



Government
of South Australia

Report
of the
Auditor-General
Supplementary Report
for the
year ended 30 June 2013

Tabled in the House of Assembly and ordered to be published, 29 October 2013

Second Session, Fifty-Second Parliament

Agency audit report: October 2013

By Authority: B. Morris, Government Printer, South Australia

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28 October 2013

The Hon J M Gazzola MLC
President
Legislative Council
Parliament House
Adelaide SA 5000

The Hon M J Atkinson, MP
Speaker
House of Assembly
Parliament House
Adelaide SA 5000

Dear President and Speaker

**Report of the Auditor-General: Supplementary Report for the
year ended 30 June 2013: Agency audit report: October 2013**

Pursuant to the provisions of the *Public Finance and Audit Act 1987*, I herewith provide to each of you a copy of my Supplementary Report for the year ended 30 June 2013 'Agency audit report: October 2013'.

At the time of submission of my Annual Report for the year ended 30 June 2013, I indicated that the audited financial statements and audit commentary for the South Australian Forestry Corporation would be included in a Supplementary Report to Parliament.

Yours sincerely

A handwritten signature in black ink, appearing to read 'S O'Neill'.

S O'Neill
Auditor-General

Table of contents

	Page
South Australian Forestry Corporation.....	1
Acronyms used in this Report.....	35

South Australian Forestry Corporation

Functional responsibility

Establishment

The South Australian Forestry Corporation (the Corporation) is a public corporation, established under the *South Australian Forestry Corporation Act 2000*. The Corporation is responsible to the Minister for Forests.

Functions

The primary focus of the Corporation is to manage plantation forests for the benefit of the people and the economy of the State. For more information about the Corporation's functions refer note 1 to the financial statements.

The *South Australian Forestry Corporation Act 2000* specifies that the Corporation is a statutory corporation to which the provisions of the PCA apply.

Under the PCA the Minister and the Treasurer must prepare a charter and a performance statement for the Corporation after consultation with the Corporation. The charter outlines the nature and scope of the Corporation's operations and its reporting obligations, while the performance statement sets out the various performance targets for the Corporation over a defined period.

APF II classifies the Corporation for the purpose of AASs as a for-profit entity.

Forward sale of forest rotations

On 17 October 2012, through the execution of certain sale transaction documents, the forward harvest rotations of the Green Triangle plantations in the south-east of the State were sold to a consortium led by The Campbell Group - trading in Australia as OneFortyOne Plantations Pty Ltd (OFO).

The Corporation's business has changed significantly since the sale. These changes are outlined in note 1 to the Corporation's financial statements.

Of particular note, OFO has engaged the Treasurer (and the Corporation as the Treasurer's agent) to manage the plantations under a Plantation Management Agreement (PMA) in return for a management fee. The PMA is for a term of five years. At the end of the term, OFO has the option of:

- offering the Treasurer a further term of five years on the same terms and conditions
- internalising the provision of the services unless the Treasurer determines to continue managing the plantations for a fee equal to the cost of internalising the services determined either by OFO or an independent accountant
- contracting with a third party to provide the services unless the Treasurer determines to continue managing the plantations for a fee and commercial terms equal to the third party offer.

Land, roads and standing timber remaining under the control of the Corporation are located in the Mount Lofty Ranges and the mid-north of the State. There are also a few smaller parcels in the Green Triangle region.

Refer to Part A of the Auditor-General's Annual Report for the year ended 30 June 2013 for commentary on matters related to the forward sale transaction that was administered by DTF.

Audit mandate and coverage

Audit authority

Audit of the financial report

Section 31(1)(b) of the PFAA and section 32(4) of the PCA provide for the Auditor-General to audit the accounts and financial report of the Corporation in respect of each financial year.

Assessment of controls

As required by section 36(1)(a)(iii) of the PFAA, the audit of the Corporation included an assessment of the controls exercised in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

This assessment also considers whether internal controls are consistent with the TIs with particular focus on TIs 2 and 28.

Scope of audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an opinion to be formed on the financial report and internal controls.

During 2013, specific areas of audit attention included:

- revenue from the supply of timber products to customers
- expenditure resulting from the harvest and transport of timber products to customers
- other expenditure
- payroll
- valuation of standing timber
- transactions relating to the forward sale of harvesting rights to OFO
- arrangements under the PMA including direct charges, general overhead charges and novation of customer, harvest and transport contracts.

Internal audit activities have been reviewed to assess the risks of material misstatement of the financial statements and to design and perform audit procedures.

Audit findings and comments

Auditor's report on the financial report

In my opinion, the financial report gives a true and fair view of the financial position of the South Australian Forestry Corporation as at 30 June 2013, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

Assessment of controls

In my opinion, the controls exercised by the South Australian Forestry Corporation in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Corporation have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were provided in a management letter to the Chief Executive of the Corporation. The main matters raised with the Chief Executive and the related responses are provided below.

Quality of draft financial statements

The Corporation did not adopt appropriate quality control processes over the preparation of the 2012-13 draft financial statements to facilitate an efficient audit process for completion of the financial statements in time for inclusion in the Annual Report for the year ended 30 June 2013. Changes to the senior management of the Corporation after the end of the financial year were also a factor in the untimely preparation of the financial statements.

The Corporation responded that priorities relating to the arrangements with OFO and resource limitations prevented timely preparation of the financial statements. It also advised that planning for the 2013-14 audit had commenced.

Financial management compliance program (FMCP)

TI 28 requires each public authority to develop, implement, document and maintain a robust and transparent FMCP.

Audit considered the documentation maintained by the Corporation did not meet the requirements of an FMCP as required by the charter of the Corporation. The charter specifies the application of the Treasurer's financial management toolkit which provides guidance for operation of an effective FMCP.

The Corporation considered this matter to be low risk, however, it indicated that documentation will be improved.

Management arrangements with OFO

The PMA requires the Corporation to perform services for OFO in accordance with a management plan, annual work plan and annual budget.

At the time of audit in June 2013 it was noted the management plan, annual work plan and annual budget for the 2013-14 financial year had yet to be approved by the Board.

The Corporation responded that it has agreed to a management plan, annual work plan and annual budget with OFO and that these documents will be provided to Audit. These documents will form an important element of focus for the 2013-14 audit program.

Formal communication protocols with OFO

By the nature of the operation of the PMA there are regular and important communications between the Corporation's management and OFO which result in decisions of a financial nature. Audit noted that the form of these communications varies including, for example, teleconferences and emails.

Audit raised for consideration whether the essence of certain communications should be reduced to formal minutes, in particular in relation to teleconferences. This matter was raised from the viewpoint of improving the evidential basis of the Corporation's complete record of communications and outcomes with OFO.

The Corporation indicated that it was satisfied with current documentation arrangements.

OFO's directions, policies, protocols and procedures

The PMA specifies that the Corporation must perform services in accordance with OFO's directions, policies, protocols and procedures and those of the Corporation approved by OFO.

Audit noted that:

- OFO has not approved the Corporation's policies, protocols and procedures
- OFO has issued protocols to the Corporation only in relation to silviculture.

The Corporation considered this matter to be low risk, and that OFO is a new organisation developing its policies and procedures and that the Corporation will continue to manage to its current policies, protocols and procedures which OFO supports.

Valuation of standing timber

It has been a long standing practice of the Corporation to value its standing timber of marketable size using the net market value approach. This approach does not account for the likely timing of harvesting and sales of timber over long periods and the effects of inflation and discount rates.

Audit raised for consideration whether the Corporation should reassess its method of valuing standing timber against other valuation methods used within the forestry industry to ensure it is still applying best practice. This consideration was relevant in the context of the change in the composition of the forests owned by the Corporation.

The Corporation responded that it has valued its standing timber in accordance with its charter and AASs.

Documentation of forest logging system (FLS) processes and controls

FLS is the Corporation's key system for determining payments to harvest and transport contractors and for invoicing customers for sales of timber. The Corporation has a draft FLS manual that provides guidance to staff on processes and controls to be applied to ensure the integrity of financial transactions.

Audit recommended the Corporation complete the draft FLS manual and also incorporate into the manual the controls relating to the new e-cartnote system.

The Corporation responded that the recommendation will be implemented.

Verification of changes to FLS masterfile

Invalid, inaccurate or unapproved changes to prices and other data in the FLS masterfile can result in harvest and transport contractors being over or underpaid and customers being over or undercharged. The Corporation advised Audit in September 2012 that it would check a sample of changes quarterly, however this has not eventuated.

Audit recommended that the Corporation should verify that changes entered into the FLS masterfile are valid, accurately entered and properly approved.

The Corporation responded that the recommendation will be implemented. It also advised of compensating controls including tracking revenue and harvest cost by customer, month end reviews of control reports and exception reports.

Security over customer debts

Audit noted that the Corporation needs to obtain appropriate security over customer debts required by the guideline for credit management approved by the Board in August 2012. Two customers had significant debts written off in April 2013 and a third customer had a significant debt at 30 June 2013 which the Corporation considers will be recoverable. Contracts with customers indicate timber delivered to customers belongs to the Corporation until the customer pays. However, the right to a customer's inventory or delivered timber is not regarded as security for the purposes of the guideline unless approved as such by the Board. These three customers continued to be supplied with timber products without having paid their debts and allowed to accumulate debt beyond their bank guarantees and other forms of security. These overdue debts and strategies for managing the recovery of these debts were reported to the Board.

In response to this matter the Corporation acknowledged the potential for bad debts to occur in the current market. The Corporation advised it is closely managing the third debt and has obtained appropriate security.

Interpretation and analysis of the financial report**Highlights of the financial report**

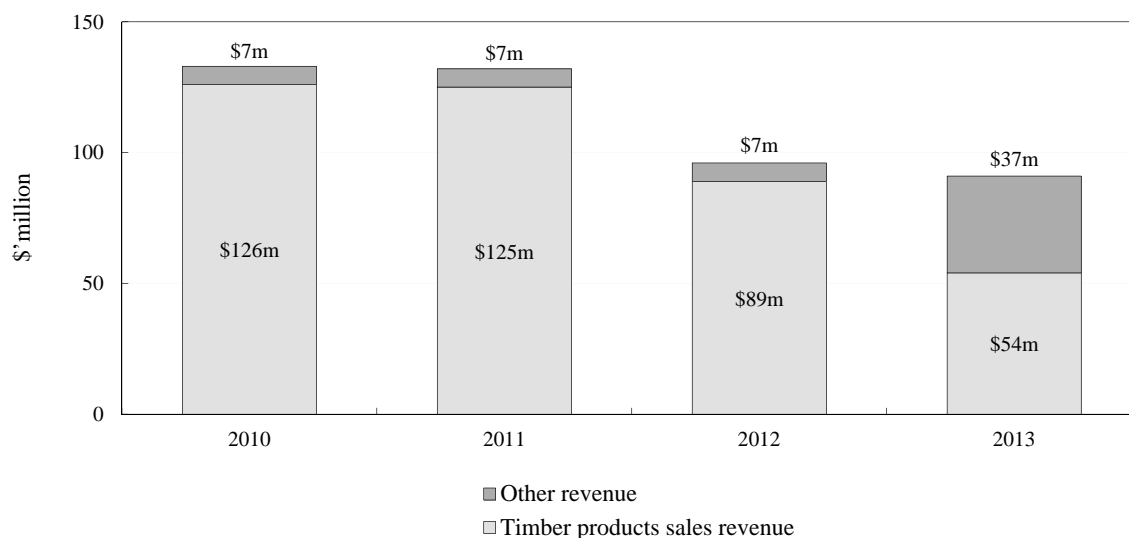
	2013 \$'million	2012 \$'million
Income		
Sales - timber products	54	89
Sales - management services	10	-
Revenues from SA Government	8	3
Other revenue	20	4
Total income	92	96
Expenses		
Employee benefits	16	17
Contractors and wood purchases	40	39
Other expenses	25	22
Total expenses	81	78
Trading profit before revaluation of standing timber	11	18

	2013 \$'million	2012 \$'million
Net profit (loss) after revaluation of standing timber and income tax equivalent expense	(4)	(33)
Total comprehensive income (loss)	(4)	(43)
Net cash flows from operating activities	19	19
Net cash flows from investing activities	(1)	(4)
Assets		
Current assets	36	1 111
Non-current assets	166	167
Total assets	202	1 278
Liabilities		
Current liabilities	9	34
Non-current liabilities	5	14
Total liabilities	14	48
Total equity	188	1 230

Statement of Comprehensive Income

Income

The following chart shows that the main source of income for the Corporation for the four years to 2013 is the sale of timber products.



Income fell by \$4.3 million to \$91.6 million. Lower revenue from timber products sales was offset by increases in other revenue, mainly comprising management services revenue from OFO, revenue from SA Government and revenue from a legal settlement.

Timber products sales

Timber products sales revenue fell by \$34.6 million to \$54.1 million in 2013 as a result of the sale of forward harvest rotations of the Green Triangle plantations to OFO on 17 October 2012. Timber products sales in 2012-13 includes: all sales in the Mount Lofty Ranges and the mid-north of the State for the whole of 2012-13; all sales in the Green Triangle up to 17 October 2012; and sales after this date

to customers in the Green Triangle until they novated their sales contracts from the Corporation to OFO. Sales revenue of \$54.1 million includes \$21.3 million received on behalf of OFO from customers who had not novated their contracts. At 30 June 2013, all but one customer had novated their sales contracts. The Corporation passed this revenue of \$21.3 million onto OFO and recognised the transfer as wood purchases expense in the Statement of Comprehensive Income. Sales revenue from novated contracts was received directly by OFO and is not recognised in the Corporation's financial statements.

Plantation management fees

The increase in management services sales and revenues from SA Government is due mainly to the plantation management fees paid by OFO. Under the PMA the plantation management fee comprises two components: a direct charge and a general overhead charge (GOC). The direct charge reflects mainly the silviculture expenditure incurred by the Corporation on behalf of OFO whilst the GOC reflects administrative expenses that support the silviculture in the Green Triangle such as planning, management and supervisory functions including salaries of staff who provide such services. The GOC is a fixed amount indexed annually under the PMA. Until March 2013 the GOC was paid by OFO to the Treasurer and then passed onto the Corporation and recognised as revenues from SA Government. After March 2013 the GOC was received directly by the Corporation from OFO and recognised along with the direct charge as management service sales revenue.

Under the PMA the Corporation must use reasonable endeavours to ensure the costs included in the direct charges are reasonable.

Revenues from SA Government

Revenues from SA Government increased by \$4.7 million to \$8 million due mainly to the GOC paid by OFO to the Treasurer which was passed onto the Corporation.

The SA Government also paid the Corporation \$431 000 in 2013 and has budgeted payments of \$14.7 million for 2014 for the Corporation's management of the OFO forestry operations in the Green Triangle and the Corporation's commercial forestry operations in the Mount Lofty Ranges and the mid-north of the State. This funding is in addition to the funding provided by the SA Government to the Corporation for community service obligations and the Government Radio Network which totalled \$3.5 million in 2013 (\$3.3 million).

Other revenue

Other revenue increased due mainly to a settlement of \$15.4 million received as compensation for the early termination of a sales contract.

Expenses

Expenses in 2013 include expenditure incurred by the Corporation on behalf of OFO that is recoverable from OFO under the PMA as either a GOC or a direct charge such as silviculture expense and council rates. Expenses in 2013 exclude those expenses where contracts for the supply of goods and services were entered into directly by OFO or novated from the Corporation to OFO. In these circumstances the expenses are paid directly by OFO and not recognised in the Corporation's financial statements.

Expenses increased by \$2.4 million to \$80.3 million due mainly to increases in wood purchases, net loss on disposal of non-current assets and other expenses partially offset by lower contractor expenses and no revaluation decrements on non-current assets in 2013.

Wood purchases

Wood purchases expense relates to \$21.3 million of timber products sales revenue received by the Corporation that was passed onto OFO. For further details refer to commentary under the heading 'Timber products sales'.

Net loss on disposal of non-current assets

At 30 June 2012 certain assets and liabilities were classified in the Statement of Financial Position as held for distribution to owner reflecting the SA Government's intended forward sale of harvest rotations in the Green Triangle. These assets and liabilities were assigned to the Treasurer on 17 October 2012. However, certain Glencoe Nursery assets were not assigned to the Treasurer on this date but transferred directly to OFO under the Glencoe Nursery Assignment Deed. The transfer of these Glencoe Nursery assets together with the unrelated disposal of other plant and equipment resulted in a net loss on disposal of non-current assets of \$2.6 million.

Other expenses

Other expenses increased by \$3.9 million to \$8.1 million due mainly to \$1.1 million of Glencoe Nursery stock transferred to OFO under the Glencoe Nursery Assignment Deed and \$3.1 million in compensation paid as settlement for terminating a supply contract.

Contractor expenses

Expenditure on contractors fell by \$21 million due mainly to the novation of timber harvesting and transport contracts in the Green Triangle from the Corporation to OFO on 17 October 2012. Contractors who novated their contracts were paid directly by OFO and the payments not recognised in the Corporation's financial statements.

Revaluation decrements on non-current assets

Land was revalued on 30 June 2012 resulting in a net revaluation decrement on non-current assets of \$3.2 million in 2012. Land was not revalued in 2013.

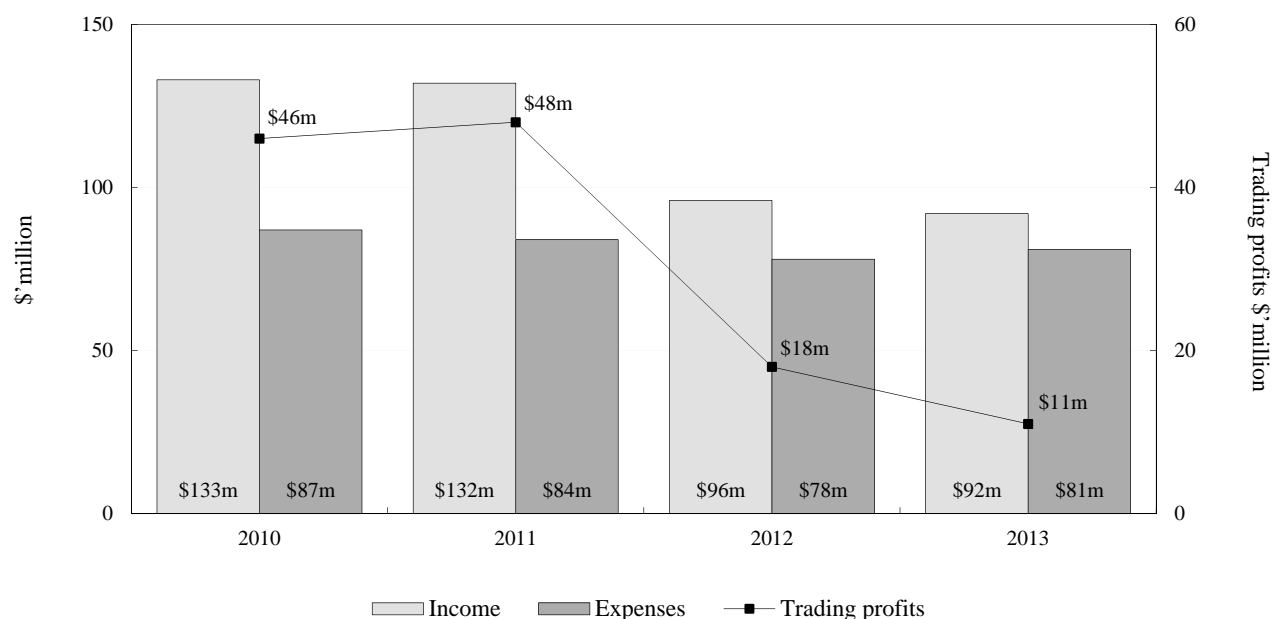
Trading results

In 2013, the Corporation achieved a trading profit of \$11.3 million compared to a trading profit of \$18.1 million in 2012. The trading profit in 2013 reflects four main activities:

- commercial forestry operations in the Green Triangle up to 17 October 2012
- management of OFO forestry operations in the Green Triangle after 17 October 2012 in return for a management fee pursuant to the PMA
- commercial forestry operations in the Mount Lofty Ranges and the mid-north of the State for the whole of 2013
- community service obligations such as native forest management, community use of forests and community protection of forests (including fire protection).

The fall in trading profit was due mainly to profits from the commercial forestry operations in the Green Triangle no longer belonging to the Corporation after 17 October 2012. The profits after this date belong to OFO. Note 1 to the financial statements indicates that the Corporation will require funding from the SA Government for the performance of its obligations under the PMA and the ongoing discharge of its community service obligations.

The trading results for the four years to 30 June 2013 are shown in the table below.



Standing timber

Standing timber is revalued every year on a net market value basis. The net change in value for 2013 is a decrease of \$15.4 million whilst in 2012 the decrease was \$45.6 million. Standing timber in 2013 excludes the standing timber in the Green Triangle transferred to OFO on 17 October 2012. The revaluation in 2013 included a \$2.3 million write-down due to fire losses.

Distributions to SA Government

The following table summarises for the past five years the Corporation's dividend and income tax equivalent distributions to the SA Government.

Item	2013 \$'million	2012 \$'million	2011 \$'million	2010 \$'million	2009 \$'million
Dividend	30	14	27	31	15
Income tax equivalent	-	5	14	14	8
Total distribution	30	19	41	45	23

In 2013 the Corporation paid a special dividend of \$29.5 million. The Corporation did not pay a final dividend for 2013. The Corporation indicates in note 23 to the financial statements that it expects to no longer pay dividends due to changes in the nature of its major revenue sources resulting from the sale of the forward harvest rotations.

The Corporation has not recognised any income tax equivalent expense for 2013. For 2013 the Under Treasurer approved that the net settlement of \$12.3 million received/paid on the termination of a supply contract referred to earlier. This resulted in the Corporation's trading profit after deducting the net settlement to be not sufficient enough to incur any income tax equivalent expense for 2013.

In 2013 the Corporation also made a capital repayment of \$5 million to the SA Government.

Statement of Financial Position

Standing timber and land are significant assets and represent 74% of the total assets of the Corporation. Further comment and analysis follows.

Land

At 30 June 2012, \$435 million of the \$512 million of land holdings had been reclassified as assets held for distribution to owners. This land, located in the Green Triangle, was transferred in 2013 to the Treasurer then leased to OFO for commercial forestry operations for a term of 70 years with an option for a further 35 years. The remaining land holdings under the control of the Corporation are located in the Mount Lofty Ranges and the mid-north of the State. There are also a few smaller parcels in the Green Triangle. Land remaining under the control of the Corporation at 30 June 2013 was last revalued at \$77 million on 30 June 2012. The valuation was undertaken by the Valuer-General.

Standing timber

Note 2(m) to the financial statements explains the basis and main features of the Corporation's valuation methodology for standing timber.

The following table summarises valuations of standing timber for the past four years by region and revaluation results.

	2013 \$'million	2012 \$'million	2011 \$'million	2010 \$'million
Region				
South-East region:				
Young plantations	-	41	41	42
Mature plantations	-	561	601	650
Central and Northern regions:				
Young plantations	7	7	7	6
Mature plantations	65	66	72	70
	<u>72</u>	<u>675</u>	<u>721</u>	<u>768</u>
Revaluation increments (decrements)	(15)	(46)	(50)	81

The net change in the valuation of standing timber is a combination of the value of forest harvested, price changes and volume adjustments including tree growth. The revaluation decrement for 2012 resulted mainly from all three of these factors whereas the revaluation decrement in 2013 resulted mainly from the value of the forest harvested. For further information refer note 14 to the financial statements. Ownership of standing timber in the Green Triangle in the South-East region transferred to OFO on 17 October 2012 apart from small amounts of standing timber valued below \$1 million.

Loans

At 30 June 2012, the Corporation had a balance of SAFA loans of \$33.7 million. Of these loans \$23.6 million related to loans for land purchases and were recognised as liabilities classified as held for distribution to owners. The loans were reassigned to the Treasurer effective on 18 October 2012 under a loan assumption deed. The remaining \$10.1 million of loans, related to the financing of the Corporation's building and plant and equipment, were fully repaid by the Corporation in 2013.

Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2013.

	2013 \$'million	2012 \$'million	2011 \$'million	2010 \$'million
Net cash flows				
Operating	19	19	40	34
Investing	(1)	(4)	15	(33)
Financing	(46)	(17)	(23)	(34)
Change in cash	(28)	(2)	32	(33)
Cash at 30 June	15	43	45	13

The Corporation's surplus cash generated through operating activities is applied to fund its financing activities, predominantly returns to government through dividends paid.

The higher financing cash flows reflects an increase in dividends paid to the SA Government.

Statement of Comprehensive Income for the year ended 30 June 2013

		2013	2012
	Note	\$'000	\$'000
Income:			
Sales - timber products		54 120	88 762
Sales - management services		9 998	170
Revenues from SA Government	5(i)	8 028	3 356
Interest	5(ii)	1 607	2 445
Other	5(iii)	17 837	1 194
Net gain from disposal of non-current assets	5(iv)	-	7
Total income		<u>91 590</u>	<u>95 934</u>
Expenses:			
Employee benefits	7	16 425	17 152
Contractors		18 223	39 238
Wood purchases		21 283	239
Depreciation and amortisation	5(v),15,16	2 105	2 554
Finance costs	5(v)	1 814	2 664
Materials		4 743	3 733
Equipment and vehicle costs		3 314	3 243
Council rates		1 655	1 572
Other expenditure	5(vi)	8 062	4 209
Net loss from disposal of non-current assets	5(iv)	2 645	-
Net revaluation decrement on non-current assets	15	-	3 224
Total expenses		<u>80 269</u>	<u>77 828</u>
Trading profit before revaluation of standing timber		<u>11 321</u>	<u>18 106</u>
Net change in value of standing timber	14	(15 365)	(45 567)
Profit (loss) before income tax equivalent		<u>(4 044)</u>	<u>(27 461)</u>
Income tax equivalent expense	6	-	(5 332)
Net profit (loss) after income tax equivalent	9(ii)	<u>(4 044)</u>	<u>(32 793)</u>
Other comprehensive income:			
Land revaluation recorded in revaluation surplus	15	-	(10 410)
Buildings and structures revaluation recorded in revaluation surplus	15	-	-
Total comprehensive income (loss)		<u>(4 044)</u>	<u>(43 203)</u>

Net profit (loss) after income tax equivalent and total comprehensive income (loss) are attributable to the SA Government as owner

Statement of Financial Position as at 30 June 2013

	Note	2013 \$'000	2012 \$'000
Current assets:			
Cash and cash equivalents	9	15 366	43 014
Receivables	10	10 836	12 129
Inventories	11	543	2 039
Standing timber	14	8 134	20 884
Assets classified as held for sale	12	1 077	177
Assets classified as held for distribution	13	-	1 032 776
Total current assets		35 956	1 111 019
Non-current assets:			
Standing timber	14	63 835	60 478
Property, plant and equipment	15	102 211	106 517
Intangible assets	16	320	288
Total non-current assets		166 366	167 283
Total assets		202 322	1 278 302
Current liabilities:			
Payables	17	6 776	5 520
Employee benefits	18	2 140	1 875
Interest bearing loans	19	-	1 383
Tax liabilities	6	-	501
Deferred income	20	173	854
Other provisions	21	240	262
Liabilities classified as held for distribution	22	-	23 638
Total current liabilities		9 329	34 033
Non-current liabilities:			
Payables	17	560	564
Employee benefits	18	3 033	3 080
Interest bearing loans	19	-	8 706
Deferred income	20	679	666
Other provisions	21	985	1 013
Total non-current liabilities		5 257	14 029
Total liabilities		14 586	48 062
Net assets		187 736	1 230 240
Equity:			
Contributed capital		-	4 984
Reserves		145 358	1 132 017
Retained earnings		42 378	93 239
Total equity		187 736	1 230 240

Total equity is attributable to the SA Government as owner

Statement of Changes in Equity for the year ended 30 June 2013

	Contributed capital \$'000	Revaluation surplus \$'000	Standing timber reserve \$'000	Fire Insurance Fund reserve \$'000	Retained earnings \$'000	Total \$'000
Balance at 30 June 2011	4 984	485 642	683 392	18 566	95 046	1 287 630
Gain on revaluation of property, plant and equipment	-	(10 410)	-	-	-	(10 410)
Net income (expense) recognised directly in equity	-	(10 410)	-	-	-	(10 410)
Net profit (loss) for the period	-	-	-	-	(32 793)	(32 793)
Total comprehensive income for 2011-12	-	(10 410)	-	-	(32 793)	(43 203)
Dividend	-	-	-	-	(14 187)	(14 187)
Transfers to (from) equity	-	(2)	(45 567)	396	45 173	-
Total change for the period	-	(10 412)	(45 567)	396	(1 807)	(57 390)
Balance at 30 June 2012	4 984	475 230	637 825	18 962	93 239	1 230 240
Gain on revaluation of property, plant and equipment	-	-	-	-	-	-
Net income (expense) recognised directly in equity	-	-	-	-	-	-
Net profit (loss) for the period	-	-	-	-	(4 044)	(4 044)
Total comprehensive income for 2012-13	-	-	-	-	(4 044)	(4 044)
Dividend	-	-	-	(18 962)	(10 565)	(29 527)
Repayment of contributed capital	(4 984)	-	-	-	-	(4 984)
Distribution to SA Government as owner	-	(396 864)	(555 468)	-	(51 617)	(1 003 949)
Transfers to (from) equity	-	-	(15 365)	-	15 365	-
Total change for the period	(4 984)	(396 864)	(570 833)	(18 962)	(50 861)	(1 042 504)
Balance at 30 June 2013	-	78 366	66 992	-	42 378	187 736

All changes in equity are attributable to the SA Government as owner

Statement of Cash Flows for the year ended 30 June 2013

		2013	2012
		Inflows (Outflows)	Inflows (Outflows)
Cash flows from operating activities:	Note	\$'000	\$'000
Receipts from customers		84 458	96 574
Payments to suppliers and employees		(72 171)	(70 713)
Finance costs		(1 814)	(2 664)
Interest received		1 724	2 517
Receipts from SA Government		7 598	2 913
GST receipts on sales		9 461	9 323
GST payments on purchases		(5 491)	(5 241)
GST remitted to ATO		(4 320)	(4 321)
Income tax equivalents paid	6	(501)	(8 822)
Net cash flows from operating activities	9(ii)	<u>18 944</u>	<u>19 566</u>
Cash flows from investing activities:			
Purchase of property, timber, plant and equipment		(861)	(4 085)
Purchase of intangible assets		(196)	(122)
Proceeds from sale of assets		267	100
Net cash flows from investing activities		<u>(790)</u>	<u>(4 107)</u>
Cash flows from financing activities:			
Proceeds from borrowings		-	4 166
Repayment of borrowings		(11 291)	(7 179)
Repayment of equity		(4 984)	-
Dividend paid		(29 527)	(14 187)
Net cash flows from financing activities		<u>(45 802)</u>	<u>(17 200)</u>
Net increase (decrease) in cash held		<u>(27 648)</u>	<u>(1 741)</u>
Cash and cash equivalents at 1 July		<u>43 014</u>	<u>44 755</u>
Cash and cash equivalents at 30 June	9(i)	<u>15 366</u>	<u>43 014</u>

Notes to and forming part of the financial statements

1. Corporate information

Role and function of the South Australian Forestry Corporation (SAFC)

SAFC was established under the *South Australian Forestry Corporation Act 2000* on 1 January 2001. SAFC is subject to the provisions of the PCA. SAFC has key responsibilities to:

- manage plantation forests for commercial production in line with best practice standards for forestry operations and environmental management
- provide high quality management services to its customers
- undertake and where appropriate commercialise forestry related research for the benefit of SAFC and the State
- maximise the value of SAFC
- encourage and facilitate regionally based economic activities based on forestry and other industries
- support regional forest resource protection initiatives and programs
- support the concept of environmental sustainability which assists in the protection of natural assets and market accessibility
- support cooperative research activities within the forestry industry.

Role and function of the South Australian Forestry Corporation (SAFC) (continued)

In addition to its business operations, SAFC receives funding from the SA Government for the provision of certain community service obligations (CSOs). These are:

- community use of forests
- native forest management
- community protection (including fire protection).

Forward sale of harvesting rights

At 17 October 2012, the SA Government finalised the forward sale of SAFC's harvesting rights in the Green Triangle (GT) region to the Campbell Group based in the United States. OneFortyOne Plantations Pty Ltd (OFO) was then formed in Australia to manage these plantations. These changes have some significant impacts on SAFC's business, including:

- land, roads and standing timber recognised at 30 June 2012 as awaiting distribution to owner was assigned to the Treasurer of South Australia on 17 October 2012. This included the Glencoe Nursery land which was not recognised in assets classified as held for sale as at 30 June 2012. These assets are located in the GT region. The Treasurer has leased the land and roads to OFO for commercial forestry operations for a term of 70 years with an option for a further 35 years. The standing timber on this land was sold by the Treasurer to OFO
- land, roads and standing timber remaining under the control of SAFC are located in the Mount Lofty Ranges and the mid-north of the State and a few smaller parcels in the GT region
- at 30 June 2012, SAFC had a balance of SAFA loans of \$33.7 million. Of these loans \$23.6 million related to loans for land purchases and recognised as liabilities classified as held for distribution to owner. The loans were re-assigned to the Treasurer effective on 18 October 2012 under a loan assumption deed. The remaining \$10.1 million of loans, related to the financing of SAFC's building and plant and equipment, were fully repaid by SAFC in 2013
- under the Glencoe Nursery Assignment Deed certain assets of the Glencoe nursery were assigned by SAFC to OFO directly (not via the Treasurer) and thus are recognised as a loss on disposal of non-current assets in the Statement of Comprehensive Income, while any loss on disposal of current assets is recognised under other expenses
- since the sale of the Glencoe nursery, SAFC purchases seedlings from OFO at costs as defined in the Glencoe Nursery Supply Agreement
- novation of harvesting and transport contracts in the GT region from SAFC to OFO since 17 October 2012
- novation of sales contracts in the GT region from SAFC to OFO since 17 October 2012. A number of customers novated after this date whilst one customer's contract has not been novated. SAFC accounts for unnovated sales contracts as SAFC sales and wood purchases
- SAFC is an agent for the Treasurer responsible for the Plantation Management Agreement (PMA)
- under the memorandum of administrative arrangements SAFC is required to perform the obligations of the Manager (Treasurer) in accordance with the PMA
- under the PMA SAFC manages the silviculture operations for OFO in return for a fee comprising two components:
 - (i) Direct charges. Whilst some silviculture expenses are paid directly by OFO there are other such expenses incurred and paid by SAFC on behalf of OFO. These expenses are recognised as expenses of SAFC in the Statement of Comprehensive Income. Those expenses that can be recovered from OFO under the PMA are shown as management service fees
 - (ii) General Overhead Charges (GOC) which is paid by OFO to the Treasurer and passed onto SAFC and shown as revenue from SA Government until March 13 quarter. This arrangement has been changed in the June 2013 quarter, SAFC received GOC directly from OFO
- the operations deed between the Treasurer and OFO requires the performance, among other things, of specified fire management functions
- SAFC will require funding from the SA Government for ongoing discharge of its CSOs (particularly fire response) and the performance of its obligation under the PMA as negotiated by the Treasurer as part of the forward sale.

2. Summary of significant accounting policies

(a) *Statement of compliance*

The financial statements are general purpose financial statements. The statements have been prepared in accordance with applicable AASs and TIs and APSs promulgated under the provision of the PFAA.

AASs and interpretations that have recently been issued or amended but are not yet effective have not been adopted by SAFC for the reporting period ending 30 June 2013 (refer note 2(e)).

(b) *Basis of preparation*

SAFC's Statement of Comprehensive Income, Statement of Financial Position and Statement of Changes in Equity have been prepared on an accrual basis and are in accordance with the historical cost convention, except for certain assets that were valued in accordance with the applicable valuation policy.

The Statement of Cash Flows has been prepared on a cash basis.

The preparation of the financial statements requires the use of certain accounting estimates and requires management to exercise its judgment in the process of applying SAFC's accounting policies. The areas involving a higher degree of judgment or where assumptions and estimates are significant to the financial statements are outlined in the applicable notes.

The preparation of the financial statements requires compliance with APSs issued pursuant to section 41 of the PFAA. In the interest of public accountability and transparency the APSs require the following note disclosures that have been included in these financial statements:

- (i) revenues, expenses, financial assets and liabilities where the counterparty/transaction is with an entity within the SA Government as at reporting date, classified according to their nature. A threshold of \$100 000 for separate identification of these items applies
- (ii) expenses incurred as a result of engaging consultants
- (iii) employee TVSP information
- (iv) employees whose normal remuneration is equal to or greater than the base executive remuneration level (within \$10 000 bandwidths) and the aggregate of the remuneration paid or payable or otherwise made available, directly or indirectly, by the entity to those employees.

The financial report has been prepared based on a 12 month operating cycle and presented in Australian currency.

(c) *Comparative information*

The presentation and classification of items in the financial statements are consistent with prior periods except where a specific accounting standard or APS has required a change.

Where presentation or classification of items in the financial statements have been amended, comparative amounts have been reclassified unless reclassification is impracticable.

The restated comparative amounts do not replace the original financial statements for the preceding period.

(d) *Rounding*

All amounts in the financial statements have been rounded to the nearest thousand dollars (\$'000).

(e) *New and revised accounting standards*

AASs and interpretations that have recently been issued or amended but are not yet effective, have not been adopted by SAFC for the period ending 30 June 2012. SAFC has assessed the impact of the new and amended standards and interpretations and considers there will be no impact on the accounting policies or the financial statements of SAFC.

(f) *Taxation*

SAFC is liable for income tax equivalent payments, payroll tax, FBT, GST, Emergency Services levy, land tax and local government rates.

Income tax equivalent

SAFC is an income tax exempt body. As SAFC engages in trading activities in competition with private sector enterprises, a payment in lieu of income tax is paid to the SA Government Consolidated Account. The tax calculation method is prescribed by TI 22 and the tax equivalent payment is calculated on the accounting profits model. DTF provided SAFC with a ruling that excludes gains and losses relating to standing timber revaluations and in prior periods allowed deduction of approved contributions to the Fire Insurance Fund from the accounting profit used to calculate the income tax equivalent payment.

Under the accounting profits model no future tax assets or future tax liabilities are recognised apart from tax assets or tax liabilities in relation to timing differences in the payment of tax equivalent payments.

GST

Income, expenses, liabilities and assets are recognised net of the amount of GST except where the amount of GST incurred by SAFC as a purchaser that is not recoverable from the ATO is recognised as part of the cost of acquisition of an asset or as part of an item of expense.

Receivables and payables are stated with the amount of GST included.

The net GST receivable/payable to the ATO has been recognised as a receivable/payable in the Statement of Financial Position.

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

Unrecognised contractual commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the ATO. If GST is not payable to, or recoverable from, the ATO the commitments and contingencies are disclosed on a gross basis.

(g) *Income*

Income is recognised in SAFC's Statement of Comprehensive Income when and only when the flow of economic benefit(s) has occurred and can be reliably measured.

Income has been classified according to its nature and has not been offset unless required or permitted by a specific accounting standard.

Revenue from sale of timber is recognised when there has been a transfer of risks and rewards to the customer, no further work or processing is required, the quantity and quality of the goods has been determined and the price is fixed.

Interest revenue is recorded on an accrual basis. Interest is calculated on the average daily balance of the account.

The gain or loss on disposal of assets, including revalued assets, is determined as the difference between the book value of the asset at the time of disposal and the proceeds of disposal, and is included in the results in the year of disposal. When revalued assets are sold, the revaluation increments are transferred to retained earnings in accordance with APF III, APS 3.9.

(h) *Expenses*

Expenses are recognised in SAFC's Statement of Comprehensive Income when and only when the flow of economic benefit has occurred and can be reliably measured.

Expenses have been classified according to their nature and have not been offset unless required or permitted by a specific accounting standard.

Finance costs are recognised as an expense on an accrual basis.

(i) *Current and non-current classification*

Assets and liabilities are characterised as either current or non-current in nature. SAFC has a regular operating cycle of 12 months. Standing timber that is expected to be harvested within 12 months after the reporting date has been classified as a current asset, while the standing timber that is expected to be harvested more than 12 months after the reporting date has been classified as a non-current asset. Other assets and liabilities that are sold, consumed or realised as part of the normal operating cycle, even when they are not expected to be realised within 12 months after the reporting date, or held primarily for the purpose of being traded, have been classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

(j) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to cash and which are subject to an insignificant risk of changes in value (refer note 9).

For the purposes of the Statement of Cash Flows, cash and cash equivalents include cash at bank and deposits at call that are readily convertible to cash and are used in the cash management function on a day-to-day basis.

Cash is measured at nominal value.

(k) Receivables

Receivables include trade receivables, prepayments and other revenue accruals. Receivables are recorded at amounts due to SAFC less a provision for doubtful debts.

Trade receivables arise in the normal course of selling goods and services. Trade receivables are due within one month after the issue of an invoice or the goods/services have been provided under contractual arrangements. Other debtors arise outside the normal course of selling goods and services to the public.

If payment has not been received within the terms and conditions of the contractual arrangement, SAFC is able to charge interest at commercial rates as specified until the whole amount of the debt has been paid.

SAFC determines the provision for doubtful debts based on a review of balances within trade receivables that are unlikely to be collected.

(l) Inventories

Inventories are valued at the lower of cost and net realisable value in accordance with AASB 102.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(m) Standing timber

Standing timber of a marketable size is valued at its fair value less estimated point-of-sale costs and disclosed as a current asset for the portion expected to be realised within 12 months after the reporting date and as a non-current asset for the portion expected to be realised more than 12 months after the reporting date. SAFC has determined the fair value of the existing mix of forest products based on market conditions over the 12 months preceding balance date and has calculated the weighted average return for each diameter class, after deducting direct costs incurred in realising those returns. In the Mid-North the market conditions over a six month period (June to December 2012) were used to avoid the non-representative sales of fire damaged timber which was sold in the last six months of the financial year. This policy is in accordance with the requirements of AASB 141. All amounts are calculated in pre-tax dollars in accordance with the TIs.

Standing timber below a marketable size (classified as young forest in note 14) is valued at fair value by annually compounding the historical establishment and maintenance cost, from the date of preparation of the site for planting, at the 10 year Commonwealth bond rate. This applied to trees up to nine years old in the GT region, and applies to 10 years old trees in the Mount Lofty Ranges region and 12 years old in the Mid-North region.

The difference between the fair value of the standing timber held at the reporting date and the fair value at the previous reporting date, after allowing for standing timber acquired and purchased standing timber harvested, is recognised in the Statement of Comprehensive Income as the net change in value of standing timber. All forest expenditure is recognised as an expense in the year the expenditure is incurred.

The net change in the value of standing timber is accounted for in the movement in the standing timber reserve.

The volume of standing timber is estimated using a model that simulates forest growth. Actual growth will invariably differ to some extent from growth predicted by the model resulting in periodic adjustments to net market value for these growth variations. The model uses sample inventory data as the base line from which to start growth simulations.

Inventory data is continuously being collected from sample inventory plots with the complete forest estate being covered in five yearly intervals. The inventory master database is updated every three to five years and on these occasions the model simulations are repeated. For the Mount Lofty Ranges and Mid-North forests the master database was last updated as at December 2012, affecting the standing timber valuation as at 30 June 2013. (For the GT forest the master database was updated as at June 2012, affecting the standing timber valuation as at 30 June 2012.)

(m) Standing timber (continued)

The method used to determine the volume of timber contained in the radiata and non-radiata plantations is 'standing volume' (the volume of wood in the stem of trees which is potentially useable) less an allowance for residues incurred under current harvesting practices. This ensures that the fair value is based upon expected realisable volumes.

The method used to value standing timber assumes all timber assets which are a marketable size are sold at 30 June 2013 at fair value less estimated point-of-sale costs. There is inherent uncertainty in the standing volume estimate and resultant standing timber valuation. This is endemic to all forest valuations and best practice methodology is used to generate reliable forward timber estimates.

(n) Property, plant and equipment

(i) Recognition and measurement

Assets are initially recorded at cost plus any incidental costs involved with the acquisition. Where assets are acquired without cash consideration they are recorded at their fair value in the Statement of Financial Position.

SAFC individually capitalises all non-current physical assets with a value of \$1000 or greater, and a low value pool is created for assets between \$300 and \$1000. Where an asset comprises significant components with differing useful lives, those components are recorded separately.

Plant and equipment and roads and land improvements are stated at cost less accumulated depreciation and impairment losses.

Land, buildings and structures are measured at fair value less accumulated depreciation on buildings and structures and impairment losses recognised after the date of the revaluation. Fair value represents the value that is able to be achieved in an active and liquid market. Where an active and liquid market does not exist, then the asset will be brought to account at its written down current cost.

(ii) Impairment

The carrying values of property, plant and equipment are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstance indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use.

An impairment exists when the carrying value of an asset exceeds its estimated recoverable amount. The asset is then written down to its recoverable amount.

For property, plant and equipment, impairment losses are recognised in the Statement of Comprehensive Income except for revalued assets where impairment losses are treated as a revaluation decrement to the extent that a revaluation amount exists for the impaired asset.

(iii) Non-current assets held for sale

Assets held for sale are separately disclosed and measured at the lower of carrying amount and fair value less cost to sell.

(iv) Revaluation

Land has been revalued as at 30 June 2012, whilst buildings and structures were revalued as at 30 June 2011, in accordance with APF III. Assets in the other asset classes are deemed to have been revalued to their fair values immediately following recognition at cost.

The basis of the revaluation of land is the current site value of the unimproved land. In accordance with this policy, land was revalued in 2012 using valuations provided by the Valuer-General and/or local shires. In accordance with APF III, APS 3.8, SAFC has elected to take revaluation adjustments to the revaluation surplus on an individual asset basis.

At least every five years, an independent valuation appraisal of SAFC'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. SAFC undertook an independent valuation appraisal of its buildings and structures in June 2011.

(iv) Revaluation (continued)

Non-current physical assets that are acquired between revaluations and are below the revaluation threshold (fair value at the time of acquisition greater than \$1 million and useful life greater than three years) as per APF III will be deemed to have been revalued to their fair values immediately following recognition at cost, until revaluation will take place, when they are revalued to fair value.

Any revaluation increment is credited to the revaluation surplus, except to the extent that it reverses a revaluation decrement of the same asset previously recognised in the Statement of Comprehensive Income, in which case the increase is recognised in the Statement of Comprehensive Income.

Any revaluation decrease is recognised in the Statement of Comprehensive Income, except to the extent that it offsets a previous revaluation increase for the same asset, in which case the decrease is debited directly to the revaluation surplus to the extent of the credit balance existing in the revaluation surplus for that asset.

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.

Upon disposal or derecognition, any revaluation surplus relating to that asset is transferred to retained earnings.

(v) Depreciation and amortisation of non-current assets

All non-current assets having a limited useful life are systematically depreciated or amortised over their useful lives in a manner that reflects the consumption of their service potential. Amortisation is used in relation to intangible assets, while depreciation is applied to physical assets such as property, plant and equipment.

The useful lives of all major assets held by SAFC are reassessed on an annual basis.

Changes in the expected useful 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, which is a change in accounting estimate.

The value of leasehold improvements, included in plant and equipment, is amortised over the estimated useful life of each improvement, or the unexpired period of the relevant lease, whichever is shorter.

Land and assets held for sale or for distribution to owner are not depreciated. The depreciation/amortisation for non-current assets is determined as follows:

<i>Class of asset</i>	<i>Depreciation method</i>	<i>Useful life (years)</i>
Buildings and structures	Straight-line	25-60
Leasehold improvements	Straight-line	Life of lease
Roads and land improvements	Straight-line	20-25
Plant and equipment	Straight-line	3-25

(vi) Crown land

The value of Crown land amounts to \$77 million (\$485 million). SAFC is entitled to the value of the Crown land and has the use of the Crown land for forestry purposes. Generally, the issue of title over Crown land is required before the land can be disposed of, however, SAFC is exempt from some policies and procedures related to the purchase and disposal of Crown land, as per DPC Circular 114.

(o) Intangible assets

Intangible assets include purchased software and development costs for software tools. An intangible asset is an identifiable non-monetary asset without physical substance. Intangible assets are measured at cost less accumulated depreciation and impairment losses.

The acquisition or internal development of software is capitalised when the expenditure meets the definition and recognition criteria of an asset outlined in AASB 138 and when the amount of expenditure is greater than or equal to \$1000.

All research and development costs that do not meet the capitalisation criteria outlined in AASB 138 are expensed.

Capitalised software is amortised over the useful life of the asset, with a maximum time limit for amortisation of five years, using the straight-line method. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

(p) Trade and other payables

Payables include creditors, accrued expenses, deposits held and employment on-costs.

Payables are recorded at the agreed amounts at which the liabilities are to be settled. They are recorded when the goods and services have been provided.

Creditors represent the amounts owing for goods and services received prior to, but remaining unpaid, at the end of the reporting period. Creditors include all unpaid invoices received relating to the normal operations of SAFC.

Accrued expenses represent goods and services provided by other parties during the period that are unpaid at the end of the reporting period and where an invoice has not been received. All amounts are measured at their nominal amount and are normally settled within 30 days after invoice date.

Employment on-costs include superannuation contributions and payroll tax with respect to outstanding liabilities for salaries and wages, LSL and annual leave.

SAFC makes contributions to several superannuation schemes. These contributions are treated as an expense when they are incurred. There is no liability for payments to beneficiaries as the schemes have assumed these. The only liability outstanding at the end of the reporting period relates to any contributions due but not yet paid.

(q) Employee benefits

Employee benefits accrue for employees 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.

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 of sick leave.

The liability for salary and wages is measured as the amount unpaid at the reporting date at remuneration rates current at the reporting date. The liability for annual leave reflects the value of total annual leave entitlements of all employees as at the reporting date and is measured at the undiscounted amount expected to be paid.

The liability for LSL is measured at 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.

The estimated liability for LSL is based on actuarial assumptions over 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. Expected future payments are discounted using market yields at the end of the reporting period on government bonds with duration that match, as closely as possible, the estimated future cash outflows.

(r) Interest bearing loans

In accordance with APF IV, APS 6.1, SAFC uses historical cost measurement for interest bearing loans.

All loans are measured at the principal amount. Interest and guarantee fees are recognised as an expense as they accrue.

(s) Leases

SAFC has entered into operating leases but has not entered into any finance leases.

In respect of operating leases, the lessor effectively retains substantially the entire risks and benefits incidental to ownership of the lease items. Operating lease payments are charged to the Statement of Comprehensive Income on a straight-line basis, which is representative of the pattern of benefits derived from the leased assets.

(t) Insurance

SAFC has arranged, through SAICORP, a division of SAFA, to insure all major property and liability risks of SAFC. The excess payable under this arrangement is \$250 000 from an event or occurrence covered by the agreement.

SAFC is self-insured for major fire losses of the forest (refer note 2(w)). In addition, SAFC is self-insured for workers compensation.

(u) Provisions

SAFC self-insures its workers compensation obligations. The workers compensation liability is based on an actuarial assessment provided by the Public Sector Workforce Relations Division of DPC of the estimated unsettled workers compensation claims.

(v) Contributed equity

Contributions made by the SA Government through its role as owner of SAFC, which increase the net assets of the entity, are treated as contributions of equity.

(w) Fire Insurance Fund and reserve

Cabinet approved SAFC to self-insure for the risk associated with major fire losses of forest from 1 October 2004 and SAFC set up a fund for this purpose at that date. The Fire Insurance Fund has been created as part of SAFC's self-insurance policy. SAFC's annual lump sum contributions to the Fire Insurance Fund are quarantined for both tax equivalent payments and dividend purposes.

The use of the Fire Insurance Fund available cash balance was restricted to fund annual fire losses to the plantation of greater than \$250 000. These funds provided cash for clearing, re-establishment and associated costs.

During the 2013 financial year the Fire Insurance Fund was returned to the owner of SAFC by way of a special dividend.

(x) Unrecognised contractual commitments and contingent liabilities

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

Contingent assets and 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.

3. Financial risk management

SAFC has significant non-interest bearing assets (receivables) and liabilities (payables) and interest bearing assets (deposits) and, up to and including 2012, liabilities (borrowings from the SA Government). SAFC's exposure to market risk and cash flow interest rate risk is in accordance with the risk management policies and procedures approved by the SAFC Board.

The nature and location of SAFC's forestry operations cause concentration of credit risk in relation to trade receivables as 80% of transactions for the financial year (72%) were transactions with the six largest of SAFC's customers.

As part of its financial risk management policies, SAFC manages and monitors log supply commitments to ensure the commitments are within the long-term forest yield forecasts, thereby maintaining SAFC's long-term viability and profitability.

4. Segment information

SAFC has no separately identifiable geographic or business segments which require separate preparation and disclosure of segment information.

5. Revenue, other income and expenses

		2013	2012
(i) Revenues from SA Government	Note	\$'000	\$'000
CSO funding ⁽¹⁾	1	3 093	2 965
Other revenues from SA Government		4 537	-
Government Radio Network funding		369	365
Deferred revenues from SA Government		29	26
Revenues from SA Government		<u>8 028</u>	<u>3 356</u>

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

(ii) Interest received or receivable

Interest received or receivable related to cash balances ⁽¹⁾	1 444	2 230
Interest received or receivable related to trade receivables	163	215
Interest revenue	<u>1 607</u>	<u>2 445</u>

(iii) Other income			2013	2012
	Note		\$'000	\$'000
Contract settlement			15 411	-
Other revenue from non-SA Government entities			2 426	1 194
Other revenues			<u>17 837</u>	<u>1 194</u>
(iv) Net gain (loss) from disposal of assets				
Land and buildings:				
Net proceeds (expenses) from disposal			(2)	(2)
Net book value of assets disposed	15		<u>(438)</u>	<u>-</u>
Net gain (loss) from disposal of land and buildings			<u>(440)</u>	<u>(2)</u>
Plant and equipment:				
Net proceeds (expenses) from disposal			269	102
Net book value of assets disposed	15		<u>(2 474)</u>	<u>(93)</u>
Net gain (loss) from disposal of plant and equipment			<u>(2 205)</u>	<u>9</u>
Total assets:				
Net proceeds (expenses) from disposal			267	100
Net book value of assets disposed	15		<u>(2 912)</u>	<u>(93)</u>
Net gain (loss) from disposal of total assets			<u>(2 645)</u>	<u>7</u>
(v) Charging as expenses				
Harvesting and transport costs			12 275	33 716
Interest and guarantee fee paid or payable ⁽¹⁾	19		1 814	2 664
Depreciation of non-current assets	15		1 949	2 310
Amortisation	16		156	244
Rental expense on property operating leases			43	39
Consultants ⁽²⁾			55	28
Total other expenses related to SA Government entities			<u>2 267</u>	<u>3 071</u>
(vi) Other expenditure				
Net loss from disposal of current assets			1 104	-
Contract settlement			3 144	-
Doubtful debt provision/write-down	10		1 297	182
Other			<u>2 517</u>	<u>4 027</u>
			<u>8 062</u>	<u>4 209</u>

⁽¹⁾ To/From SA Government entities.

⁽²⁾ Includes payments to one (one) consultant.

6. Income tax equivalent

SAFC uses the accounting profits model to calculate the income tax equivalent payment, in accordance with TI 22. Under the accounting profits model, the rate of company income tax is applied to the audited accounting profit. The accounting profit is the net result from operations determined in accordance with AASB 101.

- (i) The prima facie tax on operating profit is reconciled to the income tax equivalent payment provided in the accounts as follows:

Income tax equivalent

Accounting for income tax for the 2013 financial year is based on the tax equivalent calculations under the accounting profits model prescribed in the State tax equivalent regime and the applicable accounting standards (refer note 2, not including AASB 112).

	2013	2012
Prima facie tax equivalent at 30% of trading profit before revaluation	\$'000	\$'000
of standing timber ⁽¹⁾ less Fire Insurance Fund contributions ⁽²⁾	-	5 332
with no refund or receivable for negative tax equivalent amount	<u>-</u>	<u>5 332</u>

⁽¹⁾ The Treasurer has provided SAFC with written approval to exclude gains and losses relating to standing timber revaluations from the accounting profit before SAFC calculates its income tax equivalent payment.

⁽²⁾ The contributions to the Fire Insurance Fund, which equate to \$35 000 (\$334 000) are treated as expenses for tax equivalent purposes.

6. Income tax equivalent (continued)	2013	2012
(ii) The income tax equivalent expense comprises amounts set aside as:	\$'000	\$'000
Income tax expense	-	5 332
Paid during financial year related to financial year	-	(4 831)
Income tax equivalent payable as at 30 June	-	501
7. Employee benefits		
Salaries and wages	12 435	12 536
LSL	269	974
Retention leave	84	-
Annual leave	1 015	1 042
Employment on-costs - superannuation	1 877	1 861
TVSP	-	-
Employment on-costs - other	745	739
	16 425	17 152
8. Auditor's remuneration		
Audit fees paid/payable to the auditors relating to the audit of the accounts for the financial year	124	119
	124	119
The Auditor-General's Department provided no other services to SAFC.		
9. Cash and cash equivalents		
Cash	2	2
Deposit account	15 364	24 054
Fire Insurance Fund	-	18 958
	15 366	43 014

Fire Insurance Fund

The Fire Insurance Fund's assets were in a cash management fund, available at call.

Cash flows

(i) <i>Reconciliation of cash and cash equivalents at 30 June</i>		
Cash and cash equivalents as per Statement of Financial Position	15 366	43 014
Cash and cash equivalents as per Statement of Cash Flows	15 366	43 014
(ii) <i>Reconciliation of net profit (loss) after income tax equivalent payments to net cash flows from operating activities</i>		
Net profit after income tax equivalents	(4 044)	(32 793)
Other reconciling movements:		
Net change in value of standing timber - harvested purchased timber	-	-
Net change in value of standing timber - other	15 365	45 567
Loss on revaluation of land	-	3 224
Depreciation and amortisation	2 106	2 555
Other asset transactions	(23)	-
Net loss (gain) on disposal of current and non-current assets	2 594	(7)
	20 042	51 339
Movements in assets and liabilities:		
Debtors	4 719	6 068
GST receivable	(72)	178
Interest receivable	117	72
Other debtors and prepayments	(3 543)	(113)
Inventories	1 494	(190)
Trade creditors	1 749	(2 791)
GST payable	(301)	(417)
Employee provisions	168	1 433
Income tax equivalent payable	(501)	(3 491)
Other creditors	(884)	271
Net cash flows from changes in operating balances	2 946	1 020
Net cash flows from operating activities	18 944	19 566

10. Receivables		2013	2012
Current:	Note	\$'000	\$'000
Trade receivables		8 306	11 726
Doubtful debts		(24)	(182)
Other receivables		2 259	-
Accrued revenue		43	171
Prepayments		252	438
Receivables classified as held for distribution to owner	13	-	(24)
		<u>10 836</u>	<u>12 129</u>

Receivables are raised for all goods and services provided for which payment has not been received.

Receivables are normally settled within 30 days. Trade receivables and accrued revenues are non-interest bearing until after 30 days. It is not anticipated that counterparties will fail to discharge their obligations. The carrying amount of receivables approximates net fair value due to being receivable on demand. For details of credit and interest rate risks (refer note 27). As at 30 June 2013 \$2.8 million of trade receivables were overdue (\$3.9 million).

SA Government receivables:	Note	2013	2012
		\$'000	\$'000
Trade debtors		388	13
Other than trade receivables		36	128
		<u>424</u>	<u>141</u>
Non-SA Government receivables:			
Trade debtors		7 894	11 532
Other than trade receivables		2 518	456
		<u>10 412</u>	<u>11 988</u>
Movement in the allowance for doubtful debts:			
As at 1 July		(182)	-
Increase (decrease) in allowance	5(vi)	(1 297)	(182)
Amounts written off		1 455	-
Amounts recovered during the year		-	-
Total allowance for doubtful debts		<u>(24)</u>	<u>(182)</u>

11. Inventories

Current:			
Roading rubble		52	156
Materials and stores		491	793
Nursery stock - trees		-	1 090
		<u>543</u>	<u>2 039</u>

12. Assets classified as held for sale

Non-current:			
Land and buildings, property, plant and equipment		1 077	756
Assets held for sale classified as held for distribution to owner	13	-	(579)
		<u>1 077</u>	<u>177</u>

13. Assets classified as held for distribution to owner

Current:			
Receivables	10	-	24
Assets classified as held for sale	12	-	579
Standing timber	14	-	593 666
		<u>-</u>	<u>594 269</u>
Non-current:			
Property, plant and equipment	15	-	438 182
Water licences	16	-	325
		<u>-</u>	<u>438 507</u>

Distribution of assets and liabilities to SAFC's owner and forward sale of forest rotations

The SA Government announced on 17 October 2012 that the forward sale of three forest rotations in the GT was completed. As part of the sale process SAFC distributed all relevant assets and liabilities to its owner at book value.

The SA Government entered into contractual arrangements with the new plantation owner, OneFortyOne Plantations Pty Ltd, whereby the GT standing timber was sold, land is leased and other associated arrangements are entered into.

In these financial statements SAFC therefore classified and presented the assets and liabilities that were expected to be involved in these transactions as 'held for distribution to owner' as at 30 June 2012, in accordance with AASB 5.

14. Standing timber

	Note	2013 \$'000	2012 \$'000
Opening balance		81 362	720 595
New plantings		936	5 542
Harvesting		(18 252)	(59 665)
Volume adjustments		4 496	80 081
Loss due to fire		(2 335)	(156)
Price changes		(210)	(71 369)
Net change recorded in Statement of Comprehensive Income		(15 365)	45 567
Closing balance before distribution to owner		65 997	675 028
Standing timber classified as held for distribution to owner		5 972	(593 666)
Closing balance after distribution to owner		71 969	81 362
The standing timber comprises the following:			
Fair value:			
Standing timber classified as held for distribution to owner	13	-	593 666
Standing timber as held to maturity		71 969	81 362
Total fair value		71 969	675 028
Mature forest		64 830	627 654
Young forest		7 139	47 374
Total fair value		71 969	675 028
Volume:			
		2013 '000 m ³	2012 '000 m ³
Mature forest		2 740	19 900
Young forest		88	1 032
Total volume		2 828	20 932
Area:			
		2013 ha	2012 ha
Mature forest		10 619	63 415
Young forest		2 879	26 042
Total area		13 498	89 457
Current asset:			
		2013 \$'000	2012 \$'000
Current portion of standing timber valuation		8 134	67 226
Current standing timber classified as held for distribution to owner	13	-	(46 342)
		8 134	20 884
Non-current asset:			
Non-current portion of standing timber valuation		63 835	607 802
Non-current standing timber classified as held for distribution to owner	13	-	(547 324)
		63 835	60 478

15. Property, plant and equipment

	Land	Buildings & structures	Roads & land imprvmnts	Plant & equipment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
As at 1 July 2012, net of accumulated depreciation and impairment	77 344	12 122	2 322	14 729	106 517
Additions/Transfers	-	51	281	530	862
Disposals	-	(389)	(49)	(2 474)	(2 912)
Assets reclassified to assets held for sale	-	-	-	-	-
Assets reclassified to distribution to owner	(336)	-	29	-	(307)
Revaluation increments	-	-	-	-	-
Revaluation decrements	-	-	-	-	-
Depreciation charge for the year	-	(512)	(200)	(1 237)	(1 949)
Transfers within asset classes	-	-	-	-	-
Net of accumulated depreciation and impairment	77 008	11 272	2 383	11 548	102 211
At 30 June:					
Cost or fair value	77 008	12 287	4 371	22 786	116 452
Accumulated depreciation and impairment	-	(1 015)	(1 988)	(11 238)	(14 241)
Net carrying amount	77 008	11 272	2 383	11 548	102 211
2012					
As at 1 July 2011, net of accumulated depreciation and impairment	524 564	12 546	5 139	14 929	557 178
Additions/Transfers	1 624	119	524	1 297	3 564
Disposals	-	-	-	(93)	(93)
Assets reclassified to assets held for sale	(5)	-	-	(1)	(6)
Assets reclassified to distribution to owner	(435 205)	(7)	(2 970)	-	(438 182)
Revaluation increments	1 960	-	-	-	1 960
Revaluation decrements	(15 594)	-	-	-	(15 594)
Depreciation charge for the year	-	(536)	(371)	(1 403)	(2 310)
Transfers within asset classes	-	-	-	-	-
Net of accumulated depreciation and impairment	77 344	12 122	2 322	14 729	106 517
At 30 June:					
Cost or fair value	77 344	12 664	4 182	26 969	121 159
Accumulated depreciation and impairment	-	(542)	(1 860)	(12 240)	(14 642)
Net carrying amount	77 344	12 122	2 322	14 729	106 517

Revaluation of land and buildings and structures

SAFC uses the services of the Valuer-General in South Australia and local government shires in Victoria to determine the fair value of its land. Fair value is determined by reference to market based evidence, which is the amount for which the asset could be exchanged between knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. The effective date of the land revaluations is 30 June 2012.

In 2011 SAFC engaged Herron Todd White, an accredited independent valuer, to determine the fair value of its buildings and structures. The effective date of the revaluation of the buildings and structures is 30 June 2011.

Impairment

There were no indications of impairment of roads and land improvements and plant and equipment assets at 30 June 2013.

16. Intangible assets

The intangible assets consist of software for operational systems and water licences. SAFC has no contractual commitments for the acquisition of intangible assets.

	Note	2013 \$'000	2012 \$'000
Computer software:			
As at 1 July, net of accumulated amortisation and impairment		288	419
Additions		188	113
Amortisation charge for the year		(156)	(244)
Total computer software, net of accumulated amortisation and impairment		320	288

16. Intangible assets (continued)			2013	2012
As at 30 June:	Note		\$'000	\$'000
Cost or fair value			2 110	1 921
Accumulated amortisation and impairment			(1 790)	(1 633)
Net carrying amount			320	288
Water licences:				
As at 1 July, net of accumulated amortisation and impairment			-	325
Additions			-	-
Non-current assets classified as held for distribution to owner	13		-	(325)
Total water licences, net of accumulated amortisation and impairment			-	-
17. Payables				
Current:				
Trade payables			6 276	4 460
Accrued expenses			122	672
Employee benefit on-costs			374	387
Paid Parental Leave Scheme			4	1
			6 776	5 520
Non-current:				
Employee benefit on-costs			560	564
			560	564
SA Government payables:				
Trade payables			352	214
Accrued expenses			150	328
			502	542
18. Employee benefits				
Current:				
Accrued salaries and wages			823	590
LSL			474	495
Retention leave			70	-
Annual leave			773	790
			2 140	1 875
Non-current:				
LSL			3 033	3 080
			3 033	3 080
19. Interest bearing loans				
Current:				
Unsecured ⁽¹⁾			-	9 162
Interest bearing loans classified as held for distribution to owner	22		-	(7 779)
			-	1 383
Non-current:				
Unsecured ⁽¹⁾			-	24 514
Interest bearing loans classified as held for distribution to owner	22		-	(15 808)
			-	8 706
⁽¹⁾ SAFC's loans were provided by SAFA and were unsecured.				
Details of the fair value of SAFC's interest bearing liabilities, maturity analysis and analysis of interest rate risk are set out in note 27.				
A total of \$23.6 million of loans was distributed to SAFC's owner during the reporting year (refer note 22). The other loans were repaid to SAFA during the reporting year.				
20. Deferred income			2013	2012
Current:	Note		\$'000	\$'000
Deferred income			173	905
Payables classified as held for distribution to owner	22		-	(51)
			173	854

20. Deferred income (continued)		2013	2012
Non-current:		\$'000	\$'000
Deferred income		679	666
		<u>679</u>	<u>666</u>
SA Government (included under deferred income above):			
Deferred income		682	757
		<u>682</u>	<u>757</u>
21. Other provisions			
Current:			
Workers compensation		240	262
		<u>240</u>	<u>262</u>
Opening balance		262	123
Payments		(115)	(189)
Increments (Decrements) in provision		93	328
Closing balance		<u>240</u>	<u>262</u>
Non-current:			
Workers compensation		985	1 013
		<u>985</u>	<u>1 013</u>
Opening balance		1 013	414
Payments		-	-
Increments (Decrements) in provision		(28)	599
Closing balance		<u>985</u>	<u>1 013</u>

The provision is recognised to reflect unsettled workers compensation claims based on an actuarial assessment performed by the Public Sector Workforce Relations Division of DPC.

22. Liabilities classified as held for distribution to owner		2013	2012
Current:	Note	\$'000	\$'000
Interest bearing loans	19	-	23 587
Other payables - deferred income	20	-	51
		<u>-</u>	<u>23 638</u>

Refer note 13 regarding the distribution of assets and liabilities to SAFC's owner and forward sale of forest rotations.

- 23. Equity**
Equity represents the residual interest in the net assets of SAFC. The SA Government holds the equity interest in SAFC on behalf of the community.

Since 2006 the requirements of the ownership framework for SAFC indicate that SAFC shall pay an annual contribution to Government consisting of a dividend calculated as 90% of after tax profit, adjusted for standing timber revaluation gains and losses and approved contributions to the Fire Insurance Fund, plus an income tax equivalent payment. SAFC declared a special dividend of \$29.5 million for 2013. No other dividend was declared for 2013. In 2012 a dividend of \$14.2 million was declared, including an adjustment for prior year underpaid dividends of \$1.4 million. Due to the change in the nature of SAFC's major revenue sources as a result of the forward sale, the expectation is that SAFC will not be paying dividends in the future.

24. Commitments and contingencies		2013	2012
(a) <i>Commitments</i>		\$'000	\$'000
(i) <i>Operating lease commitments</i>			
Non-cancellable operating leases contracted for but not capitalised in the accounts:			
Due not later than one year		688	651
Due later than one year but not later than five years		422	688
Total operating lease commitments		<u>1 110</u>	<u>1 339</u>
These operating lease commitments are not recognised in the financial report as liabilities.			
(ii) <i>Remuneration commitments</i>			
Due not later than one year		3 967	3 652
Due later than one year but not later than five years		5 589	8 562
Total remuneration commitments		<u>9 556</u>	<u>12 214</u>

(ii) *Remuneration commitments (continued)*

The remuneration commitments relate to employee agreements SAFC has entered into with employees for a fixed period of time. The nature of the calculations to derive the amounts presented, which are based on a range of simplified assumptions about variables that will impact the future dollar outcome of the commitments to SAFC, is such that the presented figures provide an indicative amount.

	2013	2012
	\$'000	\$'000
Due not later than one year	3 563	27 827
Due later than one year but not later than five years	10 687	75 501
Total other commitments	14 250	103 328

SAFC's contracting commitments are for agreements for the harvesting and transport of log, silvicultural services and other commitments. The nature of the calculations to derive the amounts presented, which are based on a range of simplified assumptions about variables that will impact the future dollar outcome of the commitments to SAFC, is such that the presented figures only provide an indicative amount.

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

(b) *Contingent liabilities**Defined benefit plans - South Australian Superannuation Board payments*

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

SAFC was notified by the South Australian Superannuation Board in 2013 of a \$6.7 million actuarially assessed funding deficit relating to defined benefit members employed by SAFC as at 30 June 2012, requiring additional contributions over 15 years. The previous 2009 actuarial assessment indicated a deficit of \$5.7 million. In addition to regular contributions in relation to current superannuation benefits SAFC has expensed \$561 000 (\$517 000) being the amount payable during the current financial year in relation to the benefit funding deficit. A liability has not been recognised for the remaining balance.

(c) *Contingent assets*

Various banks have issued bank guarantees for SAFC customers to SAFC, which form a security in case of default on payment.

South Australian 'Productivity Places for Existing Workers Program'

SAFC administers a training scheme on behalf of the Minister for Employment Training and Further Education. The program aims to reduce skill shortages and to increase the number of people with qualifications. SAFC holds cash until the registered training organisation have delivered the required training objectives. In 2013 SAFC held no cash (nil).

	2013	2012
	\$'000	\$'000
Summary of cash flows:		
Cash at 1 July	-	59
Net funds received (paid)	-	(59)
Cash at 30 June	-	-

25. Executive disclosures(a) *Details of key management personnel**Executive*

A Hatch	General Manager - Commercial
W G Materne	Chief Financial Officer
J F O'Hehir	General Manager - Planning and Development
D I Robertson	Chief Executive
G K Saunder	General Manager - Operations

(b) *Compensation of key management personnel*

Short-term employee benefits paid or due and payable to or on behalf of key management personnel

Superannuation benefits paid or due and payable to or on behalf of key management personnel

Total

914	879
90	84
1 004	963

(c) Compensation of employees whose income was over the base executive remuneration level

	2013 Number	2012 Number
The number of employees whose income was within the following bands:		
\$134 013 - \$138 032	n/a	2
\$138 033 - \$148 032	1	1
\$148 033 - \$158 032	2	3
\$158 033 - \$168 032	2	-
\$168 033 - \$178 032	-	1
\$188 033 - \$198 032	1	-
\$218 033 - \$228 032	-	1
\$228 033 - \$238 032	1	-
\$258 033 - \$268 032	-	1
\$268 033 - \$278 032	1	-
Total	8	9

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, FBT and any other salary sacrifice benefits. The total remuneration received by these employees for the year was \$1.5 million (\$1.5 million).

26. Directors and related party disclosures

The following persons held the position of director of SAFC during the financial year:

I J Kowalick - Chairman
K H Adams
A Darras
A McCleary
J Obst

Transactions between SAFC and its directors are made at arm's length. There have been no such transactions in the financial year (nil).

Directors' remuneration

	2013 \$'000	2012 \$'000
Income paid or due and payable to or on behalf of directors, excluding superannuation benefits	203	188
Superannuation benefits paid or due and payable to or on behalf of directors	18	17
Total	221	205

	2013 Number	2012 Number
The number of directors whose income was within the following bands:		
\$0 - \$9 999	-	1
\$10 000 - \$19 999	-	1
\$20 000 - \$29 999	-	3
\$30 000 - \$39 999	2	1
\$40 000 - \$49 999	2	2
\$50 000 - \$59 999	-	-
\$60 000 - \$69 999	1	-
Total	5	8

27. Financial instruments**(i) Credit risk exposures**

The credit risk on financial assets of the economic entity which have been recognised in the Statement of Financial Position, is generally the carrying amount, net of any doubtful debts.

The nature and location of SAFC's forestry operations cause concentration of credit risk in relation to trade receivables as 80% of transactions for the financial year were transactions with the six largest of SAFC's customers (72%).

Credit risk in trade receivables is managed in the following ways:

- payment terms are 30 days unless otherwise agreed in the terms and conditions of individual contracts
- a risk assessment process is used for customers with balances over \$10 000
- bank guarantees are obtained for specific customers (refer note 24)
- interest is charged on overdue balances.

(ii) Foreign currency risk exposures

As at 30 June 2013 SAFC has no direct exposure to foreign currencies.

(iii) Interest rate risk exposures

The economic entity's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out in the following table. In addition to the interest rate SAFC paid a guarantee fee to SAFA of 1.5% on the daily balance of the outstanding loan amounts (1.5%).

	Floating rate \$'000	Non-interest bearing \$'000	Fixed interest maturing			2013 Total \$'000	2012 Total \$'000
			1 year or less \$'000	1-5 years \$'000	Over 5 years \$'000		
Financial assets:							
Cash and cash equivalents	15 366	-	-	-	-	15 366	43 014
Receivables ⁽¹⁾	-	10 584	-	-	-	10 584	11 716
	15 366	10 584	-	-	-	25 950	54 730
Financial liabilities:							
Interest bearing loans ⁽²⁾	-	-	-	-	-	-	39 287
Payables ⁽³⁾	-	6 398	-	-	-	6 398	5 133
	-	6 398	-	-	-	6 398	44 420
Net financial assets (liabilities)	15 366	4 186	-	-	-	19 552	10 310

(1) Other than prepayments.

(2) Based on contractual undiscounted cash flows.

(3) Other than employee on-costs.

A separate sensitivity analysis for movements in interest rates has been undertaken for the interest rate risk of SAFC. However, results of the analysis have determined the possible impact on profit and loss from fluctuations in interest rates to be immaterial.

All financial assets and liabilities have been recognised at the balance date at their net fair value, except for the following:

	Carrying amount		Net fair value	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Financial liabilities:				
Interest bearing loans	-	33 676	-	33 394

(iv) Financial liabilities carried at an amount in excess of net fair value

Interest bearing loans with a carrying value of \$0 (\$33.7 million) are recorded at the nominal principal amount to be settled. This is equal to their net fair value of \$0 (above the net fair value of \$33.4 million).

(v) Net fair value of financial assets and liabilities

The net fair value of cash, trade receivables (excluding accrued revenue) and trade creditors approximates their carrying amount.

Short-term accrued revenue: The carrying amount approximates fair value because of their short-term to maturity.

Short-term borrowings: The carrying amount approximates fair value because of their short-term to maturity.

Long-term borrowings: The fair values of long-term borrowings are estimated using discounted cash flow analysis, based on current incremental borrowing rates for similar types of borrowings.

(vi) Hedging instruments**Hedges of specific instruments**

SAFC has not entered into any hedging instruments.

(vii) Liquidity risk

Liquidity risk relates to difficulties that SAFC may encounter in meeting obligations associated with its financial liabilities. SAFC manages this risk by maintaining a strong working capital position and having appropriate financing arrangements in place. SAFC's exposure to liquidity risk is insignificant based on past experience and current assessment of risk.

Acronyms used in this Report

Australian Accounting Standards - AASB

Reference	Title
AASB 1	First-time Adoption of Australian Accounting Standards
AASB 3	Business Combinations
AASB 4	Insurance Contracts
AASB 5	Non-current Assets Held for Sale and Discontinued Operations
AASB 7	Financial Instruments: Disclosures
AASB 8	Operating Segments
AASB 9	Financial Instruments
AASB 10	Consolidated Financial Statements
AASB 11	Joint Arrangements
AASB 12	Disclosure of Interests in Other Entities
AASB 13	Fair Value Measurement
AASB 101	Presentation of Financial Statements
AASB 102	Inventories
AASB 107	Statement of Cash Flows
AASB 108	Accounting Policies, Changes in Accounting Estimates and Errors
AASB 110	Events after the Reporting Period
AASB 111	Construction Contracts
AASB 112	Income Taxes
AASB 116	Property, Plant and Equipment
AASB 117	Leases
AASB 118	Revenue
AASB 119	Employee Benefits
AASB 120	Accounting for Government Grants and Disclosure of Government Assistance
AASB 121	The Effects of Changes in Foreign Exchange Rates
AASB 123	Borrowing Costs
AASB 124	Related Party Disclosures
AASB 127	Consolidated and Separate Financial Statements
AASB 128	Investments in Associates
AASB 131	Interests in Joint Ventures
AASB 132	Financial Instruments: Presentation
AASB 136	Impairment of Assets
AASB 137	Provisions, Contingent Liabilities and Contingent Assets
AASB 138	Intangible Assets
AASB 139	Financial Instruments: Recognition and Measurement
AASB 140	Investment Property
AASB 141	Agriculture
AASB 1004	Contributions
AASB 1023	General Insurance Contracts
AASB 1031	Materiality
AASB 1038	Life Insurance Contracts
AASB 1048	Interpretation of Standards

Australian Accounting Standards - AASB (continued)

Reference	Title
AASB 1049	Whole of Government and General Government Sector Financial Reporting
AASB 1050	Administered Items
AASB 1051	Land Under Roads
AASB 1052	Disaggregated Disclosures
AASB 1054	Australian Additional Disclosures
AASB 1055	Budgetary Reporting
AASB 2009-12	Amendments to Australian Accounting Standards

Australian Interpretations

Reference	Title
Interpretation 4	Determining whether an Arrangement contains a Lease
Interpretation 113	Jointly Controlled Entities – Non-Monetary Contributions by Venturers
Interpretation 115	Operating Leases - Incentives
Interpretation 121	Income Taxes – Recovery of Revalued Non-Depreciable Assets
Interpretation 125	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders
Interpretation 127	Evaluating the Substance of Transactions Involving the Legal Form of a Lease
Interpretation 132	Intangible Assets – Web Site Costs
Interpretation 1030	Depreciation of Long-Lived Physical Assets: Condition-Based Depreciation and Related Methods
Interpretation 1031	Accounting for the Goods and Services Tax (GST)
Interpretation 1038	Contributions by Owners Made to Wholly-Owned Public Sector Entities
Interpretation 1055	Accounting for Road Earthworks

Australian Accounting Standards - AAS

Reference	Title
AAS 25	Financial Reporting by Superannuation Plans

Treasurer's Instructions – TIs

Reference	Title
TI 1	Interpretation and Application
TI 2	Financial Management
TI 3	Appropriation
TI 4	Establishment of Merchant Facilities for Acceptance of Payments
TI 5	Debt Recovery and Write Offs
TI 6	Deposit Accounts and Banking
TI 8	Financial Authorisations
TI 9	Payroll Deductions
TI 10	Engagement of Legal Practitioners
TI 11	Payment of Creditors' Accounts
TI 12	Government Purchase Cards and Stored Value Cards
TI 13	Expenditure Incurred by Ministers and Ministerial Staff

Treasurer's Instructions – TIs (continued)

Reference	Title
TI 14	Ex Gratia Payments
TI 15	Grant Funding
TI 17	Evaluation of and Approvals to Proceed with Public Sector Initiatives
TI 19	Financial Reporting
TI 20	Guarantees and Indemnities
TI 22	Tax Equivalent Payments
TI 23	Management of Foreign Currency Exposures
TI 25	Taxation Policies
TI 28	Financial Management Compliance Program

Accounting Policy Framework - APF

Reference	Title
APF I	Purpose and Scope
APF II	General Purpose Financial Statements Framework
APF III	Asset Accounting Framework
APF IV	Financial Asset and Liability Framework
APF V	Income Framework
APF VI	Definitions

Legislation

Reference	Title
ITAA	<i>Income Tax Assessment Act 1936 and/or Income Tax Assessment Act 1997</i>
NRMA	<i>Natural Resources Management Act 2004</i>
PCA	<i>Public Corporations Act 1993</i>
PFAA	<i>Public Finance and Audit Act 1987</i>
PSA	<i>Public Sector Act 2009</i>
WRCA	<i>Workers Rehabilitation and Compensation Act 1986</i>

Acronyms

Reference	Title
AASs	Australian Accounting Standards ¹
APF	Accounting Policy Framework
APS	Accounting Policy Statement
ATO	Australian Taxation Office
CHRIS	Complete Human Resource Information System
CPE	Computer processing environment
CPI	Consumer price index
DPC	Department of the Premier and Cabinet
DTF	Department of Treasury and Finance
EFT	Electronic funds transfer

¹ 'Australian Accounting Standards' means accounting standards issued by the Australian Accounting Standards Board that are in force in relation to the reporting period to which the financial report relates.

Acronyms (continued)

Reference	Title
FBT	Fringe benefits tax
GST	Goods and services tax
ICT	Information and communications technology
LSL	Long service leave
SAFA	South Australian Government Financing Authority
Service SA	Government Services Group - Service SA
SSSA	Government Services Group - Shared Services SA
TI	Treasurer's Instruction
TVSP	Targeted voluntary separation package