

South Australian Forestry Corporation

Financial report
for the year ended
30 June 2020



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To the Chair of the Board South Australian Forestry Corporation

Opinion

I have audited the financial report of South Australian Forestry Corporation for the financial year ended 30 June 2020.

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 2020, its financial performance and its cash flows for the year then ended in accordance with relevant Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2020
- a Statement of Financial Position as at 30 June 2020
- a Statement of Changes in Equity for the year ended 30 June 2020
- a Statement of Cash Flows for the year ended 30 June 2020
- notes, comprising significant accounting policies and other explanatory information
- a Certificate from the Chair, Chief Executive and the Manager Finance and ICT.

Basis for opinion

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

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

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

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

In preparing the financial report, the Chief Executive is responsible for assessing the entity's ability to continue as a going concern, 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

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 2020.

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

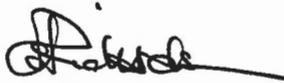
As part of an audit in accordance with Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the South Australian Forestry Corporation's internal control

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief Executive
- conclude on the appropriateness of the 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 Chief Executive and members of the Board about, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during the audit.



Andrew Richardson

Auditor-General

25 September 2020

South Australian Forestry Corporation

**Financial Statements
for the year ended
30 June 2020**

SOUTH AUSTRALIAN FORESTRY CORPORATION

Certification of the 2019/20 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 2020 and the results of its operations 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.

Signed in accordance with a resolution of the Board on 23 September 2020.



Julian Speed
CHIEF EXECUTIVE
SOUTH AUSTRALIAN FORESTRY CORPORATION

23 September 2020



Sara Ware
MANAGER FINANCE AND ICT
SOUTH AUSTRALIAN FORESTRY CORPORATION

23 September 2020



June Roache
CHAIR
SOUTH AUSTRALIAN FORESTRY CORPORATION

23 September 2020

South Australian Forestry Corporation
Statement of Comprehensive Income
for the year ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
<u>Income</u>			
Sales - timber products	4.1	12,431	13,514
Revenues from SA Government	4.2	4,628	4,540
Interest	4.3	213	328
Other income	4.4	1,296	944
Net gain from the disposal of property, plant and equipment	4.5	5	-
Total income		18,573	19,326
<u>Expenses</u>			
Employee benefits	2.3	4,210	4,632
Contractors		9,332	10,603
Depreciation and amortisation	3.2	1,243	930
Materials		418	544
Equipment and vehicle costs		490	995
Council rates		292	296
Other expenses	3.1	3,416	4,522
Net loss from the disposal of property, plant and equipment	4.5	-	128
Borrowing costs	3.3	23	-
Total expenses		19,424	22,650
Trading profit/(loss) before revaluation of non-current assets		(851)	(3,324)
Net change in value of forest assets	5.5	9,145	2,113
Net revaluation decrement of other non-current assets	5.2	-	(3,512)
Profit/(loss) before income tax equivalent		8,294	(4,723)
Income tax equivalent expense		-	-
Profit/(loss) after income tax equivalent		8,294	(4,723)
<u>Other Comprehensive Income</u>			
Items that will not be reclassified to profit and loss			
Changes in land revaluation surplus	5.2/5.7	6,665	(3)
Changes in property, plant and equipment asset revaluation surplus	5.2	-	1,433
Total other comprehensive income		6,665	1,430
Total comprehensive result		14,959	(3,293)

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

South Australian Forestry Corporation
Statement of Financial Position

as at 30 June 2020

	Note	2020 \$'000	2019 \$'000
<u>Current assets</u>			
Cash and cash equivalents	6.1	20,005	18,194
Receivables	6.2	4,607	6,425
Inventories	5.6	199	160
Forest assets	5.5	6,323	3,559
Assets classified as held for sale	5.7	7,073	6,237
Total current assets		38,207	34,575
<u>Non-current assets</u>			
Receivables	6.2	-	2,899
Forest assets	5.5	48,425	42,044
Property, plant and equipment	5.1	49,291	43,691
Intangible assets	5.4	93	22
Total non-current assets		97,809	88,656
Total assets		136,016	123,231
<u>Current liabilities</u>			
Payables	7.1	1,531	1,507
Financial liabilities	7.2	141	-
Contract liabilities	7.3	2,899	2,899
Employee benefits	2.4	493	455
Other provisions	7.4	108	104
Other liabilities	7.5	405	365
Total current liabilities		5,577	5,330
<u>Non-current liabilities</u>			
Payables	7.1	92	96
Financial liabilities	7.2	513	-
Contract liabilities	7.3	-	2,899
Employee benefits	2.4	601	633
Other provisions	7.4	393	162
Other liabilities	7.5	5,135	5,365
Total non-current liabilities		6,734	9,155
Total liabilities		12,311	14,485
Net Assets		123,705	108,746
<u>Equity</u>			
Retained earnings		27,117	27,968
Other reserves		96,588	80,778
Total Equity		123,705	108,746

The accompanying notes form part of these financial statements. The total equity is attributable to the SA Government as owner.

South Australian Forestry Corporation
Statement of Changes in Equity
for the year ended 30 June 2020

	Note	Asset revaluation surplus \$'000	Forest Assets reserve \$'000	Retained earnings \$'000	Total Equity \$'000
Balance at 1 July 2018		38,737	38,513	34,789	112,039
Net result for 2018-19					
Gain/loss on revaluation of land	5.2	(3)	-	-	(3)
Gain/loss on revaluation of plant and equipment	5.2	1,433	-	-	1,433
Profit/(loss) for the period		-	-	(4,723)	(4,723)
Total comprehensive result for 2018-19		1,430	-	(4,723)	(3,293)
Transfer between equity components		(15)	2,113	(2,098)	-
Balance at 30 June 2019		40,152	40,626	27,968	108,746
Net result for 2019-20					
Gain/loss on revaluation of land	5.2/5.7	6,665	-	-	6,665
Profit/(loss) for the period		-	-	8,294	8,294
Total comprehensive result for 2019-20		6,665	-	8,294	14,959
Transfer between equity components		-	9,145	(9,145)	-
Balance at 30 June 2020		46,817	49,771	27,117	123,705

The accompanying notes form part of these financial statements. All changes in equity are attributable to the SA Government as owner.

South Australian Forestry Corporation
Statement of Cash Flows
for the year ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
<u>Cash flows from operating activities</u>			
<i>Cash inflows</i>			
Receipts from customers		17,199	25,352
Receipts from SA Government		4,628	3,401
Interest received		193	323
GST recovered from the ATO		(527)	(394)
Cash generated from operations		21,493	28,682
<i>Cash outflows</i>			
Employee benefits payments		(4,204)	(4,552)
Payments for supplies and services		(15,029)	(19,007)
Interest paid		(23)	-
Cash used in operations		(19,256)	(23,559)
Net cash provided by/(used in) operating activities	8.2	2,237	5,123
<u>Cash flows from investing activities</u>			
<i>Cash inflows</i>			
Proceeds from the sale of property, plant and equipment		5	88
Cash generated from investing activities		5	88
<i>Cash outflows</i>			
Purchase of property, plant and equipment		(188)	(724)
Purchase of intangible assets		(93)	-
Cash used in investing activities		(281)	(724)
Net cash provided by/(used in) investing activities		(276)	(636)
<u>Cash flows from financing activities</u>			
<i>Cash outflows</i>			
Repayment of leases		(150)	-
Cash used in financing activities		(150)	-
Net cash provided by/(used in) financing activities		(150)	-
Net increase/(decrease) in cash and cash equivalents		1,811	4,487
Cash and cash equivalents at the beginning of the period		18,194	13,707
Cash and cash equivalents at the end of the period	8.2	20,005	18,194

The accompanying notes form part of these financial statements.

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1. About the South Australian Forestry Corporation

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

Key responsibilities of ForestrySA are to:

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

Green Triangle agency arrangement

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

1.1. Basis of preparation

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

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

For the 2019-20 financial statements ForestrySA adopted *AASB 16 - Leases*. Further information is provided in note 9.

The financial statements are prepared based on a 12 month reporting period and presented in Australian currency. The historical cost convention is used unless a different measurement basis is specifically disclosed in the note associated with the item measured.

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

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

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

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

1.2. Segment Reporting

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

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

South Australian Forestry Corporation
Statement of Comprehensive Income by Operating Segment
for the year ended 30 June 2020

	Commercial		Non-Commercial		Total	
	2020	2019	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Income						
Sales - timber products	12,431	13,514	-	-	12,431	13,514
Revenues from SA Government	-	-	4,628	4,540	4,628	4,540
Interest	213	328	-	-	213	328
Other income	1,296	708	-	236	1,296	944
Net gain from the disposal of property, plant and equipment	5	-	-	-	5	-
Total income	13,945	14,550	4,628	4,776	18,573	19,326
Expenses						
Employee benefits	2,305	2,825	1,905	1,807	4,210	4,632
Contractors	8,104	9,559	1,228	1,044	9,332	10,603
Depreciation and amortisation	773	668	470	262	1,243	930
Materials	342	461	76	83	418	544
Equipment and vehicle costs	93	508	397	487	490	995
Council rates	292	286	-	10	292	296
Other expenses	2,401	3,353	1,015	1,169	3,416	4,522
Net loss from the disposal of property, plant and equipment	-	45	-	83	-	128
Borrowing costs	2	-	21	-	23	-
Total expenses	14,312	17,705	5,112	4,945	19,424	22,650
Net result	(367)	(3,155)	(484)	(169)	(851)	(3,324)
Net change in value of forest assets	9,145	2,113	-	-	9,145	2,113
Net revaluation decrement of other non-current assets	-	(2,721)	-	(791)	-	(3,512)
Net result before income tax equivalent	8,778	(3,763)	(484)	(960)	8,294	(4,723)
Income tax equivalent expense	-	-	-	-	-	-
Net result after income tax equivalent	8,778	(3,763)	(484)	(960)	8,294	(4,723)
Other Comprehensive Income						
Items that will not be reclassified to net result						
Changes in land revaluation surplus	6,665	246	-	(249)	6,665	(3)
Changes in property, plant and equipment asset revaluation surplus	-	233	-	1,200	-	1,433
Total other comprehensive income	6,665	479	-	951	6,665	1,430
Total comprehensive result	15,443	(3,284)	(484)	(9)	14,959	(3,293)

1.3. Impact of COVID-19 pandemic

The COVID-19 pandemic has had little impact on the operations of ForestrySA despite industry concerns regarding ongoing market demand and logistics continuity.

1.4. Significant transactions with government related entities

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

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

2. Board, committees and employees

2.1. Key management personnel

Key management personnel of ForestrySA include the Minister, Board, committee members, the Chief Executive and the members of the Leadership Team.

Total compensation for key management personnel was \$936,000 in 2019-20 and \$1,043,000 in 2018-19.

The compensation disclosed in this note 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*.

	2020 \$'000	2019 \$'000
Compensation		
Salaries and other short term employee benefits	803	870
Post-employment benefits	74	99
Termination Benefits	59	74
Total	936	1,043

Transactions with key management personnel and other related parties

There have been no such transactions in the financial year (2019: nil).

2.2. Board and committee members

Members during the 2019-20 financial year were:

Board

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

Audit and Risk Committee

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

Board and committee remuneration

	2020 \$ '000	2019 \$ '000
The number of governing board members whose remuneration received or receivable falls within the following bands:		
\$0 - \$19,999*	1	5
\$40,000 - \$59,999	2	1
Total number of members	3	6

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

The total remuneration received and receivable by those governing board members was \$98,000 (2019: \$77,000) which includes fringe benefits and superannuation contributions.

2.3. Employee benefits expenses

	2020 \$ '000	2019 \$ '000
Salaries and wages	3,166	3,446
Long service leave	57	134
Skills and experience retention leave	10	8
Annual leave	248	277
Employment on-costs - superannuation	558	583
Employment on-costs - other	171	184
Total employee benefits expenses	4,210	4,632

Employment on-costs - superannuation

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

Executive remuneration

	2020 No	2019 No
The number of employees whose remuneration received or receivable falls within the following bands:		
\$151,000 to \$154,000 *	-	1
\$154,001 to \$174,000	2	1
\$234,001 to \$254,000	-	1
\$254,001 to \$274,000	1	-
Total number of employees	3	3

* This band has been included for the purposes of reporting comparative figures based on the executive base level remuneration rate for 2019.

The total remuneration received by executive employees for the year was \$0.583 million (2019: \$0.561 million).

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

2.4. Employee benefits liability

	2020 \$'000	2019 \$'000
<u>Current</u>		
Accrued salaries and wages	114	92
Annual leave	234	201
Long service leave	133	146
Skills and experience retention leave	12	16
Total current employee benefits	493	455
<u>Non-current</u>		
Long service leave	601	633
Total non-current employee benefits	601	633
Total employee benefits	1,094	1,088

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

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

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

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

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

Long service leave

The liability for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Details about the measurement of long service leave liability is provided at note 11.1.

3. Expenses

Employee benefits expenses are disclosed in note 2.3.

3.1. Other expenses

	2020	2019
	\$'000	\$'000
Export - shipping	-	1,032
Export - marketing & other	-	593
Consultants	23	3
Information and communications technology	691	609
Government Radio Network	429	417
Workers compensation claims	104	202
UniSA Research Agreement	500	477
Short term leases	7	-
Operating lease payments	-	263
Other	1,662	926
Total other expenses	3,416	4,522

Operating leases payments

Operating lease payments (less any lease incentives) are recognised on a straight-line basis over the lease term. This information is provided for 2018-19 only as AASB 16 *Leases* does not distinguish between operating and finance leases for lessees.

	2020	2019
	\$ '000	\$ '000
Operating lease minimum payments	-	263
Total operating lease payments	-	263

Consultants

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

	No	2020	No	2019
		\$ '000		\$ '000
Below \$10,000	2	10	1	3
Above \$10,000	1	13	-	-
Total	3	23	1	3

Other

Audit fees paid / payable to the Auditor-General's Department relating to work performed under the Public Finance and Audit Act were \$71,000 (2019: \$70,000). No other services were provided by the Auditor-General's Department.

3.2. Depreciation and amortisation

	2020	2019
	\$'000	\$'000
Buildings and structures	582	365
Plant and equipment	315	303
Right-of-use vehicles	160	-
Roads and land improvements	164	123
Intangible assets	22	139
Total depreciation and amortisation	1,243	930

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

Depreciation on buildings and structures increased due to the establishment of a new office building.

Useful life

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

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

Review of accounting estimates

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

3.3. Borrowing costs

	2020	2019
	\$'000	\$'000
Interest expense on lease liabilities	23	-
Total borrowing costs	23	-

ForestrySA does not capitalise borrowing costs.

3.4. Taxation

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

4. Income

4.1. Revenues from sales - timber products

	2020	2019
	\$'000	\$'000
Revenue from log sales	12,431	13,514
Total revenues from sales - timber products	12,431	13,514

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

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

Contract balances

	2020	2019
	\$'000	\$'000
Contract receivables	2,899	5,798
Contract liabilities	2,899	5,798

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

4.2. Revenues from SA Government

	2020	2019
	\$'000	\$'000
Revenues from SA Government		
Community Service Obligation funding (1)	4,116	4,102
Government radio network funding	429	417
Deferred revenues from SA Government (1)	83	21
Net revenues from SA Government	4,628	4,540

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

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

4.3. Interest

	2020	2019
	\$'000	\$'000
Interest received	213	328
Total interest revenue	213	328

4.4. Other income

	2020	2019
	\$'000	\$'000
Leases and Licences	619	432
Other revenue from non SA Government entities	677	512
Other income	1,296	944

Leases and Licences

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

Other Revenue

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

4.5. Net gain from the disposal of property, plant and equipment

	2020	2019
	\$'000	\$'000
<u>Land and buildings:</u>		
Proceeds from disposal	-	-
Less expenses on disposal	-	(42)
Less carrying amount of assets disposed	-	(12)
Net gain/(loss) from disposal of land and buildings	-	(54)
<u>Plant and equipment:</u>		
Proceeds from disposal	5	130
Less carrying amount of assets disposed	-	(176)
Net gain/(loss) from disposal of plant and equipment	5	(46)
<u>Roads and land improvements</u>		
Proceeds from disposal	-	-
Less carrying amount of assets disposed	-	(28)
Net gain/(loss) from disposal of plant and equipment	-	(28)
<u>Total assets:</u>		
Total proceeds from disposal	5	130
Less expenses on disposal	-	(42)
Less total carrying amount of assets disposed	-	(216)
Total net gain (loss) from disposal of assets	5	(128)

5. Non-financial assets

5.1. Property, plant and equipment by asset class

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

	2020 \$'000	2019 \$'000
<u>Land and buildings</u>		
Land at fair value	39,201	33,388
Buildings at fair value	6,578	6,545
Accumulated depreciation at the end of the period	(1,063)	(490)
Total land and buildings	44,716	39,443
<u>Road and land improvements</u>		
Road and land improvements at fair value	3,883	3,776
Accumulated depreciation at the end of the period	(2,223)	(2,061)
Total leasehold improvements	1,660	1,715
<u>Plant and equipment</u>		
Plant and equipment at fair value	3,469	3,921
Accumulated depreciation at the end of the period	(1,198)	(1,388)
Total plant and equipment	2,271	2,533
<u>Right-of-use plant and equipment</u>		
Right-of-use plant and equipment at cost	787	-
Accumulated depreciation at the end of the period	(143)	-
Total right-of-use plant and equipment	644	-
Total property, plant and equipment	49,291	43,691

5.2. Property, plant and equipment owned by ForestrySA

Property, plant and equipment owned by ForestrySA with a value equal to or in excess of \$10,000 is capitalised, otherwise it is expensed. Property, plant and equipment owned by ForestrySA is recorded at fair value. Detail about ForestrySA's approach to fair value is set out in note 11.2.

Plant and equipment includes nil fully depreciated plant and equipment still in use.

Impairment

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

Reconciliation 2019-20

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

Reconciliation 2018-19

	Land \$'000	Buildings and structures \$'000	Roads and land improvements \$'000	Plant and equipment \$'000	Total \$'000
Carrying amount at 1 July 2018	33,142	8,025	1,630	3,490	46,287
Additions / transfers	-	417	265	42	724
Disposals	-	(12)	(28)	(177)	(217)
Transfers between classes	-	25	(25)	-	-
Assets reclassified to or from assets held for sale	249	-	-	(480)	(231)
Revaluation increments	246	1,160	1	770	2,177
Revaluation decrements	(249)	(3,195)	(5)	(809)	(4,258)
Depreciation charge for the year	-	(365)	(123)	(303)	(791)
Carrying amount at 30 June 2019	33,388	6,055	1,715	2,533	43,691

5.3. Property, plant and equipment leased by ForestrySA

Property, plant and equipment leased by ForestrySA is recorded at cost. Additions to leased property, plant and equipment during 2019-20 were \$118,000 (2018-19 nil).

Short-term leases of 12 months or less and low value leases where the underlying asset value is less than \$15,000 are not recognised as right-of-use assets. The associated lease payments are recognised as an expense and are disclosed in note 3.2.

ForestrySA has a limited number of leases:

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

The lease liabilities related to the right-of-use assets are disclosed in note 7.2. ForestrySA's maturity analysis of its lease liabilities is disclosed in note 11.3. Expenses related to leases, including depreciation and interest expenses, are disclosed in note 3. Cash outflows related to leases are disclosed in note 8.2.

Impairment

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

5.4. Intangible assets

	2020 \$'000	2019 \$'000
<u>Computer software</u>		
Purchased computer software	2,592	2,592
Accumulated amortisation	(2,592)	(2,570)
Total computer software	-	22
<u>Work in Progress</u>		
Additions	93	-
Total work in progress	93	-
Total intangible assets	93	22

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

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

Reconciliation 2019-20

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

Reconciliation 2018-19

	Total \$'000
Carrying amount at 1 July 2018	161
Amortisation charge for the year	(139)
Carrying amount at 1 July 2019	22

5.5. Forest assets

Forest Assets are recorded at fair value. Detail about ForestrySA's approach to fair value is set out in note 11.2.

	2020 \$'000	2019 \$'000
<u>Current</u>		
Current portion of forest assets valuation	6,323	3,559
Total current forest assets	6,323	3,559
<u>Non-current</u>		

Non-current portion of forest assets valuation	48,425	42,044
Total non-current forest assets	48,425	42,044

Reconciliation 2019-20

	Total \$'000
FOREST ASSETS	
Carrying amount at 1 July 2019	45,603
Other revaluation (impairment) recorded in statement of comprehensive income	9,145
Carrying amount at 1 July 2020	54,748

Reconciliation 2018-19

	Total \$'000
FOREST ASSETS	
Carrying amount at 1 July 2018	43,490
Other revaluation (impairment) recorded in statement of comprehensive income	2,113
Carrying amount at 1 July 2019	45,603

ForestrySA recognises the multiple rotation forest valuation, being \$54,748,000 (2019: \$45,603,000). More information is provided at Note 11.2.

5.6. Inventories

	2020 \$'000	2019 \$'000
Current – held for distribution at no or nominal amount		
Materials at cost	20	13
Total current inventories held for distribution at no or nominal amount	20	13
Current – held for sale		
Materials at cost	179	147
Total current other inventories – other than those held for distribution at no or nominal amount	179	147
Total inventories	199	160

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

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

5.7. Non-current assets classified as held for sale

	2020 \$'000	2019 \$'000
Land	6,403	5,550
Buildings	142	142
Property, plant and equipment	528	545
Total non-current assets classified as held for sale	7,073	6,237

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, except for events or circumstances beyond the entity's control where it is still committed to sell the asset.

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

6. Financial assets

6.1. Cash and cash equivalents

	2020	2019
	\$'000	\$'000
Cash	1	1
Deposits	4,253	2,607
Cash Management Fund	15,751	15,586
Total cash and cash equivalents	20,005	18,194

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.

6.2. Receivables

	2020	2019
	\$'000	\$'000
Current		
Trade receivables - SA Gov	15	1,139
Trade receivables - Non SA Gov	1,848	2,186
Contract receivables	2,899	2,899
Less impairment loss on receivables	(218)	(30)
Accrued revenue	5	24
Prepayments	58	77
GST receivable	-	130
Total current receivables	4,607	6,425

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

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

Refer to note 11.3 for further information on risk management.

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

The net amount of GST payable to the ATO is included as part of receivables.

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

Allowance for impairment loss on receivables

	2020	2019
	\$'000	\$'000
Carrying amount at the beginning of the period	30	30
Amounts written off	-	-
Amounts recovered during the year	-	-
Increase / (Decrease) in allowance recognised in profit or loss	188	-
Carrying amount at the end of the period	218	30

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

Refer to note 11.3 for details regarding credit risk and the methodology for determining impairment.

7. Liabilities

Employee benefits liabilities are disclosed in note 2.4.

7.1. Payables

	2020	2019
	\$'000	\$'000
<u>Current</u>		
Trade payables	1,237	1,381
Accrued expenses	90	70
GST payable	146	-
Employment on-costs	58	56
Total current payables	1,531	1,507
<u>Non-current</u>		
Employment on-costs	92	96
Total non-current payables	92	96
Total payables	1,623	1,603

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

Employment on-costs

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

ForestrySA contributes to several State Government and externally managed superannuation schemes. These contributions are treated as an expense when they occur. There 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 is 42% (2019: 41%). The average factor for the calculation of employer superannuation on-costs remains at the 2019 rate of 9.8%. These rates are used in the employment on-cost calculation. The net financial effect of the changes in the current financial year is immaterial. The impact on future periods is impracticable to estimate.

7.2. Financial liabilities

	Note	2020 \$'000	2019 \$'000
Current			
Lease liabilities	5.3	141	-
Total current financial liabilities		141	-
Non-current			
Lease liabilities	5.3	513	-
Total non-current financial liabilities		513	-
Total other liabilities		654	-

ForestrySA measures financial liabilities at amortised cost.

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

All material cash outflows are reflected in the lease liabilities disclosed above. For 2018-19 there were no finance leases to be recognised in accordance with AASB 117.

7.3. Contract liabilities

	2020 \$'000	2019 \$'000
Current		
Contract liability	2,899	2,899
Total current contract liabilities	2,899	2,899
Non-current		
Contract liability	-	2,899
Total non-current contract liabilities	-	2,899
Total contract liabilities	2,899	5,798

Under the definitions within AASB 15, guaranteed volumes of log sales classify as an 'unconditional right to consideration' and are recorded as a receivable (asset) (refer to note 6.2). An offsetting contract liability is also recognised.

7.4. Other provisions

	2020 \$'000	2019 \$'000
Current		
Provision for workers compensation	108	104
Total current provisions	108	104
Non-current		
Provision for workers compensation	393	162
Total non-current provisions	393	162
Total provisions	501	266

Movement in provisions

	2020
	\$'000
Carrying amount at the beginning of the period	266
Additional provisions recognised	235
Carrying amount at the end of the period	501

A provision 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 2020 provided by a consulting actuary engaged through the Office of the Commissioner for Public Sector Employment. The provision is for the estimated cost of ongoing payments to employees as required under current legislation.

ForestrySA is responsible for the payment of workers compensation claims.

7.5. Other liabilities

	2020	2019
	\$'000	\$'000
<u>Current</u>		
Unearned revenue	405	365
Total current other liabilities	405	365
<u>Non-current</u>		
Unearned revenue	5,135	5,365
Total non-current other liabilities	5,135	5,365
Total other liabilities	5,540	5,730

ForestrySA has leases and licences for which payment has been received in advance, \$4,386,000 of which relates to Crown Leases over land in the Mid North of South Australia (2019: \$4,294,000).

8. Other disclosures

8.1. Equity

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

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

8.2. Cash flow

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

Leases

	2020	2019
	\$'000	\$'000
Plant and equipment – right-of-use vehicles	232	-
Total cash outflow for leases	232	-

Cash flow reconciliation

	2020	2019
	\$'000	\$'000
<u>Reconciliation of cash and cash equivalents at the end of the reporting period</u>		
Cash and cash equivalents disclosed in the Statement of Financial Position	20,005	18,194
Balance as per the Statement of Cash Flows	20,005	18,194

Reconciliation of net cash provided by operating activities to net result

Net cash provided by/(used in) operating activities	8,294	(4,723)
<u>Add/less non-cash items</u>		
Depreciation and amortisation expense of non-current assets	1,243	930
(Gain)/loss on sale or disposal of non-current assets	(5)	128
(Gain)/loss on revaluation of forest assets	(9,145)	(2,113)
(Gain)/loss on revaluation of other non-current assets	-	3,512
<u>Movement in assets and liabilities</u>		
(Increase)/decrease in receivables	4,717	3,430
(Increase)/decrease in inventories	(39)	1,326
Increase/(decrease) in payables	20	(1,712)
Increase/(decrease) in employee benefits	6	80
Increase/(decrease) in provisions	235	10
Increase/(decrease) in contract liabilities	(2,899)	-
Increase/(decrease) in other liabilities	(190)	4,255
Net result	2,237	5,123

9. Changes in accounting policy

9.1. AASB 16 Leases

AASB 16 sets out a comprehensive model for lessee accounting that addresses recognition, measurement, presentation and disclosure of leases. Lessor accounting is largely unchanged. AASB 16 *Leases* replaces AASB 117 *Leases* and related interpretations.

The adoption of AASB 16 *Leases* from 1 July 2019 resulted in adjustments to the amounts recognised from a lessee perspective in the financial statements:

- AASB 117 *Leases* only required the recognition of an asset and lease liability in relation to finance leases. AASB 16 *Leases* applies a comprehensive model to all leases. Applying AASB 16 *Leases* will result in leases previously classified as operating leases having right-of-use assets and related lease liabilities being recognised in the Statement of Financial Position.
- AASB 117 *Leases* resulted in operating lease payments being recognised as an expense under Supplies and Services. AASB 16 *Leases* largely replaces this with depreciation expenses that represents the use of the right-of-use asset and borrowing costs that represent the cost associated with financing the right-of-use asset.

Impact on retained earnings

The total impact on ForestrySA's retained earnings as at 1 July 2019 is as follows:

	\$'000
Closing retained earnings 30 June 2019 – AASB 117	27,968
<u>Assets</u>	
Property, Plant and Equipment	694
<u>Liabilities</u>	
Financial liabilities	(694)
Opening retained earnings 1 July 2019 – AASB 16	27,968

ForestrySA disclosed in its 2018-19 financial report total undiscounted operating lease commitments of \$936,000 under AASB 117.

Accounting policies on transition

AASB 16 sets out accounting policies on transition in its transitional provisions. The *Treasurer's Instructions (Accounting Policy Statements)* requires certain choices in those transitional provisions to be taken. ForestrySA has adopted the following accounting policies:

- to apply AASB 16 retrospectively. The cumulative effect of initially applying the Standard was recognised at 1 July 2019. Comparatives have not been restated.
- at 1 July 2019 AASB 16 was applied only to contracts that were previously identified as containing a lease under AASB 117 and related interpretations.
- the initial measurement of lease liability was the present value of the remaining lease payments discounted using the relevant incremental borrowing published by the Department of Treasury and Finance rate as at 1 July 2019 based on the SA Government's cost of borrowing. The average weighted incremental borrowing rate for this purpose was 3.71%.
- the initial measurement of right-of-use assets has been calculated as an amount equal to the lease liability on transition adjusted for prepaid or accrued lease payments and lease incentive liabilities.

Ongoing accounting policies

The *Treasurer's Instructions (Accounting Policy Statements)* specify required accounting policies for public authorities in applying AASB 16. These requirements are reflected in ForestrySA's accounting policies as follows:

- right-of-use assets and lease liabilities are not recognised for leases of low value assets, being assets, which have a value of \$15,000 or less, nor short-term leases, being those with a lease term of 12 months or less.
- ForestrySA, in the capacity of a lessee, does not include non-lease components in lease amounts.
- right-of-use assets are not measured at fair value on initial recognition for leases that have significantly below-market terms and conditions principally to enable ForestrySA to further its objectives.
- right-of-use assets are subsequently measured applying a cost model.

Significant accounting policies relating to the application of AASB 16 are disclosed under relevant notes and are referenced at note 5.3.

10. Outlook

10.1. Unrecognised contractual commitments

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

Expenditure commitments

	2020	2019
	\$'000	\$'000
Within one year	5,819	4,781
Later than one year but not longer than five years	5,240	866
Total expenditure commitments	11,059	5,647

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.

Operating lease commitments

	2020	2019
	\$'000	\$'000
<u>Commitments in relation to operating leases contracted for at the reporting date but not recognised as liabilities are payable as follows:</u>		
Within one year	-	218
Later than one year but not longer than five years	-	457
Later than five years	-	261
Total operating lease commitments	-	936
Representing:		
Cancellable operating leases	-	-
Non-cancellable operating leases	-	936
Total operating lease commitments	-	936

Operating lease commitments are provided for the comparative year only as *AASB 16 Leases* does not distinguish between operating and finance leases for the lessee.

Lease receivable commitments

	2020	2019
	\$'000	\$'000
<u>Commitments in relation to leases contracted for at the reporting date but not recognised as receivables are as follows:</u>		
Within one year	294	289
Later than one year but not longer than five years	1,013	995
Later than five years	61	303
Total lease receivable commitments	1,368	1,587

Lease receivable commitments relate to the office building located in Mt Gambier where two tenants share the office space with ForestrySA. A new contract is yet to be negotiated for one of the tenants.

10.2. Contingent assets and liabilities

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

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

ForestrySA has lodged an insurance claim with SAicorp following the Cudlee Creek bushfire on 20 December 2019. The claim has been accepted but is still under review. There is no information as to the potential timing and amount of the claim settlement.

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

In April 2017, ForestrySA was notified by the SA Superannuation Board of a \$2 million actuarially assessed funding deficit as at 30 June 2016 relating to defined benefit members employed by ForestrySA as at 1 July 2014. The funding deficit 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 \$249,000 (2019: \$239,000) 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.

The actuarial reviews are generally conducted every three years. The results of the review due on 30 June 2019 are expected to be provided to ForestrySA in October 2020.

10.3. Impact of standards not yet effective

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

10.4. COVID-19 pandemic outlook

The COVID-19 pandemic may impact the operations of ForestrySA in 2020-21. The key expected impacts are:

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

10.5. Events after the reporting period

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

11. Measurement and risk

11.1. Long service leave liability – measurement

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

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

AASB 119 *Employee Benefits* requires the use of the yield on long-term Commonwealth Government bonds as the discount rate in the measurement of the long service leave liability. The yield on long-term Commonwealth Government bonds has decreased from 2019 (1.25%) to 2020 (0.75%).

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

The net financial effect of the changes to actuarial assumptions in the current financial year is a decrease in the long service leave liability of \$59,000 and employee benefits expense of \$59,000. The impact on future periods is impracticable to estimate as the long service leave liability is calculated using several demographical and financial assumptions – including the long-term discount rate.

The actuarial assessment performed by the Department of Treasury and Finance decreased the salary inflation rate to 2.5% for long service leave liability (2019: 4%). As a result, there is a decrease in the reported long service leave liability resulting from changes in the salary inflation rate.

11.2. Fair value

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

Initial recognition

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

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

Revaluation

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

The revaluation process is reviewed by the Chief Finance Officer and audit committee as required.

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

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

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

Fair value hierarchy

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

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

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

During 2020 and 2019, ForestrySA had no valuations categorised into level 1; there were no transfers of assets between level 1 and 2 fair value hierarchy levels and there were no changes in valuation technique.

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

	Note	Level 2 \$'000	Level 3 \$'000	Total \$'000
<u>Recurring fair value measurements</u>				
Forest assets	5.5	-	54,748	54,748
Land	5.2	39,201	-	39,201
Buildings and structures	5.2	-	5,516	5,516
Roads and land improvements	5.2	-	1,658	1,658
Plant and equipment	5.2	-	2,272	2,272
Total recurring fair value measurements		39,201	64,194	103,395
<u>Non-recurring fair value measurements</u>				
Assets held for sale	5.7	-	7,073	7,073
Total non-recurring fair value measurements		-	7,073	7,073
Total		39,201	71,267	110,468

Fair value classification – non-financial assets at 30 June 2019

	Note	Level 2 \$'000	Level 3 \$'000	Total \$'000
Recurring fair value measurements				
Forest assets	5.5	-	45,603	45,603
Land	5.2	33,388	-	33,388
Buildings and structures	5.2	-	6,055	6,055
Roads and land improvements	5.2	-	1,715	1,715
Plant and equipment	5.2	-	2,533	2,533
Total recurring fair value measurements		33,388	55,906	89,294
Non-recurring fair value measurements				
Assets held for sale	5.7	-	6,237	6,237
Total non-recurring fair value measurements		-	6,237	6,237
Total		33,388	62,143	95,531

Land

An independent valuation of land owned by ForestrySA was performed by a Certified Practising Valuer from the State Valuation Office, as at 30 June 2020.

Fair value of land has been determined using the market approach. Relevant general and economic factors were considered in arriving at a value opinion, including investigation of recent sales of comparable properties. Discounts by region were applied to reflect restrictions on potential highest and best use imposed by legislation on land operated by ForestrySA. The discount rates used this year are Mount Lofty Ranges 60% (2019: 65%), Green Triangle 45% (2019: 40%) and Mid North 55% (2019: 55%).

Buildings and structures

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

Plant and equipment

All items of plant and equipment owned by ForestrySA had a fair value at the time of acquisition less than \$1.5 million or had an estimated useful life that less than three years. Plant and equipment has not been revalued in accordance with APS 116.D. The carrying value of these items are deemed to approximate fair value.

Forest 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 2020.

Margules Groome considered the sales comparison and expectation valuation methods in deriving the fair value for the forest plantation assets and used an appropriate weighting of these two valuation methods. The expectation method, which forms 90% of the valuation weighting, is expressed through the application of a discount rate to projected future cash flows. The discount rate used for the expectation method is 7.0% (2019: 7.0%) (pre-tax real) for the long-term cash flows, increased to 9.2% to consider current rotation only. The use of a 'real' discount rate effectively allows for all prices and costs to be expressed in current dollar terms.

Valuation Method	Weighting %	Value (AUD million)
Sales Comparison Method Value	10%	54.787
Expectation Method Value	90%	54.744
Fair Market Value Opinion	100%	54.748

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

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

The changes to the inputs of the expectation method are identified as movements in:

- Depletions and advance cashflows.
- Revenues increased primarily due to woodflows and yields being brought forward and increased.
- Production costs increased primarily due to increases in woodflows and an increase in unit production costs.
- Transport costs increased.
- Operational costs increased.
- Volume-based overhead costs increased.
- The inclusion of risk modelling for fire resulting in a value reduction.

The difference between the fair value of Forest Assets held at the reporting date and the fair value at the previous reporting date is recognised in the Statement of Comprehensive Income as the net change in value of Forest Assets. All forest expenditure is recognised as an expense in the year it is incurred (except for roading that may be capitalised where appropriate). The change in value is also disclosed in notes 5.5.

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

Sensitivity analysis for Forest Assets

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

Sensitivity to Log Prices and Production Costs	Value (AUD million)		
	Log Price Scenario		
Production Cost Scenario	-5%	Base	+5%
+5%	38.297	48.821	59.328
Base	44.225	54.748	65.255
-5%	50.185	60.709	71.215

Sensitivity to Silvicultural Costs	Value (AUD million)
+5%	54.100
Base	54.748
-5%	55.396

Sensitivity to Overhead Costs	Value (AUD million)	
	Area based Overheads	Volume Based Overheads

+5%	53.948	54.264
Base	54.748	54.748
-5%	55.548	55.233

Sensitivity to the Discount Rate	Value (AUD million)
6.0%	64.894
6.5%	59.382
7.0%	54.748
7.5%	50.809
8.0%	47.428

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

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

	Forest assets \$'000	Buildings and structures \$'000	Roads and land improvements \$'000	Plant and equipment \$'000
Opening balance at the beginning of the period	45,603	6,055	1,715	2,533
Acquisitions	-	43	107	38
Assets reclassified to or out of assets held for sale	-	-	-	16
Gains/(Losses) for the period recognised in net result:				
Revaluation increment / (decrement)	9,145	-	-	-
Depreciation	-	(582)	(164)	(315)
Total gains/(losses) recognised in net result	9,145	(539)	(57)	(261)
Carrying amount at the end of the period	54,748	5,516	1,658	2,272

Reconciliation of level 3 recurring fair value measurements as at 30 June 2019

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

	Forest assets \$'000	Buildings and structures \$'000	Roads and land improvements \$'000	Plant and equipment \$'000
Opening balance at the beginning of the period	43,490	8,025	1,630	3,490
Acquisitions	-	417	265	42
Disposals	-	(12)	(28)	(177)
Assets reclassified to or out of assets held for sale	-	-	-	(480)
Transfers within asset classes	-	25	(25)	-
Gains/(Losses) for the period recognised in net result:				
Revaluation increment / (decrement)	2,113	(2,699)	(4)	(809)
Depreciation	-	(365)	(123)	(303)
Total gains/(losses) recognised in net result	2,113	(2,634)	85	(1,727)
Gains/(Losses) for the period recognised in other comprehensive income (OCI)				
Revaluation increments/(decrements)	-	664	-	770

Total gains/(losses) recognised in OCI	-	664	-	770
Carrying amount at the end of the period	45,603	6,055	1,715	2,533

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

11.3. Financial instruments

Financial risk management

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

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

Liquidity risk

ForestrySA maintains a strong working capital position so current liquidity risk is low. Previous arrangements with the Department of Treasury and Finance for operating loss subsidy funding are not currently considered necessary.

Credit risk

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

Bank guarantees or cash deposits are obtained for specific customers.

Impairment of financial assets

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

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

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

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

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

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

	Debtor unsecured carrying amount \$'000	Loss %	Lifetime expected losses \$'000
Current (not past due)	334	3.89%	13
1-30 days past due	3	100.00%	3
31-60 days past due	1	0.09%	-
61-90 days past due	3	100.00%	3
90+ days past due	336	59.25%	199
Loss allowance			218

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

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

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

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

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

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

Market risk

ForestrySA does not trade in foreign currency, nor enter transactions for speculative purposes, nor for hedging. ForestrySA does not undertake any hedging in relation to interest or foreign currency risk and manages its risk as per the government's risk management strategy articulated in TI 23 *Management of Foreign Currency Exposures*.

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

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

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

Categorisation of financial instruments

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

Classification of financial instruments

ForestrySA measures all financial instruments at amortised cost.

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

Category of financial asset and financial liability	Note	2019	2019 Contractual maturities		
		Carrying amount / Fair value	Within 1 year	1-5 years	More than 5 years
		(\$'000)	(\$'000)	(\$'000)	(\$'000)
Financial assets					
Cash and equivalent					
Cash and cash equivalent	6.1	18,194	n/a	n/a	n/a
Financial assets at amortised cost					
Receivables (excl prepayments)	6.2	9,117	n/a	n/a	n/a
Total financial assets		27,311	-	-	-
Financial liabilities					
Financial liabilities at amortised cost					
Trade payables/accrued expenses	7.1	1,151	1,151	-	-
Other financial liabilities	7.3	5,798	2,899	2,899	-
Total financial liabilities		6,949	4,050	2,899	-

Receivables and payables

The receivable and payable amounts disclosed here exclude amounts relating to statutory receivables and payables (e.g. Commonwealth, State and Local Government taxes, fees and

charges; Auditor-General's Department audit fees). In government, certain rights to receive or pay cash may not be contractual and therefore, in these situations, the requirements will not apply. Where rights or obligations have their source in legislation such as levies, tax and equivalents, they would be excluded from the disclosure. The standard defines contract as enforceable by law. All amounts recorded are carried at cost (not materially different from amortised cost).

The receivables amount disclosed here excludes prepayments as they are not financial assets. Prepayments are presented in note 6.2.