right-of-use plant and equipment		
Right-of-use plant and equipment at cost	587	804
Accumulated depreciation at the end of the period	(234)	(271)
Total right-of-use plant and equipment	353	533
Work in progress		
Work in progress at cost	1,122	369
Total work in progress	1,122	369
Total property, plant and equipment	46,625	46,168

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.

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 2021-22

	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 2021	36,343	4,957	1,765	2,202	369	45,635
Additions	-	358	104	2	753	1,216
Disposals	(919)	-	-	-	-	(919)
Assets reclassified to/from assets held for sale	-	-	-	-	-	-
Revaluation increments	1,398	-	-	-	-	1,398
Depreciation charge for the year	-	(551)	(185)	(323)	-	(1,059)
Carrying amount at 30 June 2022	36,822	4,763	1,685	1,881	1,122	46,272

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	39,200	5,519	1,659	2,268	-	48,646
Additions	-	-	280	-	369	649
Disposals	-	-	-	(149)	-	(149)
Assets reclassified to/from assets held for sale	-	-	-	370	-	370
Revaluation increments*	-	-	-	49	-	49
Revaluation decrements	(2,858)	-	-	-	-	(2,858)
Depreciation charge for the year	-	(562)	(173)	(335)	-	(1,071)
Carrying amount at 30 June 2021	36,343	4,957	1,765	2,202	369	45,635

*Reconciliation of changes in land revaluation surplus

	2022 \$'000	2021 \$'000
Revaluation (decrement)/increment per Statement of Comprehensive Income	1,410	(2,636)
Made up of:		
Revaluation (decrement)/increment of land classified as property, plant and equipment	1,398	(2,858)
Revaluation increment of land classified as held for sale (note 5.7)	12	222
	1,410	(2,636)

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 2021-22 were \$34,997 (2020-21: \$45,000).

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 4.4.

ForestrySA has a limited number of leases:

- 18 motor vehicle leases with the South Australian Government Financing Authority (SAFA). Motor vehicle leases are non-cancellable, 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.

South Australian Forestry Corporation
Notes to the Financial Statements
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5.4 Intangible assets

	2022 \$'000	2021 \$'000
Computer software		
Purchased computer software	2,722	2,701
Accumulated amortisation	(2,693)	(2,673)
Total computer software	30	28
Total intangible assets	30	28

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.

	Total \$'000
Reconciliation 2021-22	
Carrying amount at 1 July 2021	28
Additions	21
Amortisation charge for the year	(20)
Carrying amount at 30 June 2022	30

	Total \$'000
Reconciliation 2020-21	
Carrying amount at 1 July 2020	93
Additions	16
Amortisation charge for the year	(81)
Carrying amount at 30 June 2021	28

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.

	2022 \$'000	2021 \$'000
Current		
Current portion of forest assets valuation	8,718	6,776
Total current forest assets	8,718	6,776

	2022 \$'000	2021 \$'000
Non-current		
Non-current portion of forest assets valuation	99,818	49,736
Total non-current forest assets	99,818	49,736

	Total \$'000
Reconciliation 2021-22	
Carrying amount at 1 July 2021	56,512
Other revaluation (impairment) recorded in statement of comprehensive income	52,024
Carrying amount at 30 June 2022	108,536

South Australian Forestry Corporation
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<i>Reconciliation 2020-21</i>	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

ForestrySA recognises the multiple rotation forest valuation, being \$108,536,000 (2021: \$56,512,000). More information is provided at Note 10.2.

5.6 Inventories

	2022 \$'000	2021 \$'000
Current – held for distribution at no or nominal amount		
Materials at cost	34	13
Total current inventories held for distribution at no or nominal amount	34	13
Current – held for sale		
Materials at cost	95	41
Total current other inventories – other than those held for distribution at no or nominal amount	95	41
Total inventories	129	54

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

Reconciliation 2021-22

	Land \$'000	Buildings and structures \$'000	land improvements \$'000	Plant and equipment \$'000	Total \$'000
Carrying amount at 1 July 2021	1,715	151	57	151	2,074
Disposals	-	-	-	(70)	(70)
Revaluation increments	12	-	-	-	12
Revaluation decrements	-	-	(57)	-	(57)
Carrying amount at 30 June 2022	1,727	151	-	81	1,959

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 forest reserve in the Mid North region in accordance with the Mid North Forests Future Strategy. It is expected this land will be divested from ForestrySA during the 2022-23 financial year.

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6 Financial assets

6.1 Cash and cash equivalents

	2022	2021
	\$'000	\$'000
Deposits	3,039	5,538
Cash Management Fund	17,795	17,782
Total cash and cash equivalents	20,834	23,320

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

	2022	2021
	\$'000	\$'000
Current		
Trade receivables - SA Gov	10	2
Trade receivables - Non SA Gov	1,575	1,407
Contract receivables - guaranteed log volume sales	11,867	3,594
Less impairment loss on receivables	(155)	(15)
Accrued revenue	48	111
Prepayments	235	218
Total current receivables	13,580	5,317
	2022	2021
	\$'000	\$'000
Non-current		
Contract receivables non current- guaranteed log volume sales	110,688	53,592
Total non-current receivables	110,688	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>	2022 \$'000	2021 \$'000
Carrying amount at the beginning of the period	15	218
Increase / (Decrease) in allowance recognised in profit or loss	140	(203)
Carrying amount at the end of the period	155	15

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

	2022 \$'000	2021 \$'000
Current		
Trade payables	811	944
Accrued expenses	611	621
Statutory payables		
GST payable	42	279
Employment on-costs	43	49
Total current payables	1,507	1,894
Non-current		
Statutory payables		
Employment on-costs	47	77
Total non-current payables	47	77
Total payables	1,554	1,971

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 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% (2021: 42%). The average factor for the calculation of employer superannuation on-costs is 10.1% (2021: 10.1%). 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	2022 \$'000	2021 \$'000
Current			
Lease liabilities	5.3	125	118
Total current financial liabilities		125	118
Non-current			
Lease liabilities	5.3	238	432
Total non-current financial liabilities		238	432
Total financial liabilities		363	550

ForestrySA measures financial liabilities at amortised cost.

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

7.3 Contract liabilities

	2022 \$'000	2021 \$'000
Current		
Contract liability	11,867	3,594
Total current contract liabilities	11,867	3,594
Non-current		
Contract liability	110,688	53,592
Total non-current contract liabilities	110,688	53,592
Total contract liabilities	122,555	57,186

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).

The timing of satisfaction of the contract liabilities and corresponding contract asset is expected to align with the table detailed in note 10.3 for the contractual maturities

The significant increase in contract liabilities and the corresponding contract receivable (note 6.2) is due to the large increase in commercial log prices and the signing of a major log sales contract.

	2022 \$'000	2021 \$'000
Revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period.	3,594	2,899
Revenue recognised in the reporting period from performance obligations satisfied in previous reporting period.	-	-

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7.4 Other provisions

	2022 \$'000	2021 \$'000
Current		
Provision for workers compensation	232	217
Total current provisions	232	217
Non-current		
Provision for workers compensation	1,110	1,049
Total non-current provisions	1,110	1,049
Total provisions	1,342	1,267
Movement in provisions		
		2022 \$'000
Carrying amount at the beginning of the period		1,267
Additional provisions recognised		76
Carrying amount at the end of the period		1,342

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 2022 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 4.4.

ForestrySA is responsible for payment of workers compensation claims.

7.5 Other liabilities

	2022 \$'000	2021 \$'000
Current		
Unearned revenue	191	2,487
Total current other liabilities	191	2,487
Non-current		
Unearned revenue	1,117	759
Total non-current other liabilities	1,117	759
Total other liabilities	1,308	3,246

ForestrySA has leases and licences for which payment has been received in advance

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 2022 ForestrySA has recorded \$2,070,000 of income related to this funding. Grant funding is disclosed in Note 2.5.

	2022 \$'000	2021 \$'000
Movement in deferred income		
Carrying amount at the beginning of the period	3,246	5,540
Received during the year	4,274	3,138
Recognised as income in the Statement of Comprehensive Income	(6,212)	(5,432)
Carrying amount at the end of the period	1,308	3,246

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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. A gain or loss arising on initial recognition of a biological asset at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset shall be included in profit or loss for the period in which it arises.

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	2022 \$'000	2021 \$'000
Plant and equipment - right-of-use vehicles	137	228
Total cash outflow for leases	137	228

Cash flow reconciliation	2022 \$'000	2021 \$'000
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<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	20,834	23,320
Balance as per the Statement of Cash Flows	20,834	23,320

<u>Reconciliation of net cash provided by operating activities to profit/loss after income tax equivalent</u>		
Net cash provided by/(used in) operating activities	(1,160)	4,157
<u>Add/less non-cash items</u>		
Depreciation and amortisation expense of non-current assets	(1,192)	(1,303)
Reclassified work in progress	(15)	(138)
(Gain)/loss on sale or disposal of non-current assets	(943)	(89)
(Gain)/loss on revaluation of forest assets	52,024	1,764
(Gain)/loss on revaluation of other non-current assets	(57)	-
<u>Movement in assets and liabilities</u>		
Increase/(decrease) in receivables	65,360	54,302
Increase/(decrease) in inventories	75	(145)
(Increase)/decrease in payables	417	(348)
(Increase)/decrease in employee benefits	(51)	155
(Increase)/decrease in provisions	(76)	(765)
(Increase)/decrease in contract liabilities	(65,369)	(54,287)
(Increase)/decrease in other liabilities	1,938	(2,040)
Profit/loss after income tax equivalent	50,952	1,263

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	2022 \$'000	2021 \$'000
Within one year	1,623	1,707
Later than one year but not longer than five years	250	200
Total capital commitments	1,873	1,907

Forestry SA's capital commitments are for the refurbishment of four fire trucks and property plant and equipment in line with the budgeted capital requirements of the organisation.

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Expenditure commitments	2022 \$'000	2021 \$'000
Within one year	6,633	6,189
Later than one year but not longer than five years	27,884	417
Total expenditure commitments	34,517	6,606

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	2022 \$'000	2021 \$'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	253	246
Later than one year but not longer than five years	317	570
Later than five years	-	-
Total lease receivable commitments	570	816

Lease receivable commitments relate to the office building located in Mt Gambier where space is leased 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*.

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.

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9.4 COVID-19 pandemic outlook

The COVID-19 pandemic may continue to impact the operations of ForestrySA in 2022-23. 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 2021 (1.25%) to 2022 (3.50%).

This increase in the bond yield, which is used as the rate to discount future long service leave cash flow, reduces the increase 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 \$100k and employee benefits expense of \$109k. The impact on future periods is impracticable to estimate as the long service leave liability is calculated using a number of 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.

A gain or loss arising from a change in fair value less costs to sell of a biological asset shall be included in profit or loss for the period in which it arises

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 2022 and 2021, 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 2022

	Note	Level 2 \$'000	Level 3 \$'000	Total \$'000
Recurring fair value measurements				
Forest assets	5.5	-	108,536	108,536
Land	5.1	36,822	-	36,822
Buildings and structures	5.1	-	4,763	4,763
Roads and land improvements	5.1	-	1,685	1,685
Plant and equipment	5.1	-	1,881	1,881
Total recurring fair value measurements		36,822	116,865	153,687
Non-recurring fair value measurements				
Assets held for sale	5.7	-	1,959	1,959
Total non-recurring fair value measurements		-	1,959	1,959
Total		36,822	118,824	155,646

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

	Note	Level 2 \$'000	Level 3 \$'000	Total \$'000
Recurring fair value measurements				
Forest assets	5.5	-	56,512	56,512
Land	5.1	36,343	-	36,343
Buildings and structures	5.1	-	4,957	4,957
Roads and land improvements	5.1	-	1,765	1,765
Plant and equipment	5.1	-	2,201	2,201
Total recurring fair value measurements		36,343	65,435	101,778
Non-recurring fair value measurements				
Assets held for sale	5.7	-	2,074	2,074
Total non-recurring fair value measurements		-	2,074	2,074
Total		36,343	67,510	103,852

Forest assets

ForestrySA engaged Indufor to establish the valuation for its plantation estate in the Mt Lofty Ranges as at 30 June 2022.

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 methodology, both approaches to valuation involve a discount rate applicable to the same set of projected cashflows. The discount rate applied to the projected cash flows was 7.5% (2021:7.5%). 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	83.322	95.929	108.536	121.142	133.749
Production Costs	115.582	112.059	108.536	105.012	101.489
Transport Costs	112.781	110.658	108.536	106.413	104.29
Operational Expenditure	109.646	109.091	108.536	107.981	107.426
SG&A Expenditure	110.493	109.514	108.536	107.557	106.578
	7.00%	7.25%	7.50%	7.75%	8.00%
Discount Rate	116.163	112.218	108.536	105.090	101.860

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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 2022.

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% (2021: 60%), Green Triangle 45% (2021: 45%) and Mid North 55% (2021: 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. 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 2022

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

	Forest assets	Buildings and structures	Roads and land improvements	Plant and equipment
	\$'000	\$'000	\$'000	\$'000
Opening balance at the beginning of the period	56,512	4,956	1,765	2,202
Acquisitions	-	358	104	2
Disposals	-	-	-	-
Assets reclassified to or out of assets held for sale	-	-	-	-
Gains/(Losses) for the period recognised in net result:				
Revaluation increment / (decrement)	52,024	-	-	-
Depreciation	-	(551)	(185)	(323)
Total gains/(losses) recognised in net result	52,024	(193)	(81)	(321)
Carrying amount at the end of the period	108,536	4,762	1,684	1,881
Revaluation increments/(decrements)	-	-	-	-
Total gains/(losses) recognised in OCI	-	-	-	-
Carrying amount at the end of the period	108,536	4,762	1,684	1,881

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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	Buildings and structures	Roads and land improvements	Plant and equipment
	\$'000	\$'000	\$'000	\$'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
Transfers within asset classes	-	-	-	-
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

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 managed by ForestrySA's corporate services section. ForestrySA's risk management policies are in accordance with the SA Government Risk Management Guide 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)	51	0.00%	-
1-30 days past due	17	100.00%	17
31-60 days past due	108	100.00%	108
61-90 days past due	30	100.00%	30
90+ days past due	0	0.00%	-
Loss allowance			155

Losses detailed above relate primarily to a single customer. Negotiations are ongoing with a positive expectation to recover all monies in the first quarter of 2022-23.

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.

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	2022 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	20,834	n/a	n/a	n/a
Financial assets at amortised cost					
Receivables **	6.2	124,034	13,346	55,344	55,344
Total financial assets		144,867	13,346	55,344	55,344
Financial liabilities					
Financial liabilities at amortised cost					
Payables **	7.1	1,349	1,349	-	-
Lease liabilities	7.2	363	125	232	6
Other financial liabilities	7.3	122,555	11,867	55,344	55,344
Total financial liabilities		124,267	13,341	55,576	55,350

Category of financial asset and financial liability	Note	2021 Carrying amount / Fair value (\$'000)	2021 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

*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.