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## To the Chair of the Board South Australian Forestry Corporation

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* and section 32(4) of the *Public Corporations Act 1993*, I have audited the financial report of the South Australian Forestry Corporation for the financial year ended 30 June 2018.

### Opinion

In my opinion, the accompanying financial report gives a true and fair view of the financial position of the South Australian Forestry Corporation as at 30 June 2018, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2018
- a Statement of Financial Position as at 30 June 2018
- a Statement of Changes in Equity for the year ended 30 June 2018
- a Statement of Cash Flows for the year ended 30 June 2018
- notes, comprising significant accounting policies and other explanatory information
- a Certificate from the Chair and the Acting Chief Executive.

### Basis for opinion

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

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

## **Responsibilities of the Acting Chief Executive and members of the Board for the financial report**

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

In preparing the financial report, the Acting Chief Executive is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the entity is to be liquidated or to cease operations, or has no realistic alternative but to do so.

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

## **Auditor's responsibilities for the audit of the financial report**

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

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

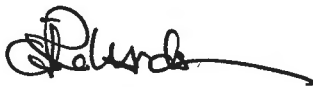
- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Acting Chief Executive
- conclude on the appropriateness of the entity's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty

exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern

- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

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

A handwritten signature in black ink, appearing to read 'A. Richardson', with a long horizontal flourish extending to the right.

Andrew Richardson

**Auditor-General**

24 September 2018

# **SOUTH AUSTRALIAN FORESTRY CORPORATION**

## **Certification of the Financial Statements**

We certify that the attached general purpose financial statements of the South Australian Forestry Corporation (ForestrySA):

- Comply with the relevant Treasurer's Instructions issued under section 41 of the *Public Finance and Audit Act 1987*, and relevant Australian accounting standards;
- Are in accordance with the accounts and records of ForestrySA; and
- Present a true and fair view of the financial position of ForestrySA as at 30 June 2018 and the results of its operation and cash flows for the financial year.

We certify that the internal controls employed by ForestrySA over its financial reporting and its preparation of the general purpose financial statements have been effective throughout the reporting period and there are reasonable grounds to believe ForestrySA will be able to pay its debts as and when they become due and payable, with the continued support of the SA Government to maintain the current community service obligations and subsidy payments.

Signed in accordance with a resolution of the Board Members.



Julian Speed  
**ACTING CHIEF EXECUTIVE**  
**SOUTH AUSTRALIAN FORESTRY CORPORATION**  
19 September 2018



June Roache  
**CHAIR**  
**SOUTH AUSTRALIAN FORESTRY CORPORATION**  
19 September 2018

**SOUTH AUSTRALIAN FORESTRY CORPORATION**  
**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2018**

	<b>Note</b>	<b>2018 \$'000</b>	<b>2017 \$'000</b>
<b>Income</b>			
Sales - timber products		11,716	14,180
Sales - management services		-	121
Revenues from SA Government	4(i)	9,243	10,138
Interest	4(ii)	286	233
Other income	4(iii)	830	1,161
<b>Total income</b>		<b>22,075</b>	<b>25,833</b>
<b>Expenses</b>			
Employee benefits	6	4,656	4,496
Contractors		10,733	11,134
Depreciation and amortisation	12, 14	1,181	1,506
Materials		674	559
Equipment and vehicle costs		709	772
Council rates		319	293
Impairment of assets		-	90
Other expenditure	4(v)	6,808	6,983
Net loss from the disposal of non-current assets	4(iv)	1,118	436
<b>Total expenses</b>		<b>26,198</b>	<b>26,269</b>
<b>Trading profit/(loss) before revaluation of forest assets</b>		<b>(4,123)</b>	<b>(436)</b>
Net change in value of forest assets	11	5,583	6,936
<b>Profit/(loss) before income tax equivalent</b>		<b>1,460</b>	<b>6,500</b>
Income tax equivalent expense	5	-	-
<b>Profit/(loss) after income tax equivalent</b>	7(ii)	<b>1,460</b>	<b>6,500</b>
<b>Other comprehensive income</b>			
Land revaluation recorded in asset revaluation surplus	12	242	-
<b>Total other comprehensive income</b>		<b>242</b>	<b>-</b>
<b>Total comprehensive result</b>		<b>1,702</b>	<b>6,500</b>

The profit/(loss) after income tax equivalents and total comprehensive result are attributable to the SA Government as owner.

**SOUTH AUSTRALIAN FORESTRY CORPORATION**  
**STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018**

	Note	2018 \$'000	2017 \$'000
<b>Current assets</b>			
Cash and cash equivalents	7	13,707	13,685
Receivables	8	6,956	10,171
Inventories	9	1,486	319
Forest Assets	11	2,993	5,111
Assets classified as held for sale	10	6,006	55
<b>Total current assets</b>		<b>31,148</b>	<b>29,341</b>
<b>Non-current assets</b>			
Forest Assets	11	40,497	32,796
Property, plant and equipment	12	46,287	53,022
Intangible assets	14	161	567
<b>Total non-current assets</b>		<b>86,945</b>	<b>86,385</b>
<b>Total assets</b>		<b>118,093</b>	<b>115,726</b>
<b>Current liabilities</b>			
Payables	15	3,227	2,441
Employee benefits	16	440	539
Deferred income	17	234	269
Other provisions	18	102	232
<b>Total current liabilities</b>		<b>4,003</b>	<b>3,481</b>
<b>Non-current liabilities</b>			
Payables	15	88	97
Employee benefits	16	568	628
Deferred income	17	1,241	770
Other provisions	18	154	413
<b>Total non-current liabilities</b>		<b>2,051</b>	<b>1,908</b>
<b>Total liabilities</b>		<b>6,054</b>	<b>5,389</b>
<b>Net assets</b>		<b>112,039</b>	<b>110,337</b>
<b>Equity</b>			
Other reserves	19	77,250	72,002
Retained earnings	19	34,789	38,335
<b>Total equity</b>		<b>112,039</b>	<b>110,337</b>
<b>Commitments and contingencies</b>			
Unrecognised contractual commitments	21		
Contingent liabilities and assets	21		

**SOUTH AUSTRALIAN FORESTRY CORPORATION**  
**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018**

		<b>2018</b>	<b>2017</b>
		<b>Inflows</b>	<b>Inflows</b>
		<b>(Outflows)</b>	<b>(Outflows)</b>
<b>Note</b>		<b>\$'000</b>	<b>\$'000</b>
<b>Cash flows from operating activities</b>			
	Receipts from customers	17,109	19,424
	Payments to suppliers and employees	(26,250)	(25,992)
	Interest received	290	233
	Receipts from SA Government	9,243	3,872
	GST refunded from Australian Taxation Office	496	287
	<b>Net cash flows from operating activities</b>	<b>7 (ii) 888</b>	<b>(2,176)</b>
<b>Cash flows from investing activities</b>			
	Purchase of property, plant & equipment	(455)	(421)
	Purchase of intangible assets	(9)	(143)
	Proceeds/(payments) from/(for) disposal of assets	(402)	236
	<b>Net cash flows from investing activities</b>	<b>(866)</b>	<b>(328)</b>
<b>Cash flows from financing activities</b>			
	Dividend paid	-	(3,570)
	<b>Net cash flows from financing activities</b>	<b>-</b>	<b>(3,570)</b>
	<b>Net increase/(decrease) in cash held</b>	<b>22</b>	<b>(6,074)</b>
	<b>Cash and cash equivalents at the beginning of the period</b>	<b>13,685</b>	<b>19,759</b>
	<b>Cash and cash equivalents at the end of the period</b>	<b>7 (i) 13,707</b>	<b>13,685</b>

**SOUTH AUSTRALIAN FORESTRY CORPORATION**

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2018**

	<b>Asset revaluation surplus \$'000</b>	<b>Forest Assets reserve \$'000</b>	<b>Retained earnings \$'000</b>	<b>Total \$'000</b>
<b>Balance at 30 June 2016</b>	<b>39,166</b>	<b>25,994</b>	<b>42,247</b>	<b>107,407</b>
Impairment of property, plant and equipment prior to restructure	-	-	-	-
Gain/(loss) on revaluation	-	-	-	-
Net income/expense recognised directly in equity	-	-	-	-
Profit/(loss) for the period	-	-	6,500	6,500
Total comprehensive result for 16-17	-	-	6,500	6,500
Transfers to/(from) equity	(94)	6,936	(6,842)	-
<b>Transactions with Government as owner</b>				
Dividends paid/payable	-	-	(3,570)	(3,570)
Total change for the period	(94)	6,936	(3,912)	2,930
<b>Balance at 30 June 2017</b>	<b>39,072</b>	<b>32,930</b>	<b>38,335</b>	<b>110,337</b>
Impairment of property, plant and equipment prior to restructure	-	-	-	-
Gain/(loss) on revaluation	242	-	-	242
Net income/expense recognised directly in equity	242	-	-	242
Profit/(loss) for the period	-	-	1,460	1,460
Total comprehensive result for 17-18	242	-	1,460	1,702
Transfers to/(from) equity	(577)	5,583	(5,006)	-
<b>Transactions with Government as owner</b>				
Dividends paid/payable	-	-	-	-
Total change for the period	(335)	5,583	(3,546)	1,702
<b>Balance at 30 June 2018</b>	<b>38,737</b>	<b>38,513</b>	<b>34,789</b>	<b>112,039</b>

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



## NOTES TO THE FINANCIAL STATEMENTS

South Australian Forestry Corporation for the year ended 30 June 2018

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### 1 CORPORATE INFORMATION

#### Role and function of the South Australian Forestry Corporation

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

Key responsibilities of ForestrySA are to:

- Manage plantation forests for commercial production in line with best practice standards for forestry operations and environmental management;
- Undertake and where appropriate commercialise forestry related research for the benefit of ForestrySA and the State;
- Maximise the value of ForestrySA;
- 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; and
- Support research activities within the forestry industry.

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

- Community fire protection
- Community use of forests; and
- Native forest management.

#### Green Triangle agency arrangement

Up to 30 September 2015 ForestrySA managed the forest plantations for OneFortyOne Plantations Pty Ltd (OFO). OFO engaged the SA Treasurer to manage the plantations under a Plantation Management Agreement (PMA) in return for a management fee. Under a Memorandum of Administrative Arrangements, ForestrySA was required to perform the obligations of the former Treasurer in accordance with the PMA.

- Under the PMA, ForestrySA managed silviculture operations for OFO in return for a fee comprising two components:
  - I. Direct charges. While some silviculture expenses were paid directly by OFO, other expenses were incurred and paid by ForestrySA on behalf of OFO. These are recognised as expenses of ForestrySA in the Statement of Comprehensive Income.
  - II. General Overhead Charges (GOC) were paid by OFO to ForestrySA.

Recoveries of expenses and GOC from OFO under the PMA are disclosed in the Statement of Comprehensive Income as sales - management services.

- The operations deed between the former Treasurer and OFO requires the performance, among other things, of specified fire management functions. ForestrySA provided these functions to OFO under the PMA.
- ForestrySA has required funding from the SA Government in order to continue its Community Service Obligations activities (particularly fire response) and the performance of its obligations under the PMA as negotiated by the former Treasurer as part of the forward sale. The arrangement for the provision of this funding resulted in a trading loss of \$4,123,000 in 2017-18 (2016-17: trading loss of \$436,000) before the revaluation of Forest Assets (previously reported as Standing Timber).

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

South Australian Forestry Corporation for the year ended 30 June 2018

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### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Statement of compliance

ForestrySA has prepared these financial statements in compliance with section 23 of the *Public Finance and Audit Act 1987*.

The financial statements are general purpose financial statements, prepared in accordance with applicable Australian Accounting Standards and Treasurer's Instructions and Accounting Policy Statements promulgated under the provision of the *Public Finance and Audit Act 1987*.

ForestrySA has applied Australian Accounting Standards that are applicable to for-profit entities, as ForestrySA is a for-profit entity.

#### (b) Basis of preparation

The preparation of the financial statements requires:

- the use of certain accounting estimates and management to exercise its judgement in the process of applying ForestrySA's accounting policies. The areas involving a higher degree of judgement, or where assumptions and estimates are significant to the financial statements, are outlined in the applicable notes.
- accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events are reported.
- compliance with Accounting Policy Statements issued pursuant to section 41 of the *Public Finance and Audit Act 1987*. In the interest of public accountability and transparency, the Accounting Policy Statements 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. Refer to Note 23.
  - ii. expenses incurred as a result of engaging consultants (as reported in the Statement of Comprehensive Income);
  - iii. employee targeted voluntary separation package information; and
  - 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.

ForestrySA'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 historical cost convention, except for certain assets that were valued in accordance with the valuation policy applicable.

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

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

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2018 and the comparative information presented.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

South Australian Forestry Corporation for the year ended 30 June 2018

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### (c) Reporting entity

The financial report covers ForestrySA as an individual reporting entity. It is a statutory authority of the State of South Australia, established pursuant to the *South Australian Forestry Corporation Act 2000*.

ForestrySA does not control any investees, has no joint arrangements and no interests in unconsolidated structured entities.

### (d) Comparative information

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

Where ForestrySA has applied an accounting policy retrospectively; retrospectively restated items in the financial statements, reclassified items in the financial statements, financial statements have been amended and comparative amounts have been reclassified unless reclassification is impracticable.

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

### (e) Rounding

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

### (f) Taxation

In accordance with Treasurer's Instruction 22 Tax Equivalent Payments, ForestrySA is required to pay to the SA Government an income tax equivalent. The income tax liability is based on the State Taxation Equivalent Regime, which applies the accounting profit method. This requires that the corporate income tax rate be applied to the net profit. The current income tax liability relates to the income tax expense outstanding for the current period.

ForestrySA is liable for payroll tax, fringe benefits tax and goods and services taxes (GST), emergency services levy, land tax and local government rates.

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

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

The net GST receivable or payable to the Australian Taxation Office 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 Australian Taxation Office is classified as part of operating cash flows.

### (g) Events after the reporting period

Adjustments are made to amounts recognised in the financial statements, where an event occurs after 30 June and before the date the financial statements are authorised for issue, where those events provide information about conditions that existed at 30 June.

Note disclosure is made about events between 30 June and the date the financial statements are authorised for issue where the events relate to a condition which arose after 30 June and which may have a material impact on the results of subsequent years.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

South Australian Forestry Corporation for the year ended 30 June 2018

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### (h) Current and non-current classification

Assets and liabilities are characterised as either current or non-current in nature. ForestrySA has a regular operating cycle of 12 months. Forest Assets that are expected to be harvested within 12 months after the reporting date have been classified as a current asset, while Forest Assets expected to be harvested more than 12 months after the reporting date, have 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 are 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.

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

### (i) Non-Current Assets

#### Acquisition and recognition

Non-current assets are initially recorded at cost or at the value of any liabilities assumed, plus any incidental cost involved with the acquisition. Non-current assets are subsequently measured at fair value after allowing for accumulated depreciation.

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

Where the payment for an asset is deferred, ForestrySA measures the obligation at the present value of the future outflow, discounted using the interest rate of a similar length borrowing.

All non-current tangible assets with a value equal to or in excess of \$10,000 are capitalised.

Componentisation of complex assets is only performed when the complex asset's fair value at the time of acquisition is equal to or in excess of \$5 million for infrastructure assets and \$1 million for other assets

#### Depreciation and amortisation

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 ForestrySA 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 are not depreciated.

The depreciation / amortisation for non-current assets is determined as follows:

Class of asset	Depreciation method	Useful life (years)
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
Intangibles	Straight line	1-3

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

South Australian Forestry Corporation for the year ended 30 June 2018

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### Revaluation of non-current assets

Land was revalued as at 30 June 2018, while buildings and structures were revalued as at 30 June 2016, in accordance with APF III *Asset Accounting Framework*. Assets in 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 performed by Land Services SA is the market approach under AASB 13 *Fair Value Measurement*.

In its assessment it uses the asset's highest and best use that is physically possible, legally permissible, financially feasible, taking into account restrictions imposed on the use of the land by the various legislation under which ForestrySA operates. ForestrySA land generally has restrictions on use imposed by the Forestry Act 1950, by statute or regulation, impacting the fair value measurement of the asset. In South Australia, Land Services SA determines the site and capital values on an annual basis as at 1 January each year. These statutory values, which take effect from 1 July of the same year, are derived from available market evidence around the date of valuation and are considered to provide a suitable basis from which to derive selected values under fair value measurement. Adjustments are then applied to reflect the restrictions on potential highest and best use imposed by legislation associated with the operations of ForestrySA.

In accordance with this policy, land was revalued using valuations provided by Land Services SA in 2018.

In accordance with APF III APS 3.18, ForestrySA has elected to take revaluation adjustments to the asset revaluation surplus on an individual asset basis for all assets excluding land.

At least every five years, an independent valuation appraisal of ForestrySA's buildings and structures will be performed. However, if at any time management considers that the carrying amount of an asset class materially differs from its fair value, then the asset class will be revalued regardless of when the last valuation took place. ForestrySA undertook an independent valuation appraisal of its buildings and structures in June 2016.

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.

ForestrySA has taken the exemption available under Accounting Policy Framework III Asset Accounting Framework paragraph APS 3.18 to take asset revaluation adjustment to the asset revaluation surplus on a class basis rather than an individual asset basis.

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.

### *Fair value measurement*

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

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

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

The valuation processes and fair value changes are reviewed by the Chief Finance Officer and Audit Committee at each reporting date.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

South Australian Forestry Corporation for the year ended 30 June 2018

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In determining fair value, ForestrySA has taken into account the characteristics of the asset (e.g. condition and location of the asset and any restrictions on the sale or use of the asset) and the asset's highest and best use (that is physically possible, legally permissible, and financially feasible)

ForestrySA's current use is the highest and best use of the asset unless other factors suggest an alternative use is feasible within the next five years. As ForestrySA did not identify any factors to suggest an alternative use, fair value measurement was based on current use.

The carrying amount of non-financial assets with a fair value at the time of acquisition that was less than \$1 million or an estimated useful life that was less than three years are deemed to approximate fair value. Refer note 13 for disclosure regarding fair value measurement techniques and inputs used to develop fair value measurements for non-financial assets.

ForestrySA engaged Margules Groome Consulting Pty Ltd to establish the valuation for its plantation estate in the Mt Lofty Ranges as at 30 June 2018. Margules Groome is a consultancy focusing on the forestry, bio solutions, wood products, pulp and paper and agriculture sectors with services including corporate finance, strategy and sustainability, market analysis and insight, operations and technical solutions. Margules Groome is jointly Australian and New Zealand owned and provides services internationally.

The valuation processes and fair value changes are reviewed by the Board at each reporting date.

### Impairment

ForestrySA holds its property, plant and equipment and intangible assets for their service potential (value in use).

All non-current tangible assets are valued at fair value. Specialised assets would rarely be sold and typically any costs of disposal would be negligible; accordingly, the recoverable amount will be close to or greater than fair value.

ForestrySA also expects for all other non-current tangible assets that any costs of disposal will be negligible, and the recoverable amount to be close to or greater than fair value.

### *Intangible assets*

An intangible asset is an identifiable non-monetary asset without physical substance. Intangible assets are measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. ForestrySA only has intangible assets with finite lives. The amortisation period and the amortisation method for intangible assets is reviewed on an annual basis.

The acquisition of or internal development of software is capitalised only when the expenditure meets the definition criteria (identifiability, control and the existence of future economic benefits) and recognition criteria (probability of future economic benefits and cost can be reliably measured) and when the amount of expenditure is greater than or equal to \$10,000.

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

Subsequent expenditure on intangible assets has not been capitalised. This is because the authority has been unable to attribute this expenditure to the intangible asset rather than to the authority as a whole.

### *Biological Assets*

Biological Assets (Forest Assets, previously reported as Standing Timber) are valued under the Net Present Value (NPV) income approach. This policy is in accordance with the requirements of AASB 141 *Agriculture* and all amounts are calculated in pre-tax dollars. The income or NPV approach is considered appropriate for the valuation of Forest Assets and is consistent with industry best practice for valuation of Forest Assets. ForestrySA has assessed the highest and best use for Forest Assets as the current use which is the sale of saw log and the associated lower value products that are produced as a by-product to this process.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

South Australian Forestry Corporation for the year ended 30 June 2018

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The methodology was approved by the Acting Treasurer in 2013-14 consistent with APF III *Asset Accounting Framework* APS 3.9.

Under the NPV methodology, valuation changes mainly arise from:

- Changes in timber volume associated with growth and also changes to the overall estate as a result of annual planting and harvesting activity;
- Changes in timber prices;
- Changes in silvicultural costs; and
- Changes in the discount rate used in the discounted cash flow calculation.

Assumptions underpinning the NPV calculation are:

- Forest valuations are based on the expected volumes of merchantable timber that will be realised from existing stands and future rotations, given current management strategies and timber recovery rates;
- Both the current crop and future rotations are valued. This is on the basis that the future rotations form part of the sustainable business activity of ForestrySA as a going concern and therefore form part of the consideration of fair value in accordance with its definition in AASB 13 *Fair Value Measurement*. The cash flow analysis is based on the anticipated timing of the harvest of the tree crop, which has been developed in the context of sustained yield management;
- AAB 141 *Agriculture* can be interpreted to require cash flows to be considered only for current living biological assets. As a result, the discount rate has been amended to equate the value of the current rotation's cash flows to the long-term cash flows including future rotations;
- Volume increments/decrements are determined both by periodic re-measurement of forest samples and by modelling growth from the date of the most recent measurement to date of harvest;
- Prices used in the NPV calculation are reflective of estimated future prices, based on current understanding of the market forces impacting historical prices.

The NPV approach takes the real cash flows from the sale of Forest Assets over a model duration of 60 years. The existing market price for the sales of timber is assumed less reasonable costs to sell into the market. ForestrySA has allowed an appropriate amount for the overheads (including fire protection) which has also been included in the cash flows of the valuation.

The replanting expenses after the expiry of the model have not been included under the guidance of the accounting standards and the value of land is considered separately. The NPV approach used to value Forest Assets does not include a terminal value.

The discount rate used is 7.0% (2017: 8.5%) (pre-tax real) for the long-term cash flows, increased to 9.4% to consider current rotation only. This incorporates ForestrySA's assessment of the risk-free rate and the risk weighting of forestry. The use of a 'real' discount rate effectively allows for all prices and costs to be expressed in current dollar terms.

The difference between the fair value of Forest Assets held at the reporting date and the fair value at the previous reporting date, after allowing for Forest Assets acquired and purchased Forest Assets harvested, is recognised in the Statement of Comprehensive Income as the net change in value of Forest Assets. All forest expenditure is recognised as an expense in the year it is incurred. The change in value is disclosed in Note 11.

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

The volume of Forest Assets is estimated using a model that simulates forest growth. Actual growth will invariably differ from growth predicted by the model resulting in periodic adjustments for these growth variations. Where available, 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 timely intervals. The inventory master database is updated as new inventory becomes available 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 January 2017.

There is inherent uncertainty in the standing volume estimate and resultant Forest Assets valuation. This is endemic to all forest valuations and best practice methodology is used to generate reliable estimates.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

South Australian Forestry Corporation for the year ended 30 June 2018

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In 2017-18 ForestrySA changed its accounting policy in relation to the valuation of Forest Assets. The valuation was previously based on a single forest rotation and is now based on multiple rotations. The change in accounting policy has been applied retrospectively and comparative information in relation to the 2016-17 financial year has been restated accordingly. Further details of the changes and a comparison of the original reported figures to the revised reported figures has been disclosed in Note 26.

### (j) Liabilities

#### *Employee Benefits*

These 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.

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

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

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

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

#### *Long service leave*

The liability for long service leave is measured 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 long service leave 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.

The unconditional portion of the long service leave provision is classified as current as ForestrySA does not have an unconditional right to defer settlement of the liability for at least 12 months after reporting date. The unconditional portion of long service leave relates to an unconditional legal entitlement to payment arising after 10 years of service.

#### *Leases*

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement.

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

Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term. The straight-line basis is representative of the pattern of benefits derived from the leased assets.

### (k) Unrecognised contractual commitments and contingent assets and 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, measured at nominal value.

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



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

South Australian Forestry Corporation for the year ended 30 June 2018

### (l) Insurance

ForestrySA has arranged, through the SA Government Captive Insurance Corporation (SAICORP), to insure all its major insurable property and liability risks. The excess payable under this arrangement is \$250,000 from an event or occurrence covered by the agreement.

ForestrySA is self-insured for major fire losses of the forest. In addition, ForestrySA is self-insured for workers compensation.

### 3 NEW AND REVISED ACCOUNTING STANDARDS AND POLICIES

In 2017-18 ForestrySA changed its accounting policy in relation to the valuation of biological assets (Forest Assets, previously reported as Standing Timber). The valuation was previously based on a single forest rotation and is now based on multiple rotations. The change in accounting policy has been applied retrospectively and comparative information in relation to the 2016-17 financial year has been restated accordingly. Further details of the changes and a comparison of the original reported figures to the revised reported figures has been disclosed in Note 26.

As at the date of the authorisation of the financial report, the expected impacts on new or amended Australian Accounting Standards issued but with future effective dates are set out below:

Reference	Title and date of standard application	Summary	Impact on financial statements	Application date for FSA
AASB 16	Leases 1 Jan 2019	<p>This new standard introduces a single accounting model for lessees.</p> <p>The standard requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.</p> <p>A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset, and a lease liability representing its obligations to make lease payments.</p> <p>The right-of-use asset will be initially recognised at cost, consisting of the initial amount of the associated lease liability, plus any lease payments made to the lessor at or before the effective date, less any leave incentive received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. The right of use assets will give rise to depreciation expense.</p> <p>The lease liability will be initially recognised at an amount equal to the present value of the lease payments during the lease term that are not yet paid. Current operating lease payments will no longer be</p>	<p>Vehicle Lease expenses in 2017-18 were \$260,000. Lease commitments (refer Note 21) were \$974,000 over 5 years. If these leases were accounted for in accordance with the new AASB 16, then the following indicative impacts would occur:</p> <ul style="list-style-type: none"> <li>• Right of use assets would be recognised with a value of approximately \$900,000;</li> <li>• Depreciation expense of approximately \$225,000 per annum;</li> <li>• Lease liabilities of approximately \$900,000 with implicit finance charges of an average of \$35,000 per annum. Finance charges are front-loaded in the lease schedule, and as the vehicle fleet is rotated, this will result in fluctuations from year to year;</li> <li>• Principal repayments of an average of \$225,000 per annum. These are back-loaded in the lease schedule and as the vehicle fleet is rotated, this will result in</li> </ul>	1 July 2019

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

South Australian Forestry Corporation for the year ended 30 June 2018

		<p>expenses in the Statement of Comprehensive Income on a straight-line basis. Rather, they will be apportioned between a reduction in the recognised lease liability and the implicit finance charge (the effective rate of interest) in the lease. The finance cost will be recognised as an expense.</p> <p>Further, the classification of cash flows will be affected as operating lease payments will be split into a principal and interest portion which will be presented as financing and operating cash flows respectively. Currently, operating lease payments are presented as operating cash flows.</p> <p>AASB 16 allows a 'cumulative approach' rather than full retrospective application to recognised existing operating leases. If a lessee chooses to apply the 'cumulative approach', it does not need to restate comparative information. Instead, the cumulative effect of applying the standard is recognised as an adjustment to the opening balance of accumulated surplus at the date of initial application.</p>	<p>fluctuations from year to year.</p>	
AASB 15	Revenue from Contracts with Customers 1 Jan 19	<p>AASB 15 will replace AASB 118 and AASB 111.</p> <p>AASB 15 introduces a five-step process for revenue recognition with the core principle being to recognise revenue 'when control of a good or services transfers to a customer'. This is effectively when performance obligations have been met, rather than the former model of 'where the risks and rewards of ownership reside'.</p> <p>AASB 15 will result in increased disclosures about revenue.</p> <p>AASB allows a 'cumulative approach' rather than a full retrospective application. If the 'cumulative approach' is applied, there is no need to restate comparative information. Instead, the cumulative effect of applying the standard is recognised as an adjustment to the opening balance</p>	<p>New Log Sales Agreements coming into effect on 1 August 2018 contain clauses which guarantee up to 85% of the value of the Contracted Annual Log Supply as income to ForestrySA, even if the customer fails to achieve the agreed monthly purchase volumes.</p> <p>Under current standards, income is recognised monthly at the time that invoices are raised for actual logs delivered.</p> <p>Under the revised standards, applying the definitions within AASB 15, guaranteed volumes of log sales classify as an 'unconditional right to consideration' and will be recorded as a receivable (asset). An offsetting contract liability will also be recognised.</p>	

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

South Australian Forestry Corporation for the year ended 30 June 2018

		of the accumulated surplus at the date of initial application.	<p>Income will be recognised as performance obligations are met i.e. logs are delivered, or when ForestrySA realises its right to income for customers failing to achieve their required Monthly Log Purchase.</p> <p>There would be no impact on the 2017-18 financial statements if the new standard had applied, as the new contracts had not commenced. It is not possible to quantify the effect of the change in the future as that depends on future events which are uncertain. Applying assumptions to past events does not provide a reliable basis for estimating future impacts, as the changed contract conditions are likely to influence outcomes.</p>	
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# NOTES TO THE FINANCIAL STATEMENTS

SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2018

## 4 REVENUE, OTHER INCOME AND EXPENSES

### (i) Revenues from SA Government

	Note	2018 \$ '000	2017 \$ '000
Community Service Obligation funding (1)		4,379	3,559
Other revenues from SA Government		4,534	6,149
Government Radio Network funding		455	399
Deferred revenues from SA Government (1)		(125)	31
Revenues from SA Government		9,243	10,138

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

### (ii) Interest received or receivable

Interest received	286	233
Interest revenue	286	233

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

### (iii) Other income

Other revenue from non SA Government entities	830	1,161
Other income	830	1,161

### (iv) Net gain/(loss) from disposal of assets

Land and buildings			
Net proceeds from disposal		-	-
Less expenses on disposal		(402)	(16)
Less net book value of assets disposed	12	(554)	(1)
Net gain/(loss) from disposal of land and buildings		(956)	(17)
Plant and equipment			
Net proceeds from disposal		-	253
Less expenses on disposal		-	(1)
Less net book value of assets disposed	12	(153)	(671)
Net gain/(loss) from disposal of plant and equipment		(153)	(419)
Roads and land improvements			
Net proceeds from disposal	12	-	-
Less expenses on disposal		-	-
Less net book value of assets disposed		(9)	-
Net gain/(loss) from disposal of assets held for sale		(9)	-
Total assets			
Net proceeds from disposal		-	253
Less expenses on disposal		(402)	(17)
Less net book value of assets disposed		(716)	(672)
Net gain/(loss) from disposal of total assets		(1,118)	(436)

Gains and losses on disposal are recognised at the date control of the asset is passed to the buyer and are determined after deducting the cost of the asset from the proceeds at that time. Where revalued assets are sold, the revaluation surplus is transferred to retained earnings.

## NOTES TO THE FINANCIAL STATEMENTS

SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2018

4	REVENUE, OTHER INCOME AND EXPENSES (Continued)	Note	2018	2017
			\$ '000	\$ '000
	(v) Other expenditure			
	Doubtful debt provision / write down	8	-	(1)
	Export - shipping		1,213	1,738
	Export - marketing & other		1,271	1,877
	Consultants (1)		40	170
	Other (2)		4,284	3,199
			6,808	6,983

(1) The number and dollar amount of consultancies paid/payable that fell within the following bands:

	2018		2017	
	No.	\$ '000	No.	\$ '000
Below \$10,000	6	8	2	8
Above \$10,000	1	32	6	162
Total paid /payable to the consultants engaged	7	40	8	170

(2) Includes audit fees paid/payable to the Auditor-General's Department relating to work performed under the Public Finance and Audit Act of \$72,000 (2017:\$70,000). No other services were provided by the Auditor-General's Department.

## 5 INCOME TAX EQUIVALENT

ForestrySA uses the Accounting Profits Model to calculate the income tax equivalent payment, in accordance with Treasurer's Instruction 22 Tax Equivalent Payments. 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 Presentation of Financial Statements.

### Income tax equivalent

Accounting for income tax for the financial year is based on the tax equivalent calculations under the Accounting Profits Model prescribed in the State Tax Equivalent Regime (STER) and the applicable accounting standards (see note 2, not including AASB 112 Income Taxes). As ForestrySA does not report a trading profit the STER does not apply and no deferred tax asset is generated.

The Treasurer has provided ForestrySA with written approval to exclude gains and losses relating to forest asset revaluations from the accounting profit before ForestrySA calculates its income tax equivalent payment.

The income tax equivalent expense was nil for the reporting period (2017: nil).

## 6 EMPLOYEE BENEFITS EXPENSES

	2018	2017
	\$ '000	\$ '000
Salaries and wages	3,460	3,383
Long service leave	71	38
Retention leave	15	3
Annual leave	275	276
Employment on-costs* - superannuation	624	614
Employment on-costs - other	211	182
	4,656	4,496

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

### Compensation of employees whose income was over the base executive remuneration level

	2018	2017
	Number	Number
The number of employees whose income, excluding TVSP, was within the following bands:		
\$147,001 - \$149,000*	N/A	1
\$149,001 - \$159,000	1	-
\$169,001 - \$179,000	-	1
\$209,001 - \$219,000 (1)	1	-
\$219,001 - \$229,000	1	1
\$319,001 - \$329,000	-	1
\$329,001 - \$339,000	1	-
Total number of employees	4	4

(1) includes termination payments

The table includes all employees who received or are entitled to receive 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, fringe benefit tax and any other salary sacrifice benefits. The total remuneration received by these employees for the year was \$921,000 (2017: \$850,000).

## NOTES TO THE FINANCIAL STATEMENTS

SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2018

### 7 CASH AND CASH EQUIVALENTS

	2018	2017
	\$ '000	\$ '000
Cash	1	1
Deposits	2,388	2,579
Cash Management Fund	11,318	11,105
	13,707	13,685

Cash is measured at nominal amounts.

#### Deposits and Cash Management Fund

Deposits include funds held with the Commonwealth Bank of Australia (CBA). The balance of these funds is not available for general use, i.e. funds can only be used in accordance with the Treasurer's/Under Treasurer's approval. Cash Management Fund (CMF) deposits are lodged with SAFA and earn interest at the respective CMF rate.

#### Interest Rate Risk

Cash on hand is non-interest bearing. Deposits at call and with the Treasurer earn a floating interest rate, based on daily bank deposit rates. The carrying amount of cash and cash equivalents represents fair value.

### CASH FLOWS RECONCILIATION

(i) Reconciliation of cash and cash equivalents at the end of the reporting period

	2018	2017
	\$ '000	\$ '000
Cash and cash equivalents as per statement of financial position	13,707	13,685
Cash and cash equivalents as per statement of cash flows	13,707	13,685

(ii) Reconciliation of profit after income tax equivalent payments to net cash flow from operating activities

<b>Profit after income tax equivalents</b>	<b>1,460</b>	<b>6,500</b>
<b>Non cash items</b>		
Net change in value of forest asset - other	(5,583)	(6,936)
Impairment of assets	-	90
Depreciation and amortisation	1,181	1,506
Loss/(Gain) on disposal of assets	1,118	436
	<b>(3,284)</b>	<b>(4,904)</b>
<b>Changes in operating assets and liabilities</b>		
Decrease/(Increase) in receivables	3,215	(3,658)
Decrease/(Increase) in inventories	(1,167)	272
(Decrease)/Increase in payables	776	39
(Decrease)/Increase in provisions	(389)	(196)
(Decrease)/Increase in employee benefits	(159)	(108)
(Decrease)/Increase in deferred income	436	(121)
Net cash flows from changes in operating balances	<b>2,712</b>	<b>(3,772)</b>
<b>Net cash flows from operating activities</b>	<b>888</b>	<b>(2,176)</b>

## NOTES TO THE FINANCIAL STATEMENTS

SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2018

### 8 RECEIVABLES

	2018	2017
	\$ '000	\$ '000
CURRENT		
Trade receivables	6,293	8,344
Less doubtful debts	(30)	(30)
Other receivables	75	966
Accrued revenue	20	24
Prepayments	598	667
GST receivable	-	200
	<u>6,956</u>	<u>10,171</u>

#### Movement in the allowance for doubtful debts

The allowance for doubtful debts (allowance for impairment loss) is recognised when there is objective evidence (i.e. calculated on past experience and current and expected changes in client credit rating) that a receivable is impaired. An allowance for impairment loss has been recognised in 'Other expenses' in the Statement of Comprehensive Income for specific debtors and debtors assessed on a collective basis for which such evidence exists.

Movement in the allowance for doubtful debts (impairment loss)

	2018	2017
	\$ '000	\$ '000
Carrying amount at the beginning of the period	30	31
Increase in allowance recognised in profit or loss	-	-
Amounts written off	-	-
Amounts recovered during the year	-	(1)
Carrying amount at the end of the period	<u>30</u>	<u>30</u>

#### Interest rate and credit risk

Receivables arise in the normal course of selling goods and services to other government agencies, the private sector and to the public. Receivables are normally settled within 30 days after the issue of an invoice or the goods/services have been provided under a contractual arrangement. Receivables, prepayments and accrued revenues are non-interest bearing.

Collectability of receivables is reviewed on an ongoing basis. An allowance for doubtful debts is raised when there is objective evidence that the authority will not be able to collect the debt. Other than as recognised in the allowance for doubtful debts, 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. There is no concentration of credit risk.

### 9 INVENTORIES

	2018	2017
	\$ '000	\$ '000
CURRENT		
Export log	1,464	257
Materials and stores	22	62
	<u>1,486</u>	<u>319</u>

Inventories include goods and other property held for sale in the ordinary course of business. It excludes depreciating assets. Inventories held for sale are measured at the lower of cost or their net realisable value.

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

## NOTES TO THE FINANCIAL STATEMENTS

SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2018

### 10 ASSETS CLASSIFIED AS HELD FOR SALE

	2018	2017
	\$ '000	\$ '000
Non-current assets classified as held for sale		
Land and buildings, property, plant and equipment	6,006	55
	<u>6,006</u>	<u>55</u>

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

### 11 FOREST ASSETS (STANDING TIMBER)

	2018	2017
	\$ '000	\$ '000
Opening balance	37,907	30,971
Other Revaluation / Impairment	5,583	6,936
Net change recorded in statement of comprehensive income	<u>5,583</u>	<u>6,936</u>
Closing balance	43,490	37,907

Unrealised (loss)/gain for the period included in the Statement of Comprehensive Income 5,583 6,936

ForestrySA has adopted the Discounted Cash Flow (DCF) method to value Forest Assets. In 2018 ForestrySA engaged Margules Groome to provide the DCF valuation for its plantations. ForestrySA is recognising the multiple rotation forest valuation, being \$43,490,000 (2017: \$37,907,000). In prior years ForestrySA recognised the single rotation forest valuation. The effect of this change in accounting policy is disclosed in Note 26.

Forest Assets comprises the following:

	2018	2017
	\$ '000	\$ '000
<b>Fair Value</b>		
Forest Assets as held to maturity	43,490	37,907
Total fair value	<u>43,490</u>	<u>37,907</u>
	2018	2017
	\$ '000	\$ '000
<b>CURRENT ASSET</b>		
Current portion of forest assets valuation	2,993	5,111
	2018	2017
	\$ '000	\$ '000
<b>NON-CURRENT ASSET</b>		
Non-current portion of forest assets valuation	40,497	32,796



# NOTES TO THE FINANCIAL STATEMENTS

SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2018

## 12 PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and structures	Roads and land improvements	Plant and equipment	Total
	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
<b>Year ended 30 June 2017</b>					
As at 1 July 2016, net of accumulated depreciation and impairment	39,140	8,194	2,195	4,388	53,917
Additions / transfers	-	80	341	-	421
Disposals	-	(1)	-	(671)	(672)
Assets reclassified to or out of assets held for sale	-	-	-	221	221
Revaluation decrements	-	-	-	(77)	(77)
Impairment	-	-	-	(13)	(13)
Depreciation charge for the year	-	(342)	(137)	(296)	(775)
Net of accumulated depreciation and impairment	39,140	7,931	2,399	3,552	53,022
<b>At 30 June 2017</b>					
Cost or fair value	39,140	8,773	4,444	7,715	60,072
Accumulated depreciation and impairment	-	(842)	(2,045)	(4,163)	(7,050)
Net carrying amount	39,140	7,931	2,399	3,552	53,022
<b>Year ended 30 June 2018</b>					
As at 1 July 2017, net of accumulated depreciation and impairment	39,140	7,931	2,399	3,552	53,022
Additions / transfers	-	375	-	80	455
Disposals	(497)	(56)	(9)	(153)	(715)
Transfers between classes	-	266	(567)	301	-
Assets reclassified to or out of assets held for sale	(5,743)	(151)	(57)	-	(5,951)
Revaluation increments	1,072	-	-	-	1,072
Revaluation decrements	(830)	-	-	-	(830)
Impairment	-	-	-	-	-
Depreciation charge for the year	-	(340)	(136)	(290)	(766)
Net of accumulated depreciation and impairment	33,142	8,025	1,630	3,490	46,287
<b>At 30 June 2018</b>					
Cost or fair value	33,142	9,071	3,792	7,762	53,767
Accumulated depreciation and impairment	-	(1,046)	(2,162)	(4,272)	(7,480)
Net carrying amount	33,142	8,025	1,630	3,490	46,287

### Revaluation of land and buildings and structures

ForestrySA uses the services of Land Services SA 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 a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Land was revalued using valuations provided by Land Services SA in 2018.

In 2016 ForestrySA 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 was 30 June 2016. The valuer valued on the basis of the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction, assuming the probable use of an asset which is physically possible, appropriately justified, legally permissible, financially feasible and which results in the highest value of the asset valued. The valuation was based on a combination of internal records, specialised knowledge and the acquisition/transfer costs.

### Carrying amount of plant and equipment

All items of plant and equipment had a 'fair value at the time of acquisition that was less than \$1 million or had an estimated useful life that was less than three years', and have not been revalued in accordance with APF III. The carrying value of these items are deemed to approximate fair value. These assets are classified in level 3 as there have been no subsequent adjustments to their value, except for management assumptions about the condition and remaining useful life of each asset.

Plant and equipment includes \$38,000 of fully depreciated (to salvage value) property still in use (2017:\$46,000).

## NOTES TO THE FINANCIAL STATEMENTS

SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2018

### 13 FAIR VALUE MEASUREMENT

The fair value of non-financial assets must be estimated for recognition and measurement or for disclosure purposes. ForestrySA categorises non-financial assets measured at fair value based on the level of inputs used in measurement. Fair value recognised in the balance sheet are categorised into level 2 for land and level 3 for other assets at 30 June 2018. Land was valued by Land Services SA as at 30 June 2018 and is categorised as a Level 2 valuation based on a thorough analysis of the data applied for valuation. ForestrySA's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period. Assets held for sale were revalued when the fair value less costs to sell was lower than the carrying amount.

#### Fair value measurements at 30 June 2018

Recurring fair value measurements	Note	2018 \$ '000	Level 2 \$ '000	Level 3 \$ '000
Forest Assets	11	43,490	-	43,490
Land	12	33,142	33,142	-
Buildings and structures	12	8,025	-	8,025
Roads and land improvements	12	1,630	-	1,630
Plant and equipment	12	3,490	-	3,490
Total recurring fair value measurements		89,777	33,142	56,635

#### Non-recurring fair value measurements

Assets held for sale	10	6,006	-	6,006
Total non-recurring fair value measurements		6,006	-	6,006

#### Fair value measurements at 30 June 2017

Recurring fair value measurements	Note	2017 \$ '000	Level 2 \$ '000	Level 3 \$ '000
Forest Assets	11	37,907	-	37,907
Land	12	39,140	39,140	-
Buildings and structures	12	7,931	-	7,931
Roads and land improvements	12	2,399	-	2,399
Plant and equipment	12	3,552	-	3,552
Total recurring fair value measurements		90,929	39,140	51,789
Non-recurring fair value measurements				
Assets held for sale	10	55	-	55
Total non-recurring fair value measurements		55	-	55

## NOTES TO THE FINANCIAL STATEMENTS

SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2018

### 13 FAIR VALUE MEASUREMENT (Continued)

#### Valuation techniques and inputs

Valuation techniques used to derive fair values are in disclosed Notes 11 and 12.

Although unobservable inputs were used in determining fair value, and are subjective, ForestrySA considers that the overall valuation would not be materially affected by changes to the existing assumptions.

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

#### Total valuation gains and losses

	2018 \$ '000	2017 \$ '000
Forest Assets	5,583	6,936
Land	242	-
Property, plant & equipment	-	-
<b>Total valuation gain / (loss) for the year</b>	<b>5,825</b>	<b>6,936</b>

#### Quantitative information about fair value measurement using significant unobservable inputs (level 3)

Description	technique	Unobservable inputs
Forest Assets	Discounted Cash Flow	Discount rate (pre-tax real) - 7.0% (2017: 8.5%) Estimated timber prices derived from available market projections Estimated yield per hectare and site quality
Land (1)	Market approach	Area-based and volume-based indirect and overhead costs Land Services SA statutory valuation derived from available market evidence Discount factors for legal restrictions - Green triangle (GT) 40% (2017: 40%), Mount Lofty Ranges (MLR) 65% (2017: 65%), Mid North (MN) 55% (2017: 55%)
Buildings and structures	Market approach	External valuation report
Roads and Improvements	Cost approach	Useful life - 20-25 years
Plant and Equipment	Cost approach	Useful life - 3-25 years
Assets held for sale	Fair value less costs of disposal	Market assessment

(1) Fair value of land with restricted use was determined using an adjusted market price of surrounding unrestricted land.

#### Sensitivity analysis forest assets

ForestrySA has adopted the Discounted Cash Flow method to value forest assets. For the 2018 financial year ForestrySA has engaged Margules Groome to provide this DCF valuation for its plantations in the Mount Lofty Ranges.

ForestrySA is recognising the multiple rotation forest valuation, being \$43,490,000 (2017: \$37,907,000). In prior years ForestrySA recognised the single rotation forest valuation. The effect of this change in accounting policy is disclosed in Note 26.

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

Sensitivity to Log Prices and Production Costs	Value (AUD million)		
Production Cost Scenario	Log Price Scenario		
	-5%	Base	+5%
+5%	32.321	39.704	47.079
Base	36.108	43.490	50.864
-5%	39.923	47.305	54.677

Sensitivity to Silvicultural Costs	Value (AUD million)
+5%	42.964
Base	43.490
-5%	44.016

Sensitivity to Overhead Costs	Value (AUD million)	
	Area based Overheads	Volume Based Overheads
+5%	42.706	43.134
Base	43.490	43.490
-5%	44.274	43.846

# NOTES TO THE FINANCIAL STATEMENTS

SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2018

## 13 FAIR VALUE MEASUREMENT (Continued)

Sensitivity to the Discount Rate	Value (AUD million)
6.0%	50.671
6.5%	46.777
7.0%	43.490
7.5%	40.680
8.0%	38.250

### Reconciliation of fair value measurements

	Forest Assets	Land	Buildings and structures	Roads and land improvements	Plant and equipment
Opening balance at 1 July 2017	37,907	39,140	7,931	2,399	3,552
Acquisitions	-	-	375	-	80
Disposals	-	(497)	(56)	(9)	(153)
Assets reclassified to or out of assets held for sale	-	(5,743)	(151)	(57)	-
Depreciation	-	-	(340)	(136)	(290)
Transfers within asset classes	-	-	266	(567)	301
	-	(6,240)	94	(769)	(62)
<b>Total gains / (losses) for the period in other comprehensive income:</b>					
Revaluation increment / (decrement)	5,583	242	-	-	-
	5,583	242	-	-	-
Closing balance at 30 June 2018	43,490	33,142	8,025	1,630	3,490

### Reconciliation of fair value measurements

	Forest Assets	Land	Buildings and structures	Roads and land improvements	Plant and equipment
Opening balance at 1 July 2016	30,971	39,140	8,194	2,195	4,388
Acquisitions	-	-	80	341	-
Disposals	-	-	(1)	-	(671)
Assets reclassified to or out of assets held for sale	-	-	-	-	221
Depreciation	-	-	(342)	(137)	(296)
Impairment	-	-	-	-	(13)
	-	-	(263)	204	(759)
<b>Total gains / (losses) for the period in other comprehensive income:</b>					
Revaluation increment / (decrement)	6,936	-	(77)	-	-
	6,936	-	(77)	-	-
Closing balance at 30 June 2017	37,907	39,140	7,854	2,399	3,629

# NOTES TO THE FINANCIAL STATEMENTS

SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2018

## 13 FAIR VALUE MEASUREMENT (Continued)

Sensitivity to the Discount Rate	Value (AUD million)
6.0%	50.671
6.5%	46.777
7.0%	43.490
7.5%	40.680
8.0%	38.250

### Reconciliation of fair value measurements

	Forest Assets	Land	Buildings and structures	Roads and land improvements	Plant and equipment
<b>Opening balance at 1 July 2017</b>	37,907	39,140	7,931	2,399	3,552
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Disposals	-	(497)	(56)	(9)	(153)
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	-	(6,240)	94	(769)	(62)
<b>Total gains / (losses) for the period in other comprehensive income:</b>					
Revaluation increment / (decrement)	5,583	242	-	-	-
	5,583	242	-	-	-
<b>Closing balance at 30 June 2018</b>	43,490	33,142	8,025	1,630	3,490

### Reconciliation of fair value measurements

	Forest Assets	Land	Buildings and structures	Roads and land improvements	Plant and equipment
<b>Opening balance at 1 July 2016</b>	30,971	39,140	8,194	2,195	4,388
Acquisitions	-	-	80	341	-
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Depreciation	-	-	(342)	(137)	(296)
Impairment	-	-	-	-	(13)
	-	-	(263)	204	(759)
<b>Total gains / (losses) for the period in other comprehensive income:</b>					
Revaluation increment / (decrement)	6,936	-	(77)	-	-
	6,936	-	(77)	-	-
<b>Closing balance at 30 June 2017</b>	37,907	39,140	7,854	2,399	3,629

## NOTES TO THE FINANCIAL STATEMENTS

SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2018

### 14 INTANGIBLE ASSETS

	2018	2017
	\$ '000	\$ '000
COMPUTER SOFTWARE		
As at 1 July, net of accumulated amortisation and impairment	567	1,155
Additions	9	143
Amortisation charge for the year	(415)	(731)
Total computer software, net of accumulated amortisation and impairment	161	567
As at 30 June:	2017	2016
	\$ '000	\$ '000
Cost or fair value	2,592	2,583
Accumulated amortisation and impairment	(2,431)	(2,016)
Net Carrying Amount	161	567

The intangible assets consist of software for operational systems and water licences. ForestrySA has no contractual commitments for the acquisition of intangible assets. There were no indications of impairment of intangible assets at 30 June 2018.

### 15 PAYABLES

	2018	2017
	\$ '000	\$ '000
CURRENT		
Trade payables	3,013	2,269
Accrued expenses	159	103
Employee benefit on-costs*	55	69
	3,227	2,441
NON-CURRENT		
Employee benefit on-costs*	88	97
	88	97

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

As a result of an actuarial assessment performed by the Department of Treasury and Finance, the proportion of long service leave taken as leave has changed from the 2017 rate (40%) to 41%. The average factor for the calculation of employer superannuation on-costs has changed from the 2017 rate (10.1%) to 9.9%. These rates are used in the employment on-cost calculation.

#### Interest rate and credit risk

Payables are measured at nominal amounts. Creditors and accruals are raised for all amounts billed but unpaid. Sundry creditors are normally settled within 30 days. Employment on-costs are settled when the respective employee benefit that they relate to is discharged. All payables are non-interest bearing. The carrying amount of payables represents fair value due to the amounts being payable on demand.

Categorisation of financial instruments and risk exposure information - please refer to Note 24.

## NOTES TO THE FINANCIAL STATEMENTS

SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2018

### 16 EMPLOYEE BENEFITS

	2018	2017
	\$ '000	\$ '000
<b>CURRENT</b>		
Accrued salaries and wages	85	92
Long service leave	140	166
Retention leave	15	23
Banking of time	8	10
Annual leave	192	248
	<u>440</u>	<u>539</u>
<b>NON-CURRENT</b>		
Long service leave	568	628
	<u>568</u>	<u>628</u>

AASB 119 contains the calculation methodology for long service leave liability. The actuarial assessment performed by the Department of Treasury and Finance has provided a basis for the measurement of long service leave. AASB 119 requires the use of the yield on long-term Commonwealth Government bonds as the discount rate in the measurement of the long service leave liability. The yield on long-term Commonwealth Government bonds has not changed from 2017 (2.5%).

The net financial effect of actuarial assumptions and methodology changes in the current financial year is a increase in the long service leave liability of \$18,000 and employee benefits expense of \$18,000. The impact on future periods is impracticable to estimate as the long service leave liability is calculated using a number of factors and assumptions – a key assumption is the long-term discount rate.

The actuarial assessment performed by the Department of Treasury and Finance left the salary inflation rate at 4% for long service leave liability and 3% for annual leave and skills, experience and retention leave liability. As a result, there is no net financial effect resulting from changes in the salary inflation rate.

### 17 DEFERRED INCOME

	2018	2017
	\$ '000	\$ '000
<b>CURRENT</b>		
Deferred income	234	269
	<u>234</u>	<u>269</u>
<b>NON-CURRENT</b>		
Deferred income	1,241	770
	<u>1,241</u>	<u>770</u>
<b>Movement in deferred income</b>		
Carrying amount at the beginning of the period	1,039	1,160
Received during the year	1,319	286
Recognised as income in the Statement of Comprehensive Income	(883)	(407)
Carrying amount at the end of the period	<u>1,475</u>	<u>1,039</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2018

**18 OTHER PROVISIONS**

	2018	2017
	\$ '000	\$ '000
<b>CURRENT</b>		
Workers compensation	102	232
	<u>102</u>	<u>232</u>
<b>NON-CURRENT</b>		
Workers compensation	154	413
	<u>154</u>	<u>413</u>
<b>Movement in provisions</b>		
Opening balance	645	841
Payments	(95)	(343)
Increments/(decrements) in provision	(294)	147
Closing balance	<u>256</u>	<u>645</u>

**Workers compensation**

A liability has been reported to reflect unsettled workers compensation claims. The workers compensation provision is based on an actuarial assessment of the outstanding liability as at 30 June 2018 provided by a consulting actuary engaged through the Office for the Public Sector (a division of the Department of the Premier and Cabinet). The provision is for the estimated cost of ongoing payments to employees as required under current legislation. ForestrySA is responsible for the payment of workers compensation claims.

**19 EQUITY**

	2018	2017
	\$ '000	\$ '000
Retained Earnings	34,789	38,335
Forest Assets reserve	38,513	32,930
Asset revaluation reserve	38,737	39,072
<b>Total Equity</b>	<u>112,039</u>	<u>110,337</u>

Equity represents the residual interest in the net assets of ForestrySA. The South Australian Government holds the equity interest in ForestrySA on behalf of the community.

The asset revaluation reserve and forest assets reserves are used to record increments and decrements in the fair value of land, buildings, plant and equipment and forest assets to the extent that they offset one another. Relevant amounts are transferred to retained earnings when an asset is derecognised.



## NOTES TO THE FINANCIAL STATEMENTS

SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2018

### 20 SEGMENT INFORMATION

For management purposes ForestrySA is organised into two forest regions and the Community Service Obligations portfolio. The reportable segments are:

- Mount Lofly Ranges (MLR): includes the Mt Crawford, Kuitpo and the Second Valley Forests which operate as a single commercial operation.
- Mid North (MN): this region has two forests, located at Wirrabara and Bundaleer.
- Community Service Obligations (CSO): ForestrySA performs under its charter non-commercial operations for the South Australian Government.

Note on the MN forests: The replanting of some sections of the MN forests was considered non-commercial, and this activity required a Ministerial Direction, issued in 2015, to proceed. As a result, this expenditure was included as a CSO within the Funded segment.

The executive and board of ForestrySA monitor the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with profit or loss in the financial statements.

Year ended 30 June 2018	(\$'000)			
	MLR	MN	FUNDED	Total
<b>Income</b>				
Sales - timber products	11,460	256	-	11,716
Comm Service Obligation	-	-	4,379	4,379
Revenues from SA Government	-	-	330	330
Interest	215	71	-	286
Other income	421	162	247	830
<b>Total income before other revenues from SA Government</b>	<b>12,096</b>	<b>489</b>	<b>4,956</b>	<b>17,541</b>
<b>Expenses</b>				
Employee benefits	(2,342)	(319)	(1,995)	(4,656)
Contractors	(8,906)	(177)	(1,650)	(10,733)
Depreciation and amortisation	(714)	(191)	(276)	(1,181)
Materials	(576)	(1)	(97)	(674)
Equipment and vehicle costs	(268)	(2)	(439)	(709)
Council rates	(294)	(25)	-	(319)
Other expenditure	(4,365)	(448)	(1,995)	(6,808)
Net loss from the disposal of non-current assets	-	(1,118)	-	(1,118)
<b>Total expenses</b>	<b>(17,465)</b>	<b>(2,281)</b>	<b>(6,452)</b>	<b>(26,198)</b>
<b>Segment Profit</b>				
Trading profit (loss) before dividend payment, revaluation of forest assets and other revenues from SA Government	<b>(5,369)</b>	<b>(1,792)</b>	<b>(1,496)</b>	<b>(8,657)</b>
<b>Other revenues from SA Government</b>	<b>3,093</b>	<b>388</b>	<b>1,053</b>	<b>4,534</b>
Trading profit before revaluation of forest assets	(2,276)	(1,404)	(443)	(4,123)
Net change in value of forest assets	5,583	-	-	5,583
Property, plant and equipment recorded in asset revaluation surplus	242	-	-	242
<b>Total comprehensive result</b>	<b>3,549</b>	<b>(1,404)</b>	<b>(443)</b>	<b>1,702</b>

The profit/(loss) after income tax equivalents and total comprehensive result are attributable to the SA Government as owner.

**NOTES TO THE FINANCIAL STATEMENTS**  
**SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2018**

**20 SEGMENT INFORMATION (Continued)**

Year ended 30 June 2017	(\$'000)	MLR	MN	FUNDED	Total
<b>Income</b>					
Sales - timber products	13,837	343	-		14,180
Sales - Management Services	91	30	-		121
Comm Service Obligation	-	-	3,559		3,559
Revenues from SA Government	426	8	-		434
Interest	152	81	-		233
Other income	516	231	414		1,161
<b>Total income before other revenues from SA Government</b>	<b>15,022</b>	<b>693</b>	<b>3,973</b>		<b>19,688</b>
<b>Expenses</b>					
Employee benefits	(2,599)	(459)	(1,438)		(4,496)
Contractors	(9,063)	(209)	(1,862)		(11,134)
Depreciation and amortisation	(977)	(272)	(257)		(1,506)
Materials	(415)	(1)	(143)		(559)
Equipment and vehicle costs	(395)	(23)	(354)		(772)
Council rates	(270)	(23)	-		(293)
Impairment of assets	(90)	-	-		(90)
Other expenditure	(5,685)	(529)	(769)		(6,983)
Net loss from the disposal of non-current assets	(1)	(4)	(431)		(436)
<b>Total expenses</b>	<b>(19,495)</b>	<b>(1,520)</b>	<b>(5,254)</b>		<b>(26,269)</b>
<b>Segment Profit</b>					
Trading profit before revaluation of forest assets and other revenues from SA Government	<b>(4,473)</b>	<b>(827)</b>	<b>(1,281)</b>		<b>(6,581)</b>
<b>Other revenues from SA Government</b>	<b>4,472</b>	<b>823</b>	<b>850</b>		<b>6,145</b>
Trading profit before revaluation of forest assets	(1)	(4)	(431)		(436)
Net change in value of forest assets	6,936	-	-		6,936
Total comprehensive result	6,935	(4)	(431)		6,500

The profit/(loss) after income tax equivalents and total comprehensive result are attributable to the SA Government as owner.

## NOTES TO THE FINANCIAL STATEMENTS

SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2018

### 21 COMMITMENTS AND CONTINGENCIES

#### a) Commitments

	2018	2017
	\$ '000	\$ '000
<b>i) Operating lease commitments</b>		
Non cancellable operating leases contracted for but not capitalised in the accounts:		
Due not later than one year	199	206
Due later than one year but not later than five years	432	265
Due later than five years	343	99
Total operating lease commitments	974	570

These operating lease commitments are not recognised in the financial report as liabilities. The operating lease commitments are related to the light vehicle fleet.

	\$ '000	\$ '000
<b>ii) Other commitments</b>		
Due not later than one year	5,657	5,336
Due later than one year but not later than five years	5,065	8,318
Total other commitments	10,722	13,654

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

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

#### b) Contingent Liabilities

##### Defined Benefit Plan

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

In April 2017 ForestrySA was notified by the SA Superannuation Board of a \$2 million actuarially assessed funding deficit as at 30 June 2016 relating to defined benefit members employed by ForestrySA as at 1 July 2014. The funding deficit is expected to be funded over the next 10 to 12 years. In addition to regular contributions in relation to current superannuation benefits ForestrySA has expensed \$230,000 (2017: \$221,000) being the amount paid 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 ForestrySA customers to ForestrySA, which form a security in case of default on payment.

### 22 KEY MANAGEMENT PERSONNEL

Key management personnel of ForestrySA include the Minister, directors, the Chief Executive, executive team members and the Human Resource (HR) advisor who have responsibility for the strategic direction and management of the authority. The compensation detailed below excludes salaries and other benefits the Minister for Primary Industries and Regional Development receives. The Minister's remuneration and allowances are set by the Parliamentary Remuneration Act 1990 and the Remuneration Tribunal of SA respectively and are payable from the Consolidated Account (via the Department of Treasury and Finance) under section 6 the Parliamentary Remuneration Act 1990.

#### (a) Board Members

The following persons held positions on the governing board during the financial year:

I. Kowalick (ceased 31/12/2017)  
J. Roache  
A. McEwen (appointed 1/8/2017)  
S. Ashby

# NOTES TO THE FINANCIAL STATEMENTS

SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2018

## 22 KEY MANAGEMENT PERSONNEL (Continued) (b) Other key management personnel

### Executive

J.P. Coleman  
J. Speed  
J.F. O'Hehir (ceased 13/4/18)  
S. Ware  
C. Gibson  
P. Ginn (ceased 13/4/18)  
A. Moylan  
P. Merry (appointed 18/1/2018)

### Chief Executive

General Manager Business Operations  
General Manager Planning and Development  
Manager Finance and ICT  
Manager Conservation, Recreation, Fire and Safety  
Manager Commercial Forestry Operations  
Manager Community and Recreation  
Manager Commercial Operations

### Other

Hon L. Bignell MP (ceased 18/3/2018)  
Hon T. Whetstone MP (appointed 22/3/2018)  
A. Rae (ceased 31/5/18)

Minister for Forests  
Minister for Primary Industries and Regional Development  
HR Adviser

## (c) Compensation of key management personnel

	2018	2017
	\$ '000	\$ '000
Short term employee benefits paid or due and payable to or on behalf of key management personnel	1,213	1,164
Termination payments paid or due and payable to or on behalf of key management personnel	84	78
Superannuation benefits paid or due and payable to or on behalf of key management personnel	146	132
Total	1,443	1,374

## (d) Remuneration of governing board members

The number of governing board members whose remuneration received or receivable falls within the following bands:

	2018	2017
	\$ '000	\$ '000
\$0 - \$9,999*	1	2
\$30,000 - \$39,999	2	1
\$40,000 - \$49,999	1	1
Total	4	4

The total remuneration received and receivable by those governing board members was \$114,000 (2017:\$98,000) which includes fringe benefits and superannuation contributions. Note, these amounts are also disclosed in note (c) above.

\*In accordance with the Premier and Cabinet Circular No. 016, one SA Government employee (2017: two) did not receive any remuneration for governing board duties during the financial year.

## (e) Transactions with Key Management Personnel and other related parties

Transactions between ForestrySA and its directors are made at arm's length. There have been no such transactions in the financial year (2017: nil).

# NOTES TO THE FINANCIAL STATEMENTS

SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2018

23

## TRANSACTIONS WITH SA GOVERNMENT

The following table discloses revenues, expenses, financial assets and liabilities where the counterparty/transaction is with an entity within the SA Government as at the reporting date, classified according to their nature.

	Note	SA Government		Non-SA Government		Total	
		2018 \$ '000	2017 \$ '000	2018 \$ '000	2017 \$ '000	2018 \$ '000	2017 \$ '000
<b>Income</b>							
Sales - timber products		-	-	11,716	14,180	11,716	14,180
Sales - management services		-	-	-	121	-	121
Comm Service Obligation Funding		4,379	3,559	-	-	4,379	3,559
Other Revenues from SA Government		4,534	6,149	-	-	4,534	6,149
GRN Funding		455	399	-	-	455	399
CSO Deferred Income		(125)	31	-	-	(125)	31
Interest	4(ii)	279	233	7	-	286	233
Other income	4(iii)	-	-	830	1,161	830	1,161
<b>Total Income</b>		<b>9,522</b>	<b>10,371</b>	<b>12,553</b>	<b>15,462</b>	<b>22,075</b>	<b>25,833</b>
<b>Expenses</b>							
Employee benefits	6	244	95	4,412	4,401	4,656	4,496
Contractors		-	-	10,733	11,134	10,733	11,134
Depreciation and amortisation	12,14	-	-	1,181	1,506	1,181	1,506
Materials and equipment		36	54	1,347	1,277	1,383	1,331
Council rates		-	-	319	293	319	293
Impairment of assets		-	-	-	90	-	90
Other expenditure	4(v)	830	975	5,978	6,008	6,808	6,983
Net loss from the disposal of non-current assets	4(iv)	-	-	1,118	436	1,118	436
<b>Total Expenses</b>		<b>1,110</b>	<b>1,124</b>	<b>25,088</b>	<b>25,145</b>	<b>26,198</b>	<b>26,269</b>
<b>Trading profit/(loss) before revaluation of forest assets</b>		<b>8,412</b>	<b>9,247</b>	<b>(12,535)</b>	<b>(9,683)</b>	<b>(4,123)</b>	<b>(436)</b>
<b>Net change in value of forest assets</b>	11	-	-	5,583	6,936	5,583	6,936
<b>Land revaluation recorded in asset revaluation surplus</b>	12	-	-	242	-	242	-
<b>Total comprehensive result</b>		<b>8,412</b>	<b>9,247</b>	<b>(6,710)</b>	<b>(2,747)</b>	<b>1,702</b>	<b>6,500</b>

The profit/(loss) after income tax equivalents and total comprehensive result are attributable to the SA Government as owner.

## Financial Assets

Cash and cash equivalents

Receivables

**Total current financial assets**

**Total financial assets**

## Financial liabilities

Payables

Employee benefits

Deferred income

Other provisions

**Total current financial liabilities**

## Non-current financial liabilities

Payables

Employee benefits

Deferred income

Other provisions

**Total non-current financial liabilities**

**Total financial liabilities**

**Total net financial assets**

		SA Government		Non-SA Government		Total	
		2018 \$ '000	2017 \$ '000	2018 \$ '000	2017 \$ '000	2018 \$ '000	2017 \$ '000
Cash and cash equivalents	7	11,318	11,105	2,389	2,580	13,707	13,685
Receivables	8	5,048	7,122	1,908	3,049	6,956	10,171
<b>Total current financial assets</b>		<b>16,366</b>	<b>18,227</b>	<b>4,297</b>	<b>5,629</b>	<b>20,663</b>	<b>23,856</b>
<b>Total financial assets</b>		<b>16,366</b>	<b>18,227</b>	<b>4,297</b>	<b>5,629</b>	<b>20,663</b>	<b>23,856</b>
<b>Financial liabilities</b>							
Payables	15	239	557	2,988	1,884	3,227	2,441
Employee benefits	16	-	-	440	539	440	539
Deferred income	17	57	47	177	222	234	269
Other provisions	18	102	232	-	-	102	232
<b>Total current financial liabilities</b>		<b>398</b>	<b>836</b>	<b>3,605</b>	<b>2,645</b>	<b>4,003</b>	<b>3,481</b>
<b>Non-current financial liabilities</b>							
Payables	15	-	-	88	97	88	97
Employee benefits	16	-	-	568	628	568	628
Deferred income	17	824	715	417	55	1,241	770
Other provisions	18	154	413	-	-	154	413
<b>Total non-current financial liabilities</b>		<b>978</b>	<b>1,128</b>	<b>1,073</b>	<b>780</b>	<b>2,051</b>	<b>1,908</b>
<b>Total financial liabilities</b>		<b>1,376</b>	<b>1,964</b>	<b>4,678</b>	<b>3,425</b>	<b>6,054</b>	<b>5,389</b>
<b>Total net financial assets</b>		<b>14,990</b>	<b>16,263</b>	<b>(381)</b>	<b>2,204</b>	<b>14,609</b>	<b>18,467</b>

## NOTES TO THE FINANCIAL STATEMENTS

SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2018

### 24 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 ForestrySA's forestry operations cause concentration of credit risk in relation to trade receivables as 82% of the value of transactions for the financial year were transactions with the three largest (Non SA Government) of ForestrySA's customers (2017: 78%, three largest customers).

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 (see also note 21).
- interest may be charged on overdue balances.

#### (ii) Foreign currency risk exposures

As at 30 June 2018 ForestrySA's exposure to foreign currencies is nil (2017: nil).

#### (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.

	Floating rate \$'000	Non-interest bearing \$'000	Fixed interest maturing			2018 Total \$'000	2017 Total \$'000
			1 year or less \$'000	1 to 5 years \$'000	Over 5 years \$'000		
Financial assets:							
Cash and cash equivalents	13,707	-	-	-	-	13,707	13,685
Receivables (1)	-	6,358	-	-	-	6,358	9,304
	13,707	6,358	-	-	-	20,065	22,989
Financial liabilities:							
Payables (2)	-	3,000	-	-	-	3,000	2,269
	-	3,000	-	-	-	3,000	2,269
<b>Net Financial assets/(liabilities)</b>	<b>13,707</b>	<b>3,358</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,065</b>	<b>20,720</b>

(1) Other than prepayments and statutory receivables

(2) Other than employee on-costs and statutory payables

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

#### (iv) Ageing analysis of financial assets

	Carrying Amount \$'000	Not past due and not impaired \$'000	Overdue for less than 30 days \$'000	Overdue for 30-60 days \$'000	Overdue for more than 60 days \$'000	Impaired financial assets \$'000
<b>2018</b>						
Cash and cash equivalents	13,707	13,707	-	-	-	-
Receivables (1)	6,358	6,165	179	12	2	30
	20,065	19,872	179	12	2	30
<b>2017</b>						
Cash and cash equivalents	13,685	13,685	-	-	-	-
Receivables (1)	9,304	7,946	1,310	26	22	30
	22,989	21,631	1,310	26	22	30

(1) Receivable amounts disclosed here exclude amounts relating to statutory receivables (amounts owing from Government). They are carried at cost.

**NOTES TO THE FINANCIAL STATEMENTS**

SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2018

**24 FINANCIAL INSTRUMENTS CONT.****(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.

**(vi) Liquidity risk**

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

**25 EVENTS AFTER REPORTING DATE**

Adjustments are made to amounts recognised in the financial statements, where an event occurs after 30 June and before the date the financial statements are authorised for issue, where those events provide information about conditions that existed at 30 June.

There were no events that required adjustments.

**26 CHANGE OF ACCOUNTING POLICY**

In 2017-18 Forestry SA changed its accounting policy in relation to valuation of Forest Assets (previously reported as Standing Timber). The valuation was previously based on a single forest rotation and is now based on multiple rotations. The change in accounting policy was considered appropriate as the future rotations form part of sustainable business activity and would be taken into account in any market transaction. The change has resulted in a reduction in the value of biological assets because in Australasia the earning rate on forest investment is generally less than the implied discount rate.

	2016 Reported \$'000	2016 Adjusted \$'000	2017 Reported \$'000	2017 Adjusted \$'000
<b>Statement of Comprehensive Income</b>				
Net change in value of Forest Assets	(1,969)	1,669	5,962	6,936
Profit/(loss) before income tax equivalent	(1,932)	1,706	5,526	6,500
Total comprehensive result	(3,010)	628	5,526	6,500
<b>Statement of Financial Position</b>				
Forest Assets - Current	4,208	4,208	5,111	5,111
Forest Assets - Non-current	41,780	26,763	46,839	32,796
Other Reserves	80,177	65,160	86,045	72,002
Equity	122,424	107,407	124,380	110,337
<b>Statement of Changes in equity</b>				
Balance of Forest Assets reserve at the start of year	42,980	24,325	41,011	25,994
Total comprehensive result	(3,010)	628	5,526	6,500
Balance of Forest Assets reserve at the end of the year	41,011	25,994	46,973	32,930
<b>Statement of Cashflows</b>				
No impacts on the Statement of Cashflows				