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Government
of South Australia

Report

of the

Auditor-General

Supplementary Report

for the

year ended 30 June 2014

Tabled in the House of Assembly and ordered to be published, 4 December 2014

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Agency audit report: December 2014

By Authority: A. Martin, Government Printer, South Australia

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3 December 2014

The Hon R P Wortley MLC
President
Legislative Council
Parliament House
Adelaide SA 5000

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

Dear President and Speaker

Report of the Auditor-General: Supplementary Report for the year ended 30 June 2014: Agency audit report: December 2014

Pursuant to the provisions of the *Public Finance and Audit Act 1987*, I herewith provide to each of you a copy of my Supplementary Report for the year ended 30 June 2014 'Agency audit report: December 2014'.

At the time of submission of my Annual Report for the year ended 30 June 2014, I indicated that the audited financial statements and audit commentary for the South Australian Forestry Corporation would be included in a Supplementary Report to Parliament.

Yours sincerely

S O'Neill
Auditor-General

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South Australian Forestry Corporation

Functional responsibility

Establishment

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

Functions

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

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

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

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

Forward sale of forest rotations

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

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

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

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

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

Audit mandate and coverage

Audit authority

Audit of the financial report

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

Assessment of controls

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

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

Scope of audit

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

During 2013-14 specific areas of audit attention included:

- revenue from the supply of timber products to domestic and overseas customers
- expenditure resulting from the harvest and transport of timber products to customers
- payroll and other forms of expenditure
- valuation of standing timber and land
- arrangements under the PMA including direct charges and general overhead charges payable to the Corporation by OFO.

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

Audit findings and comments

Auditor’s report on the financial report

In my opinion, the financial report gives a true and fair view of the financial position of the South Australian Forestry Corporation as at 30 June 2014, its financial performance and its cash flows for the year then ended in accordance with the Treasurer’s Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

Assessment of controls

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

Communication of audit matters

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

Formal communication protocols with OFO

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

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

Audit noted this year that the Corporation has addressed this matter by establishing improved processes for recording the outcomes of communications with OFO, including minuting certain teleconferences.

Valuation of standing timber

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

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

This year the Corporation reassessed its method of valuing standing timber and subsequently adopted the net present value approach which takes into account the likely timing of cash flows from harvesting and sales of timber over long periods and the effects of inflation and discount rates.

Financial management compliance program (FMCP)

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

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

Audit noted this year that the Corporation engaged an expert to assist in establishing a robust and transparent FMCP. Audit considers the Corporation's FMCP satisfies the requirements of TI 28.

Monitoring of key reconciliations

Audit identified instances of certain key reconciliations not being prepared and reviewed in a timely manner.

Audit recommended improved reporting to senior management on the performance of reconciliations.

The Corporation responded that a process would be implemented where reconciliation compliance will be reported to senior management.

Interpretation and analysis of the financial report

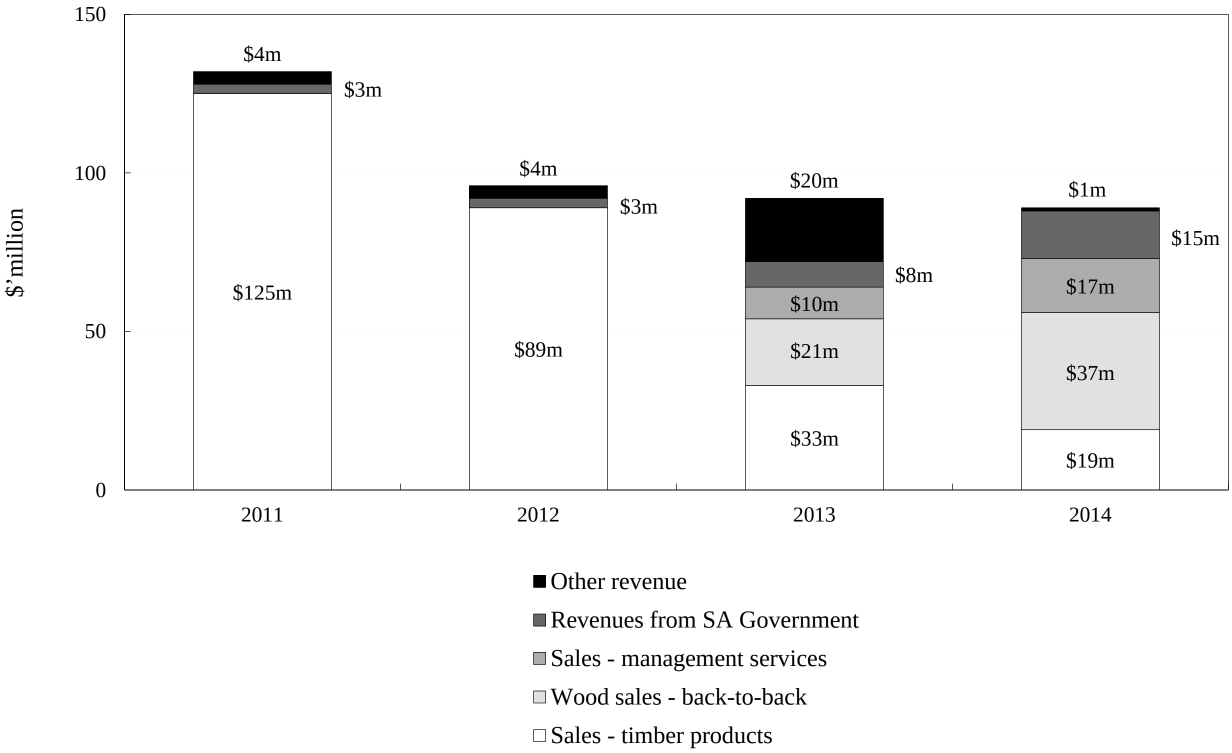
Highlights of the financial report

	2014 $'million	2013 $'million
Income		
Sales - timber products	19	33
Wood sales - back-to-back	37	21
Sales - management services	17	10
Revenues from SA Government	15	8
Other revenue	1	20
Total income	89	92
Expenses		
Employee benefits	23	16
Contractors	11	18
Wood purchases - back-to-back	37	21
Other expenses	18	26
Total expenses	89	81
Trading profit before revaluation of standing timber	-	11
Net profit (loss) after revaluation of standing timber and income tax equivalent expense	(38)	(4)
Land revaluation recorded in revaluation surplus	(45)	-
Total comprehensive result	(83)	(4)
Net cash flows from operating activities	12	19
Net cash flows from financing activities	-	(46)
Assets		
Current assets	42	36
Non-current assets	88	166
Total assets	130	202
Liabilities		
Current liabilities	22	9
Non-current liabilities	3	5
Total liabilities	25	14
Total equity	105	188

Statement of Comprehensive Income

Income

The following chart shows the main sources of income for the Corporation for the four years to 2014.



Income fell in 2014 by $2.8 million to $88.8 million. The lower revenue from timber products sales was partially offset by increases in other revenue, mainly comprising management services revenue from OFO, back-to-back wood sales and revenues from SA Government.

Timber products sales

Timber products sales revenue reduced by $14 million to $18.9 million in 2014 as a result of the sale of forward harvest rotations of the Green Triangle plantations to OFO on 17 October 2012. Timber products sales in 2013 included sales of $24.6 million in the Green Triangle up to 17 October 2012. Timber product sales in the Green Triangle were $0 in 2014. This reduction of $24.6 million was partially offset by an increase of $10.6 million in sales in the Mount Lofty Ranges due mainly to an export sales program introduced in 2014.

Back-to-back wood sales

After the sale of forward harvest rotations, all but one customer in the Green Triangle novated their sales contracts from the Corporation to OFO. Back-to-back wood sales of $36.7 million ($21.3 million) relates to revenue received on behalf of OFO from this one customer. The Corporation passed this revenue onto OFO and recognised the transfer as back-to-back wood purchases expense in the Statement of Comprehensive Income. Sales revenue from novated contracts was received directly by OFO and is not recognised in the Corporation's financial statements.

Sales of management services

Sales of management services increased by $6.8 million to $16.8 million due mainly to a change in the method that plantation management fees paid by OFO are provided to the Corporation.

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

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

Revenues from SA Government

Revenues from SA Government increased by $7.1 million to $15.1 million due mainly to receiving funding of $7.1 million for TVSPs ($0). The Corporation also received $4.4 million ($431 000) to fund the Corporation's management of the OFO forestry operations in the Green Triangle and the Corporation's commercial forestry operations in the Mount Lofty Ranges and the mid-north of the State. The increase in this funding was offset by the GOC no longer being received from OFO through the Treasurer but directly from OFO and recognised as sales of management services since March 2013. Funding was also received from the SA Government for community service obligations and the Government Radio Network which totalled $3.6 million in 2014 ($3.5 million).

Other revenue

Other revenue decreased by $18.1 million to $1.3 million due mainly to a settlement received in 2013 as compensation for the early termination of a sales contract.

Expenses

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

Expenses increased by $8.6 million to $88.8 million due mainly to:

- employee benefit expenses increasing by $6.3 million to $22.7 million due mainly to TVSPs
- back-to-back wood purchases expense increasing by $15.4 million to $36.7 million. For further details refer to commentary under the heading 'Back-to-back wood sales'
- contractor expenses reducing by $7.1 million to $11.1 million due mainly to the novation of timber harvesting and transport contracts in the Green Triangle from the Corporation to OFO on 17 October 2012. Contractors who novated their contracts were paid directly by OFO and the payments not recognised in the Corporation's financial statements. This resulted in contractor expenses in the Green Triangle reducing by $9.9 million in 2014. This reduction was partially offset by an increase in contractor expenses of $2.8 million in the Mount Lofty Ranges due mainly to increased harvesting and transport expenses incurred for the export sales program introduced in 2014

- finance costs decreasing by $1.8 million to $0 due to all SAFA loans in 2013 being reassigned to the Treasurer under a loan assumption deed or fully repaid by the Corporation

- materials expenses reducing by $3.6 million to $1.2 million due mainly to less expenditure in the Green Triangle on fertiliser. Although the Corporation purchases the fertiliser on behalf of OFO these expenses are now paid directly by OFO and not recognised in the Corporation's financial statements

- other expenditure increasing by $2.6 million due mainly to the export sales program which incurred expenses of $6.6 million for shipping and marketing. This increase was partially offset by a reduction in contract settlements. There was a contract settlement of $3.1 million in 2013 for terminating a timber product supply contract

- net loss from the disposal of non-current assets reducing by $2.4 million to $229 000. The large net loss in 2013 was due mainly to certain Glencoe Nursery assets being transferred to OFO under the Glencoe Nursery Assignment Deed.

Revaluation decrements on non-current assets

Land was revalued on 30 June 2014 resulting in a net revaluation decrement on non-current assets of $45.2 million. The Corporation used valuations provided by the Valuer-General to determine the fair value of its land. In 2014 the Valuer-General was requested to incorporate into the valuations the restrictions imposed on the use of the land by various legislation under which the Corporation operates. The Valuer-General determined the fair value of land with restricted use by using an adjusted market price of surrounding unrestricted land. This was the major cause of the revaluation decrement. The revaluation decrement was partially offset by the Corporation for the first time applying a value to land declared native forest reserve, which resulted in a revaluation increment of $5.9 million. For more information about the valuation of land refer notes 2(p)(iv), 14 and 15 to the financial statements.

Trading results

In 2014, the Corporation achieved a trading profit of $0 compared to a trading profit of $11.3 million in 2013. The trading operations of the Corporation reflect three main activities:

- management of OFO forestry operations in the Green Triangle after 17 October 2012 in return for a management fee pursuant to the PMA

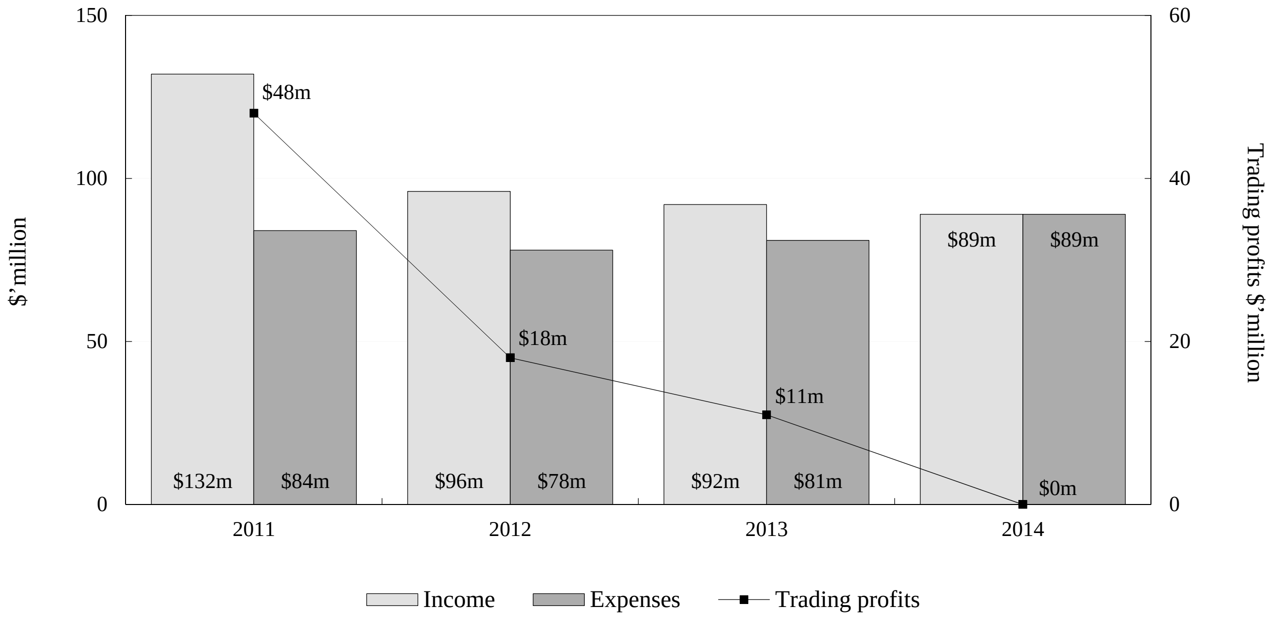
- commercial forestry operations in the Mount Lofty Ranges and the mid-north of the State

- community service obligations such as native forest management, community use of forests and community protection of forests (including fire protection).

For more information about the trading profit for each of these three main activities refer note 22 to the financial statements.

The fall in trading profit was due mainly to profits from the commercial forestry operations in the Green Triangle no longer belonging to the Corporation after 17 October 2012. The profits after this date belong to OFO. Note 1 to the financial statements indicates that the Corporation will require funding from the SA Government for the performance of its obligations under the PMA and the ongoing discharge of its community service obligations. The arrangement for the provision of this funding resulted in a trading result of $0 in 2014 before the revaluation of standing timber. For more information about this funding arrangement refer note 2(h) to the financial statements.

The trading results for the four years to 30 June 2014 are shown in the table below.



Standing timber

It has been a longstanding practice of the Corporation to value its standing timber of marketable size using the net market value approach. In 2014, the Corporation reassessed its method of valuing standing timber and subsequently adopted the net present value approach. Unlike the net market value approach, the new approach takes into account the likely timing of cash flows from harvesting and sales of timber over long periods and the effects of inflation and discount rates. For more information about the valuation of standing timber refer note 2(o) to the financial statements.

There is inherent uncertainty in the standing timber valuation that is endemic to all forest valuations. A sensitivity analysis is provided in note 15 to the financial statements to assess the impact of changes in key assumptions used in the standing timber valuation. A pre-tax real discount rate of 7.6% was applied in the determination of the standing timber. The use of a 'real' discount rate effectively allows for all prices and costs to be expressed in current dollar terms. This resulted in standing timber being valued at $34.7 million. Altering the discount rate for the valuation of standing timber in the Mount Lofty Ranges and the mid-north of the State from 7.6% to 8.6% changes the valuation for these regions from $34.5 million to $31.1 million. The application of the 7.6% discount rate incorporates the Corporation's assessment of the risk free rate and the risk weighting of forestry.

The net change in value for 2014 of standing timber is a decrease of $37.3 million and reflects the initial impact of the change in valuation method. The revaluation in 2014 also included an $8.5 million write-down due to fire losses.

Statement of Financial Position

Land and standing timber are significant assets and represent 51% (74%) of the total assets of the Corporation.

Land

Land holdings under the control of the Corporation are located in the Mount Lofty Ranges and the mid-north of the State. There are also a few smaller parcels in the Green Triangle. Crown land remaining under the control of the Corporation at 30 June 2014 was valued at $31.8 million. The valuation was undertaken by the Valuer-General and took into account for the first time the restrictions on the use of the land imposed by legislation. The same land at 30 June 2013 was valued at $77 million.

Standing timber

Note 2(o) to the financial statements explains the basis and main features of the Corporation's valuation methodology for standing timber. Standing timber was valued at $34.7 million ($72 million).

Current liabilities

Current liabilities increased by $12.8 million to $22.1 million due mainly to TVSPs of $7.1 million approved but not yet paid before 30 June 2014 and revenues from SA Government of $4.4 million payable back to the SA Government. For more information about the SA Government funding arrangement refer note 2(h) to the financial statements.

Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2014.

	2014 $'million	2013 $'million	2012 $'million	2011 $'million
Net cash flows				
Operating	12	19	19	40
Investing	-	(1)	(4)	15
Financing	-	(46)	(17)	(23)
Change in cash	12	(28)	(2)	32
Cash at 30 June	27	15	43	45

The lower operating cash flow in 2014 is due mainly to lower receipts from timber products sales as a result of the sale of forward harvest rotations of the Green Triangle plantations to OFO. This was partially offset by increased receipts from the SA Government.

The lower financing cash flow in 2014 is due mainly to:

- all SAFA loans in 2013 being reassigned to the Treasurer under a loan assumption deed or fully repaid by the Corporation
- no dividend payments.

Distributions to SA Government

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

Item	2014 $'million	2013 $'million	2012 $'million	2011 $'million	2010 $'million
Dividend	-	30	14	27	31
Income tax equivalent	-	-	5	14	14
Total distribution	-	30	19	41	45

The Corporation paid no dividend in 2014 and is unlikely to pay dividends in future due to changes in the nature of its major revenue sources after the sale of the forward harvest rotations. There is now increased reliance by the Corporation on funding from the SA Government for the performance of its obligations under the PMA and the ongoing discharge of its community service obligations. In 2014 the Corporation restructured its operations to lower its future operating costs and dependence on SA Government funding.

The Corporation has not recognised any income tax equivalent expense for 2014 due to its trading profit not being sufficient enough to incur any income tax equivalent expense.

Statement of Comprehensive Income
for the year ended 30 June 2014

	Note	2014 $'000	2013 $'000
Income:			
Sales - timber products		18 867	32 837
Wood sales - back-to-back		36 694	21 283
Sales - management services		16 804	9 998
Revenues from SA Government	5(i)	15 117	8 028
Interest	5(ii)	703	1 607
Other	5(iii)	637	17 837
Total income		88 822	91 590
Expenses:			
Employee benefits	7	(22 717)	(16 425)
Contractors		(11 108)	(18 223)
Wood purchases - back-to-back		(36 694)	(21 283)
Depreciation and amortisation	5(v),14,16	(1 765)	(2 105)
Finance costs	5(v)	-	(1 814)
Materials		(1 199)	(4 743)
Equipment and vehicle costs		(2 803)	(3 314)
Council rates		(1 668)	(1 655)
Other expenditure	5(vi)	(10 639)	(8 062)
Net loss from disposal of non-current assets	5(iv)	(229)	(2 645)
Total expenses		(88 822)	(80 269)
Trading profit before revaluation of standing timber		-	11 321
Net change in value of standing timber	13	(37 297)	(15 365)
Profit (Loss) before income tax equivalent		(37 297)	(4 044)
Income tax equivalent expense	6	-	-
Net profit (loss) after income tax equivalent	9(ii)	(37 297)	(4 044)
Other comprehensive income:			
Items that will not be reclassified to net result:			
Land revaluation recorded in revaluation surplus	14	(45 213)	-
Total other comprehensive income		(45 213)	-
Total comprehensive result		(82 510)	(4 044)

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

Statement of Financial Position
as at 30 June 2014

	Note	2014 $'000	2013 $'000
Current assets:			
Cash and cash equivalents	9	27 383	15 366
Receivables	10	10 614	10 836
Inventories	11	1 575	543
Standing timber	13	2 419	8 134
Assets classified as held for sale	12	368	1 077
Total current assets		42 359	35 956
Non-current assets:			
Standing timber	13	32 253	63 835
Property, plant and equipment	14	55 548	102 211
Intangible assets	16	530	320
Total non-current assets		88 331	166 366
Total assets		130 690	202 322
Current liabilities:			
Payables	17	12 165	6 701
Employee benefits	18	9 544	2 215
Deferred income	19	151	173
Other provisions	20	246	240
Total current liabilities		22 106	9 329
Non-current liabilities:			
Payables	17	252	560
Employee benefits	18	1 467	3 033
Deferred income	19	620	679
Other provisions	20	1 019	985
Total non-current liabilities		3 358	5 257
Total liabilities		25 464	14 586
Net assets		105 226	187 736
Equity:			
Reserves		62 670	145 358
Retained earnings		42 556	42 378
Total equity		105 226	187 736

Total equity is attributable to the SA Government as owner

	Note
Unrecognised contractual commitments	23
Contingent assets and liabilities	23

Statement of Changes in Equity
for the year ended 30 June 2014

	Contributed capital $'000	Revaluation surplus $'000	Standing timber reserve $'000	Fire Insurance Fund reserve $'000	Retained earnings $'000	Total $'000
Balance at 30 June 2012	4 984	475 230	637 825	18 962	93 239	1 230 240
Profit (Loss) for the period	-	-	-	-	(4 044)	(4 044)
Total comprehensive result for 2012-13	-	-	-	-	(4 044)	(4 044)
Dividend	-	-	-	(18 962)	(10 565)	(29 527)
Repayment of contributed capital	(4 984)	-	-	-	-	(4 984)
Distribution to SA Government as owner	-	(396 864)	(555 468)	-	(51 617)	(1 003 949)
Transfers to (from) equity	-	-	(15 365)	-	15 365	-
Total change for the period	(4 984)	(396 864)	(570 833)	(18 962)	(50 861)	(1 042 504)
Balance at 30 June 2013	-	78 366	66 992	-	42 378	187 736
Gain (Loss) on revaluation of property, plant and equipment	-	(45 213)	-	-	-	(45 213)
Net income (expense) recognised directly in equity	-	(45 213)	-	-	-	(45 213)
Profit (Loss) for the period	-	-	-	-	(37 297)	(37 297)
Total comprehensive result for 2013-14	-	(45 213)	-	-	(37 297)	(82 510)
Transfers to (from) equity	-	(178)	(37 297)	-	37 475	-
Total change for the period	-	(45 391)	(37 297)	-	178	(82 510)
Balance at 30 June 2014	-	32 975	29 695	-	42 556	105 226

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

Statement of Cash Flows
for the year ended 30 June 2014

	Note	2014 Inflows (Outflows) $'000	2013 Inflows (Outflows) $'000
Cash flows from operating activities:			
Receipts from customers		72 838	84 458
Payments to suppliers and employees		(81 609)	(72 171)
Finance costs		-	(1 814)
Interest received		687	1 724
Receipts from SA Government		19 987	7 598
GST receipts on sales		6 600	9 461
GST payments on purchases		(5 498)	(5 491)
GST remitted to ATO		(737)	(4 320)
Income tax equivalents paid	6	-	(501)
Net cash flows from operating activities	9(ii)	12 268	18 944
Cash flows from investing activities:			
Purchase of property, timber, plant and equipment		(548)	(861)
Purchase of intangible assets		(294)	(196)
Proceeds from sale of assets		591	267
Net cash flows from investing activities		(251)	(790)
Cash flows from financing activities:			
Repayment of borrowings		-	(11 291)
Repayment of equity		-	(4 984)
Dividend paid		-	(29 527)
Net cash flows from financing activities		-	(45 802)
Net increase (decrease) in cash held		12 017	(27 648)
Cash and cash equivalents at 1 July		15 366	43 014
Cash and cash equivalents at 30 June	9(i)	27 383	15 366

Notes to and forming part of the financial statements

1. Corporate information

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

ForestrySA was established under the *South Australian Forestry Corporation Act 2000* on 1 January 2001. ForestrySA is subject to the provisions of the PCA.

Key responsibilities of ForestrySA are to:

- manage plantation forests for commercial production in line with best practice standards for forestry operations and environmental management
- provide high quality management services to its customers
- undertake and, where appropriate, commercialise forestry related research for the benefit of 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

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

- support the concept of environmental sustainability which assists in the protection of natural assets and market accessibility
- support cooperative research activities within the forestry industry.

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

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

Forward sale of harvesting rights

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

- land located in the GT region is leased by the Treasurer to OFO for commercial forestry operations for a term of 70 years with an option for a further 35 years. The standing timber on this land was sold by the Treasurer to OFO
- land, roads and standing timber remaining under the control of ForestrySA are located in the Mount Lofty Ranges (MLR) and the mid-north (MN) of South Australia and a few smaller parcels in the GT region
- since the sale of the Glencoe Nursery to OFO, ForestrySA purchases seedlings from OFO at costs as defined in the Glencoe Nursery Supply Agreement
- novation of harvesting and transport contracts in the GT region from ForestrySA to OFO since 17 October 2012
- novation of sales contracts in the GT region from ForestrySA to OFO since 17 October 2012. A number of customers novated after this date while one contract has not been novated. ForestrySA accounts for unnovated sales contracts as ForestrySA back-to-back wood sales and wood purchases
- ForestrySA is an agent for the Treasurer responsible for the Plantation Management Agreement (PMA)
- under the memorandum of administrative arrangements, ForestrySA is required to perform the obligations of the Manager (Treasurer) in accordance with the PMA
- under the PMA, ForestrySA manages silviculture operations for OFO in return for a fee comprising two components:

  (i) Direct charges – while some silviculture expenses are paid directly by OFO, other expenses are incurred and paid by ForestrySA on behalf of OFO. These are recognised as expenses of ForestrySA in the Statement of Comprehensive Income. Expenses that can be recovered from OFO under the PMA are shown as management service fees.

  (ii) General overhead charges are paid by OFO to the Treasurer and passed onto ForestrySA and shown as revenue from government until the March 2013 quarter. This arrangement changed in the June 2013 quarter and ForestrySA received general overhead charges directly from OFO

- the operations deed between the Treasurer and OFO requires the performance, among other things, of specified fire management functions. ForestrySA provides these functions to OFO under the PMA
- ForestrySA will require funding from the SA Government in order to continue its CSOs activities (particularly fire response) and the performance of its obligations under the PMA as negotiated by the Treasurer as part of the forward sale. The arrangement for the provision of this funding resulted in a trading result of $0 in 2013-14 before the revaluation of standing timber.

2. Summary of significant accounting policies

(a) Statement of compliance

ForestrySA has prepared these financial statements in compliance with section 23 of the PFAA. The financial statements are general purpose financial statements, prepared in accordance with applicable AASs and TIs and APSs promulgated under the provisions of the PFAA.

(a) Statement of compliance (continued)

ForestrySA has applied AASs that are applicable to for-profit entities, as ForestrySA is a for-profit entity. AASs and interpretations that have recently been issued or amended but are not yet effective have not been adopted by ForestrySA for the reporting period ending 30 June 2014 (refer note 2(f)).

(b) Basis of preparation

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

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

The preparation of the financial statements requires the use of certain accounting estimates and 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.

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

(i) revenues, expenses, financial assets and liabilities where the counterparty/transaction is with an entity within the SA Government as at reporting date, classified according to their nature. A threshold of $100 000 for separate identification of these items applies (refer note 25)

(ii) expenses incurred as a result of engaging consultants (as reported in the Statement of Comprehensive Income)

(iii) employee TVSP information

(iv) employees whose normal remuneration is equal to or greater than the base executive remuneration level (within $10 000 bandwidths) and the aggregate of the remuneration paid or payable or otherwise made available, directly or indirectly by the entity to those employees.

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

(c) 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 the *South Australian Forestry Corporation Act 2000*.

ForestrySA does not control any investees, has no joint arrangements and zero interest 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 APS has required a change.

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

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

(e) Rounding

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

(f) New and revised accounting standards

AASs and interpretations that have recently been issued or amended, but are not yet effective, have not been adopted by ForestrySA for the period ending 30 June 2014.

ForestrySA has assessed the impact of the new and amended standards and interpretations and considers there will be no impact on the accounting policies or its financial statements.

(f) New and revised accounting standards (continued)

In accordance with the new AASB 13 which became effective for the first time in 2013-14, ForestrySA has reviewed its fair value valuation techniques (both internal estimates and independent valuation appraisal) for non-financial assets to ensure they are consistent with the standard. Previously, ForestrySA has used the cost approach or the market approach to determine fair value. ForestrySA will continue to measure its non-financial assets, except for its standing timber, using either the cost or market approach. Standing timber is valued on an income approach.

The application of AASB 13 has not had a material impact on the fair value measurements. ForestrySA has included additional disclosures that are required to assist users in assessing the valuation techniques and inputs used to ascertain fair value measurements used for assets and liability measurements.

Fair value hierarchy and other information is provided in notes 13, 14 and 15.

(g) Taxation

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

(i) Income tax equivalent

ForestrySA is an income tax exempt body. As ForestrySA engages in trading activities in competition with private sector enterprises, a payment in lieu of income tax is paid to the SA Government Consolidated Account. The tax calculation method is prescribed by TI 22 and the tax equivalent payment is calculated on the accounting profits model.

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

(ii) GST

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

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

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

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

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

(h) Income

Income is recognised in ForestrySA's Statement of Comprehensive Income only when the flow of economic benefits has occurred and can be reliably measured.

Income has been classified according to its nature and has not been offset unless required or permitted by a specific accounting standard, or where offsetting reflects the substance of the transaction or other event.

Revenues from SA Government comprise funding for the:

- operation of the Government Radio Network and provision of CSO activities, including community forestry, community fire protection and forestry industry development. This funding is recognised where there is reasonable assurance that the funding will be received and ForestrySA will comply with all attached conditions
- purchase of CSO assets. This funding is recognised as a deferred income liability and progressively recognised as income in the Statement of Comprehensive Income on a straight-line basis over the expected lives of the related assets

(h) Income (continued)

- accounting losses incurred prior to taking into account the revaluation of standing timber. This funding arrangement was implemented by the SA Government to enable ForestrySA to undertake its operations after the forward sale of ForestrySA's harvesting rights. The arrangement resulted in a trading result of \$0 for 2013-14 before the revaluation of standing timber. Funding received in excess of the accounting losses is recognised as a payable back to the SA Government.

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

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

The gain or loss on disposal of assets, including revalued assets, is determined as the difference between the book value of the asset at the time of disposal and the proceeds of disposal and is included in the results in the year of disposal. When revalued assets are sold, the revaluation increments are transferred to retained earnings in accordance with APF III, APS 3.19.

(i) Expenses

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

Expenses have been classified according to their nature and have not been offset unless required or permitted by a specific accounting standard, or where offsetting reflects the substance of the transaction or other event.

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

ForestrySA and the South Australian Superannuation Board entered into an arrangement at the time of incorporation to allow existing 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*. The amount charged to the Statement of Comprehensive Income represents the contributions made by ForestrySA to the superannuation plan in respect of current services of current ForestrySA staff, as well as additional contributions to the South Australian Superannuation Board in relation to the defined benefit funding deficit. DTF centrally recognises the superannuation liability in the whole-of-government financial statements (refer note 23).

(j) 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. Standing timber that is expected to be harvested within 12 months after the reporting date has been classified as a current asset, while standing timber expected to be harvested more than 12 months after the reporting date, has been classified as a non-current asset. Other assets and liabilities that are sold, consumed or realised as part of the normal operating cycle – even when they are not expected to be realised within 12 months after the reporting date or 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 12 months and more than 12 months, ForestrySA has separately disclosed the amounts expected to be recovered or settled after more than 12 months.

(k) Cash and cash equivalents

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

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

Cash is measured at nominal value.

(l) Receivables

Receivables include trade receivables, GST input tax credits recoverable, prepayments and other revenue accruals. Receivables are recorded at amounts due to ForestrySA, less a provision for doubtful debts.

(l) Receivables (continued)

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

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

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

(m) Fair value measurement

AASB 13 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 ForestrySA Board at each reporting date. The Board has endorsed the engagement of external valuers. The valuers engaged are independent experts on the particular valuation task.

Non-financial assets

In determining fair value, ForestrySA has taken into account the characteristic of the asset (eg 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, financially feasible, taking into account restrictions imposed on the use of the land by the various legislation under which ForestrySA operates.

ForestrySA’s current use is the highest and best use of the asset unless other factors suggest an alternative use is feasible. For the biological assets ForestrySA did not identify any factors to suggest an alternative use and therefore fair value measurement was based on current use. For the land assets the Valuer-General considered the highest and best use, corrected for legal and constructive restrictions over the use of the land.

The carrying amounts of non-financial assets with 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 are deemed to approximate fair value.

Refer notes 13, 14, and 15 for disclosure regarding fair value measurement techniques and inputs used to develop fair value measurements for non-financial assets.

(n) Inventories

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

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

Inventories of export log are valued on initial recognition at their fair value less costs to sell at point of harvest.

(o) Biological assets

Biological assets (standing timber) are valued under the net present value (NPV) income approach. This is a change from the methodology used for the period ending 30 June 2013 which was the net market approach. This policy is in accordance with the requirements of AASB 141 and all amounts are calculated in pre-tax dollars. This new income or NPV approach is considered more appropriate for the valuation of standing timber and was the result of a review by an independent expert and is consistent with industry best practice for standing timber valuation. ForestrySA has assessed the highest and best use for the standing timber 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.

(o) Biological assets (continued)

The new methodology has been approved by the Acting Treasurer consistent with APF III, 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
- 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, given current management strategies and timber recovery rates
- only the current crop is valued. The cash flow analysis is based on the anticipated timing of the harvest of existing stands, which has been developed in the context of sustained yield management
- volume increments/decrements are determined both by periodic remeasurement 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 based on the average prices achieved over the previous year, current year, and next year’s budget. The use of prior year averages reduces the impact of significant annual pricing variations
- costs used in the NPV calculation are based on current operating costs, adjusted for anticipated increases in operational efficiency over the next few years.

The NPV approach takes the real cash flows from the sale of standing timber over a single rotation, 35 years. The existing market price for the sales of timber is assumed less reasonable costs to sell the standing timber 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 new valuation method has a significant impact on the valuation of the standing timber. This is considered appropriate as it reflects a better estimate for the fair value of the standing timber.

The replanting expenses 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 the standing timber does not include a terminal value.

The discount rate used is 7.6% (pre-tax real) which 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 the standing timber held at the reporting date and the fair value at the previous reporting date, after allowing for standing timber acquired and purchased standing timber harvested, is recognised in the Statement of Comprehensive Income as the net change in value of standing timber. All forest expenditure is recognised as an expense in the year it is incurred. The change in valuation is an unrealised loss and is disclosed in note 13. The material realised loss due to fire is disclosed separately in note 13. The changes due to harvesting, growth, inventory, price and new planting are not disclosed due to the change in valuation technique does not allow for them to be calculated separately.

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

The volume of standing timber 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. The model uses sample inventory data as the base line from which to start growth simulations. Inventory data is continuously being collected from sample inventory plots with the complete forest estate being covered in five yearly intervals. The inventory master database is updated every three to five years and on these occasions the model simulations are repeated. For the MLR and MN forests, the master database was last updated as at December 2013, affecting the standing timber valuation as at 30 June 2014.

(o) Biological assets (continued)

The method used to determine the volume of timber contained in the radiata and non-radiata plantations is 'standing volume' (the volume of wood in the stem of trees which is potentially usable) less an allowance for residues incurred under current harvesting practices. In addition certain unsaleable forest products are valued at $0 or downgraded to a less valuable saleable forest product in line with current prudent commercial practices. This ensures that the fair value is based upon expected realisable volumes.

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

(p) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

Land is measured at fair value using valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. ForestrySA engaged the Valuer-General as an expert valuer to value its land assets.

Where ForestrySA historically applied the current site value for the unimproved land under plantation/structures, no value was applied to land declared native forest reserve, on the assumption that this land's fair value is limited. For 2013-14 ForestrySA has adopted the fair value measurement provided by the expert valuer, irrespective if this land is land declared native forest reserve or not.

(ii) Impairment

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

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

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

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

(iii) Non-current assets held for sale

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

(iv) Revaluation

Land has been revalued as at 30 June 2014, while buildings and structures were revalued as at 30 June 2011, in accordance with APF III. Assets in other asset classes are deemed to have been revalued to their fair values immediately following recognition at cost.

(iv) Revaluation (continued)

The basis of the revaluation of land in 2012-13 was the current site value of the unimproved land, using statutory values derived from available market evidence around the date of valuation. For 2013-14 the Valuer-General used the market approach under AASB 13.

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 the Valuer-General determines the site and capital values on an annual basis as at 1 January each year. These statutory values 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 the Valuer-General.

In accordance with APF III, APS 3.18, ForestrySA has elected to take revaluation adjustments to the 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 2011.

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

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

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

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

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

(v) Depreciation and amortisation of non-current assets

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

The useful lives of all major assets held by 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 or for distribution to the owner are not depreciated.

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

(v) Depreciation and amortisation of non-current assets (continued)

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

(vi) Crown land

The value of Crown land amounts to $31.8 million ($77 million). ForestrySA is entitled to the value of the Crown land and has the use of the Crown land for forestry purposes. Generally, the issue of title over Crown land is required before the land can be disposed of, however, ForestrySA is exempt from some policies and procedures related to the purchase and disposal of Crown land, as per DPC Circular 114 'Government Real Property Management'.

(q) Intangible assets

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

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

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

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

(r) Trade and other payables

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

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

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

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

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

ForestrySA makes contributions to several SA Government and externally managed superannuation schemes. These contributions are treated as an expense when they are incurred. There is no liability for payments to beneficiaries. The only liability outstanding at the end of the reporting period relates to any contributions due but not yet paid.

(s) Employee benefits

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

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

(s) Employee benefits (continued)

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

The liability for LSL is measured at the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method.

The estimated liability for LSL is based on actuarial assumptions over expected future salary and wage levels, experience of employee departures and periods of service. These assumptions are based on employee data over SA Government entities. Expected future payments are discounted using market yields at the end of the reporting period on government bonds with duration that match, as closely as possible, the estimated future cash outflows.

ForestrySA classifies a portion of the LSL provision as current based on its history of settlements.

(t) Leases

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

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

(u) Insurance

ForestrySA has arranged, through SAICORP, a division of SAFA, to insure all its major 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 (refer note 2(x)). In addition, ForestrySA is self-insured for workers compensation.

(v) Provisions

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

(w) Contributed equity

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

(x) Fire Insurance Fund and reserve

Cabinet approved ForestrySA to self-insure for the risk associated with major forest fire losses from 1 October 2004 and ForestrySA set up a fund on this date.

During the 2012-13 financial year, the Fire Insurance Fund was returned to the owner of ForestrySA by way of a special dividend. As a result, any loss due to fire may require a contribution from the owner to fund rehabilitation.

(y) Unrecognised contractual commitments and contingent liabilities and assets

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.

3. Financial risk management

ForestrySA has significant non-interest bearing assets (receivables) and liabilities (payables) and interest bearing assets (deposits). Exposure to market risk and cash flow interest rate risk is in accordance with the risk management policies and procedures approved by the ForestrySA Board.

3. Financial risk management (continued)

The nature and location of ForestrySA's forestry operations cause concentration of credit risk in relation to trade receivables, as 86% of the value of transactions for the financial year were transactions with the four largest of ForestrySA's customers (80% for the six largest).

As part of its financial risk management policies, ForestrySA manages and monitors log supply commitments to ensure the commitments are within the long-term forest yield forecasts.

4. Segment information

ForestrySA has provided segment information in note 22 to the financial statements.

5. Revenue, other income and expenses

	Note	2014 $'000	2013 $'000
(i) Revenues from SA Government			
CSO funding	1	3 182	3 093
Other revenues from SA Government[(1)]		11 533	4 537
Government Radio Network funding		374	369
Deferred revenues from SA Government		28	29
Revenues from SA Government	2(h)	15 117	8 028

(1) Includes recovery of $8.977 million from DTF related to TVSPs (refer note 7).

	Note	2014 $'000	2013 $'000
(ii) Interest received or receivable			
Interest received or receivable related to cash balances		466	1 444
Interest received or receivable related to trade receivables		237	163
Interest revenue		703	1 607
(iii) Other income			
Contract settlement		-	15 411
Other revenue from non-SA Government entities		637	2 426
Other income		637	17 837
(iv) Net gain (loss) from disposal of assets			
Land and buildings:			
Net proceeds from disposal		(11)	(2)
Net book value of assets disposed	14	(33)	(438)
Net gain (loss) from disposal of land and buildings		(44)	(440)
Plant and equipment:			
Net proceeds from disposal		98	269
Net book value of assets disposed	14	(47)	(2 474)
Net gain (loss) from disposal of plant and equipment		51	(2 205)
Assets classified as held for sale:			
Net proceeds from disposal		642	-
Net book value of assets disposed		(878)	-
Net gain (loss) from disposal of assets held for sale		(236)	-
Total assets:			
Net proceeds from disposal		729	267
Net book value of assets disposed		(958)	(2 912)
Net gain (loss) from disposal of total assets		(229)	(2 645)
(v) Charging as expenses			
Harvesting and transport costs		7 051	12 275
Interest and guarantee fee paid or payable[(1)]		-	1 814
Depreciation of non-current assets	14	1 682	1 949
Amortisation	16	83	156
Rental expense on property operating leases		22	43
Consultants[(2)]		90	55

(1) To/From SA Government entities.
(2) Includes payments to four (one) consultants.

(vi) Other expenditure	2014 $'000	2013 $'000
Net gain from disposal of current assets	-	1 104
Contract settlement	-	3 144
Doubtful debt provision/write-down	111	1 297
Export - shipping	4 057	-
Export - marketing and other	2 540	-
Other	3 931	2 517
Total other expenditure	10 639	8 062

6. Income tax equivalent

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

Income tax equivalent

Accounting for income tax for the 2014 financial year is based on the tax equivalent calculations under the accounting profits model prescribed in the State tax equivalent regime (refer note 2). As ForestrySA does not report a trading profit the State tax equivalent regime 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 standing timber revaluations from the accounting profit before ForestrySA calculates its income tax equivalent payment.

The contributions to the Fire Insurance Fund, which were $0 in 2014 ($35 000), are treated as expenses for tax equivalent purposes.

The income tax equivalent expense was $0 for the reporting period ($0).

7. Employee benefits expenses

	2014 $'000	2013 $'000
Salaries and wages	12 156	12 435
LSL	(144)	269
SERL	39	84
Annual leave	925	1 015
Employment on-costs - superannuation	1 851	1 877
TVSPs	7 087	-
Employment on-costs - other	803	745
	22 717	16 425

TVSPs

Amount paid or payable during the reporting period to separated employees:		
TVSPs	7 087	-
Annual leave and LSL paid or payable to those employees	1 852	-
SERL paid or payable to those employees	38	-
Recovery from DTF related to TVSPs	(8 977)	-
Net cost to ForestrySA	-	-

The number of employees who received or are entitled to receive TVSPs during the reporting period was 66 (0).

Compensation of employees whose income was over the base executive remuneration level	2014 Number	2013 Number
The number of employees whose income, non-TVSP, was within the following bands:		
$141 500 - $151 499	-	2
$151 500 - $161 499	1	2
$161 500 - $171 499	2	1
$171 500 - $181 499	2	-
$181 500 - $191 499	-	1
$191 500 - $201 499	1	-
$221 500 - $231 499	-	1
$231 500 - $241 499	1	-
$271 500 - $281 499	-	1
$281 500 - $291 499	1	-
Total	8	8

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

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, FBT and other salary sacrifice benefits. The total remuneration received by these employees for the year was $1.6 million ($1.5 million).

The number of employees whose income, including TVSPs, was within the following bands:	2014 Number	2013 Number
$301 500 - $311 499	1	-
$311 500 - $321 499	1	-
$351 500 - $361 499	2	-
Total	4	-

The table includes TVSPs paid where the employee's normal remuneration exceeds the base executive remuneration level threshold. The total remuneration received by these employees for the year was $1.3 million ($0).

8. Auditor's remuneration

	2014	2013
Audit fees paid/payable to the Auditor-General's Department	$'000	$'000
relating to the audit of the financial statements	190	124
	190	124

Other services

No other services were provided by the Auditor-General's Department during 2013-14.

Auditor's remuneration costs recognised in the Statement of Comprehensive Income under other expenses includes an additional $31 000 relating to 2012-13 audit services provided by the Auditor-General's Department.

9. Cash and cash equivalents

	2014 $'000	2013 $'000
Cash	2	2
Deposits	19 568	5 414
Cash Management Fund with SAFA	7 813	9 950
	27 383	15 366

Cash flows reconciliation

(i) Reconciliation of cash and cash equivalents at 30 June

Cash and cash equivalents as per Statement of Financial Position	27 383	15 366
Cash and cash equivalents as per Statement of Cash Flows	27 383	15 366

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

Net profit (loss) after income tax equivalents	(37 297)	(4 044)
Other reconciling movements:		
Net change in value of standing timber - other	37 297	15 365
Impairment of assets held for sale	57	-
Depreciation and amortisation	1 765	2 106
Other asset transactions	-	(23)
Loss on disposal of assets	229	2 594
	39 348	20 042
Changes in operating assets and liabilities:		
Receivables	370	1 221
Inventories	(1 032)	1 494
Payables	5 156	1 156
Provisions	40	(50)
Deferred income	(81)	(668)
Employee benefits	5 764	294
Tax payable	-	(501)
Net cash flows from changes in operating balances	10 217	2 946
Net cash flows from operating activities	12 268	18 944

10. Receivables

	2014	2013
Current:	$'000	$'000
Trade receivables	10 477	8 306
Doubtful debts	(111)	(24)
Other receivables	-	2 259
Accrued revenue	53	43
Prepayments	195	252
	10 614	10 836

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

Receivables are normally settled within 30 days. Trade receivables and accrued revenues are non-interest bearing until after 30 days. 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. For details of credit and interest rate risks refer note 28.

As at 30 June 2014 $1.3 million of trade receivables were overdue ($2.8 million).

Movement in the allowance for doubtful debts

The allowance for doubtful debts (allowance for impairment loss) is recognised when there is objective evidence (ie 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.

	2014	2013
	$'000	$'000
Carrying amount at 1 July	24	182
Increase in allowance recognised in profit or loss	111	1 297
Amounts written off	(22)	(1 455)
Amounts recovered during the year	(2)	-
Carrying amount at 30 June	111	24

11. Inventories

Current:		
Roading rubble	79	52
Export log	922	-
Materials and stores	574	491
	1 575	543

12. Assets classified as held for sale

Non-current:		
Land and buildings, property, plant and equipment	368	1 077
	368	1 077

13. Standing timber

Opening balance	71 969	81 362
New plantings	-	936
Harvesting	-	(18 252)
Inventory update increase	-	(1 554)
Physical changes (ie growth)	-	6 050
Loss due to fire	(8 474)	(2 335)
Price changes	-	(210)
Other revaluation/impairment	(28 823)	-
Net change recorded in Statement of Comprehensive Income	(37 297)	(15 365)
Reclassified from held for distribution to owner	-	5 972
Closing balance	34 672	71 969
Unrealised gain (loss) for the period included in the Statement of Comprehensive Income	(28 823)	4 286

ForestrySA has adopted the NPV of future cash flows related to the current standing timber as a more appropriate valuation technique for valuing standing timber. Last financial year ForestrySA used the net market value valuation technique for valuing the biological assets.

13. Standing timber (continued)

The standing timber comprises the following:	2014 $'000	2013 $'000
Fair value:		
Standing timber as held to maturity	34 672	71 969
Total fair value	34 672	71 969
Current asset:		
Current portion of standing timber valuation	2 419	8 134
Non-current asset:		
Non-current portion of standing timber valuation	32 253	63 835

14. Property, plant and equipment

2014	Land	Buildings and structures	Roads and land imprvmnts	Plant and equipment	Total
As at 1 July 2013, net of accumulated	$'000	$'000	$'000	$'000	$'000
depreciation and impairment	77 008	11 272	2 383	11 548	102 211
Additions/Transfers	-	16	386	136	538
Disposals	-	(33)	-	(47)	(80)
Assets reclassified to assets held for sale	-	-	-	(226)	(226)
Revaluation decrements against reserve	(45 213)	-	-	-	(45 213)
Depreciation charge for the year	-	(509)	(208)	(965)	(1 682)
Net of accumulated depreciation and impairment	31 795	10 746	2 561	10 446	55 548
At 30 June:					
Cost or fair value	31 795	12 268	4 757	21 424	70 244
Accumulated depreciation and impairment	-	(1 522)	(2 196)	(10 978)	(14 696)
Net carrying amount	31 795	10 746	2 561	10 446	55 548
2013					
As at 1 July 2012, net of accumulated depreciation and impairment	77 344	12 122	2 322	14 729	106 517
Additions/Transfers	-	51	281	530	862
Disposals	-	(389)	(49)	(2 474)	(2 912)
Assets reclassified to distribution to owner	(336)	-	29	-	(307)
Depreciation charge for the year	-	(512)	(200)	(1 237)	(1 949)
Net of accumulated depreciation and impairment	77 008	11 272	2 383	11 548	102 211
At 30 June:					
Cost or fair value	77 008	12 287	4 371	22 786	116 452
Accumulated depreciation and impairment	-	(1 015)	(1 988)	(11 238)	(14 241)
Net carrying amount	77 008	11 272	2 383	11 548	102 211

Revaluation of land and buildings and structures

ForestrySA used the services of the Valuer-General in South Australia to determine the fair value of its land as at 30 June 2014 and 30 June 2013. The market approach has consistently been the valuation methodology applied. However, for 30 June 2014 the Valuer-General's office has, taking to account AASB 13, reviewed its statutory valuations as well as included a discount factor related to the restrictions imposed on the use of the land by the various legislation under which ForestrySA operates, to derive the market value for fair value purposes. Land under plantation, under buildings and structures as well as native forest reserve land has been valued (refer also note 2(p)(iv)).

In 2011 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 is 30 June 2011. 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 is 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 assets' condition and remaining useful life.

Impairment

There were no indications of impairment of roads and land improvements and plant and equipment assets at 30 June 2014.

15. 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 into hierarchy based on the level of inputs used in measurement.

Fair value measurements recognised in the Statement of Financial Position are categorised into level 3 at 30 June 2014.

ForestrySA had no valuations categorised into levels 1 and 2.

Fair value measurements

2014		Level 3
Recurring fair value measurements:	Note	$'000
Standing timber	13	34 672
Land	14	31 795
Buildings and structures	14	10 746
Roads and land improvements	14	2 561
Plant and equipment	14	10 446
Total recurring fair value measurements		90 220
Non-recurring fair value measurements:		
Assets held for sale	12	368
Total non-recurring fair value measurements		368
2013		
Recurring fair value measurements:		
Standing timber	13	71 969
Land	14	77 008
Buildings and structures	14	11 272
Roads and land improvements	14	2 383
Plant and equipment	14	11 548
Total recurring fair value measurements		174 180
Non-recurring fair value measurements:		
Assets held for sale	12	1 077
Total non-recurring fair value measurements		1 077

Assets held for sale were revalued as the fair value less costs to sell was lower than the carrying amount.

There were no transfers of assets between fair value hierarchy levels in 2014. ForestrySA's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period.

Valuation techniques and inputs

Valuation techniques used to derive level fair values are in notes 13 and 14.

Although unobservable inputs were used in determining fair value, and are subjective, ForestrySA considers that the valuation assumptions are appropriate and based on sound operational practices. There is inherent uncertainty in the standing timber valuation and is endemic to all forest valuations. A sensitivity analysis has been completed to assess the impact of changes in key assumptions used in the standing timber valuation.

There were changes in the valuation techniques for forest and land. In the case of forest, ForestrySA changed the valuation technique from a net market value approach to an NPV approach, or income approach.

Valuation techniques and inputs (continued)

In the case of land, ForestrySA has continued to use the valuation provided by the Valuer-General's office. However, taking into account AASB 13 the Valuer-General has performed an assessment of the fair value of the land taking into account its restricted use, with forest reserves and native forest reserves all included in the valuation. The Valuer-General considered the highest and best use, corrected for legal restrictions over the use of the land (refer also note 2(p)).

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

Total valuation gains and losses	2014 $'000	2013 $'000
Standing timber	(37 297)	(15 365)
Land	(45 213)	-
Total valuation (loss) for the year	(82 510)	(15 365)

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

Description	*Valuation technique*	*Unobservable inputs*	*Range (weighted average)/Value*
Standing timber	NPV	Discount rate (pre-tax real)	7.6%
		Target clearfell age	34
		Net log revenue/m^3 projection	$0 - $54.71
		Extractable sawlog averaged at 119 000 m^3/year and pulp wood is exported in five yearly cycles when a commercial quantity can be extracted	
		Current silvicultural practices	
Land(1)	Market approach	Valuer-General's statutory valuation derived from available market evidence	
		Discount factors for legal restrictions (GT 40%, MLR 70%, MN 65%)	
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

ForestrySA performed a sensitivity analysis over the biological assets (standing timber) fair value amount:

	Low value	Medium low	Base case	Medium high	High value
Discount rate:					
Change in % NPV inputs:	8.6%	8.1%	7.6%	7.1%	6.6%
Valuation result ($'million)	31.1	32.7	34.5	36.5	38.7
Price variation:					
% change in NPV inputs	-10%	-5%	-	5%	10%
Valuation result ($'million)	28.9	31.7	34.5	37.4	40.2
Costs:					
% change in NPV inputs	10%	5%	-	-5%	-10%
Valuation result ($'million)	32.3	33.4	34.5	35.7	36.8

Reconciliation of fair value measurements - level 3

2014	Standing timber $'000	Land $'000	Buildings and structures $'000	Roads and land imprvmnts $'000	Plant and equipment $'000
Opening balance at 1 July	71 969	77 008	11 272	2 383	11 548
Acquisitions	-	-	16	386	136
Transfer into level 3	-	-	-	-	-
Disposals	-	-	(33)	-	(47)
Assets reclassified to assets held for sale	-	-	-	-	(226)
Total gains (losses) for the period recognised in net result:					
Revaluation increment (decrement)	(37 297)	-	-	-	-
Loss on revaluation	-	-	-	-	-
Depreciation	-	-	(509)	(208)	(965)
	(37 297)	-	(509)	(208)	(965)
Total gains (losses) for the period in other comprehensive income:					
Revaluation increment (decrement)	-	(45 213)	-	-	-
	-	(45 213)	-	-	-
Closing balance at 30 June	34 672	31 795	10 746	2 561	10 446

16. Intangible assets

	2014 $'000	2013 $'000
Computer software:		
As at 1 July, net of accumulated amortisation and impairment	320	288
Additions	294	188
Disposals	(1)	-
Amortisation charge for the year	(83)	(156)
Total computer software, net of accumulated amortisation and impairment	530	320
As at 30 June:		
Cost or fair value	1 962	2 110
Accumulated amortisation and impairment	(1 432)	(1 790)
Net carrying amount	530	320

The intangible assets consist of software for operational systems and water licences. There were no indications of impairment of intangible assets at 30 June 2014.

17. Payables

	2014	2013
Current:		
Trade payables	6 712	6 276
Accrued expenses	5 131	122
Employee benefit on-costs	322	299
Paid Parental Leave Scheme	-	4
	12 165	6 701
Non-current:		
Employee benefit on-costs	252	560
	252	560

As a result of an actuarial assessment performed by DTF, the percentage of the proportion of LSL taken as leave has remained at the 2013 rate of 40% and the average factor for the calculation of employer superannuation on-cost has remained 10.3%.

Interest rate and credit risk

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 - refer note 28.

18. Employee benefits	2014	2013
Current:	$'000	$'000
Accrued salaries and wages	(82)	823
TVSPs	7 087	-
LSL	1 789	474
SERL	35	70
Banking of time	32	75
Annual leave	683	773
	9 544	2 215
Non-current:		
LSL	1 467	3 033
	1 467	3 033

The total current and non-current employee benefits and employee benefit on-costs for 2014 is $11.6 million ($6.1 million). Employee benefit related on-costs are disclosed as payables.

The current employee benefits include the payable TVSPs and leave balances payable to ForestrySA employees that were offered and accepted TVSPs at or before year end.

AASB 119 contains the calculation methodology for the LSL liability. The actuarial assessment performed by DTF has provided a set level of liability for the measurement of LSL.

AASB 119 requires the use of the yield on long-term Commonwealth Government bonds as the discount rate in the measurement of the LSL liability. The yield on long-term Commonwealth Government bonds has decreased from 2013 (3.75%) to 2014 (3.5%).

The actuarial assessment performed by DTF left the salary inflation rate at 4%. As a result, there is no net financial effect resulting from changes in the salary inflation rate.

19. Deferred income	2014	2013
Current:	$'000	$'000
Deferred income	151	173
	151	173
Non-current:		
Deferred income	620	679
	620	679
Movement in deferred income:		
Carrying amount at 1 July	852	1 520
Received during the year	153	224
Recognised as income in the Statement of Comprehensive Income:		
Income	(234)	(892)
Carrying amount at 30 June	771	852

20. Other provisions		
Current:		
Workers compensation	246	240
	246	240
Opening balance	240	262
Payments	(60)	(115)
Increments in provision	66	93
Closing balance	246	240
Non-current:		
Workers compensation	1 019	985
	1 019	985
Movement in other provisions:		
Opening balance	985	1 013
Payments	-	-
Increments (Decrements) in provision	34	(28)
Closing balance	1 019	985

20. Other provisions (continued)

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

21. Equity

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

Since 2006 the requirements of the ownership framework for ForestrySA indicate that ForestrySA shall pay an annual contribution to government consisting of a dividend calculated as 90% of after tax profit, adjusted for standing timber revaluation gains and losses and approved contributions to the Fire Insurance Fund, plus an income tax equivalent payment. ForestrySA has not declared any special dividend or other dividend in 2014 ($29.5 million).

22. Segment information

ForestrySA is organised into three regions, the CSOs and a corporate business unit based on its products and services. The reportable segments are:

- MLR: including the MLR region located activities, including Mount Crawford Forest, Second Valley Forest.
- MN: including the MN region located activities around Wirrabara and Jamestown.
- GT: including the management services for OFO and ForestrySA activities in the GT region of South Australia and Victoria.
- CSOs: including the CSO ForestrySA performs under its charter with the SA Government. The CSO activities include community forestry, community fire protection and forestry industry development.
- Corporate: including board, executive, planning and development, forest management system, finance, payroll, HR and records. The Corporate segment expenses include expenses incurred to manage and operate the MLR, MN, GT regions at a corporate level.

No operating segments have been aggregated to form the above reportable operating segments.

The board and executive 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.

ForestrySA has reported segment information consistent with AASB 8 which requires an entity to report a measure of profit or loss for each reportable segment. AASB 8 also requires an entity to report a measure of total assets and liabilities for each reportable segment if such amounts are regularly provided to the chief operating decision maker. ForestrySA does not currently report its assets and liabilities per segment in its internal management reporting. Therefore this disclosure has not been made.

2014	GT $'000	MLR $'000	MN $'000	CSO $'000	Corporate $'000	Consolidated $'000
Income						
Sales - timber products	-	17 531	1 336	-	-	18 867
Wood sales - back-to-back	36 694	-	-	-	-	36 694
Sales - management services	16 804	-	-	-	-	16 804
CSO revenue	-	-	-	3 182	-	3 182
Government Radio Network funding	-	-	-	-	374	374
Deferred revenues from SA Government	15	6	-	7	-	28
Interest income	-	237	1	-	465	703
Other income	220	286	48	-	83	637
Total income before other revenues from SA Government	53 733	18 060	1 385	3 189	922	77 289

22. Segment information (continued)

2014 (continued)	GT	MLR	MN	CSO	Corporate	Consolidated
Expenses	$'000	$'000	$'000	$'000	$'000	$'000
Employee benefits	(6 297)	(2 000)	(227)	(1 839)	*(12 354)	(22 717)
Contractors	(1 573)	(7 242)	(1 105)	(766)	(422)	(11 108)
Wood purchases - back-to-back	(36 694)	-	-	-	-	(36 694)
Depreciation and amortisation	(1 187)	(344)	(47)	(100)	(87)	(1 765)
Finance costs	-	-	-	-	-	-
Materials	(681)	(387)	(59)	(66)	(6)	(1 199)
Equipment and vehicle costs	(1 802)	(490)	(72)	(414)	(25)	(2 803)
Council rates	(1 408)	(242)	(18)	-	-	(1 668)
Other expenditure	307	(6 184)	(500)	(1 353)	(2 909)	(10 639)
Net profit (loss) from the disposal of non-current assets	(246)	47	-	(30)	-	(229)
Total expenses	(49 581)	(16 842)	(2 028)	(4 568)	(15 803)	(88 822)
Segment profit						
Trading profit before revaluation of standing timber and other revenues from SA Government	4 152	1 218	(643)	(1 379)	(14 881)	(11 533)
Other revenues from SA Government	(4 152)	(1 218)	643	1 379	14 881	11 533
Trading profit before revaluation of standing timber	-	-	-	-	-	-
Net change in value of standing timber	-	(25 828)	(11 469)	-	-	(37 297)
Land revaluation recorded in revaluation surplus	3 255	(42 601)	(5 867)	-	-	(45 213)
Total comprehensive result	3 255	(68 429)	(17 336)	-	-	(82 510)

* Includes $7.087 million of termination payments.

2013	GT	MLR	MN	CSO	Corporate	Consolidated
Income						
Sales - timber products	24 593	6 898	1 346	-	-	32 837
Wood sales - back-to-back	21 283	-	-	-	-	21 283
Sales - management services	9 998	-	-	-	-	9 998
CSO revenue	-	-	-	3 093	-	3 093
Government Radio Network funding	-	-	-	-	369	369
Deferred revenues from SA Government	15	6	-	8	-	29
Interest income	36	122	6	-	1 443	1 607
Other income	17 338	355	88	-	56	17 837
Total income before other revenues from SA Government	73 263	7 381	1 440	3 101	1 868	87 053
Expenses						
Employee benefits	(7 179)	(1 827)	(374)	(1 552)	(5 493)	(16 425)
Contractors	(11 444)	(4 484)	(1 158)	(810)	(327)	(18 223)
Wood purchases - back-to-back	(21 283)	-	-	-	-	(21 283)
Depreciation and amortisation	(1 422)	(333)	(41)	(105)	(204)	(2 105)
Finance costs	-	-	-	-	(1 814)	(1 814)
Materials	(4 159)	(455)	(45)	(81)	(3)	(4 743)
Equipment and vehicle costs	(2 281)	(465)	(141)	(386)	(41)	(3 314)
Council rates	(1 401)	(236)	(18)	-	-	(1 655)
Other expenditure	(2 540)	(290)	1	(1 357)	(3 876)	(8 062)
Net profit (loss) from the disposal of non-current assets	37	18	-	-	(2 700)	(2 645)
Total expenses	(51 672)	(8 072)	(1 776)	(4 291)	(14 458)	(80 269)
Segment profit						
Trading profit before revaluation of standing timber and other revenues from SA Government	21 591	(691)	(336)	(1 190)	(12 590)	6 784

22. Segment information (continued)

2013 (continued)	GT	MLR	MN	CSO	Corporate	Consolidated
Other revenues from	$'000	$'000	$'000	$'000	$'000	$'000
SA Government	4 106	691	336	1 190	(1 786)	4 537
Trading profit before revaluation of standing timber	25 697	-	-	-	(14 376)	11 321
Net change in value of standing timber	(16 471)	(4 143)	5 249	-	-	(15 365)
Land revaluation recorded in revaluation surplus	-	-	-	-	-	-
Total comprehensive result	9 226	(4 143)	5 249	-	(14 376)	(4 044)

23. Commitments and contingencies

(a) Commitments

(i) Operating lease commitments

	2014 $'000	2013 $'000
Non-cancellable operating leases contracted for but not capitalised in the accounts:		
Due not later than one year	483	688
Due later than one year but not later than five years	379	422
Total operating lease commitments	862	1 110

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

(ii) Remuneration commitments

Due not later than one year	3 427	3 967
Due later than one year but not later than five years	2 577	5 589
Total remuneration commitments	6 004	9 556

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

(iii) Other commitments

	2014 $'000	2013 $'000
Due not later than one year	4 544	3 563
Due later than one year but not later than five years	8 289	10 687
Total other commitments	12 833	14 250

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

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

ForestrySA has entered into contracts related to the implementation of a new enterprise resource planning and sales system, resulting in commitments for one year and commitments later than one year.

(b) Contingent liabilities

South Australian Superannuation Board payments - defined benefit members

ForestrySA and the South Australian 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.*

ForestrySA was notified by the South Australian Superannuation Board in 2013 of a $6.7 million actuarially assessed funding deficit relating to defined benefit members employed by ForestrySA as at 30 June 2012, requiring additional contributions over 15 years. The previous 2009 actuarial assessment indicated a deficit of $5.7 million. In addition to regular contributions in relation to current superannuation benefits ForestrySA has expensed $583 000 ($561 000) being the amount payable during the current financial year in relation to the benefit funding deficit. A liability has not been recognised for the remaining balance.

South Australian Superannuation Board payments - defined benefit members (continued)
The annual expense is increased by 4% annually until a new actuarial assessment by the South Australian Superannuation Board is issued.

(c) Contingent assets
Various banks have issued bank guarantees for ForestrySA customers to ForestrySA, which form a security in case of default on payment.

24. Executive disclosures

(a) Details of key management personnel

Executive

A Hatch	Chief Executive (appointed 16 August 2013), previously General Manager - Commercial
W G Materne	Chief Financial Officer (to 22 July 2013)
J P Coleman	Chief Financial Officer (appointed 5 August 2013)
J Jagger	General Manager - Commercial (appointed 14 February 2014)
J F O'Hehir	General Manager - Planning and Development
D I Robertson	Chief Executive (to 16 August 2013)
G K Saunder	General Manager - Operations

(b) Compensation of key management personnel

	2014 $'000	2013 $'000
Short-term employee benefits paid or due and payable to or on behalf of key management personnel	1 025	914
Termination payments paid or due and payable to or on behalf of key management personnel	128	-
Superannuation benefits paid or due and payable to or on behalf of key management personnel	181	90
Total	1 334	1 004

25. 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.

		SA Government		Non-SA Government		Total	
		2014	2013	2014	2013	2014	2013
	Note	$'000	$'000	$'000	$'000	$'000	$'000
Income							
Sales - timber products		-	-	18 867	32 837	18 867	32 837
Wood sales - back-to-back		-	-	36 694	21 283	36 694	21 283
Sales - management services		-	-	16 804	9 998	16 804	9 998
Revenues from SA Government	5(i)	15 117	8 028	-	-	15 117	8 028
Interest	5(ii)	466	1 443	237	164	703	1 607
Other income	5(iii)	-	-	637	17 837	637	17 837
Total income		15 583	9 471	73 239	82 119	88 822	91 590
Expenses							
Employee benefits	7	2 570	2 536	20 147	13 889	22 717	16 425
Contractors		171	151	10 937	18 072	11 108	18 223
Wood purchases - back-to-back		-	-	36 694	21 283	36 694	21 283
Depreciation and amortisation	5(v),14,16	-	-	1 765	2 105	1 765	2 105
Finance costs	5(v)	-	1 814	-	-	-	1 814
Materials		3	3	1 196	4 740	1 199	4 743
Equipment and vehicle costs		83	696	2 720	2 618	2 803	3 314
Council rates		-	-	1 668	1 655	1 668	1 655
Other expenditure:							
Net gain from disposal of current assets	5(vi)	-	-	-	1 104	-	1 104
Contract settlement	5(iii)	-	-	-	3 144	-	3 144
Doubtful debt provision/ write-down	5(vi)	-	-	111	1 297	111	1 297
Export - shipping	5(vi)	-	-	4 057	-	4 057	-
Export - marketing and other	5(vi)	-	-	2 540	-	2 540	-
Other	5(vi)	1 171	1 172	2 760	1 345	3 931	2 517
Net loss from the disposal of non-current assets	5(vi)	-	2	229	2 643	229	2 645
Total expenses		3 998	6 374	84 824	73 895	88 822	80 269

25. Transactions with SA Government (continued)

		SA Government		Non-SA Government		Total	
Financial assets		2014	2013	2014	2013	2014	2013
Current financial assets:	Note	$'000	$'000	$'000	$'000	$'000	$'000
Receivables:							
Trade receivables	10	-	388	10 477	7 918	10 477	8 306
Doubtful debts	10	-	-	(111)	(24)	(111)	(24)
Other receivables	10	-	-	-	2 259	-	2 259
Accrued revenue	10	52	36	1	7	53	43
Total current financial assets		52	424	10 367	10 160	10 419	10 584
Total financial assets		52	424	10 367	10 160	10 419	10 584
Financial liabilities							
Current financial liabilities:							
Payables:							
Trade payables	17	457	352	6 255	5 924	6 712	6 276
Accrued expenses	17	4 255	69	387	(28)	4 642	41
Employee benefits	18	-	-	9 544	2 215	9 544	2 215
Deferred income	19	63	110	88	63	151	173
Other provisions	20	-	-	246	240	246	240
Total current financial liabilities		4 775	531	16 520	8 414	21 295	8 945
Non-current financial liabilities:							
Employee benefits	18	-	-	1 467	3 033	1 467	3 033
Deferred income	19	512	557	108	122	620	679
Other provisions	20	-	-	1 019	985	1 019	985
Total non-current financial liabilities		512	557	2 594	4 140	3 106	4 697
Total financial liabilities		5 287	1 088	19 114	12 554	24 401	13 642

26. Directors and related party disclosures

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

I J Kowalick - Chairman
K H Adams (to 1 August 2013)
A Darras
A McCleary
J Obst
J R Roache[(1)] (appointed 26 September 2013)

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

(1) SA Government employee. In accordance with DPC Circular 16, SA Government employees did not receive any remuneration for duties during the financial year.

Directors' remuneration	2014	2013
Income paid or due and payable to or on behalf of directors,	$'000	$'000
excluding superannuation benefits	166	203
Superannuation benefits paid or due and payable to or on behalf of directors	15	18
Total	181	221

	2014	2013
The number of directors whose income was within the following bands:	Number	Number
$0	1	-
$1 - $9 999	1	-
$30 000 - $39 999	2	2
$40 000 - $49 999	1	2
$50 000 - $59 999	1	-
$60 000 - $69 999	-	1
Total	6	5

27. Related parties

Related parties include parties that control or have an interest in the entity that gives it significant influence over ForestrySA.

ForestrySA is controlled by the SA Government. Transactions and balances between ForestrySA and related parties (other SA Government controlled entities) are disclosed in note 26.

28. Financial instruments

(i) Credit risk exposures

The credit risk on financial assets of the economic entity which has been recognised in the Statement of Financial Position, is 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 86% of the value of transactions for the financial year were transactions with the four largest of ForestrySA's customers (80% for the six largest).

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

- payment terms are 30 days unless otherwise agreed in the terms and conditions of individual contracts
- a risk assessment process is used for customers with balances over $10 000
- bank guarantees are obtained for specific customers (refer also note 23)
- interest is charged on overdue balances.

(ii) Foreign currency risk exposures

As at 30 June 2014 ForestrySA's exposure to foreign currencies is USD189 000 (USD0).

(iii) Interest rate risk exposures

The economic entity's exposure to interest rate risk for each class of financial assets and financial liabilities is set out in the following table:

	Floating rate	Non-interest bearing	2014 Total	2013 Total
Financial assets:	$'000	$'000	$'000	$'000
Cash and cash equivalents	27 383	-	27 383	15 366
Receivables[1]	-	10 419	10 419	10 584
	27 383	10 419	37 802	25 950
Financial liabilities:				
Payables[2]	-	11 355	11 355	6 317
	-	11 355	11 355	6 317
Net financial assets (liabilities)	27 383	(936)	26 447	19 633

(1) Other than prepayments.
(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) 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.

(v) Hedging instruments

Hedges of specific instruments

ForestrySA has no open hedging instruments.

(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.

(vii) Ageing analysis of financial assets

The following table discloses the ageing of financial assets, past due, including impaired assets past due.

	Past due by			
	Overdue for less than 30 days	Overdue for 30-60 days	Overdue for more than 60 days	Total
2014	$'000	$'000	$'000	$'000
Not impaired:[1]				
Receivables	1 344	33	1 311	10 308
Other financial assets	-	-	-	-
Impaired:[1]				
Receivables	34	17	17	111
Allowance for impairment	34	17	17	111
2013				
Not impaired:[1]				
Receivables	2 133	697	1 436	10 560
Other financial assets	-	-	-	-
Impaired:[1]				
Receivables	-	-	24	24
Allowance for impairment	-	-	24	24

[1] Receivable and payable amounts disclosed here exclude amounts relating to statutory receivables and payables and are carried at cost. 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 and obligations have their source in legislation such as employee benefits on-costs, payroll tax, FBT, land tax, GST receivables/payables, audit fees etc they would be excluded from the disclosure.

(viii) Maturity analysis of financial assets and financial liabilities

The following table discloses the maturity analysis of financial assets and financial liabilities.

		Contractual maturities		
	Carrying amount	Less than 1 year	1-5 years	More than 5 years
2014	$'000	$'000	$'000	$'000
Financial assets:				
Cash and cash equivalents	27 383	27 383	-	-
Receivables	10 419	10 419	-	-
Other financial assets	-	-	-	-
Total financial assets	37 802	37 802	-	-
Financial liabilities:				
Payables	11 355	11 355	-	-
Borrowings	-	-	-	-
Finance lease liability	-	-	-	-
Other financial liabilities	13 047	9 941	2 458	648
Total financial liabilities	24 402	21 296	2 458	648
2013				
Financial assets:				
Cash and cash equivalents	15 366	15 366	-	-
Receivables	10 584	10 584	-	-
Other financial assets	-	-	-	-
Total financial assets	25 950	25 950	-	-
Financial liabilities:				
Payables	6 317	6 317	-	-
Borrowings	-	-	-	-
Finance lease liability	-	-	-	-
Other financial liabilities	7 325	2 628	3 999	698
Total financial liabilities	13 642	8 945	3 999	698

Acronyms used in this Report

Australian Accounting Standards - AASB

Reference	Title
AASB 8	Operating Segments
AASB 13	Fair Value Measurement
AASB 101	Presentation of Financial Statements
AASB 102	Inventories
AASB 119	Employee Benefits
AASB 138	Intangible Assets
AASB 141	Agriculture

Treasurer's Instructions – TIs

Reference	Title
TI 22	Tax Equivalent Payments
TI 28	Financial Management Compliance Program

Accounting Policy Framework - APF

Reference	Title
APF II	General Purpose Financial Statements Framework
APF III	Asset Accounting Framework

Legislation

Reference	Title
PCA	*Public Corporations Act 1993*
PFAA	*Public Finance and Audit Act 1987*

Acronyms

Reference	Title
AASs	Australian Accounting Standards[1]
APF	Accounting Policy Framework
APS	Accounting Policy Statement
ATO	Australian Taxation Office
DPC	Department of the Premier and Cabinet
DTF	Department of Treasury and Finance
FBT	Fringe benefits tax
GST	Goods and services tax
LSL	Long service leave
SAFA	South Australian Government Financing Authority
SERL	Skills and experience retention leave
TI	Treasurer's Instruction
TVSP	Targeted voluntary separation package

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