



ForestrySA

ANNUAL REPORT 2018-19



ABOUT FORESTRYSA



SOUTH AUSTRALIA'S HOMEGROWN PLANTATION AND COMMUNITY FOREST MANAGER SINCE 1875.

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

Legislation administered by ForestrySA includes the *Forestry Act 1950* (including the *Forestry Regulations 2013*) and the *South Australian Forestry Corporation Act 2000*.

ForestrySA's responsibilities as a commercial and recreational forest manager are set out in the South Australian Forestry Corporation Charter and annual Performance Statement. These detail the South Australian Government's priorities and requirements of the business and are summarised from page 13 of this report.

ForestrySA's core commercial role is management of more than 10,000ha of plantation pine in the Mount Lofty Ranges.

As a plantation manager, ForestrySA's focus is the production of log which our customers convert into a range of structural and non-structural timber products.

Most log is marketed through the regional domestic processing industry, generating significant investment and support to local communities through the supply chain. In some cases, log may be exported according to availability, quality and demand dynamics.

ForestrySA is also responsible for 16,000ha of Native Forest Reserve located within South Australia's Mount Lofty Ranges and Green Triangle regions. These forests are managed and protected for conservation purposes.

All plantation and native forest areas under ForestrySA management are also widely used and valued by the community for recreation.

ForestrySA is committed to responsible environmental management of plantation and native forests. To this end, ForestrySA's Forest Management System is certified to the internationally recognised Australian Forestry Standard for Sustainable Forest Management (AS 4708), administered by Responsible Wood.

This serves as recognition that ForestrySA's future is intrinsically linked to the sustainability of its practices.



CONTENTS

| | |
|---------------------------------------|-----------|
| About ForestrySA | |
| Board Governance and Executive | 3 |
| From the Chair and Chief Executive | 4 |
| ForestrySA Board | 5 |
| Board and Governance | 6 |
| ForestrySA Charter | 9 |
| Performance Targets | 13 |
| Organisational Structure | 14 |
| ForestrySA Operations | 15 |
| Plantation Management | 16 |
| Planning and Production | 17 |
| Market and Sales | 18 |
| Research and Forest Health | 19 |
| Fire | 20 |
| Community Forestry | 22 |
| Supporting our Communities | 24 |

| | |
|---|-----------|
| Financial Report | 25 |
| Statement of Comprehensive Income | 26 |
| Statement of Financial Position | 27 |
| Statement of Cashflows | 28 |
| Statement of Changes in Equity | 29 |
| Notes to the Financial Statements | 30 |
| Certification of the Financial Statements | 59 |
| Independent Auditor's Report | 60 |
| Statutory Reporting Items | 63 |
| Glossary | 70 |

ForestrySA Head Office

Kuitpo Forest

495 Brookman Road, Meadows SA 5201

Phone: +61 8 8391 8800

Email: forestrysa@forestrysa.com.au

www.forestrysa.com.au

Annual Report 2018-19

ISBN - 978-0-7308-7440-9

ISSN - 2209-377X

ABN - 57 969 474 679



BOARD, GOVERNANCE AND EXECUTIVE

FROM THE CHAIR & CHIEF EXECUTIVE

In accordance with the *Public Corporations Act 1993* and the *South Australian Forestry Corporation Act 2000*, we submit the Annual Report on ForestrySA's operations for the 2018-19 Financial Year.

The South Australian Forestry Corporation has the following principal statutory functions:

- To manage plantation forests for commercial production;
- To encourage and facilitate regionally-based economic activities based on forestry and other industries; and
- To conduct research related to the growing of wood for commercial purposes.

From a commercial perspective, ForestrySA's strategic and primary responsibility is to maximise the value of the corporation's plantation assets of approximately 10,500ha in the Mount Lofty Ranges region.

In 2018-19, log sales revenue totalled \$13.51m, an increase of \$1.79m or 15% on the previous year. Of this revenue, \$2.7m or 20% was from the final export shipment of log deemed unsuitable for local domestic markets. Importantly, domestic sales of \$10.8m, an increase of 19% on the previous year, were achieved, benefitting domestic businesses including local sawmills with the supply of quality log.

Through seeking continuous improvement and greater efficiencies within the business, ForestrySA was able to achieve a better than budgeted result for the financial year.

During the year there was continued divestment of commercial forest reserves in the Mid North region in accordance with the Mid North Forests Future Strategy. ForestrySA has now entered into 15 Crown leases with individuals and businesses aiming to establish a range of future commercial uses for the land at Wirrabara and Bundaleer.

In addition to the commercial functions of the corporation, ForestrySA provides a range of non-commercial services or community service obligations to government. The total contribution to ForestrySA from government in 2018-19 was \$4.5m. Of this amount, \$4.1m was for various community service obligations such as native forest management, community use of forest reserves and fire risk management for community and asset protection. The balance of \$0.4m was received for operating the government radio network.

ForestrySA's fire risk mitigation and response activities continued in 2018-19, with the corporation playing a key role in fire management on public lands and remaining an active participant in several across-government initiatives to enhance fire protection for the general community. Fire management and other safety-related programs remain key parts of ForestrySA's operations, in recognition of our public responsibilities in these areas.

ForestrySA also continues to facilitate the government contribution of \$2m for forestry industry research through

a four-year agreement with the University of South Australia, which commenced in 2017-18. This contribution is important to the success of the National Institute for Forest Products Innovation centre in Mount Gambier.

ForestrySA manages public access to more than 16,000ha of South Australia's native forest reserves. These natural assets and public facilities are protected and enhanced under ForestrySA's forest management system for their environmental, ecological and heritage values.

The corporation also encourages public visitation to forest reserves used for commercial plantation forestry, including former ForestrySA-managed plantation in the Green Triangle. In 2018-19, ForestrySA managed 39,797ha of forest reserves in South Australia, with more than a quarter of a million recorded visitors and permits being issued for organised nature-based activities and education programs.

Sustainable management of the forest assets is a key focus to ensure the estate remains healthy and productive. During the year, ForestrySA replanted 418ha in the Mount Lofty Ranges with around 650,000 pine seedlings.

Both ForestrySA's plantation assets and forest reserves in the Mount Lofty Ranges and forest reserves in the Green Triangle continue to be certified to the internationally recognised Australian Standard for Sustainable Forest Management (AS4708), now administered by Responsible Wood.

In 2019-20, the corporation will continue to pursue continuous improvement and cost efficiencies in all parts of its operations, both commercial and non-commercial, to ensure an improved result.

On behalf of the current board, we acknowledge and extend thanks to past board members whose terms of appointment were completed during the year and for their valued contributions.

Anne McEwen was appointed to the board on 1 August 2017 and her term expired on 31 July 2018. She was also Chair of the Audit and Risk Committee from 22 February 2018 until the expiration of her board tenure. Scott Ashby was a member of the board from 3 November 2016 to 31 March 2019 and also held the position of Chair of the Audit and Risk Committee from 9 August 2018. Keith Lamb was appointed to the board on 9 August 2018 and tendered his resignation effective 25 October 2018.

We acknowledge the management team, staff, suppliers, contractors and customers for their commitment and contribution to the corporation, for the economical and environmental benefit to the community of South Australia during 2018-19.



June Roache - Board Chair



Julian Speed - Chief Executive

FORESTRYSA BOARD AT 30 JUNE 2019

The ForestrySA Board consists of three independent directors, including the Chair.



JUNE ROACHE

BAcc, GradCertMgt(Monash), FAICD, FCPA, FAIM

Board Chair

Ms June Roache was appointed as Chair and Board Member of ForestrySA on 1 January 2018 having previously served as a Board Member and holding the position of Chair, Audit and Risk Committee. Ms Roache is an independent non-executive director with extensive business experience having held several senior executive roles including Chief Executive of SA Lotteries, and a number of governance roles including Vice President of the World Lottery Association and Chair of the Asia Pacific Lottery Association. Her experience extends to commercial, regulatory and not-for-profit organisations in the gambling, health, sports and arts sectors. She is currently a Commissioner of the Essential Services Commission of South Australia and a Board Member of the History Trust of SA. Ms Roache has a Degree in Accounting from the University of SA, a Graduate Certificate in Management from Monash Mt Eliza Business School, and is a Fellow of the Australian Institute of Company Directors, CPA Australia and the Institute of Managers and Leaders.



GRANT PELTON

BSc (Zoology Botany), GradDip (Ecology Management)

Board member

Mr Grant Pelton grew up in the Mid North of South Australia and has a Bachelor of Science degree majoring in Zoology and Botany, as well as a Graduate Diploma in Ecology and Management, from Adelaide University. He has worked in the Department for Environment and Water (DEW) since January 2004 in multiple roles including Fire Management, special projects, and in the last seven years as Director of Regional Programs. Regional Programs provides program direction, support and coordination to enable the delivery of DEW's major operational programs through our regions. These include Fire Management, Visitor Services, Asset Management, Compliance, Marine Parks and the coordination of our Volunteer Support Programs, including support for Friends of Parks Incorporated. Mr Pelton is a member of the DEW Executive, Chair of the Department's Work, Health & Safety and Women in Leadership Executive Committees and has been Acting Group Executive Director, Parks & Regions, since March this year.



TIM STOLLZNOW

BE (Hons Electrical), GradDipMan (Technology), FAICD

Board member

Mr Tim Stollznaw was appointed as a ForestrySA Board Member and Chair of the Audit and Risk Committee in April 2019. Mr Stollznaw is an independent non-executive director with extensive board experience across a diverse portfolio of commercial and not-for-profit organisations. His background includes business and management experience in research and development, manufacturing, quality control and export development, predominantly in the information technology and electronics sector. He has worked in Australia and in the United States. Mr Stollznaw currently serves as a director and consultant to numerous unrelated commercial organisations. He is Chairman of Yirara College and Finke River Mission, both based in the Northern Territory as well as a Board Member of the Prostate Cancer Foundation (SA). Mr Stollznaw has an Honours Degree in Engineering from the University of Adelaide, a graduate Diploma in Management from Deakin University and is a Fellow of the Australian Institute of Company Directors.

BOARD AND GOVERNANCE

RESPONSIBILITIES OF THE BOARD

The ForestrySA Board has overall responsibility for the corporate governance, direction and performance of the business.

In discharging its responsibilities, the board has worked with management on the establishment of the ForestrySA Strategic Plan.

The board monitors the performance of the organisation against the strategic plan as well as overseeing internal controls and risk management strategies.

The board provides leadership and support to the chief executive in the exercise of general management functions, and approves and monitors performance against budgets and business strategies prepared by management.

The board is committed to the principles of sound corporate governance, delegating responsibility to the chief executive for implementation of the strategic plan, day-to-day business management and ensuring all staff continue to work to high ethical standards.

BUSINESS SUSTAINABILITY

The board is committed to the long-term sustainability of ForestrySA's business activities, operations, land stewardship and renewable forest resources, for the benefit of South Australia.

Maintaining ForestrySA's quality, environmental and safety management systems and certification to the internationally recognised Australian Forestry Standard for Sustainable Forest Management (AS 4708) administered by Responsible Wood, in the Green Triangle and Mount Lofty Ranges, continue to be key commitments of the board.

BOARD AND GOVERNANCE CONTINUED

BOARD MEETING ATTENDANCE

| Board members July 2018 – June 2019 | Meetings attended | Eligible for attendance |
|--|----------------------|----------------------------|
| June Roache Board Chair (1 July 2018 - 30 June 2019) | 13 | 13 |
| Scott Ashby Board Member (1 July 2018 - 31 March 2019) | 8 | 9 |
| Anne McEwen Board Member (1 July 2018 - 31 July 2018) | 2 | 2 |
| Keith Lamb Board Member (9 August 2018 - 25 October 2018) | 3 | 4 |
| Grant Pelton Board Member (1 November 2018 - 30 June 2019) | 10 | 10 |
| Tim Stollznaw Board Member (4 April 2019 - 30 June 2019) | 3 | 3 |

Thirteen SAFC Board Meetings were held during the 2018-19 year.

During the year no benefit was received by any member of the board from any interest or involvement in ForestrySA's operations or activities, apart from approved board remuneration.

In accordance with the *Public Corporations Act 1993*, all ForestrySA directors are required to disclose full and accurate details of direct or indirect personal or pecuniary interests in any matter under consideration by the board.

A conflict of interest declaration is called at each board meeting and any issues regularly reviewed to ensure full compliance with the act.

Chair June Roache advised that as a Commissioner of the Essential Services Commission of South Australia (ESCOSA) responsible for SA Water's revenue determination, she would be removed from any consideration or decision making in relation to ForestrySA plantations on which SA Water's Zero Cost Energy Future development may occur.

Director Scott Ashby advised that as PIRSA Chief Executive, the government agency managing the Mount Gambier Research Hub and the Mid North Forests Future Strategy, he has a conflict of interest in both matters and would be removed from considering or approving either matter.

Director Grant Pelton advised that as Acting Group Executive Director, Parks and Regions, Department for Environment and Water (DEW), the government agency responsible for managing the state's parks and reserves under the *National Parks and Wildlife Act 1972* (NPW), and the agency responsible for administering the *Crown Lands Management Act 2009*, he has a potential conflict of interest in any decisions to transition lands to these acts and would be removed from considering or approving any decisions to transition lands to these acts.

BOARD AND GOVERNANCE CONTINUED

AUDIT AND RISK COMMITTEE

The South Australian Forestry Corporation Audit and Risk Committee has been established to assist the ForestrySA Board.

This committee is maintained by the board as a commitment to sound corporate governance and to comply with the requirements of the *Public Corporations Act 1993*. The committee operates under terms of reference approved by the board.

The Audit and Risk Committee conducts an assessment of systems and practices to facilitate the development and maintenance of effective internal controls, continuous improvement and risk management.

The board has engaged Ernst & Young to provide an internal audit function to assist the Audit and Risk Committee and management in providing independent advice on ForestrySA's business processes, internal controls and risk management.

In addition, the Audit and Risk Committee has the responsibility to review ForestrySA's annual financial statements to ensure that the statements represent a fair and true view of the affairs of ForestrySA, consistent with accounting standards and statutory reporting requirements, and to provide the board with assurance of the reliability of financial information and financial reports.

AUDIT AND RISK COMMITTEE MEETING ATTENDANCE

| Audit and Risk Committee members July 2018 – June 2019 | Meetings attended | Eligible for attendance |
|--|----------------------|----------------------------|
| Anne McEwen Chair (1 July 2018 - 31 July 2018) | 2 | 2 |
| Scott Ashby Chair (9 August 2018 - 31 March 2019) Member (1 July 2018 - 31 August 2018) | 5 1 | 5 2 |
| Tim Stollznaw Chair (4 April 2019 - 30 June 2019) | 1 | 1 |
| June Roache Member (1 July 2018 - 30 June 2019) | 8 | 8 |
| Keith Lamb Member (9 August 2018 - 25 October 2018) | 2 | 2 |
| Grant Pelton Member (1 November 2018 - 30 June 2019) | 3 | 3 |

Eight Audit and Risk Committee Meetings were held during the 2018-19 year.

FORESTRYSA CHARTER

In accordance with the requirements of the *Public Corporations Act 1993*, the following Charter for ForestrySA was effective for the reporting period 2018-19.

1. INTRODUCTION

- 1.1. This Charter has been prepared by the Minister for Primary Industries and Regional Development and the Treasurer, following consultation with the South Australian Forestry Corporation, in accordance with section 12 of the *Public Corporations Act 1993*.
- 1.2. This Charter should be read in conjunction with:
 - *The Public Corporations Act 1993*
 - *The South Australian Forestry Corporation Act 2000*
 - *The Forestry Act 1950*
 - *The Public Finance and Audit Act 1987*.
- 1.3. Expressions used in this Charter have the same meaning as in the *Public Corporations Act 1993*.
- 1.4. In this Charter, the South Australian Forestry Corporation is referred to as “the Corporation”.
- 1.5. This Charter sets out the Government’s strategic objectives, priorities and requirements for the Corporation.

PART 1: STRATEGIC POSITION

2. BOARD RESPONSIBILITIES

- 2.1. The Board of a public corporation is responsible to its Minister for Primary Industries and Regional Development for overseeing the operations of the Corporation with the goal of:
 - 2.1.1. securing continuing improvements of performance
 - 2.1.2. encouraging and facilitating regionally based economic activities based on forestry and other industries by protecting the long term viability of the Corporation and the Crown’s financial interest in the Corporation for the benefit of the people and economy of the State.

3. STRATEGIC-COMMERCIAL DIRECTIONS

- 3.1. The Government requires the Corporation, in fulfilling its statutory functions as set out in the *South Australian Forestry Corporation Act 2000*, to be a business enterprise with the principal responsibility to manage State-owned plantation forests to the benefit of the people and economy of the State, manage plantation forests for other forest owners and pursue the following strategic commercial directions:
 - 3.1.1. Manage State-owned plantation forests for commercial production in line with best practice standards for forestry operations and environmental management.
 - 3.1.2. Undertake and where appropriate commercialise, forestry related research for the benefit of the Corporation and the State.
 - 3.1.3. Maximise the value of the Corporation whilst achieving other key requirements of Government set out herein.

FORESTRYSA CHARTER CONTINUED

4. ECONOMIC DIRECTIONS

The Government is committed to the ongoing development of the South Australian economy through mechanisms that foster:

- economic growth, investment and reinvestment in South Australia;
- development of exports and entry to overseas markets;
- research, development and commercialisation of technology; and
- implementing a strong information technology base.

To this end, the Corporation shall:

- 4.1. encourage and facilitate regionally based economic activities based on forestry and other industries;
- 4.2. support regional resource protection initiatives and programs;
- 4.3. support the concept of environmental sustainability which assists in the protection of natural assets and market accessibility; and
- 4.4. support cooperative research activities within the forestry industry.

5. GOVERNMENT POLICIES

- 5.1. In pursuing the strategic objectives in the context of the Government's directions, and undertaking its functions and exercising its powers, the Corporation shall act in accordance with the Government's:
 - 5.1.1. governance framework for public corporations
 - 5.1.2. policies generally applying to its commercial agencies
 - 5.1.3. policies specifically applying to the Corporation.
- 5.2. The Corporation in developing its operating policies shall have regard to other Government strategies and policies, and the roles and responsibilities of other Government agencies.

PART 2: THE CORPORATION'S OPERATIONS

6. COMMERCIAL OPERATIONS

- 6.1. General
For the purposes of the *Public Corporations Act 1993*, all operations of the Corporation are commercial operations, except for those operations referenced as non-commercial operations in Section 7.
- 6.2. Scope of Operations
The Corporation's principal operations will be based in South Australia.
- 6.3. Subsidiaries, Joint Ventures and Other Arrangements
With the approval of the Minister for Primary Industries and Regional Development and the Treasurer, the Corporation may pursue commercial opportunities through subsidiaries, joint ventures or other appropriate arrangements, provided that the services delivered under the arrangements relate to forestry or ancillary services.

FORESTRYSA CHARTER CONTINUED

6.4. Investment Activities

The Corporation may invest:

- 6.4.1. in the development and continuation of the Corporation's business, consistent with this Charter and directly related to its legislative functions.
- 6.4.2. surplus funds so as to maximise the return in accordance with sound investment practices appropriate to the nature of the funds invested.

7. NON-COMMERCIAL OPERATIONS

7.1. The Corporation's non-commercial operations, in terms of the *Public Corporations Act 1993*, include those operations which are:

7.1.1. Listed below:

- i. Native forest management
- ii. Community use
- iii. Forestry industry development
- iv. Community fire protection and forest industry support activities
- v. Other activities as directed by the Minister for Primary Industries and Regional Development
- vi. Management of the Mid North forests

7.1.2. Subject to an agreement between the Corporation and a purchasing Minister.

7.1.3. Agreed to be non-commercial by the Minister for Primary Industries and Regional Development and the Treasurer.

7.2. The Corporation is required to perform all non-commercial operations efficiently.

7.3. Non-commercial operations are to be costed and funded in accordance with arrangements determined by the Minister for Primary Industries and Regional Development and the Treasurer.

PART 3: FINANCIAL AND COMMERCIAL MANAGEMENT

8. FINANCIAL AND COMMERCIAL MANAGEMENT

8.1. Performance Targets

The financial and commercial targets to be met by the Corporation shall be those set out in the annual Performance Statement.

8.2. Form and Content of Accounts and Financial Statements

The Corporation must prepare financial statements based on Australian Accounting Standards, generally accepted accounting principles and practices, including the Financial Management Toolkit and other applicable instructions of the Treasurer issued under the *Public Finance and Audit Act 1987*.

8.3. Accounting and Internal Auditing Systems and Practices

FORESTRYSA CHARTER CONTINUED

The Corporation must establish and maintain:

- 8.3.1. financial and accounting processes, practices and systems in accordance with appropriate standards of practice.
- 8.3.2. effective internal auditing of its operations in accordance with appropriate standards of practice and the *Public Corporations Act 1993*.
- 8.4. Reports on Operations
In addition to statutory reporting, the Corporation must provide the following reports to the ForestrySA Board, and therefore enable review by the Treasurer's Representative of:
 - 8.4.1. Quarterly performance monitoring report, including Statement of Comprehensive Income, Statement of Financial Position, Capital Investment Statement and Statement of Cash Flows and a quarterly report detailing the Corporation's operations for year to date, inclusive of actual year to date performance against year to date budget and full year forecast against full year budget for revenue and expenditure items.
 - 8.4.2. Other information as requested from time-to-time by the Minister for Primary Industries and Regional Development or the Treasurer.
 - 8.4.3. Exception reports on any other information which in the opinion of the Board should be provided.
- 8.5. Asset Management
 - 8.5.1. The Corporation must develop Asset Management Plans reflecting prudent commercial practice.
 - 8.5.2. The Corporation shall consult other agencies and take account of any Government requirements in the disposal of surplus land (excluding easements) and buildings.
 - 8.5.3. The Corporation will undertake appropriate risk management actions.

9. DATE OF OPERATION

This Charter comes into operation upon the signature of the Minister for Primary Industries and Regional Development and the Treasurer, and is binding on the Corporation.

PERFORMANCE TARGETS

The ForestrySA Charter mandates that all financial and commercial targets to be met by the Corporation are set out in an annual Performance Statement.

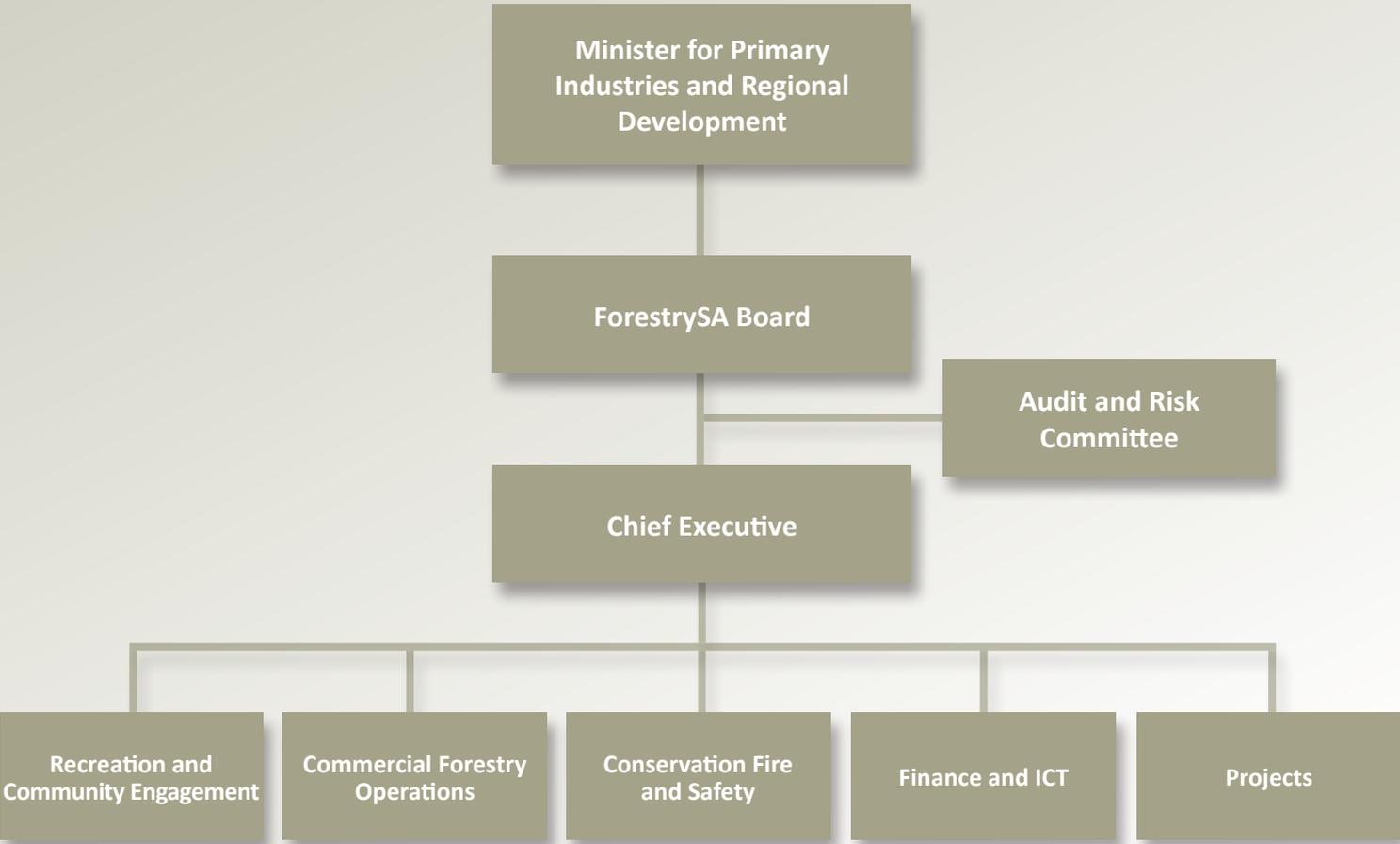
ForestrySA's 2018-19 performance targets and outcomes are listed below:

| | Performance targets 2018-19 | Performance outcomes 2018-19 |
|---|--------------------------------|---------------------------------|
| Equity Contribution ¹ | \$4.328m | \$nil |
| Forest Assets (previously Standing Timber) Revaluation | \$nil | \$45.603m |
| Notifiable Incidents - EPA | 0 | 0 |
| Notifiable Incidents - WH&S | 0 | 0 |
| Lost Time Injury Frequency Rate (ForestrySA staff) | 0 | 34.24 |
| Maintain AFS certification for the Mount Lofty Ranges forest estate | Yes | Yes |
| Area of Gazetted Native Forest Reserve covered by a Management Plan | 100% | 100% |

¹ Since the 2012-13 financial year until last year, ForestrySA received an annual funding amount to subsidise its operating losses. This was expected to be replaced with an equity contribution in the 2018-19 financial year, budgeted for \$4.328m, to form part of the overall funding for ForestrySA. No equity contribution was made due to ForestrySA's large existing cash reserve.

ORGANISATIONAL STRUCTURE

AT 30 JUNE 2019



A close-up photograph of a tree trunk, focusing on a knot hole in the bark. The bark is light brown and textured, with a prominent knot hole showing concentric growth rings. The background is a blurred forest scene with green foliage and a blue sky.

FORESTRYSA OPERATIONS

PLANTATION MANAGEMENT

ForestrySA's commercial program involves management of 10,522ha of radiata pine plantation estate in the Mount Lofty Ranges.

During 2018-19, commercial harvesting operations prioritised an active thinning program, felling old plantations containing a high percentage of large trees already past their optimum size for the local domestic market, and liquidating non-radiata pine plantations.

Below average rainfall conditions were experienced throughout most of the 2018-19 period, with very dry summer conditions prevailing from mid-December to mid-June.

A total of 418ha of radiata pine was planted in 2018-19, while minor refilling of understocked 2017 plantations was also carried out during this time.

Despite dry summer conditions, tree survival within 2018 plantations averaged 93%. This result was promoted by early summer rainfall, optimal site preparation and weed control.

Re-establishment of plantation lost during the 2015 Sampson Flat bushfire concluded in 2018.

Fortunately no plantation was lost to fire during 2018-19, despite a number of threatening fire incidents in and around the forest estate during the Fire Danger Season.

Following strong winds in early winter 2018, young plantation instability issues presented, although significantly less than in the previous year. Localised tree straightening remedial work is ongoing.

An integrated approach to noxious weed control continued during the year, within both plantation and native forest areas. The main target weed species included Cape broom, gorse, boneseed, blackberry and pine wildings.

ForestrySA continued to manage its forest estate in line with Responsible Wood's Australian Standard for Sustainable Forest Management (AS4708), ensuring the protection of Indigenous, heritage, social and environmental values during commercial harvesting, plantation establishment and maintenance operations.

FOREST STATISTICS

| ForestrySA land area (ha) | Standing commercial plantation | Natural Features Estate | | Other ³ | Proclaimed Forest Reserve |
|---------------------------|--------------------------------|-----------------------------------|------------------|--------------------|---------------------------|
| | | Proclaimed Native Forest Reserves | Natural features | | |
| Mount Lofty Ranges | 10,522 ¹ | 3,996 | 2,406 | 3,577 | 20,502 |
| Mid North | 0 | 0 | 896 | 1,404 | 6,558 ² |
| Green Triangle | 120 | 12,062 | 384 | 171 | 12,737 |
| TOTAL | 10,643 | 16,059 | 3,686 | 5,152 | 39,797 |

¹ Includes 912ha managed by ForestrySA as commercial forestry located on SA Water land.

² Mid North Proclaimed Forest Reserve includes 4,258ha under long-term Crown lease.

³ Includes all Proclaimed Forest Reserve that is not commercial plantation or part of the natural features estate (ie. includes depots, fire breaks).

PLANNING AND PRODUCTION

PLANTATION RESOURCE PLANNING

ForestrySA began a project to transition internal growth and yield prediction systems away from bespoke software to more industry-standard products.

The new resource modelling program will be supported by features including inventory, advanced remote sensing site assessment data and reconfigured biometric information. Development work will continue into 2019-20.

Solid progress was made during 2018-19 to retire older plantations at Mount Crawford and Second Valley and transition to shorter rotation lengths.

On-time harvesting of Ash Wednesday replant forests began, with the intention of encouraging greater plantation age class diversity within the Kuitpo Forest and developing more optimal fire risk and even wood-flow profiles for the future.

Continued harvest of non-radiata pine plantation has seen an increased land area replanted to pine.

Reasonable advancement has been made towards further aligning marketing and sales with the commercial estate's annual sustainable cut level, in the interest of increased commercial returns and maximising contribution to the local wood processing industry.

MARKET AND SALES

ForestrySA's commercial sales program continues to focus primarily on fulfilling log supply commitments with the relatively small yet dependent local sawmill and wood processing industry.

Following withdrawal from a bulk log export sales program, ForestrySA has furthered its commitment to strengthening sustainable relationships with local customers and exploring new marketing and sales opportunities.

Demand for log within the local industry held reasonable strength during 2018-19, up slightly from the previous year.

TOTAL LOG PRODUCT

| Product | Domestic log sales, Mount Lofty Ranges | | |
|-------------------|--|---------------------------|---------------------------|
| | 2018-19 (m ³) ¹ | 2017-18 (m ³) | 2016-17 (m ³) |
| Sawlog | 85,847 | 80,100 | 77,991 |
| Industrial | 34,458 | 46,314 | 36,106 |
| Total log | 120,305 | 126,414 | 114,097 |
| Pulpwood | 11,272 | 18,455 | 23,505 |
| Preservation | 7,591 | 7,550 | 6,880 |
| Total pulp | 18,863 | 26,005 | 30,385 |
| Other log | 16,862 | - | - |
| TOTAL | 156,030 | 152,420 | 144,482 |

¹ Not inclusive of export log sale carried over from 2017-18 due to shipping delays.

Sawlog supply to customers in the Mount Lofty Ranges increased modestly during 2018-19.

Large diameter sawlog sales and demand have increased, promoted by ForestrySA targeting the final felling of old mature plantations.

Industrial log and pulp log sales decreased over the last 12 months, impacted by the withdrawal from bulk log exports, and with local sawmills challenged by their capacity to process all available logs.

ForestrySA will continue to seek new opportunities to promote increased pulp log sales, to help ensure plantation thinning and continuous improvement in wood use from harvesting operations.

Preservation log sales (for rails, posts and fence strainers) were consistent with the previous year, with the market expected to remain strong.

This presents a reasonable opportunity to continue targeting on-time first thinning of young age plantations, provided increased buoyancy can be realised with pulp log sales.

Total log export volumes (international sales via deliveries to Inner Harbour, Port Adelaide) were 17,000m³ during 2018-19, representing a late carry-over from 2017-18 due to shipping delays.

A slow Australian housing market and recent turbulence within the global log export market is expected to place log sales under pressure early in 2019-20. Customers are expressing modest optimism the market will pick up in time.

It is imperative ForestrySA continues to negotiate the challenges of managing the Mount Lofty Ranges estate sustainably with a best-in-class multiple-use approach, while maintaining the all-important social licence and staying at the cutting edge of an innovative and modern industry.

RESEARCH AND FOREST HEALTH

A healthy forest industry depends on healthy forest ecosystems.

Active plantation and native forest health monitoring and inspections, combined with ongoing efforts to protect and enhance forest health through management of weeds, pests and diseases, wildfire, rubbish dumping and illegal activities remains a constant focus.

Drone technology is being well utilised for localised plantation assessments.

Drought stress is evident in many areas of the plantation estate due to lower than average rainfall and a high Soil Dryness Index over the past 12 months. This can render stands susceptible to attack from Sirex woodwasp (*Sirex noctillo*) and other pests.

The sirex inoculation program is working to control the pest across the Mount Lofty Ranges region, while healthy populations of parasitic wasps provide backup biocontrol.

Giant pine scale (*Marchalina hellenica*) continues to present as an emerging invasive threat to commercial pine plantation interests in the Mount Lofty Ranges and urban forests. ForestrySA is actively working within an industry cooperative to respond to risks presented by the insect.

More broadly, the Australian forest industry is committed to advancing prevention, preparedness and protection strategies required to respond to increasing biosecurity pressures faced by the industry.

Feral animal and weed control remain high priorities for ongoing management of plantation and native forest areas. ForestrySA's feral animal control program recommenced during 2019, resulting in reductions in deer and goat numbers.

The 2018-19 weed control program involved treatment of almost 900ha across 83 plantation and conservation forest locations in the Mount Lofty Ranges and Green Triangle.

Rubbish dumping within forest reserves is a longstanding problem for ForestrySA, with contamination from household waste and release of new noxious weed outbreaks an ongoing threat. Camera surveillance and regular patrols of dumping hotspots remain the best line of defence.

FOREST RESEARCH 2018-19

The newly established Mount Gambier centre for the National Institute for Forest Products Innovation provides industry with research and development opportunities going forward.

ForestrySA provides support and collaboration in areas of interest, including:

- Evaluation of a fire detection camera system at Mount Burr Fire Tower.
- Low-cost remote sensing for mapping.
- Fusion of LiDAR, thermal infrared and hyperspectral imaging to assess structure and health of trees.

Other research trials of note:

- In partnership with Tree Breeding Australia, ForestrySA is establishing a genetics gain trial in the Mount Crawford Forest with the objective of identifying progeny best suited to drier areas.
- ForestrySA continues to work with other organisations to assist Spring Gully Foods establish their Manuka honey trial site in Wirrabara.
- *Eucalyptus leucoxylon* seed source trial to determine suitability for farm forestry.

FIRE

FOREST FIRE PROTECTION

The 2018-19 fire season created minimal impact on ForestrySA assets and neighbouring communities.

This was in contrast to other parts of Australia, which faced considerable pressure following fires during spring in Queensland and summer in Tasmania and Victoria.

While several South Australian firefighters were involved with interstate deployments, there was no direct requirement for ForestrySA to assist.

ForestrySA maintained its fire response levels throughout the fire danger season, attending several important local incidents to prevent the spread of fire on land both within and outside of official response zones.

The 2018-19 fire danger season was officially extended until 12 May 2019 in the Mount Lofty Ranges region. ForestrySA fire crews remained at the ready during the extension period, which was busy due to visitors lighting illegal campfires.

ForestrySA operates seven fire towers in the Green Triangle region and one in the Mount Lofty Ranges, providing early and rapid fire detection.

The towers were in operation for 81 days (472 hours) throughout the season, as determined by weather conditions and the fire risk posed.

ForestrySA's Mount Lofty Ranges fire crews attended 33 fires for the season, including 10 fires on private or agency-managed land. In the Green Triangle, ForestrySA fire crews attended 10 fires for the season, nine of which were located on private or agency-managed land.

The official opening of ForestrySA's new Kuitpo Head Office and operational facility was conducted during November 2018. The purpose-built facility comprises a fire operations room, wall maps and GRN radio infrastructure.

Implementation of the team communication application BART (Broadcast, Alert, Response, Turnout) during 2018-19 has led to improvements in managing fire season rosters and staff availability.

Major improvements have been made to pre-season training and staff development, while ForestrySA's fire vehicles and appliances were also the subject of review.

Refurbishment of one Mount Lofty Ranges-based FireKing has now been completed and a business case prepared for improvements to the rest of the fleet.

Regular weekly fire briefings were well attended by all staff during the fire season and provided a sound basis for the weekly fire reaction across all regions.

ForestrySA remains a member of fire cooperatives in the Mount Lofty Ranges, Southern Flinders Ranges and Green Triangle districts.

Formed in 2009, each cooperative is comprised of ForestrySA, Country Fire Service, Department for Environment and Water, SA Water and local council representatives, who work together to develop and implement integrated prescribed burning programs and bushfire response.

ForestrySA seeks to manage and control all wildfire threatening its land and forest assets, including within plantation established on SA Water land under a Memorandum of Understanding.

This is carried out through a regulated rapid and concerted initial attack and containment of burnt areas via the separation of burnt and unburnt fuels.

FIRE CONTINUED

To achieve this, ForestrySA:

- Maintains suitable and serviceable equipment including a fleet of fire tankers, bulk water carriers and other fire equipment which are strategically stationed to react to incidents.
- Maintains sufficient numbers of fit and trained personnel.
- Applies suitable cost-effective techniques.
- Pre-plans organisation and support for both rapid initial attack and ongoing fire operations.
- Cooperates and coordinates with other organisations safely and efficiently, through effective training, leadership, communications and support.
- Ensures all forest firebreaks and fire access tracks are established and maintained in accordance with required standards.
- Operates seven fire towers across the Green Triangle and one in the Mount Lofty Ranges, to assist with rapid fire detection.
- Operates an electronic lightning detection system.

PRESCRIBED BURNING

ForestrySA completed one prescribed burn across 8.3ha in Mount Lofty Ranges during spring 2018.

A further three burns were planned at this time, but due to unfavourable weather conditions were rescheduled for completion at a later date.

Six burns were planned in the Mount Lofty Ranges and Green Triangle during autumn 2019, however unsuitable weather conditions also prevented these from taking place.

COMMUNITY FORESTRY

| Performance measures | 2018-19 | 2017-18 |
|---|--|--|
| Forest visitors (recorded) | 263,522 | 328,424 |
| Permits issued | Total permits issued: 7,397 Total people covered by permits: 59,401 | Total permits issued: 6,365 Total people covered by permits: 34,501 |
| Forest events | 244 events, engaging 54,293 people | 221 |
| Ranger FTE delivered | 6 | 6 |
| Field days, tours and presentations to the public providing information and interpretation of natural history and forest management | 7 | 8 |
| Groups actively engaged | 26 | 31 |
| Community engagement hours recorded (approx volunteer hours) | 9,625 | 9,872 |
| Forest education programs supported | 7 | 5 |
| Area of watercourse and wetland buffer zones | 126.7ha | 119.8ha |

COMMUNITY USE OF FOREST RESERVES

ForestrySA Forest Reserves continue to be a valued community asset, with more than 263,500 people visiting to enjoy the natural forest environment and range of recreational activities and events on offer.

Mount Lofty Ranges visitor infrastructure upgrades

A number of upgrade and development projects identified in the ForestrySA Visitor Infrastructure Plan 2016-2019 were completed across the Mount Lofty Ranges during the 2018-19 year.

Installation of new-style interpretive signage began in campgrounds and visitor sites across the Kuitpo Forest, with the roll-out to continue across others in the Mount Lofty Ranges in the following 12 months.

The initial stage of a horse-yard redevelopment project at Jack's Paddock has been praised by HorseSA officials and riders impressed with their improved safety and functionality.

ForestrySA's ever-popular camp and hut accommodation facilities were also the focus of major upgrades during 2018-19.

State-of-the-art hybrid ablution systems were installed at the Rocky Paddock, Chalk's and Chookarloo campgrounds, with similar facilities to be installed at Mount Lofty Ranges hut sites in the near future.

A new roof was installed at Woodcutter's Cottage, Rocky Creek Hut received a full interior and exterior makeover, and the finishing touches were placed on the Thomas Hill House kitchen refurbishment.

COMMUNITY FORESTRY CONTINUED

Other projects included:

- Installation of the final bridge and completion of the popular riparian Board Walk at Chalk's Waterhole, Mount Crawford Forest.
- Development of a junior mountain bike trail in the Fox Creek mountain bike precinct.
- Extension of the Fox Creek Road mountain bike car park.
- Installation of orienteering course trail head markers in Kuitpo Forest.
- Renovations to the Kuitpo Forest Information Centre, adjacent to the new ForestrySA Head Office building.

Forest activities and events

ForestrySA continues to manage and promote a range of recreational activities and community events in both the Mount Lofty Ranges and Green Triangle forest regions.

The popular Nature Play Forest Festival at Kuitpo's Rocky Creek Hut, BikeSA Dirty Weekend at Cudlee Creek, historic Birdwood Farm Day at Mount Crawford and a number of motorsport rallies all attracted large crowds to forests managed by ForestrySA.

ForestrySA's forest tourism initiative Ghost Mushroom Lane continued to draw visitors to the Green Triangle in its third season, with 25,000 people visiting the site near Mount Gambier during May and June 2019.

Forest activities such as hiking, horse riding, fossicking, hut accommodation and camping continue to be popular leisure-time pursuits for thousands of visitors every year.

For more detailed information about the many community activities and events held on ForestrySA land during 2018-19, download the Community Forest Management Annual Report from www.forestrysa.com.au/publications.

SUPPORTING OUR COMMUNITIES

PROUDLY SUPPORTING COMMUNITY ENDEAVOURS

ForestrySA maintains an annual sponsorship program and is very proud to support the communities in the areas in which we do business, across the Mount Lofty Ranges and Green Triangle.

| Recipient | Event / cause |
|---|--|
| Adelaide International 3 Day Event 2018 | Supply of natural forest products for course construction |
| Nature Play Festival in the Forest 2019 | Forest access permit fees waived and in-kind support provided for this children's event which draws thousands of people to Kuitpo Forest |
| Pines Enduro 2018 | Forest access permit fees waived and in-kind support provided for off-road racing event held in the Mount Burr Forest near Mount Gambier |
| Gottstein Trust | Patron |
| Science and Engineering Challenge 2018 | Donation to support the Mount Gambier event which is delivered to high schools by the University of Newcastle |
| Glencoe Football Netball Club | Sponsorship of the club, which is located in close proximity of Green Triangle recreational areas Ghost Mushroom Lane, the Honan Mint Walking Trails and Lake Edward |
| Christmas Party for Special Children 2018 | Sponsorship for two special needs children to attend the party at the Adelaide Zoo |

FINANCIAL REPORT



SOUTH AUSTRALIAN FORESTRY CORPORATION
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|---|--------|----------------|----------------|
| Income | | | |
| Sales - timber products | 4.1 | 13,514 | 11,716 |
| Revenues from SA Government | 4.2 | 4,540 | 9,243 |
| Interest | 4.3 | 328 | 286 |
| Other income | 4.4 | 944 | 830 |
| Total income | | 19,326 | 22,075 |
| Expenses | | | |
| Employee benefits | 6 | 4,632 | 4,656 |
| Contractors | | 10,603 | 10,733 |
| Depreciation and amortisation | 12, 14 | 930 | 1,181 |
| Materials | | 544 | 674 |
| Equipment and vehicle costs | | 995 | 709 |
| Council rates | | 296 | 319 |
| Other expenditure | 4.6 | 4,522 | 6,808 |
| Net loss from the disposal of non-current assets | 4.5 | 128 | 1,118 |
| Total expenses | | 22,650 | 26,198 |
| Trading profit/(loss) before revaluation of non-current assets | | (3,324) | (4,123) |
| Net change in value of forest assets | 11 | 2,113 | 5,583 |
| Net revaluation decrement of other non-current assets | 12 | (3,512) | - |
| Profit/(loss) before income tax equivalent | | (4,723) | 1,460 |
| Income tax equivalent expense | 5 | - | - |
| Profit/(loss) after income tax equivalent | 7.2 | (4,723) | 1,460 |
| Other comprehensive income | | | |
| - Items that will not be reclassified to profit and loss | | | |
| Land revaluation recorded in asset revaluation surplus | 12 | (3) | 242 |
| Property, plant and equipment revaluation recorded in asset revaluation surplus | 12 | 1,433 | - |
| Total other comprehensive income | | 1,430 | 242 |
| Total comprehensive result | | (3,293) | 1,702 |

The accompanying notes form part of these financial statements. The profit/(loss) after income tax equivalents and total comprehensive result are attributable to the SA Government as owner.

SOUTH AUSTRALIAN FORESTRY CORPORATION
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|--------------------------------------|------|----------------|----------------|
| Current assets | | | |
| Cash and cash equivalents | 7 | 18,194 | 13,707 |
| Receivables | 8 | 6,425 | 6,956 |
| Inventories | 9 | 160 | 1,486 |
| Forest assets | 11 | 3,559 | 2,993 |
| Assets classified as held for sale | 10 | 6,237 | 6,006 |
| Total current assets | | 34,575 | 31,148 |
| Non-current assets | | | |
| Receivables | 8 | 2,899 | - |
| Forest assets | 11 | 42,044 | 40,497 |
| Property, plant and equipment | 12 | 43,691 | 46,287 |
| Intangible assets | 14 | 22 | 161 |
| Total non-current assets | | 88,656 | 86,945 |
| Total assets | | 123,231 | 118,093 |
| Current liabilities | | | |
| Payables | 15 | 1,507 | 3,227 |
| Employee benefits | 16 | 455 | 440 |
| Other liabilities | 17 | 3,264 | 234 |
| Other provisions | 18 | 104 | 102 |
| Total current liabilities | | 5,330 | 4,003 |
| Non-current liabilities | | | |
| Payables | 15 | 96 | 88 |
| Employee benefits | 16 | 633 | 568 |
| Other liabilities | 17 | 8,264 | 1,241 |
| Other provisions | 18 | 162 | 154 |
| Total non-current liabilities | | 9,155 | 2,051 |
| Total liabilities | | 14,485 | 6,054 |
| Net assets | | 108,746 | 112,039 |
| Equity | | | |
| Other reserves | 19 | 80,778 | 77,250 |
| Retained earnings | 19 | 27,968 | 34,789 |
| Total equity | | 108,746 | 112,039 |
| Commitments and contingencies | | | |
| Unrecognised contractual commitments | 21 | | |
| Contingent liabilities and assets | 21 | | |

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

SOUTH AUSTRALIAN FORESTRY CORPORATION
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

| | Note | 2019 Inflows (Outflows) \$'000 | 2018 Inflows (Outflows) \$'000 |
|---|------|--------------------------------------|--------------------------------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 25,352 | 17,109 |
| Payments to suppliers and employees | | (23,559) | (26,250) |
| Interest received | | 323 | 290 |
| Receipts from SA Government | | 3,401 | 9,243 |
| GST refunded from/(remitted to) Australian Taxation Office | | (394) | 496 |
| Net cash flows from operating activities | 7.2 | <u>5,123</u> | <u>888</u> |
| Cash flows from investing activities | | | |
| Purchase of property, plant & equipment | | (724) | (455) |
| Purchase of intangible assets | | - | (9) |
| Proceeds/(payments) from/(for) disposal of assets | | 88 | (402) |
| Net cash flows from investing activities | | <u>(636)</u> | <u>(866)</u> |
| Cash flows from financing activities | | | |
| Net increase/(decrease) in cash held | | <u>4,487</u> | <u>22</u> |
| Cash and cash equivalents at the beginning of the period | | 13,707 | 13,685 |
| Cash and cash equivalents at the end of the period | 7.1 | <u>18,194</u> | <u>13,707</u> |

The accompanying notes form part of these financial statements.

SOUTH AUSTRALIAN FORESTRY CORPORATION
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019

| | Asset revaluation surplus \$'000 | Forest Assets reserve \$'000 | Retained earnings \$'000 | Total \$'000 |
|--|---|------------------------------------|--------------------------------|-----------------|
| Balance at 30 June 2017 | 39,072 | 32,930 | 38,335 | 110,337 |
| Gain/(loss) on revaluation | 242 | - | - | 242 |
| Net income/(expense) recognised directly in equity | 242 | - | - | 242 |
| Profit/(loss) for the period | - | - | 1,460 | 1,460 |
| Total comprehensive result for 2017-18 | 242 | - | 1,460 | 1,702 |
| Transfers to/(from) equity | (577) | 5,583 | (5,006) | - |
| Transactions with Government as owner | | | | |
| Total change for the period | (335) | 5,583 | (3,546) | 1,702 |
| Balance at 30 June 2018 | 38,737 | 38,513 | 34,789 | 112,039 |
| Gain/(loss) on revaluation | 1,430 | - | - | 1,430 |
| Net income/(expense) recognised directly in equity | 1,430 | - | - | 1,430 |
| Profit/(loss) for the period | - | - | (4,723) | (4,723) |
| Total comprehensive result for 2018-19 | 1,430 | - | (4,723) | (3,293) |
| Transfers to/(from) equity | (15) | 2,113 | (2,098) | - |
| Transactions with Government as owner | | | | |
| Total change for the period | 1,415 | 2,113 | (6,821) | (3,293) |
| Balance at 30 June 2019 | 40,152 | 40,626 | 27,968 | 108,746 |

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

NOTES TO THE FINANCIAL STATEMENTS

South Australian Forestry Corporation for the year ended 30 June 2019

1 CORPORATE INFORMATION

Role and function of the South Australian Forestry Corporation

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

Key responsibilities of ForestrySA are to:

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

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

1. Native forest management,
2. Community use of forests,
3. Forest Industry Development, and
4. Community fire protection and forest industry support activities.

Green Triangle agency arrangement

Up to 30 September 2015, OneFortyOne Plantations Pty Ltd (OFO) was provided with plantation management services by the then South Australian Treasurer under a Plantation Management Agreement (PMA.) Under this PMA, ForestrySA acted as the plantation manager, prior to the internalisation of OFO's plantation management.

After this time, certain obligations of the Treasurer - as stipulated under the Operations Deed related to the PMA - include community fire protection activities in the Green Triangle region. Under a Memorandum of Administrative Arrangement, ForestrySA performs these functions on behalf of the Treasurer. ForestrySA continues to be provided with funding towards these CSO's as described above.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

South Australian Forestry Corporation for the year ended 30 June 2019

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

For the 2018-19 financial statements ForestrySA adopted AASB 9 – *Financial Instruments* and is required to comply with new *Treasurer's Instructions (Accounting Policy Statements)* issued on 22 March 2019. Further information is provided in note 3.

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

(b) Basis of preparation

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

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

For the 2018-19 financial statements ForestrySA adopted AASB 9 – *Financial Instruments* and is required to comply with new Treasurer's Instructions (Accounting Policy Statements) issued on 22 March 2019. Further information is provided in note 3.

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

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

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

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

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

(c) Reporting entity

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

South Australian Forestry Corporation for the year ended 30 June 2019

(d) Comparative information

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

Where ForestrySA has applied an accounting policy retrospectively, retrospectively restated items in the financial statements or reclassified items in the financial statements, it has provided comparative amounts (where practicable) in a related note.

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

(e) Rounding

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

(f) Taxation

In accordance with Treasurer's Instruction 22, Tax Equivalent Payments are required to be paid by ForestrySA to the Treasurer if a profit is achieved. When applicable, the amount payable is equivalent to Commonwealth income tax.

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

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

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

(g) Events after the reporting period

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

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

(h) Current and non-current classification

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

South Australian Forestry Corporation for the year ended 30 June 2019

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

(i) Non-current assets

Acquisition and recognition

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

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

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

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

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

Depreciation and amortisation

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

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

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the time period or method, as appropriate, which is a change in accounting estimate.

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

Land and assets held for sale are not depreciated.

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

| Class of asset | Depreciation method | Useful life (years) |
|-----------------------------|----------------------------|----------------------------|
| Buildings and structures | Straight line | 25-60 |
| Leasehold improvements | Straight line | life of lease |
| Roads and land improvements | Straight line | 20-25 |
| Plant and equipment | Straight line | 3-25 |
| Intangibles | Straight line | 1-3 |

Revaluation of non-current assets

Land was revalued as at 30 June 2019, as were buildings and structures. Assets in other asset classes are deemed to have been revalued to their fair values immediately following recognition at cost.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

South Australian Forestry Corporation for the year ended 30 June 2019

The basis of the revaluation of land performed by Land Services SA is the market approach under AASB 13 *Fair Value Measurement*.

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

In accordance with this policy, land was revalued using valuations provided by Land Services SA in 2019.

In accordance with APS 116.G, ForestrySA has elected to take revaluation adjustments to the asset revaluation surplus on an individual asset basis for all assets excluding land.

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

An independent valuation of ForestrySA's fire assets was also undertaken during the financial year. As a result, sixteen assets increased in value by a total of \$0.77m. The increases were recognised in the asset revaluation reserve. A further six assets decreased in value by a total of \$0.809m following a further assessment by management as to their value. Being genuine revaluation decrements, these were recorded in the income statement as part of the net revaluation decrement of other non-current assets.

Non-current physical assets that are acquired between revaluations and are below the revaluation threshold (fair value at the time of acquisition greater than \$1.5 million and useful life greater than three years), as per APS 116.D, 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 accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the asset.

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

Fair value measurement

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

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

- Level 1 - traded in active markets and is based on unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the date of measurement.
- 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

South Australian Forestry Corporation for the year ended 30 June 2019

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

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

The carrying amount of non-financial assets with a fair value at the time of acquisition that was less than \$1.5 million or an estimated useful life that was less than three years are deemed to approximate fair value. Refer note 13 for disclosure regarding fair value measurement techniques and inputs used to develop fair value measurements for non-financial assets.

ForestrySA engaged Margules Groome Consulting Pty Ltd to establish the valuation for its plantation estate in the Mt Lofty Ranges as at 30 June 2019. Margules Groome is a consultancy focusing on the forestry, bio solutions, wood products, pulp and paper and agriculture sectors with services including corporate finance, strategy and sustainability, market analysis and insight, operations and technical solutions. Margules Groome is jointly Australian and New Zealand owned and provides services internationally.

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

Impairment

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

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

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

Intangible assets

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

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

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

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

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

Biological assets

Biological assets (Forest assets) are valued under the net present value (NPV) income approach. This policy is in accordance with the requirements of AASB 141 *Agriculture* and all amounts are calculated in pre-tax

NOTES TO THE FINANCIAL STATEMENTS (Continued)

South Australian Forestry Corporation for the year ended 30 June 2019

dollars. The income or NPV approach is considered appropriate for the valuation of Forest Assets and is consistent with industry best practice for valuation of Forest assets. ForestrySA has assessed the highest and best use for Forest assets as the current use which is the sale of saw log and the associated lower value products that are produced as a by-product to this process.

The methodology was approved by the then Acting Treasurer in 2013-14 consistent with APS 107.A.

Under the NPV methodology, valuation changes mainly arise from:

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

Assumptions underpinning the NPV calculation are:

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

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

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

The discount rate used is 7.0% (2018: 7.0%) (pre-tax real) for the long-term cash flows, increased to 9.2% to consider current rotation only. The use of a 'real' discount rate effectively allows for all prices and costs to be expressed in current dollar terms.

The difference between the fair value of Forest Assets held at the reporting date and the fair value at the previous reporting date is recognised in the Statement of Comprehensive Income as the net change in value of Forest Assets. All forest expenditure is recognised as an expense in the year it is incurred. The change in value is disclosed in the associated note.

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

The volume of Forest Assets is estimated using a model that simulates forest growth. Actual growth will invariably differ from growth predicted by the model resulting in periodic adjustments for these growth variations. Where available, the model uses sample inventory data as the base line from which to start growth simulations. Inventory data is periodically collected from sample inventory plots with the forest estate being

NOTES TO THE FINANCIAL STATEMENTS (Continued)

South Australian Forestry Corporation for the year ended 30 June 2019

covered in timely intervals. The master databases are updated as new inventory becomes available and as harvest activity is recorded. On these occasions the model simulations are repeated.

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

(j) Liabilities

Employee Benefits

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

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

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

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

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

Long service leave

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

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

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

Leases

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

South Australian Forestry Corporation for the year ended 30 June 2019

(k) Unrecognised contractual commitments and contingent assets and liabilities

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

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

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

(l) Insurance

ForestrySA has arranged, through SAicorp, a division of the South Australian Government Financing Authority (SAFA), to insure all its major insurable property and liability risks. The excess payable under this arrangement is \$250,000 from an event or occurrence covered by the agreement.

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

3 NEW AND REVISED ACCOUNTING STANDARDS AND POLICIES

Treasurer's Instructions (Accounting Policy Statements)

On 22 March 2019 the *Treasurer's Instructions (Accounting Policy Statements) 2019* were issued by the Treasurer under the *Public Finance and Audit Act 1987*. The Accounting Policy Statements replaced the following Accounting Policy Frameworks:

- Purpose and Scope
- General Purpose Financial Statements Framework
- Asset Accounting Framework
- Financial Asset and Liability Framework
- Income Framework
- Definitions

The new Accounting Policy Statements have largely been prepared on a no-policy change basis. Changes that impact on these financial statements are:

- removal of the additional requirement to report transactions with the SA Government.
- removal of the additional requirement to report a statement of equity for administered items.
- increasing the bands from \$10,000 to \$20,000 for employee and board member reporting.

These changes, however, do not impact on the amounts reported in the financial statements.

AASB 9 Financial instruments

AASB 9 Financial Instruments replaces the provisions of AASB 139 that relate to recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of AASB 9 from 1 July 2018 has resulted in no adjustments to the amounts recognised in financial statements.

As part of the adoption of AASB 9, ForestrySA adopted consequential amendments to other accounting standards and the Treasurer's Instructions (Accounting Policy Statements) arising from the issue of AASB 9 as follows:

- *AASB 101 Presentation of Financial Statements* requires the impairment of financial assets to be presented in a separate line item in the statement of comprehensive income. In prior years, this information was presented as part of other expenses.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

South Australian Forestry Corporation for the year ended 30 June 2019

- *AASB 7 Financial Instruments: Disclosures* requires amended disclosures due to changes arising from AASB 9, these disclosures have been provided for the current year because the comparatives have not been restated.

In accordance with transitional provisions and the *Treasurer's Instructions (Accounting Policy Statements)*, *AASB 9 Financial Instruments* was adopted without restating comparative information for classification and measurement requirements. There are no adjustments relating to classification and measurement to be recognised in retained earnings at 1 July 2018.

The adoption of AASB 9 has not had a material effect on the recognition, measurement or classification of financial liabilities.

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

AASB 15 – Revenue from Contracts with Customers

ForestrySA has adopted *AASB 15 Revenue from Contracts with Customers* with a date of initial application of 1 July 2018. As a result, ForestrySA has changed its accounting policy for revenue recognition as detailed below.

ForestrySA has applied *AASB 15 Revenue from Contracts with Customers* using the cumulative effect method – i.e. by recognising the cumulative effect of initially applying AASB 15 as an adjustment to the opening balance of equity at 1 July 2018. Therefore, the comparative information has not been restated. The details of the significant changes and quantitative impact of the changes are detailed in Note 4.1.

AASB 16 – Leases

ForestrySA will adopt AASB 16 – Leases from 1 July 2019.

Objective

AASB 16 sets out a comprehensive model for lease accounting that addresses recognition, measurement, presentation and disclosure of leases. The outcome will be that lease information disclosed will give users of financial statements a basis to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. *AASB 16 Leases* replaces *AASB 117 Leases* and *Interpretation 4 Determining whether an Arrangement contains a Lease*, *Interpretation 115 Operating Leases – Incentives* and *Interpretation*, and *Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

Impact on 2019-20 financial statements

ForestrySA has assessed the estimated impact on the Statement of Financial Position of adopting AASB 16 with the transition requirements mandated by the *Treasurer's Instructions (Accounting Policy Statements)*.

AASB 16 requires lessees to recognise assets and liabilities for all leases, not subject to a recognition exemption or scoped out of the application of AASB 16. Applying AASB 16 will result in leases previously classified as operating leases having right-of-use assets and related lease liabilities being recognised in the Statement of Financial Position for the first time. Lease incentive liabilities previously recognised will be written off against the right-of-use assets or retained earnings depending on the nature of the incentive.

AASB 16 is expected to have a material impact on the Statement of Financial Position. ForestrySA has estimated the impact of this change and the results as at 1 July 2019.

The estimated impact is based on applying AASB 16's transition approach to those leases identified as leases by ForestrySA prior to 1 July 2019. The incremental borrowing rates applied to estimate the lease liability were SAFA's forecast interest rates for principal and interest loans to SA Government agencies for 1 July 2019 as at 4 February 2019.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

South Australian Forestry Corporation for the year ended 30 June 2019

The estimated impact is set out below.

| | as at 1 July 2019 \$'000 |
|-----------------------------|---|
| Assets | |
| Right-of-use assets | 670 |
| Liabilities | |
| Lease liabilities | (670) |
| Net impact on equity | - |

AASB 16 will also impact on the Statement of Comprehensive Income. The operating lease expense previously included in supplies and services will mostly be replaced with:

- a depreciation expense that represents the use of the right-of-use asset; and
- borrowing costs that represent the cost associated with financing the right-of-use asset.

The estimated impact on 2019-20 Statement of Comprehensive Income is set out below.

| | 2020 \$'000 |
|---|------------------------|
| Depreciation and amortisation | 148 |
| Supplies and services | (161) |
| Borrowing costs | 23 |
| Net impact on net cost of providing services | 10 |

Related accounting policies

The *Treasurer's Instructions (Accounting Policy Statements) 2019* sets out key requirements that ForestrySA must adopt for the transition from *AASB 117 Leases* to *AASB 16 Leases*. These requirements include that ForestrySA will:

- apply AASB 16 retrospectively. The cumulative effect of initially applying the Standard will be recognised at 1 July 2019. Comparatives will not be restated.
- only apply AASB 16 to contracts that were previously identified as containing a lease applying AASB 117 and related interpretations.
- not transition operating leases for which the lease term ends before 30 June 2020.

The *Treasurer's Instructions (Accounting Policy Statements) 2019* also sets out requirements for on-going application. These requirements include that ForestrySA will:

- not apply AASB 16 to leases of intangible assets.
- adopt \$15,000 as the threshold to determine whether an underlying asset is a low value asset and must apply the low value asset recognition exemption to all low value assets.
- apply the short-term leases recognition exemption for all classes of underlying asset.
- separate non-lease components from lease components.
- adopt the revaluation model, where permitted.
- where required, apply the relevant lessee's incremental borrowing rate published by the Department of Treasury and Finance.
- on initial recognition not record at fair-value leases that have significantly below-market terms and conditions principally to enable ForestrySA to further its objectives, unless they have already been recorded at fair-value prior to 1 July 2019.

NOTES TO THE FINANCIAL STATEMENTS

SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2019

4 REVENUE, OTHER INCOME AND EXPENSES

4.1 Revenues from sales - timber products

| | Note | 2019 | 2018 |
|------------------------------------|------|---------|---------|
| | | \$ '000 | \$ '000 |
| Revenue from delivered log volumes | | 13,514 | 11,716 |
| | | 13,514 | 11,716 |

The introduction of AASB 15 Revenue from Contracts with Customers has had an impact on the 2018-19 financial statements. This is due to some Log Sales Agreements, which commenced during the financial year, containing a clause which guarantees 85% of the value of the Contracted Annual Log Supply as income to ForestrySA, even if the customer fails to achieve the agreed monthly purchase volumes. Under the definitions within AASB 15, guaranteed volumes of log sales classify as an 'unconditional right to consideration' and are recorded as a receivable (asset). An offsetting contract liability is also recognised. (Refer to Notes 8 and 15 respectively for these disclosures.) As the contract liability offsets the receivable, there is no net impact on equity. Income is recognised as performance obligations are met i.e. logs are delivered, or when ForestrySA realises its right to income for customers failing to achieve their required Monthly Log Purchase.

4.2 Revenues from SA Government

| | | |
|--|-------|-------|
| Community Service Obligation funding (1) | 4,102 | 4,379 |
| Other revenues from SA Government | - | 4,534 |
| Government radio network funding | 417 | 455 |
| Deferred revenues from SA Government (1) | 21 | (125) |
| Revenues from SA Government | 4,540 | 9,243 |

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

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

4.3 Interest

| | | |
|-------------------|-----|-----|
| Interest received | 328 | 286 |
| Interest revenue | 328 | 286 |

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

4.4 Other income

| | | |
|---|-----|-----|
| Leases and Licences | 432 | 402 |
| Other revenue from non SA Government entities | 512 | 428 |
| Other income | 944 | 830 |

Leases and Licences includes income from licences for grazing activities on forest land, lease for commercial tenancy in the office building in Mt Gambier and Crown leases on land in the Mid North region. Other revenue includes income from recreational activities, weighbridge and recoupment of costs relating to the commercial lease of the office building.

NOTES TO THE FINANCIAL STATEMENTS

SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2019

| 4 | REVENUE, OTHER INCOME AND EXPENSES (Continued) | Note | 2019 \$ '000 | 2018 \$ '000 |
|---|---|------|-----------------|-----------------|
| | 4.5 Net gain/(loss) from disposal of assets | | | |
| | <u>Land and buildings</u> | | | |
| | Less expenses on disposal | | (42) | (402) |
| | Less net book value of assets disposed | 12 | (12) | (554) |
| | Net gain/(loss) from disposal of land and buildings | | (54) | (956) |
| | <u>Plant and equipment</u> | | | |
| | Net proceeds from disposal | | 130 | - |
| | Less net book value of assets disposed | 12 | (176) | (153) |
| | Net gain/(loss) from disposal of plant and equipment | | (46) | (153) |
| | <u>Roads and land improvements</u> | | | |
| | Less net book value of assets disposed | 12 | (28) | (9) |
| | Net gain/(loss) from disposal of assets held for sale | | (28) | (9) |
| | <u>Total assets</u> | | | |
| | Net proceeds from disposal | | 130 | - |
| | Less expenses on disposal | | (42) | (402) |
| | Less net book value of assets disposed | | (216) | (716) |
| | Net gain/(loss) from disposal of total assets | | (128) | (1,118) |

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

| | Note | 2019 \$ '000 | 2018 \$ '000 |
|--------------------------------------|------|-----------------|-----------------|
| 4.6 Other expenditure | | | |
| Doubtful debt provision / write down | 8 | - | - |
| Export - shipping | | 1,032 | 1,213 |
| Export - marketing & other | | 593 | 1,271 |
| Consultants (1) | | 3 | 40 |
| IT expenses | | 609 | 796 |
| Government Radio Network | | 417 | 455 |
| Workers compensation claims | | 202 | 46 |
| UNISA Research Agreement | | 477 | 1,136 |
| Other (2) | | 1,189 | 1,851 |
| | | 4,522 | 6,808 |

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

| | No. | 2019 \$ '000 | No. | 2018 \$ '000 |
|--|-----|-----------------|-----|-----------------|
| Below \$10,000 | 1 | 3 | 6 | 8 |
| Above \$10,000 | 0 | - | 1 | 32 |
| Total paid /payable to the consultants engaged | 1 | 3 | 7 | 40 |

(2) Includes audit fees paid/payable to the Auditor-General's Department relating to work performed under the Public Finance and Audit Act of \$69,700 (2018: \$72,000). No other services were provided by the Auditor-General's Department.

NOTES TO THE FINANCIAL STATEMENTS

SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2019

5 INCOME TAX EQUIVALENT

ForestrySA uses the Accounting Profits Model to calculate the income tax equivalent payment, in accordance with Treasurer's Instruction 22 Tax Equivalent Payments. Under the Accounting Profits Model, the rate of company income tax is applied to the audited accounting profit. The accounting profit is the net result from operations determined in accordance with AASB 101 Presentation of Financial Statements.

Income tax equivalent

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

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

The income tax equivalent expense was nil for the reporting period (2018: nil).

6 EMPLOYEE BENEFITS EXPENSES

| | 2019 | 2018 |
|---------------------------------------|---------|---------|
| | \$ '000 | \$ '000 |
| Salaries and wages | 3,446 | 3,460 |
| Long service leave | 134 | 71 |
| Skills and experience retention leave | 8 | 15 |
| Annual leave | 277 | 275 |
| Employment on-costs* - superannuation | 583 | 624 |
| Employment on-costs - other | 184 | 211 |
| | 4,632 | 4,656 |

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

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

| | 2019 | 2018 |
|---|--------|--------|
| | Number | Number |
| The number of employees whose income, excluding TVSP, was within the following bands: | | |
| \$149,000 - \$151,000 | N/A | 1 |
| \$151,001 - \$171,000 (1) | 2 | - |
| \$191,001 - \$211,000 (1) | - | 1 |
| \$211,001 - \$231,000 | - | 1 |
| \$231,001 - \$251,000 | 1 | - |
| \$331,001 - \$351,000 | - | 1 |
| Total number of employees | 3 | 4 |

(1) includes termination payments

The table includes all employees who received or are entitled to receive remuneration equal to or greater than the base executive remuneration level during the year. Remuneration of employees reflects all costs of employment including salaries and wages, payments in lieu of leave, superannuation contributions, fringe benefit tax and any other salary sacrifice benefits. The total remuneration received by these employees for the year was \$561,000 (2018: \$921,000).

The \$149,000 to \$151,000 band has been included for the purposes of reporting comparative figures based on the executive base level remuneration rate for 2017-18.

NOTES TO THE FINANCIAL STATEMENTS

SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2019

7 CASH AND CASH EQUIVALENTS

| | 2019 | 2018 |
|----------------------|---------------|---------------|
| | \$ '000 | \$ '000 |
| Cash | 1 | 1 |
| Deposits | 2,607 | 2,388 |
| Cash Management Fund | 15,586 | 11,318 |
| | <u>18,194</u> | <u>13,707</u> |

Cash is measured at nominal amounts.

Deposits and Cash Management Fund

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

Interest rate risk

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

CASH FLOWS RECONCILIATION

7.1 Reconciliation of cash and cash equivalents at the end of the reporting period

| | 2019 | 2018 |
|--|---------|---------|
| | \$ '000 | \$ '000 |
| Cash and cash equivalents as per statement of financial position | 18,194 | 13,707 |
| Cash and cash equivalents as per statement of cash flows | 18,194 | 13,707 |

7.2 Reconciliation of profit after income tax equivalent payments to net cash flow from operating activities

| | | |
|--|----------------|----------------|
| Profit after income tax equivalents | <u>(4,723)</u> | <u>1,460</u> |
| Non cash items | | |
| Net change in value of forest asset - other | (2,113) | (5,583) |
| Impairment of assets | - | - |
| Revaluation of other assets | 3,512 | - |
| Depreciation and amortisation | 930 | 1,181 |
| Loss/(gain) on disposal of assets | 128 | 1,118 |
| | <u>2,457</u> | <u>(3,284)</u> |
| Changes in operating assets and liabilities | | |
| Decrease/(increase) in receivables | 3,430 | 3,215 |
| Decrease/(increase) in inventories | 1,326 | (1,167) |
| (Decrease)/increase in payables | (1,712) | 776 |
| (Decrease)/increase in provisions | 10 | (389) |
| (Decrease)/increase in employee benefits | 80 | (159) |
| (Decrease)/increase in deferred income | 4,255 | 436 |
| Net cash flows from changes in operating balances | <u>7,390</u> | <u>2,712</u> |
| Net cash flows from operating activities | <u>5,124</u> | <u>888</u> |

NOTES TO THE FINANCIAL STATEMENTS

SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2019

8 RECEIVABLES

| | 2019 | 2018 |
|---------------------------------------|--------------|--------------|
| | \$ '000 | \$ '000 |
| CURRENT | | |
| Trade receivables - SA Gov | 1,139 | 5,048 |
| Trade receivables - Non SA Gov | 2,186 | 1,245 |
| Less doubtful debts (impairment loss) | (30) | (30) |
| Contract receivable | 2,899 | 75 |
| Accrued revenue | 24 | 20 |
| Prepayments | 77 | 598 |
| GST receivable | 130 | - |
| | <u>6,425</u> | <u>6,956</u> |
| NON-CURRENT | | |
| Contract receivable | 2,899 | - |

Contract assets

Under the definitions within AASB 15, guaranteed volumes of log sales classify as an 'unconditional right to consideration' and are recorded as a receivable (asset). An offsetting contract liability is also recognised. (Refer to Note 17)

Receivables arise in the normal course of selling goods and services to other government agencies and to the public. Receivables are normally settled within 30 days after the issue of an invoice or the goods/services have been provided under a contractual arrangement. Receivables, prepayments and accrued revenues are non-interest bearing. Receivables are held with the objective of collecting the contractual cash flows and they are measured at amortised cost.

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

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.

Refer to note 23 for further information on risk management.

Impairment of receivables

| | 2019 | 2018 |
|---|-----------|-----------|
| | \$ '000 | \$ '000 |
| Balance at 30 June 2018 under AASB 139 | 30 | 30 |
| Adjustments on initial adoption of AASB 9 | - | - |
| Carrying amount at the beginning of the period | <u>30</u> | <u>30</u> |
| Amounts written off | - | - |
| Amounts recovered during the year | - | - |
| Carrying amount at the end of the period | <u>30</u> | <u>30</u> |

9 INVENTORIES

| | 2019 | 2018 |
|----------------------|------------|--------------|
| | \$ '000 | \$ '000 |
| CURRENT | | |
| Export log | 147 | 1,464 |
| Materials and stores | 13 | 22 |
| | <u>160</u> | <u>1,486</u> |

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

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

NOTES TO THE FINANCIAL STATEMENTS

SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2019

10 ASSETS CLASSIFIED AS HELD FOR SALE

| | <u>2019</u> | <u>2018</u> |
|---|--------------|--------------|
| | \$ '000 | \$ '000 |
| Non-current assets classified as held for sale | | |
| Land and buildings, property, plant and equipment | 6,237 | 6,006 |
| | <u>6,237</u> | <u>6,006</u> |

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

11 FOREST ASSETS

| | <u>2019</u> | <u>2018</u> |
|---|--------------|--------------|
| | \$ '000 | \$ '000 |
| Opening balance | 43,490 | 37,907 |
| Other revaluation (impairment) | 2,113 | 5,583 |
| Net change recorded in statement of comprehensive income | <u>2,113</u> | <u>5,583</u> |
| Closing balance | 45,603 | 43,490 |
| Unrealised (loss)/gain for the period included in the Statement of Comprehensive Income | 2,113 | 5,583 |

ForestrySA has adopted the Discounted Cash Flow (DCF) method to value Forest Assets. In 2019 ForestrySA engaged Margules Groome to provide the DCF valuation for its plantations. ForestrySA is recognising the multiple rotation forest valuation, being \$45,603,000 (2018: \$43,490,000).

Forest Assets comprise the following:

| | <u>2019</u> | <u>2018</u> |
|--|----------------|----------------|
| | \$ '000 | \$ '000 |
| Fair value | | |
| Forest Assets as held to maturity | 45,603 | 43,490 |
| Total fair value | <u>45,603</u> | <u>43,490</u> |
| CURRENT ASSET | <u>\$ '000</u> | <u>\$ '000</u> |
| Current portion of forest assets valuation | 3,559 | 2,993 |
| NON-CURRENT ASSET | <u>\$ '000</u> | <u>\$ '000</u> |
| Non-current portion of forest assets valuation | 42,044 | 40,497 |

NOTES TO THE FINANCIAL STATEMENTS

SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2019

12 PROPERTY, PLANT AND EQUIPMENT

| | Land | Buildings and structures | Roads and land improvements | Plant and equipment | Total |
|---|---------|--------------------------|-----------------------------|---------------------|---------|
| | \$ '000 | \$ '000 | \$ '000 | \$ '000 | \$ '000 |
| Year ended 30 June 2019 | | | | | |
| As at 1 July 2018, net of accumulated depreciation and impairment | 33,142 | 8,025 | 1,630 | 3,490 | 46,287 |
| Additions / transfers | - | 417 | 265 | 42 | 724 |
| Disposals | - | (12) | (28) | (177) | (217) |
| Transfers between classes | - | 25 | (25) | - | - |
| Assets reclassified to or out of assets held for sale | 249 | - | - | (480) | (231) |
| Revaluation increments | 246 | 1,160 | 1 | 770 | 2,177 |
| Revaluation decrements | (249) | (3,195) | (5) | (809) | (4,258) |
| Impairment | - | - | - | - | - |
| Depreciation charge for the year | - | (365) | (123) | (303) | (791) |
| Net of accumulated depreciation and impairment | 33,388 | 6,055 | 1,715 | 2,533 | 43,691 |
| At 30 June 2019 | | | | | |
| Cost or fair value | 33,388 | 6,545 | 3,776 | 3,921 | 47,630 |
| Accumulated depreciation and impairment | - | (490) | (2,061) | (1,388) | (3,939) |
| Net carrying amount | 33,388 | 6,055 | 1,715 | 2,533 | 43,691 |
| Year ended 30 June 2018 | | | | | |
| As at 1 July 2017, net of accumulated depreciation and impairment | 39,140 | 7,931 | 2,399 | 3,552 | 53,022 |
| Additions / transfers | - | 375 | - | 80 | 455 |
| Disposals | (497) | (56) | (9) | (153) | (715) |
| Transfers between classes | - | 266 | (567) | 301 | - |
| Assets reclassified to or out of assets held for sale | (5,743) | (151) | (57) | - | (5,951) |
| Revaluation increments | 1,072 | - | - | - | 1,072 |
| Revaluation decrements | (830) | - | - | - | (830) |
| Impairment | - | - | - | - | - |
| Depreciation charge for the year | - | (340) | (136) | (290) | (766) |
| Net of accumulated depreciation and impairment | 33,142 | 8,025 | 1,630 | 3,490 | 46,287 |
| At 30 June 2018 | | | | | |
| Cost or fair value | 33,142 | 9,071 | 3,792 | 7,762 | 53,767 |
| Accumulated depreciation and impairment | - | (1,046) | (2,162) | (4,272) | (7,480) |
| Net carrying amount | 33,142 | 8,025 | 1,630 | 3,490 | 46,287 |

Revaluation of land and buildings and structures

ForestrySA uses the services of Land Services SA to determine the fair value of its land. Fair value is determined by reference to market-based evidence, which is the amount for which the asset could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Land was revalued using valuations provided by Land Services SA effective 30 June 2019.

In 2019, ForestrySA engaged Herron Todd White, an accredited independent valuer, to determine the fair value of its buildings and structures. The effective date of the revaluation of the buildings and structures was 30 June 2019. The value provided is based on 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 \$1.5 million or had an estimated useful life that was less than three years', and have not been revalued in accordance with APS 116. The carrying value of these items are deemed to approximate fair value. These assets are classified in level 3 as there have been no subsequent adjustments to their value, except for management assumptions about the condition and remaining useful life of each asset.

Plant and equipment includes nil fully depreciated (to salvage value) property still in use (2018: \$38,000).

NOTES TO THE FINANCIAL STATEMENTS

SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2019

13 FAIR VALUE MEASUREMENT

The fair value of non-financial assets must be estimated for recognition and measurement or for disclosure purposes. ForestrySA categorises non-financial assets measured at fair value based on the level of inputs used in measurement.

Fair values recognised in the balance sheet are categorised into level 2 for land and level 3 for other assets. Land was valued by Land Services SA as at 30 June 2019 and is categorised as a Level 2 valuation based on a thorough analysis of the data applied for valuation.

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

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

Fair value measurements at 30 June 2019

| Recurring fair value measurements | Note | 2019 \$ '000 | Level 2 \$ '000 | Level 3 \$ '000 |
|---|------|-----------------|--------------------|--------------------|
| Forest assets | 11 | 45,603 | - | 45,603 |
| Land | 12 | 33,388 | 33,388 | - |
| Buildings and structures | 12 | 6,055 | - | 6,055 |
| Roads and land improvements | 12 | 1,715 | - | 1,715 |
| Plant and equipment | 12 | 2,533 | - | 2,533 |
| Total recurring fair value measurements | | <u>89,294</u> | <u>33,388</u> | <u>55,906</u> |

Non-recurring fair value measurements

| | | | | |
|---|----|--------------|----------|--------------|
| Assets held for sale | 10 | 6,237 | - | 6,237 |
| Total non-recurring fair value measurements | | <u>6,237</u> | <u>-</u> | <u>6,237</u> |

Fair value measurements at 30 June 2018

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

Non-recurring fair value measurements

| | | | | |
|---|----|--------------|----------|--------------|
| Assets held for sale | 10 | 6,006 | - | 6,006 |
| Total non-recurring fair value measurements | | <u>6,006</u> | <u>-</u> | <u>6,006</u> |

NOTES TO THE FINANCIAL STATEMENTS

SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2019

13 FAIR VALUE MEASUREMENT (Continued)

Valuation techniques and inputs

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

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

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

Total valuation gains and losses

| | 2019 \$ '000 | 2018 \$ '000 |
|---|-----------------|-----------------|
| Forest assets | 2,113 | 5,583 |
| Land | (3) | 242 |
| Property, plant & equipment | (2,079) | - |
| Total valuation gain / (loss) for the year | <u>31</u> | <u>5,825</u> |

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

| Description | Valuation technique | Unobservable inputs |
|--------------------------|-----------------------------------|---|
| Forest assets | Discounted Cash Flow | Discount rate (pre-tax real) - 7.0% (2018: 7.0%) Estimated timber prices derived from available market projections Estimated yield per hectare and site quality |
| Land (1) | Market approach | Area-based and volume-based indirect and overhead costs Land Services SA statutory valuation derived from available market evidence Discount factors for legal restrictions - Green triangle (GT) 40% (2018: 40%), Mount Lofty Ranges (MLR) 65% (2018: 65%), Mid North (MN) 55% (2018: 55%) |
| Buildings and structures | Market approach | External valuation report |
| Roads and improvements | Cost approach | Useful life - 20-25 years |
| Plant and equipment | Cost approach | Useful life - 3-25 years |
| Assets held for sale | Fair value less costs of disposal | Market assessment |

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

Sensitivity analysis for Forest Assets

ForestrySA has adopted the Discounted Cash Flow method to value forest assets. For the 2019 financial year ForestrySA engaged Margules Groome to provide this DCF valuation for its plantations in the Mount Lofty Ranges. ForestrySA is recognising the multiple rotation forest valuation, being \$45,603,000 (2018: \$43,490,000).

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

| Sensitivity to Log Prices and Production Costs | Value (AUD million) | | |
|--|---------------------|--------|--------|
| | Log Price Scenario | | |
| | -5% | Base | +5% |
| Production Cost Scenario | | | |
| +5% | 33.514 | 41.426 | 49.330 |
| Base | 37.691 | 45.603 | 53.506 |
| -5% | 41.900 | 49.811 | 57.713 |

| Sensitivity to Silvicultural Costs | Value (AUD million) | |
|------------------------------------|---------------------|-----|
| | -5% | +5% |
| +5% | 45.071 | |
| Base | 45.603 | |
| -5% | 46.135 | |

| Sensitivity to Overhead Costs | Value (AUD million) | |
|-------------------------------|----------------------|------------------------|
| | Area based Overheads | Volume Based Overheads |
| | -5% | +5% |
| +5% | 44.798 | 45.231 |
| Base | 45.603 | 45.603 |
| -5% | 46.407 | 45.974 |

NOTES TO THE FINANCIAL STATEMENTS

SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2019

13 FAIR VALUE MEASUREMENT (Continued)

| Sensitivity to the Discount Rate | Value (AUD million) |
|----------------------------------|---------------------|
| 6.0% | 53.045 |
| 6.5% | 49.004 |
| 7.0% | 45.603 |
| 7.5% | 42.704 |
| 8.0% | 40.205 |

Reconciliation of fair value measurements

| | Forest assets | Land | Buildings and structures | Roads and land improvements | Plant and equipment |
|---|---------------|--------|--------------------------|-----------------------------|---------------------|
| Opening balance at 1 July 2018 | 43,490 | 33,142 | 8,025 | 1,630 | 3,490 |
| Acquisitions | - | - | 417 | 265 | 42 |
| Disposals | - | - | (12) | (28) | (177) |
| Assets reclassified to or out of assets held for sale | - | 249 | - | - | (480) |
| Depreciation | - | - | (365) | (123) | (303) |
| Transfers within asset classes | - | - | 25 | (25) | - |
| | - | 249 | 65 | 89 | (918) |
| Total gains / (losses) for the period: | | | | | |
| Revaluation increment / (decrement) | 2,113 | (3) | (2,035) | (4) | (39) |
| | 2,113 | (3) | (2,035) | (4) | (39) |
| Closing balance at 30 June 2019 | 45,603 | 33,388 | 6,055 | 1,715 | 2,533 |

Reconciliation of fair value measurements

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

NOTES TO THE FINANCIAL STATEMENTS

SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2019

14 INTANGIBLE ASSETS

| | <u>2019</u> | <u>2018</u> |
|---|-------------|-------------|
| | \$ '000 | \$ '000 |
| COMPUTER SOFTWARE | | |
| As at 1 July, net of accumulated amortisation and impairment | 161 | 567 |
| Additions | - | 9 |
| Amortisation charge for the year | (139) | (415) |
| Total computer software, net of accumulated amortisation and impairment | <u>22</u> | <u>161</u> |
| As at 30 June: | <u>2019</u> | <u>2018</u> |
| | \$ '000 | \$ '000 |
| Cost or fair value | 2,592 | 2,592 |
| Accumulated amortisation and impairment | (2,570) | (2,431) |
| Net carrying amount | <u>22</u> | <u>161</u> |

The intangible assets, consisting of software for operational systems and water licences, are initially measured at cost and are tested for indications of impairment at each reporting date. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

There were no indications of impairment of intangible assets at 30 June 2019.

15 PAYABLES

| | <u>2019</u> | <u>2018</u> |
|----------------------------|--------------|--------------|
| | \$ '000 | \$ '000 |
| CURRENT | | |
| Trade payables | 1,381 | 3,013 |
| Accrued expenses | 70 | 159 |
| Employee benefit on-costs* | 56 | 55 |
| | <u>1,507</u> | <u>3,227</u> |
| NON-CURRENT | | |
| Employee benefit on-costs* | 96 | 88 |
| | <u>96</u> | <u>88</u> |

*Employment on-costs include payroll tax and superannuation contributions and are settled when the respective employee benefits that they relate to is discharged.

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

As a result of an actuarial assessment performed by the Department of Treasury and Finance, the proportion of long service leave taken as leave has not changed from the 2018 rate (41%). The average factor for the calculation of employer superannuation on-costs has changed from the 2018 rate (9.9%) to 9.8%. These rates are used in the employment on-cost calculation.

Payables are measured at nominal amounts. Payables and accruals are raised for all amounts owing but unpaid. Sundry payables are normally settled within 20 days. All payables are non-interest bearing. The carrying amount of payables represents fair value due to the amounts being payable on demand.

The net amount of GST recoverable from the ATO is included as part of payables.

Categorisation of financial instruments and risk exposure information - please refer to Note 23.

NOTES TO THE FINANCIAL STATEMENTS

SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2019

16 EMPLOYEE BENEFITS

| | 2019 | 2018 |
|---------------------------------------|------------|------------|
| | \$ '000 | \$ '000 |
| CURRENT | | |
| Accrued salaries and wages | 92 | 93 |
| Long service leave | 146 | 140 |
| Skills and experience retention leave | 16 | 15 |
| Annual leave | 201 | 192 |
| | <u>455</u> | <u>440</u> |
| NON-CURRENT | | |
| Long service leave | 633 | 568 |
| | <u>633</u> | <u>568</u> |

AASB 119 contains the calculation methodology for long service leave liability. The actuarial assessment performed by the Department of Treasury and Finance has provided a basis for the measurement of long service leave. AASB 119 requires the use of the yield on long-term Commonwealth Government bonds as the discount rate in the measurement of the long service leave liability. The yield on long-term Commonwealth Government bonds has decreased from 2018 (2.5%) to 2019 (1.25%).

The net financial effect of actuarial assumptions and methodology changes in the current financial year is an increase in the long service leave liability of \$76,000 (2018: \$18,000) and employee benefits expense of \$76,000. The impact on future periods is impracticable to estimate as the long service leave liability is calculated using a number of factors and assumptions – a key assumption is the long-term discount rate.

The actuarial assessment performed by the Department of Treasury and Finance left the salary inflation rate at 4% for long service leave liability. As a result, there is no net financial effect resulting from changes in the salary inflation rate. The salary inflation rate decreased from 3% in 2018 to 2.2% in 2019 for annual leave and skills, experience and retention leave liability.

17 OTHER LIABILITIES

| | 2019 | 2018 |
|---|--------------|--------------|
| | \$ '000 | \$ '000 |
| CURRENT | | |
| Contract liability | 2,899 | - |
| Deferred income | 365 | 234 |
| | <u>3,264</u> | <u>234</u> |
| NON-CURRENT | | |
| Contract liability | 2,899 | - |
| Deferred income | 5,365 | 1,241 |
| | <u>8,264</u> | <u>1,241</u> |
| Movement in deferred income | | |
| Carrying amount at the beginning of the period | 1,475 | 1,039 |
| Received during the year | 4,566 | 1,319 |
| Recognised as income in the Statement of Comprehensive Income | (310) | (883) |
| Carrying amount at the end of the period | <u>5,731</u> | <u>1,475</u> |

Contract liability

Under the definitions within AASB 15, guaranteed volumes of log sales classify as an 'unconditional right to consideration' and are recorded as a receivable (asset) (refer to note 8). An offsetting contract liability is also recognised.

NOTES TO THE FINANCIAL STATEMENTS

SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2019

18 OTHER PROVISIONS

| | 2019 | 2018 |
|--------------------------------------|------------|------------|
| | \$ '000 | \$ '000 |
| CURRENT | | |
| Workers compensation | 104 | 102 |
| | <u>104</u> | <u>102</u> |
| NON-CURRENT | | |
| Workers compensation | 162 | 154 |
| | <u>162</u> | <u>154</u> |
| Movement in provisions | | |
| Opening balance | 256 | 645 |
| Payments | (214) | (95) |
| Increments/(decrements) in provision | 224 | (294) |
| Closing balance | <u>266</u> | <u>256</u> |

Workers compensation

A provision has been reported to reflect unsettled workers compensation claims. The workers compensation provision is based on an actuarial assessment of the outstanding liability as at 30 June 2019 provided by a consulting actuary engaged through the Office of the Commissioner for the Public Sector. The provision is for the estimated cost of ongoing payments to employees as required under current legislation.

ForestrySA is responsible for the payment of workers compensation claims.

19 EQUITY

| | 2019 | 2018 |
|---------------------------|----------------|----------------|
| | \$ '000 | \$ '000 |
| Retained earnings | 27,968 | 34,789 |
| Forest asset reserve | 40,626 | 38,513 |
| Asset revaluation reserve | 40,152 | 38,737 |
| Total Equity | <u>108,746</u> | <u>112,039</u> |

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

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

NOTES TO THE FINANCIAL STATEMENTS
SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2019

20 SEGMENT INFORMATION

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

- Commercial: includes plantation operations, establishment activities and all overheads.

- Non-commercial: operations performed for the South Australian Government under ForestrySA's Charter.

The Directors and Leadership Team 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 as consistent with profit or loss in the financial statements.

| Year ended 30 June 2019 | (\$'000) | | |
|---|-------------------|-----------------------|-----------------|
| | Commercial | Non-Commercial | Total |
| Income | | | |
| Sales - timber products | 13,514 | - | 13,514 |
| Community Service Obligation | - | 4,102 | 4,102 |
| Revenues from SA Government (incl govt radio network) | - | 438 | 438 |
| Interest | 328 | - | 328 |
| Other income | 708 | 236 | 944 |
| Total income | 14,550 | 4,776 | 19,326 |
| Expenses | | | |
| Employee benefits | (2,825) | (1,807) | (4,632) |
| Contractors | (9,559) | (1,044) | (10,603) |
| Depreciation and amortisation | (668) | (262) | (930) |
| Materials | (461) | (83) | (544) |
| Equipment and vehicle costs | (508) | (487) | (995) |
| Council rates | (286) | (10) | (296) |
| Other expenditure | (3,353) | (1,169) | (4,522) |
| Net loss from the disposal of non-current assets | (45) | (83) | (128) |
| Total expenses | (17,705) | (4,945) | (22,650) |
| Trading profit/(loss) before revaluation of non-current assets | (3,155) | (169) | (3,324) |
| Net change in value of forest assets | 2,113 | - | 2,113 |
| Net revaluation decrement of other non-current assets | (2,721) | (791) | (3,512) |
| Land revaluation recorded in asset revaluation surplus | 246 | (249) | (3) |
| Property, plant and equipment recorded in asset revaluation surplus | 233 | 1,200 | 1,433 |
| Total comprehensive result | (3,284) | (9) | (3,293) |
| Year ended 30 June 2018 | (\$'000) | | |
| | Commercial | Non-Commercial | Total |
| Income | | | |
| Sales - timber products | 11,716 | - | 11,716 |
| Community Service Obligation | - | 4,379 | 4,379 |
| Revenues from SA Government (incl govt radio network) | 2,309 | 2,555 | 4,864 |
| Interest | 286 | - | 286 |
| Other income | 583 | 247 | 830 |
| Total income | 14,894 | 7,181 | 22,075 |
| Expenses | | | |
| Employee benefits | (2,661) | (1,995) | (4,656) |
| Contractors | (9,083) | (1,650) | (10,733) |
| Depreciation and amortisation | (896) | (285) | (1,181) |
| Materials | (577) | (97) | (674) |
| Equipment and vehicle costs | (270) | (439) | (709) |
| Council rates | (319) | - | (319) |
| Other expenditure | (4,808) | (2,000) | (6,808) |
| Net loss from the disposal of non-current assets | (403) | (715) | (1,118) |
| Total expenses | (19,017) | (7,181) | (26,198) |
| Trading profit/(loss) before revaluation of non-current assets | (4,123) | - | (4,123) |
| Net change in value of forest assets | 5,583 | - | 5,583 |
| Property, plant and equipment recorded in asset revaluation surplus | 242 | - | 242 |
| Total comprehensive result | 1,702 | - | 1,702 |

NOTES TO THE FINANCIAL STATEMENTS
SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2019

21 COMMITMENTS AND CONTINGENCIES

21.1 Commitments

| | 2019 | 2018 |
|--|------------|------------|
| | \$ '000 | \$ '000 |
| a) Operating lease commitments | | |
| Non-cancellable operating leases contracted for but not capitalised in the accounts: | | |
| Due not later than one year | 218 | 199 |
| Due later than one year but not later than five years | 457 | 432 |
| Due later than five years | 261 | 343 |
| Total operating lease commitments | <u>936</u> | <u>974</u> |

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

| | \$ '000 | \$ '000 |
|---|--------------|---------------|
| b) Other commitments | | |
| Due not later than one year | 4,781 | 5,657 |
| Due later than one year but not later than five years | 866 | 5,065 |
| Total other commitments | <u>5,647</u> | <u>10,722</u> |

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

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

21.2 Contingent liabilities

Defined Benefit Plan

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

In April 2017, ForestrySA was notified by the SA Superannuation Board of a \$2 million actuarially assessed funding deficit as at 30 June 2016 relating to defined benefit members employed by ForestrySA as at 1 July 2014. The funding deficit is expected to be funded over the next 10 to 12 years. In addition to regular contributions in relation to current superannuation benefits ForestrySA has expensed \$239,000 (2018: \$230,000) being the amount paid during the current financial year in relation to the benefit funding deficit. A liability has not been recognised for the remaining balance.

21.3 Contingent assets

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

NOTES TO THE FINANCIAL STATEMENTS

SOUTH AUSTRALIAN FORESTRY CORPORATION FOR THE YEAR ENDED 30 JUNE 2019

22 KEY MANAGEMENT PERSONNEL

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

22.1 Board members

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

J. Roache
 A. McEwen (ceased 31/7/2018)
 S. Ashby (ceased 31/3/2019)*
 K. Lamb (appointed 9/8/2018, ceased 15/10/2018)
 G. Pelton (appointed 1/11/2018)*
 T. Stollznow (appointed 4/4/2019)

22.2 Remuneration of governing board members

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

| | 2019 | 2018 |
|---------------------|---------|---------|
| | \$ '000 | \$ '000 |
| \$0 - \$19,999* | 5 | 1 |
| \$20,000 - \$39,999 | - | 2 |
| \$40,000 - \$59,999 | 1 | 1 |
| Total | 6 | 4 |

The total remuneration received and receivable by those governing board members was \$77,000 (2018: \$114,000) which includes fringe benefits and superannuation contributions. Note, these amounts are also disclosed in note 22.4.

*In accordance with the Premier and Cabinet Circular No. 016, two SA Government employees (2018: one) did not receive any remuneration for governing board duties during the financial year.

22.3 Other key management personnel

| | |
|--------------------------------|--|
| J.P. Coleman (ceased 5/7/2018) | Chief Executive |
| J. Speed | Acting Chief Executive (commenced 5/7/2018) Chief Executive (commenced 17/6/2019) |
| S. Ware | Manager Finance and ICT |
| C. Gibson | Manager Conservation, Fire and Safety |
| A. Moylan (ceased 31/5/2019) | Manager Community Engagement and Recreation |
| P. Merry | Manager Commercial Operations |
| S. Frew (commenced 9/7/2018) | Manager Projects |
| Other | |
| The Hon. Tim Whetstone MP | Minister for Primary Industries and Regional Development |

22.4 Compensation of key management personnel

| | 2019 | 2018 |
|--|---------|---------|
| | \$ '000 | \$ '000 |
| Short term employee benefits paid or due and payable to or on behalf of key management personnel | 870 | 1,213 |
| Termination payments paid or due and payable to or on behalf of key management personnel | 74 | 84 |
| Superannuation benefits paid or due and payable to or on behalf of key management personnel | 99 | 146 |
| Total | 1,043 | 1,443 |

22.5 Transactions with key management personnel and other related parties

Transactions between ForestrySA and its Directors are made at arm's length. There have been no such transactions in the financial year (2018: nil).

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

23 FINANCIAL INSTRUMENTS

23.1 Financial risk management

Risk management is overseen by the Audit and Risk Committee. ForestrySA's risk management policies are in accordance with the Risk Management Policy Statement issued by the Premier and Treasurer and the principles established in the Australian Standard Risk Management Principles and Guidelines. ForestrySA's exposure to financial risk (liquidity risk, credit risk and market risk) is low due to the nature of the financial instruments held.

23.2 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.

23.3 Credit risk

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

The nature and location of ForestrySA's forestry operations cause concentration of credit risk in relation to trade receivables as 78% of the value of transactions for the financial year were transactions with the five largest (Non SA Government) of ForestrySA's customers (2018: 82%, three largest customers).

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

- payment terms are 30 days unless otherwise agreed in the terms and conditions of individual contracts.
- a risk assessment process is used for customers with balances over \$10,000.
- bank guarantees are obtained for specific customers (see also note 21).
- interest may be charged on overdue balances.

23.4 Impairment of financial assets

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

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

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

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

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

The following table provides information about the exposure to credit risk and expected credit loss.

| | unsecured carrying amount \$'000 | Loss % | Lifetime expected losses \$'000 |
|---|---|---------|--|
| Current (not past due) | 2,039 | 0.84% | 17 |
| 1-30 days past due | 30 | 0.65% | - |
| 31-60 days past due | 33 | 0.97% | 1 |
| 61-90 days past due | 2 | 100.00% | 2 |
| 90+ days past due | - | - | - |
| Loss allowance | | | 20 |
| Loss allowance currently recognised at 30 June 2019 | | | 30 |
| <i>Excess loss allowance</i> | | | <u>10</u> |

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

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

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

23 FINANCIAL INSTRUMENTS (Continued)

23.5 Market Risk

ForestrySA does not trade in foreign currency nor enter into transactions for speculative purposes, nor for hedging and does not undertake any hedging in relation to interest or foreign currency risk. Risk is managed as per the government's risk management strategy articulated in T1 23 *Management of Foreign Currency Exposures*.

ForestrySA has no interest bearing liabilities or borrowings.

23.6 Categorisation of financial instruments

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

| Category of financial asset and financial liability | Carrying Amount / Fair Value | |
|---|------------------------------|-------------------------|
| | 2019 Total \$'000 | 2018 Total \$'000 |
| Financial assets: | | |
| Cash and cash equivalents | 18,194 | 13,707 |
| Receivables (1) | 9,117 | 6,358 |
| | <u>27,311</u> | <u>20,065</u> |
| Financial liabilities: | | |
| Payables (2) | 1,151 | 3,000 |
| Contract liability | 5,798 | - |
| | <u>6,949</u> | <u>3,000</u> |
| Net Financial assets/(liabilities) | <u>20,362</u> | <u>17,065</u> |

(1) Other than prepayments, statutory receivables and contract receivables

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

23.7 Receivables and payables

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

The receivables amount disclosed here excludes prepayments as they are not financial assets. Prepayments are presented in note 8.

24 EVENTS AFTER REPORTING DATE

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

There were no events that required adjustments.

CERTIFICATION OF THE FINANCIAL STATEMENTS

SOUTH AUSTRALIAN FORESTRY CORPORATION

Certification of the 2018/19 Financial Statements

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

- comply with the relevant Treasurer's Instructions issued under section 41 of the *Public Finance and Audit Act 1987*, and relevant Australian accounting standards;
- are in accordance with the accounts and records of ForestrySA; and
- present a true and fair view of the financial position of ForestrySA as at 30 June 2019 and the results of its operation and cash flows for the financial year.

We certify that the internal controls employed by ForestrySA over its financial reporting and its preparation of the general purpose financial statements have been effective throughout the reporting period and there are reasonable grounds to believe ForestrySA will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board Members.



Julian Speed
CHIEF EXECUTIVE
SOUTH AUSTRALIAN FORESTRY CORPORATION

24 September 2019



June Roache
CHAIR
SOUTH AUSTRALIAN FORESTRY CORPORATION

24 September 2019



Level 9
State Administration Centre
200 Victoria Square
Adelaide SA 5000
DX 56208
Victoria Square
Tel +618 8226 9640
Fax +618 8226 9688
ABN 53 327 061 410
audgensa@audit.sa.gov.au
www.audit.sa.gov.au

To the Chair of the Board South Australian Forestry Corporation

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* and section 32(4) of the *Public Corporations Act 1993*, I have audited the financial report of the South Australian Forestry Corporation for the financial year ended 30 June 2019.

Opinion

In my opinion, the accompanying financial report gives a true and fair view of the financial position of the South Australian Forestry Corporation as at 30 June 2019, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2019
- a Statement of Financial Position as at 30 June 2019
- a Statement of Changes in Equity for the year ended 30 June 2019
- a Statement of Cash Flows for the year ended 30 June 2019
- notes, comprising significant accounting policies and other explanatory information
- a Certificate from the Chair and the Chief Executive.

Basis for opinion

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

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

INDEPENDENT AUDITOR'S REPORT CONTINUED

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

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

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

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

Auditor's responsibilities for the audit of the financial report

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

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

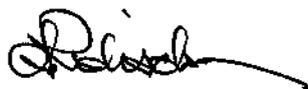
- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material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

INDEPENDENT AUDITOR'S REPORT CONTINUED

- conclude on the appropriateness of the entity's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

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



Andrew Richardson

Auditor-General

26 September 2019



STATUTORY REPORTING ITEMS

FORESTRYSA OBJECTIVES

Under ForestrySA's Strategic Pillars, its business objectives have strong links with those set out by the State Government.

| ForestrySA's strategic pillars | South Australian Government objectives |
|--|---|
| <p>To optimise the commercial value of the forests</p> <ul style="list-style-type: none"> • Optimise revenues and reduce costs • Manage the community resource for maximum value • Examine alternative models and revenue streams | <p>To build a state that reaches its potential and delivers for all South Australians, their families and communities</p> |
| <p>To be recognised for responsible land stewardship</p> <ul style="list-style-type: none"> • Deliver positive environmental management • Maintain and leverage from certification • Establish appropriate strategies for mitigating risks, including climate change | <p>Natural Resource Management reform</p> |
| <p>To develop and contribute to regional economic activity</p> <ul style="list-style-type: none"> • Support local companies • Repurpose the use of our assets where appropriate • Promote regional business opportunities | <p>Support jobs growth and boost local economies</p> |
| <p>To foster and contribute to forest industry development</p> <ul style="list-style-type: none"> • Promote new industry initiatives • Actively contribute to industry research • Promote the industry and its occupations | <p>Create conditions that encourage businesses to invest, expand and employ more people</p> |
| <p>To protect our community and our assets</p> <ul style="list-style-type: none"> • Retain and protect appropriate assets • Maintain our role as an industry participant • Uphold our role in community fire protection | <p>Providing better public services</p> |
| <p>To increase community engagement and recreational participation in SA's forests</p> <ul style="list-style-type: none"> • Work closely with our neighbours • Actively engage stakeholders to promote recreational opportunities • Explore and champion ecotourism | <p>Continue to grow South Australia's tourism industry</p> |

HUMAN RESOURCES

WORK HEALTH, SAFETY AND RETURN TO WORK PROGRAMS

ForestrySA is committed to providing a safe and healthy working environment for all staff, contractors, customers, members of the community and other visitors.

We endeavour to optimise the culture and climate of the organisation through continuous improvement and provide skilled personnel with the competence necessary to deliver our services safely and to high professional standards.

While management has a duty to provide and maintain a safe and healthy work environment, health and safety in the workplace are responsibilities shared by all employees.

In the past 12 months ForestrySA's performance is reflective of the programs and systems that have been implemented. The ForestrySA Lead Team continues to actively demonstrate their involvement and commitment to WHS by monitoring, reviewing, challenging and participating in safety programs.

Regular communication with key stakeholders and involvement in incident investigations are key areas which involve all members of the Lead Team.

| Work health, safety and return to work programs | Outcomes and effectiveness |
|--|--|
| <p>ForestrySA Transport Safety Initiative Continuous improvement of ForestrySA's log transport contractor safety requirements. This initiative was designed to actively reduce truck roll-overs and related road accidents.</p> | <p>No serious road-related log transport incidents.</p> |
| <p>ForestrySA Safety Management System Complete implementation of electronic induction system.</p> | <p>Staff and contractors have an improved understanding of ForestrySA workplace health and safety requirements.</p> |
| <p>Employee Assistance Program Providing ForestrySA staff and their families with free access to a range of health services such as confidential counselling, to assist with both work-related and personal issues.</p> | <p>The program has allowed a number of employees to remain in the workplace or return to work.</p> |
| <p>Driver Safety Awareness Program Practical driver training, providing better road safety knowledge and outcomes for all staff.</p> | <p>No serious road-related incidents involving ForestrySA staff or contractors.</p> |
| <p>Environmental compliance improvements Better understanding of current environmental conditions and areas to improve.</p> | <p>Staff have a more concise understanding of environmental stewardship and future wellbeing.</p> |
| <p>Chemical storage and use Online computer based system to meet regulatory requirements for the use and storage of all chemicals.</p> | <p>Capture all chemicals held on ForestrySA depots and the current quantities. This system also has the ability to access and print up to date Safety Data Sheets and chemical container labels.</p> |

HUMAN RESOURCES CONTINUED

WORK HEALTH, SAFETY AND RETURN TO WORK PERFORMANCE

| Workplace injury claims | 2018-19 | 2017-18 | % Change |
|--|---------|---------|----------|
| Total new workplace injury claims | 6 | 2 | 200 |
| Fatalities | 0 | 0 | 0 |
| Seriously injured workers ¹ | 0 | 0 | 0 |
| Significant injuries <i>Where lost time exceeds a working week, expressed as frequency rate per 1,000 FTE</i> | 0 | 1 | -100 |

¹ Number of claimants assessed during the reporting period as having a whole person impairment of 30% of more under the Return to Work Act 2014 (Part 2 Division 5).

WORK HEALTH AND SAFETY REGULATION

| Work health and safety regulation | 2018-19 | 2017-18 | % Change |
|---|---------|---------|----------|
| Number of notifiable incidents <i>WHS Act 2012, Part 3</i> | 0 | 1 | -100 |
| Number of provisional improvement, improvement and prohibition notices <i>WHS Act 2012, Sections 90, 191 and 195</i> | 0 | 0 | 0 |

RETURN TO WORK COSTS

| Return to work costs ¹ | 2018-19 | 2017-18 | % Change |
|---|---------|---------|----------|
| Total gross workers compensation expenditure (\$) | 195,110 | 63,815 | 205.74 |
| Income support payments - gross (\$) | 2,861 | 14,999 | -80.92 |

¹ Before third party recovery.

HUMAN RESOURCES CONTINUED

EMPLOYMENT OPPORTUNITY PROGRAMS

ForestrySA ensures its recruitment and selection processes do not discriminate against any applicant.

It remains a member of national, industry-owned forest, wood, paper and timber product industry organisation ForestWorks, which offers services to support skills development within the industry.

The ForestrySA Human Resource Manual and Recruitment Manual continue to support the Human Resources function within ForestrySA with their comprehensive detail and inclusion of all *Disability Discrimination Act 1992* and *Equal Opportunity Act 1991* requirements.

PERFORMANCE MANAGEMENT AND DEVELOPMENT

| Performance management and development system | Effectiveness and efficiency |
|---|---|
| Biannual staff performance reviews | A total of 39 staff (92.85%) completed reviews during 2018-19 |

LEADERSHIP AND MANAGEMENT DEVELOPMENT

| Training and development | Total cost (\$) | % of total salary expenditure |
|---|-----------------|-------------------------------|
| Total leadership and management development expenditure | 35,004 | 1% |

EXECUTIVE EMPLOYMENT

| Executive classification | Number |
|--------------------------|--------|
| Exec C | 1 |

HUMAN RESOURCES CONTINUED

WORKPLACE DIVERSITY - AT 30 JUNE 2019

| Age bracket | Male | Female | Total | % of total | Workforce Benchmark (%)* |
|-------------|------|--------|-------|------------|--------------------------|
| 15-19 | 1 | 1 | 2 | 4.9 | 2.0 |
| 20-24 | 3 | 0 | 3 | 7.3 | 7.8 |
| 25-29 | 3 | 1 | 4 | 9.8 | 10.6 |
| 30-34 | 2 | 4 | 6 | 14.6 | 12.8 |
| 35-39 | 4 | 1 | 5 | 12.2 | 11.3 |
| 40-44 | 4 | 2 | 6 | 14.6 | 11.2 |
| 45-49 | 4 | 1 | 5 | 12.2 | 11.7 |
| 50-54 | 0 | 3 | 3 | 7.3 | 12.0 |
| 55-59 | 4 | 1 | 5 | 12.2 | 11.3 |
| 60-64 | 1 | 1 | 2 | 4.9 | 6.6 |
| 65+ | 0 | 0 | 0 | 0 | 2.8 |
| TOTAL | 26 | 15 | 41 | 100 | 100 |

*Source: Australian Bureau of Statistics Australian Demographic Statistics, 6291.0.55.001 LM1 - Labour force status by Age, Greater Capital City and Rest of State (ASGS), Marital status and Sex, February 1978 onwards, South Australia at June 2019.

LEAVE MANAGEMENT

| Leave type: Average days leave per Full Time Equivalent employee | 2018-19 | 2017-18 |
|--|---------|---------|
| Sick leave | 3.8 | 4.3 |
| Family carer's leave | 1.6 | 1.7 |
| Miscellaneous special leave | 0.3 | 0.0 |

WORKPLACE ADAPTATION - DISABILITY

| Disability | Male | Female | Total | % of ForestrySA |
|---|------|--------|-------|-----------------|
| Disability requiring workplace adaptation | - | - | - | 0 |
| Physical | - | 1 | 1 | 2.25 |
| Intellectual | - | - | - | 0 |
| Sensory | - | - | - | 0 |
| Psychological / psychiatric | - | - | - | 0 |

FURTHER REPORTING ITEMS

WHISTLEBLOWERS PROTECTION ACT

| Matters of public interest disclosed to Whistleblower | Instances 2018-19 |
|---|-------------------|
| - | 0 |

On no occasion during 2018-19 were matters of public interest disclosed to the ForestrySA Responsible Officer appointed under the *Whistleblowers Protection Act 1993*.

FRAUD

ForestrySA has implemented a number of strategies to control and prevent fraud. Preventative measures include:

- ForestrySA Audit and Risk Committee, a sub-committee of the South Australian Forestry Corporation Board
- Fraud and corruption, conflict of interest, maladministration and related party disclosures completed by all staff and key management personnel annually
- Regular training and awareness programs
- Regular internal audits

No instances of fraud were detected by ForestrySA during 2018-19, as outlined in the Public Sector Regulations 2010. Two instances of suspected fraud were reported and investigated by ForestrySA, as outlined below.

| Incident | Instances detected 2018-19 |
|-------------------------------------|----------------------------|
| Suspected misuse of a purchase card | 1 |
| Suspected theft of minor equipment | 1 |

CONSULTANTS

External consultants engaged by ForestrySA during 2018-19.

| Consultant | Purpose | Value (\$) |
|----------------------------|--------------------|--------------|
| Below \$10,000 each | | |
| Rebecca Lang | Strategic Planning | 3,000 |
| Above \$10,000 each | | |
| - | - | - |
| TOTAL | | 3,000 |

GLOSSARY

| | | | |
|-----------------------|---|-------------------------------------|--|
| Conservation | The management of the natural environment to ensure its survival. A term covering preservation, maintenance, restoration and enhancement of the environment | Prescribed burning | The planned use of fire in a predetermined area, with an intensity and rate of spread designed to achieve specific results, including promoting biological diversity, reducing the volume of flammable fuels |
| DEW | Department for Environment and Water | Pulpwood | Logs below sawlog quality but suitable for manufacturing pulp, paper and panel products |
| EPA | Environment Protection Authority | Responsible Wood | The internationally recognised forestry standard (AS 4708), to which ForestrySA is certified in the Green Triangle and Mount Lofty Ranges |
| Forest Reserve | An area of state forest, formally gazetted under the <i>Forestry Act 1950</i> for long-term intent, to be managed for production, recreational, scientific, aesthetic, and environmental or protection purposes | SAFC | South Australian Forestry Corporation |
| FWPA | Forest and Wood Products Australia | SA Water | South Australian Water Corporation |
| ha | Hectare/s | Sawlog | A log for processing into sawn timber |
| ICT | Information and Communications Technology | Thinning | Removing some trees in a forest to reduce competition and thus improve or maintain the growth and health of the remaining trees |
| Lead Team | ForestrySA's key management personnel | Timber | The general term used to describe sawn wood suitable for building and other purposes |
| LiDAR | Light Detection and Ranging. A remote sensing technology adapted by ForestrySA to assess the productivity of forest plantations | Watercourse and wetland buffer zone | An area of land designed to protect a wetland or watercourse |
| Native forest | Forest consisting of native tree and other species that are endemic to South Australia | WHS | Work Health and Safety |
| Native forest reserve | An area of proclaimed Forest Reserve that has been further proclaimed as a Native Forest Reserve under the <i>Forestry Act 1950</i> specifically for the conservation of native flora and fauna | | |
| PIRSA | Primary Industries and Regions South Australia | | |

ForestrySA

Contact our Head Office
Kuitpo Forest
495 Brookman Road
Meadows, South Australia 5201
Phone +61 8 8391 8800
forestrysa@forestrysa.com.au

www.forestrysa.com.au

