

Lotteries Commission of South Australia

Functional responsibility

Establishment

The Lotteries Commission of South Australia (the Commission) is a statutory authority established pursuant to the *State Lotteries Act 1966* with its principal function being to promote and conduct lotteries for South Australia.

Functions

The functions of the Commission are to administer and promote the following lotteries in South Australia:

- Monday/Wednesday X Lotto
- Oz Lotto
- Powerball
- Saturday X Lotto
- Super 66
- The Pools
- Keno
- Instant Scratchies
- Special Appeal Lotteries
- Special lotteries
- Sports lotteries

Audit mandate and coverage

Audit authority

Audit of the financial report

Subsection 31(1)(b) of the PFAA and subsection 18A(2) of the *State Lotteries Act 1966* provide for the Auditor-General to audit the accounts of the Commission for each financial year.

Assessment of controls

Subsection 36(1)(b)(iii) of the PFAA provides for the Auditor-General to assess the controls exercised by the Commission in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

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

Scope of the audit

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

During 2010-11, specific areas of audit attention included:

- revenue including gaming revenue and other revenue
- prize payments
- expenditure
- payroll

- inventory
- general ledger
- corporate governance arrangements
- information technology governance and control
- internal audit activity.

Audit findings and comments

Auditor's report on the financial report

In my opinion, the financial report gives a true and fair view of the financial position of the Lotteries Commission of South Australia as at 30 June 2011, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

Assessment of controls

In my opinion, the controls exercised by the Lotteries Commission of South Australia in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the Lotteries Commission of South Australia have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit are formally reported to the Chief Executive of the Commission. There were no notable matters arising from the financial management and accounting and reporting component of the audit and the satisfactory nature of the audit was formally advised to the Chief Executive. At the time of finalising this Report, review work relating to the information technology component of the audit was being completed. The results of this audit will also be formally communicated to the Chief Executive.

Interpretation and analysis of the financial report

Highlights of the financial report

	2011 \$'million	2010 \$'million
Income		
Sales	389	391
Cost of sales	(341)	(342)
Other revenue	7	7
Total income	55	56
Expenses		
Supplies and services	16	16
Employee benefits expenses	7	8
Other expenses	2	2
Total expenses	25	26
Profit before income tax equivalent	30	30
Income tax equivalent expense	9	9
Profit after income tax equivalent and total comprehensive result	21	21

	2011 \$'million	2010 \$'million
Net cash provided by (used in) operating activities	4	(10)
Distribution to the Hospitals Fund and Recreation and Sport Fund	94	102
Assets		
Current assets	56	70
Non-current assets	14	16
Total assets	70	86
Liabilities		
Current liabilities	36	51
Non-current liabilities	10	11
Total liabilities	46	62
Total equity	24	24

Statement of Comprehensive Income

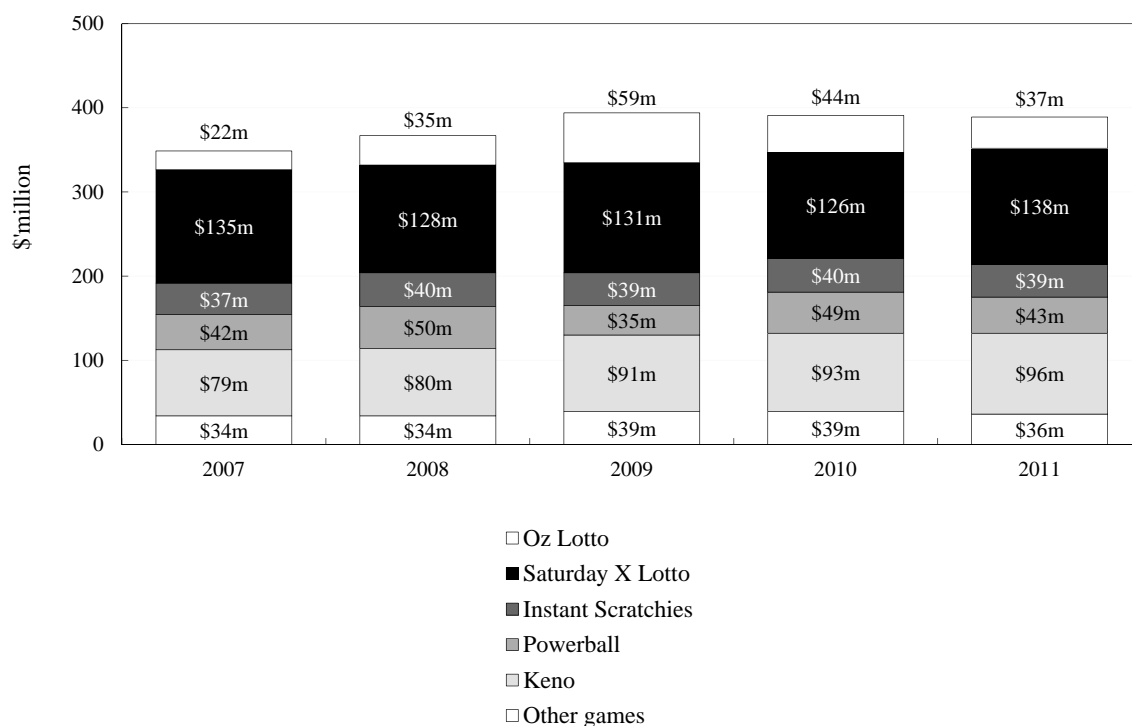
Income

Total income for the year was \$54.8 million, a decrease of \$1.4 million from the previous year. While sales revenue for the year decreased by \$2 million, cost of sales remained the same as in 2009-10.

The decrease in sales revenue in 2011 predominantly reflects a reduction in the number of jackpots during the year.

Saturday X Lotto sales were \$138 million, Keno sales were \$96 million and Powerball sales were \$43 million, representing 36 percent, 25 percent and 11 percent of total sales respectively.

A structural analysis of sales revenue generated by the Commission’s lottery products in the five years to 2011 is presented in the following chart.



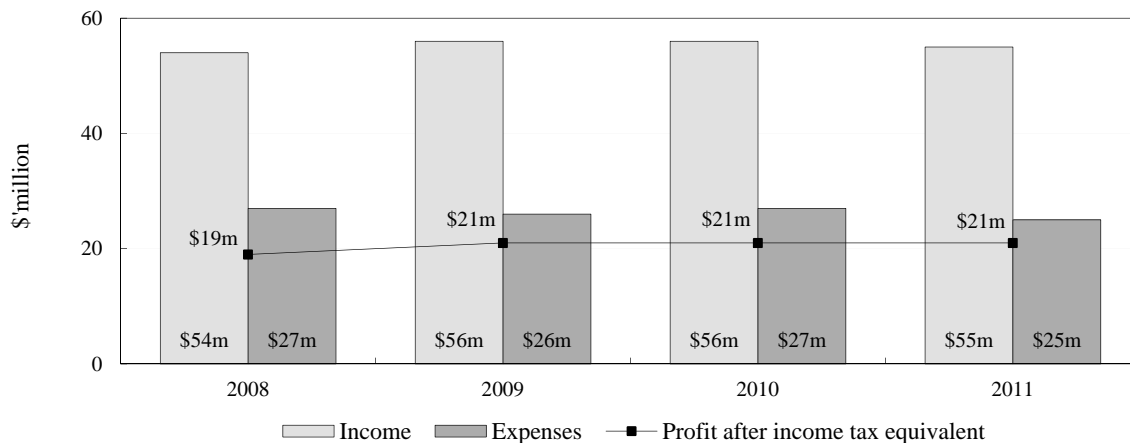
Expenses

Total expenses reduced by \$1.4 million to \$25.3 million. The decrease is attributable mainly to decreased employee benefits expense and supplies and services offset by an increase in depreciation.

Profit after income tax equivalent

Profit after income tax equivalent was consistent between 2010 and 2011.

The following chart shows the income, expenses and profit after income tax equivalent for the four years to 2011.

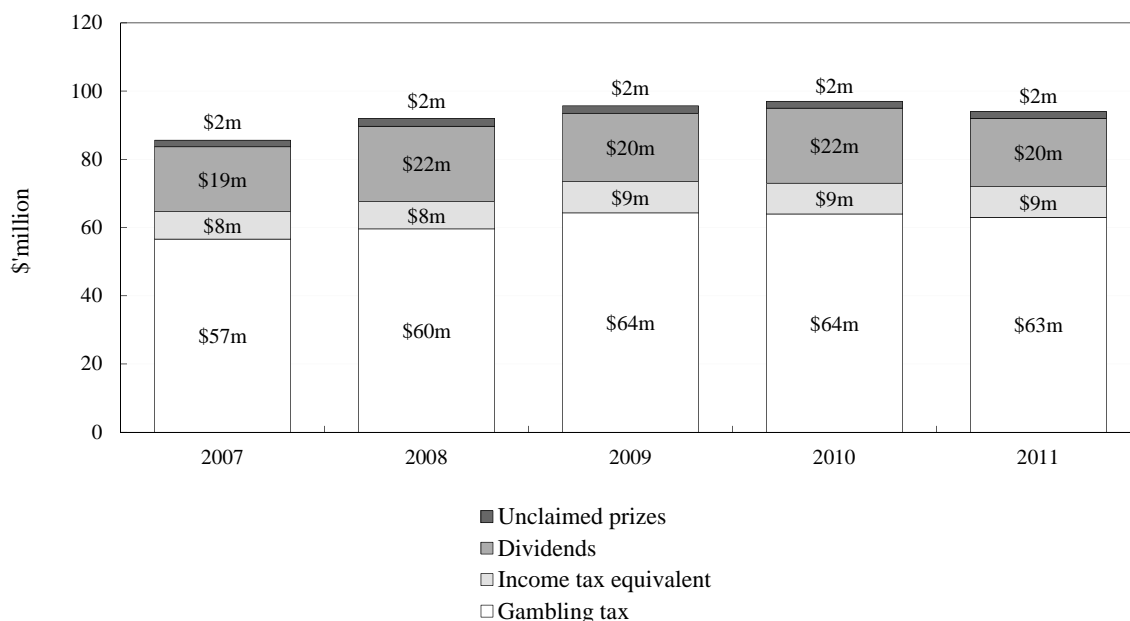


Distributions to government

The Commission makes payments to the Government in accordance with the requirements of the *State Lotteries Act 1966* and the TIs which are detailed in notes 2(k) and 24 to the financial statements. Essentially these payments comprise a gambling tax, an income tax equivalent payment, a dividend and 50 percent of unclaimed prizes.

In 2010-11 the distribution provided for government amounted to \$94 million, a decrease of \$2.8 million over the previous year. This reflects a decrease in amounts provided for gambling tax of \$1.5 million and the dividend of \$1.7 million, and an increase in unclaimed prizes of \$400 000.

The following chart analyses the distributions provided to government for the five years to 2011.



Statement of Financial Position

Assets

Total assets decreased by \$16 million to \$70 million. This decrease reflects a decrease in receivables of \$16 million. The decrease is attributable mainly to the recognition in 2010 of a receivable due from interstate Bloc members with respect to a South Australian Division 1 Oz Lotto prize of \$17 million. The prizes had not been paid to the winner and settlement not received from interstate Bloc members as at 30 June 2010.

Liabilities

Total liabilities decreased by \$16 million to \$46 million principally due to a decrease in prizes payable of \$16 million which reflects the recognition of a \$17 million Division 1 prize payable at 30 June 2010. As at 30 June 2011 there were no significant division winners with unpaid prizes.

Statement of Cash Flows

The following table summarises the net cash flows for the five years to 2011.

	2011 \$'000	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000
Net cash flows					
Operating	4	(10)	21	4	-
Investing	(1)	(11)	(1)	(1)	(1)
Financing	-	-	-	(1)	(2)
Change in cash	3	(21)	20	2	(3)
Cash at 30 June	53	50	71	51	49

The increase in net cash from operating activities is due to decreased prizes paid and payments to suppliers and employees. It also reflects a decrease in distributions paid to the Hospitals Fund and Recreation and Sport Fund for gambling tax and dividends.

The decrease in net cash used in investing activities reflects reduced spending on assets following the implementation of the new online lotteries system in May 2010.

Further commentary on operations

Sublicence to private operator

On 9 June 2011 the Government announced that SA Lotteries would be sublicensed to a private operator while remaining Government owned.

This has been disclosed in note 2(u) to the financial statements.

**Statement of Comprehensive Income
for the year ended 30 June 2011**

	Note	2011 \$'000	2010 \$'000
Income:			
Sales revenue	5	388 940	390 704
Cost of sales	6	341 325	341 378
Gross margin		<u>47 615</u>	<u>49 326</u>
Interest revenue		2 465	2 242
Other revenues	7	4 676	4 579
Total income		<u>54 756</u>	<u>56 147</u>
Expenses:			
Employee benefits expenses	8	7 315	8 029
Supplies and services	9	15 646	16 542
Depreciation and amortisation expense	10	2 315	2 163
Net loss on disposal of non-current assets	11	18	-
Total expenses		<u>25 294</u>	<u>26 734</u>
Profit before income tax equivalent		29 462	29 413
Income tax equivalent expense		8 839	8 824
Profit after income tax equivalent		<u>20 623</u>	<u>20 589</u>
Total comprehensive result		<u>20 623</u>	<u>20 589</u>

Profit after income tax equivalent and total comprehensive result are attributable to the SA Government as owner

Statement of Financial Position as at 30 June 2011

	Note	2011 \$'000	2010 \$'000
Current assets:			
Cash and cash equivalents	13	52 546	50 089
Receivables	14	2 783	19 567
Inventories		635	699
Total current assets		56 964	70 355
Non-current assets:			
Receivables	14	133	186
Property, plant and equipment	15	13 888	15 552
Intangible assets	16	-	3
Total non-current assets		14 021	15 741
Total assets		69 985	86 096
Current liabilities:			
Payables	17	24 948	41 693
Employee benefits	18	666	869
Other current liabilities	19	10 397	8 898
Total current liabilities		36 011	51 460
Non-current liabilities:			
Payables	17	1 448	1 068
Employee benefits	18	1 341	1 363
Other non-current liabilities	19	6 939	8 586
Total non-current liabilities		9 728	11 017
Total liabilities		45 739	62 477
Net assets		24 246	23 619
Equity:			
Funds retained for capital purposes		636	636
Asset revaluation surplus		1 151	849
Reserves		22 459	22 134
Total equity		24 246	23 619
Total equity is attributable to the SA Government as owner			
Unrecognised contractual commitments	21		
Contingent assets and liabilities	22		

Statement of Changes in Equity for the year ended 30 June 2011

		Funds retained for capital purposes	Asset revaluation surplus	Building maintenance reserve	Capital asset reserve (note 20)	Keno prize reserve	Retained earnings	Total
	Note	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 30 June 2009		636	5 474	65	17 337	1 486	-	24 998
Profit after income tax equivalent for 2009-10		-	-	-	-	-	20 589	20 589
Total comprehensive result for 2009-10		-	-	-	-	-	20 589	20 589
Transfers:								
From retained earnings		-	-	-	2 000	2 749	(4 749)	-
To retained earnings		-	(4 625)	-	(1 503)	-	6 128	-
Dividend contribution to SA Government		-	-	-	-	-	(21 968)	(21 968)
Balance at 30 June 2010		636	849	65	17 834	4 235	-	23 619
Profit after income tax equivalent for 2010-11		-	-	-	-	-	20 623	20 623
Total comprehensive result for 2010-11		-	-	-	-	-	20 623	20 623
Transfers:								
From retained earnings		-	-	-	2 000	2 771	(4 771)	-
To retained earnings		-	-	(24)	(2 277)	(2 145)	4 446	-
Gain on revaluation of property in 2010-11	15	-	302	-	-	-	-	302
Dividend contribution to SA Government		-	-	-	-	-	(20 298)	(20 298)
Balance at 30 June 2011		636	1 151	41	17 557	4 861	-	24 246

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

Statement of Cash Flows for the year ended 30 June 2011

		2011	2010
		Inflows (Outflows)	Inflows (Outflows)
	Note	\$'000	\$'000
Cash flows from operating activities:			
Cash inflows:			
Receipts from customers		360 906	367 268
Interest received		1 743	2 239
GST received from ATO		5 022	5 385
Cash generated from operations		367 671	374 892
Cash outflows:			
Prizes paid		(230 559)	(239 579)
Payments to suppliers and employees		(24 217)	(28 172)
GST paid to ATO		(14 476)	(15 347)
Distribution to the Hospitals Fund and Recreation and Sport Fund:			
Gambling tax	24	(63 228)	(67 227)
Dividends	24	(20 160)	(23 977)
Unclaimed prizes	24	(2 071)	(1 804)
Distribution to the Hospitals Fund for income tax equivalent	24	(8 899)	(8 867)
Cash used in operations		(363 611)	(384 973)
Net cash provided by (used in) operating activities	23	4 060	(10 081)
Cash flows from investing activities:			
Cash inflows:			
Proceeds from sale of property, plant and equipment		1	-
Cash outflows:			
Purchase of property, plant and equipment		(1 604)	(10 644)
Net cash provided by (used in) investing activities		(1 603)	(10 644)
Net increase (decrease) in cash and cash equivalents		2 457	(20 725)
Cash and cash equivalents at 1 July		50 089	70 814
Cash and cash equivalents at 30 June	23	52 546	50 089

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. **Establishment and function of the Lotteries Commission of South Australia (SA Lotteries)**
SA Lotteries, established under the *State Lotteries Act 1966*, commenced operations on 15 May 1967 with the primary function of promoting and conducting lotteries in South Australia.
2. **Summary of significant accounting policies**
 - (a) **Statement of compliance**
The financial statements are general purpose financial statements. The accounts have been prepared in accordance with relevant AASs and TI and APSs promulgated under the provisions of the PFAA.

SA Lotteries has early-adopted AASB 2009-12, which mainly relates to terminology changes (refer note 3).
 - (b) **Basis of preparation**
The preparation of the financial statements requires:
 - the use of certain accounting estimates and requires management to exercise its judgment in the process of applying SA Lotteries' accounting policies. The areas involving a higher degree of judgment or where assumptions and estimates are significant to the financial statements are outlined in the applicable notes

(b) Basis of preparation (continued)

- accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events are reported
- compliance with APSs issued pursuant to section 41 of the PFAA. In the interest of public accountability and transparency the APSs require the following note disclosures that have been included in this financial report:
 - (a) revenues, expenses, financial assets and liabilities where the counterparty/transaction is with an entity within the SA Government as at the reporting date, classified according to their nature
 - (b) expenses incurred as a result of engaging consultants (as reported in the Statement of Comprehensive Income and note 9). (The term 'consultant' is defined in APF II, APS 4.6.)
 - (c) employee TVSP information
 - (d) employees whose normal remuneration is \$130 744 or more (within \$10 000 bandwidths) and the aggregate of the remuneration paid or payable or otherwise made available, directly or indirectly, by the entity to those employees
 - (e) Commission members and remuneration information, where a Commission member is entitled to receive income from membership other than a direct out-of-pocket reimbursement.

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

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

The financial statements have been prepared based on a 12 month period and are presented in Australian currency.

The accounting policies set out below have been applied consistently in preparing the financial statements for the year ended 30 June 2011 and the comparative information presented.

(c) Reporting entity

The reporting entity comprises SA Lotteries only.

(d) Comparative information

The presentation and classification of items in the financial statements are consistent with prior periods except where adjusted to reflect the early adoption of AASB 2009-12 and or where specific revised AASs and APSs have required change.

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

(e) Rounding

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

(f) Taxation

Tax equivalent regime

In accordance with TI 22, SA Lotteries is required to pay to the State Government an income tax equivalent. The income tax liability is based on the State taxation equivalent regime which applies the accounting profits method. This requires that the corporate income tax rate be applied to profit. The current income tax equivalent liability (included in undistributed funds liability) relates to the income tax equivalent expense outstanding for the current period.

SA Lotteries is liable for payroll tax, FBT, GST, Emergency Services levy, land tax equivalent and local government rate equivalents.

GST

SA Lotteries, as a gambling operator, is required to pay GST of one eleventh of net gambling revenue (NGR), defined as gross sales less total monetary prizes, direct to the ATO. The GST on NGR is treated as a cost of sales.

GST (continued)

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 ATO, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable
- receivables and payables that include GST.

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the Statement of Financial Position.

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

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

(g) *Income*

Income is recognised to the extent that it is probable that the flow of economic benefits to SA Lotteries will occur and can be reliably measured.

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

Note 27 discloses income where the counterparty/transaction is with an entity within the SA Government as at the reporting date, classified according to their nature.

The following are specific recognition criteria:

- Sales revenue for Saturday X Lotto, Monday/Wednesday X Lotto, Oz Lotto, Powerball, Keno, Super 66 and The Pools is recognised as at the date of the draw or competition. For these games, sales revenue as at 30 June for draws or competitions subsequent to that date is treated as sales in advance. Sales revenue for Instant Scratchies is recognised as tickets are sold.
- Interest revenue is recognised on a time proportionate basis as it accrues, taking into account the effective yield on the financial asset.
- Revenues from services, fees and charges are derived from the provision of goods and services predominantly to agents. This revenue is recognised upon delivery of the goods or services to the recipients.

(h) *Expenses*

Expenses are recognised to the extent that it is probable that the flow of economic benefits from SA Lotteries will occur and can be reliably measured.

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

Note 27 discloses expenses where the counterparty/transaction is with an entity within the SA Government as at the reporting date, classified according to their nature.

The following are specific recognition criteria:

Employee benefits expenses

Employee benefits expenses include all costs related to employment, including salaries and leave entitlements. These are recognised when incurred.

Superannuation expenses charged in the Statement of Comprehensive Income represent:

- defined contributions made by SA Lotteries to the superannuation plans in respect of current services of current employees
- defined benefits accrued during the reporting period.

Note 2(o) provides further details.

Supplies and services

Supplies and services generally represent the day-to-day running costs, including maintenance and occupancy costs, incurred in the normal operations of SA Lotteries. These items are recognised as an expense in the reporting period in which they are incurred.

Depreciation and amortisation of non-current assets

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

Assets' residual values, useful lives and depreciation/amortisation methods are reviewed and adjusted if appropriate, 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, which is a change in accounting estimate.

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

Land is not depreciated.

Depreciation/Amortisation is calculated on a straight-line basis over the estimated useful life of the following classes of assets as follows:

<i>Class of assets</i>	<i>Estimated useful life (years)</i>
Buildings	22
Plant and equipment	3-10
Current online lotteries system	up to 7
Leasehold improvements	up to 10
Intangibles (software)	3

(i) Current and non-current classification

Assets and liabilities are characterised as either current or non-current in nature. SA Lotteries has a clearly identifiable operating cycle of 12 months. 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, have been classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

(j) Assets

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

Note 27 discloses financial assets where the counterparty/transaction is with an entity within the SA Government as at the reporting date, classified according to their nature.

Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position and the Statement of Cash Flows includes cash on hand, deposits held at call and other short-term, highly liquid investments that are readily converted to cash, are subject to insignificant risk of changes in value and are used in the cash management function on a day-to-day basis.

Short-term deposits are held with SAFA in at call deposit and Cash Management Fund accounts. Bank balances are held with Westpac Banking Corporation in at call deposit accounts.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash equivalents as defined above.

Cash is measured at nominal value.

Receivables

Receivables include amounts receivable from agents and other parties, prize settlements receivable from lottery operators in other states participating in inter-jurisdictional prize pooling arrangements and prepayments. Receivables (other than prepayments) arise in the normal course of selling goods and services to agents and other parties and through prize settlement arrangements with other Bloc members.

Agents debtors and sundry receivables

Agent debtors and sundry receivables are generally receivable within seven days and 14 days respectively and are carried at amounts due.

Collectability of agent debtors and sundry receivables are reviewed on an ongoing basis. Debts that are known to be uncollectable are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that SA Lotteries will not be able to collect the debt.

Prize settlements receivable from Blocs

Saturday X Lotto, Monday/Wednesday X Lotto, Oz Lotto, Powerball, Super 66 and The Pools are games supported by inter-jurisdictional prize pooling arrangements. Lottery operators participating in individual games form Blocs for the relevant games. Amounts receivable from Blocs represent monies due from other jurisdictions for prizes won in South Australia. Settlement of amounts receivable from Bloc members are normally due 14 days after the date of the draw.

Inventories

Inventories are held for distribution and include Instant Scratchies tickets, game entry coupons and ticket rolls.

Inventories are measured at the lower of actual cost or their net realisable value.

Instant Scratchies ticket costs are allocated when the tickets are settled by the agent. Costs of game entry coupons and ticket rolls are allocated upon distribution to the agent.

Non-current asset acquisition and recognition

Non-current assets are initially recorded at cost, plus any incidental cost involved with the acquisition. Non-current assets are subsequently measured at fair value less accumulated depreciation/amortisation.

All non-current assets with a value of \$2000 or more are capitalised.

Componentisation of the online lotteries system (a complex asset) has been performed as the asset's fair value at the time of acquisition was greater than \$1 million.

Revaluation of non-current assets

All non-current tangible assets are valued at written down current cost (a proxy for fair value). Revaluation of non-current assets or groups of assets is only performed when their fair value is greater than \$1 million and estimated useful life is greater than three years.

SA Lotteries obtains an independent valuation of such assets at least every five years. However, if at any time management considers that the carrying amount of an asset materially differs from its fair value then the asset will be revalued regardless of when the last valuation took place. Non-current tangible assets that are acquired between revaluations are held at cost until the next valuation, where they are revalued to fair value.

SA Lotteries has taken the exemption available under APF III, APS 3.8 to take asset revaluation adjustments to the asset revaluation surplus on a class basis rather than an individual asset basis.

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

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 is transferred to retained earnings.

Impairment

All non-current tangible and intangible assets are tested for indication of impairment at each reporting date. If there was an indication of impairment, the recoverable amount would be estimated. An amount by which the asset's carrying amount exceeds the recoverable amount would be recorded as an impairment loss. For revalued assets, an impairment loss would be offset against the asset revaluation surplus.

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 as either finite or indefinite. SA Lotteries only has intangible assets with finite lives.

(k) Liabilities

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

Note 27 discloses financial liabilities where the counterparty/transaction is with an entity within the SA Government as at the reporting date, classified according to their nature.

Payables

Payables include creditors, accrued expenses, prizes payable, undistributed funds (owing to SA Government), and employment on-costs.

Creditors and accrued expenses

Creditors represent the amounts owing for goods and services received prior to the end of the reporting period that are unpaid at the end of the reporting period. Creditors include all unpaid invoices received relating to the normal operations of SA Lotteries.

Accrued expenses represent goods and services provided by other parties during the period that are unpaid at the end of the reporting period and where an invoice has not been received.

All payables are measured at their nominal amount and are normally settled within 30 days from the date of the invoice or date the invoice is first received.

Prizes payable

Prizes payable represent amounts due to be paid to customers for prizes won in South Australia and settlements due to lottery operators in other states participating in inter-jurisdictional prize pooling arrangements.

Amounts payable for prizes won in South Australia are generally available for settlement the day following the draw, or in the case of Instant Scratchies and minor Keno prizes, on the date of sale or draw. Division 1 and 2 prizes for Lotto type games are normally settled 14 days after the date of draw in accordance with the Lotteries Rules. Amounts payable to Blocs represent monies due to other lottery operators for prizes won in interstate jurisdictions. Settlement of amounts payable to Bloc members are normally due 14 days after the date of the draw.

Non-current prizes payable relate to outstanding annuity-style Instant Scratchies prizes where the total prize is payable in instalments over a number of years in accordance with the terms and conditions of each game. The liability is measured at the undiscounted amount expected to be paid.

Employment on-costs

Employment on-costs include superannuation contributions, payroll tax and workers compensation with respect to outstanding liabilities for salaries, long service leave and annual leave. Employment on-costs are settled when the respective employee benefit that they relate to is discharged.

Employee benefits

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

Salaries, annual leave and sick leave

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

The annual leave liability is expected to be payable within 12 months and is measured at the undiscounted amount expected to be paid. No salaries or annual leave are expected to be payable later than 12 months.

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

Long service leave

The liability for long service leave is recognised after an employee has completed five years of service. The benchmark for measurement of the long service leave liability has been revised from 5.5 years based on an actuarial assessment performed by DTF.

An actuarial assessment of long service leave undertaken by the DTF based on a significant sample of employees throughout the South Australian public sector determined that the liability measured using the shorthand method was not materially different from the liability measured using the present value of expected future payments. This calculation is consistent with SA Lotteries' experience of employee retention and leave taken.

The portion of the long service leave liability classified as current represents the amount that may be expected to be paid as leave taken or paid on termination of employment during SA Lotteries' normal operating cycle.

Unclaimed Prizes Reserve

Other than a prize in a Special Appeal Lottery (note 2(1)), any prize in a lottery that has not been collected or taken delivery of within 12 months of the date of the draw or relevant day is forfeited to SA Lotteries and transferred into the Unclaimed Prizes Reserve. Subsection 16C(4) of the *State Lotteries Act 1966* requires SA Lotteries to pay:

- 50 percent of the amount derived from unclaimed prizes in The Pools (and other Sports lotteries or Special lotteries) to the Recreation and Sport Fund
- 50 percent of the amount derived from unclaimed prizes in other lotteries to the Hospitals Fund.

The balance in the reserve is applied by SA Lotteries from time to time for the purposes of providing additional or increased prizes in a subsequent lottery or lotteries, providing prizes in promotional lotteries or making ex gratia payments.

The *State Lotteries Act 1966* provides for an ex gratia payment to a person who satisfies SA Lotteries that they are a winner of a prize in a lottery conducted by SA Lotteries, despite the fact that a prize has been forfeited to SA Lotteries, the winning ticket has been lost or destroyed or the period of notice of a claim for the prize has not been complied with.

Ex gratia payments are charged to the Unclaimed Prizes Reserve. The next payment to either the Hospitals Fund or Recreation and Sport Fund is then reduced by an amount equivalent to 50 percent of the ex gratia payment, depending on the game played.

Distribution of funds to government

In accordance with subsection 16(3) of the *State Lotteries Act 1966*, SA Lotteries is required to pay to the Hospitals Fund the balance of surplus funds remaining after:

- payment of gambling tax and GST on NGR
- making allowances for operating and capital expenses
- applying the net proceeds and gambling tax of The Pools to the Recreation and Sport Fund
- in respect of Special Appeal Lotteries (note 2(1)), applying the net proceeds and unclaimed prizes less the GST on NGR to the beneficiary(s) of those lotteries
- retaining funds for certain designated purposes.

Distribution of funds to government (continued)

As detailed in note 2(f), SA Lotteries is required to make TI 22 as a result of the application of the tax equivalent regime. In recognition of the provisions of the *State Lotteries Act 1966*, and in accordance with TI 22, the transfer of funds to the Hospitals Fund is reflected in the financial statements in the form of:

- a gambling tax of 41 percent on NGR in respect of all lotteries conducted by SA Lotteries except Sports lotteries, Special lotteries and Special Appeal Lotteries
- an income tax equivalent payment (calculated on the accounting profits method), recorded as an expense item in the Statement of Comprehensive Income
- a dividend, represented by net profit after income tax equivalent payment and increased decreased by funds retained for certain designated purposes
- unclaimed prizes.

The composition of all amounts due and payable to government on account of the Hospitals Fund and Recreation and Sport Fund is detailed in note 24.

(l) Special Appeal Lotteries

Section 13AB of the *State Lotteries Act 1966* enables SA Lotteries to conduct Special Appeal Lotteries.

No Special Appeal Lotteries were conducted during the financial year.

(m) Foreign currency

Exchange differences arising up to the date of purchase are included in the measurement of the purchase and are reported in the Statement of Comprehensive Income.

(n) Operating leases

SA Lotteries has an accommodation lease agreement for its Head Office premises at 24-25 Greenhill Road, Wayville and an operating lease for the remote computer site at Glenside (Kidman Park remote site lease expired 28 October 2010). In respect of these operating leases, the lessor effectively retains substantially the entire risks and benefits incidental to ownership of the leased assets.

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.

(o) Superannuation

SA Lotteries has an established superannuation plan for its employees, being the SA Lotteries Superannuation Plan (the Plan), which is a subplan of the Mercer Super Trust. The Plan provides lump sum benefits on retirement, death, disablement and withdrawal. Some categories of members receive only defined contribution, accumulation style benefits. The defined benefit section of the Plan is closed to new members. All new members receive accumulation only benefits. The defined contribution (accumulation style) section receives fixed contributions from SA Lotteries and SA Lotteries' obligation is limited to these contributions. The withdrawal benefit for defined benefit members may be taken immediately or deferred until preservation age.

The liability for the defined benefit section of the Plan has been determined via an actuarial valuation by Stuart Mules, FIAA (Mercer Investment Nominees Limited) using the projected unit credit method. The report was dated 11 July 2011.

Actuarial gains and losses are recognised in full, directly in profit and loss in the period in which they occur, and are presented in the Statement of Comprehensive Income.

The superannuation expense of the defined benefit section of the Plan is recognised as and when the contributions become payable and consist of current service cost, interest cost, actuarial gains and losses, and past service cost.

The defined benefit superannuation plan asset/liability recognised in the Statement of Financial Position represents the surplus/deficit of the fair value of the defined benefit superannuation plan assets over the present value of the defined benefit obligation to members. The expected payment to settle the obligation has been determined using national government bond market yields with terms and conditions that match, as closely as possible, to estimated cash outflows.

(o) **Superannuation (continued)**

SA Lotteries also contributes to other externally managed superannuation plans. These contributions are expensed when they fall due and SA Lotteries' obligation is limited to these contributions.

(p) **Funds retained for capital purposes**

SA Lotteries has retained funds which represent the historical cost of the investment in land and buildings at 24-26 Payneham Road, Stepney.

(q) **Asset revaluation surplus**

This surplus is used to record increments and decrements in relation to the fair value of land and buildings and the online lotteries system to the extent that they offset one another. Relevant amounts are transferred to retained earnings when an asset is disposed or derecognised.

(r) **Reserves**

Building maintenance reserve

This reserve was established to meet future major building maintenance costs.

Capital asset reserve

This reserve was established to contribute to the financing of the cost of replacement of the online lotteries system hardware and software, and the purchase of other non-current assets.

Keno Prize reserve

This reserve was established to meet Keno Spot 10 prizes. The reserve has been funded from retained earnings as a proportion of all Keno Spot 10 gross sales through SA Lotteries' agents and ACTTAB Limited. To the extent possible, the value of the Keno Spot 10 prize won is transferred from the reserve to retained earnings and paid to the Hospitals Fund.

(s) **Unrecognised contractual commitments**

Commitments include those from capital and operating commitments arising from contractual sources and are disclosed at their nominal value.

(t) **Insurance**

SA Lotteries has arranged, through SAICORP, a division the SAFA, to insure all major risks of the organisation. The excess payable under this arrangement varies depending on each class of insurance held.

(u) **Sublicence to private operator**

On 9 June 2011 the SA Government announced that it intended to create a sublicence to operate lotteries in South Australia. Further, it is intended that the sublicence will be available to a private sector operator. The licensing details, including the term and when the arrangement will take effect are still being determined. As at the reporting date, SA Lotteries is unable to make an assessment of the impact on the reported values of assets and liabilities contained within this financial report. All assets and obligations are reported in accordance with the information disclosed in notes 2(j) and (k), 21 and 22.

3. New and revised accounting standards and policies

In accordance with amendments to APS 4.8 within APF II, effective 1 July 2010, SA Lotteries has disclosed all employees whose normal remuneration is equal to or greater than the base executive level remuneration. Previously APS 4.8 within APF II required the disclosure of all employees whose normal remuneration was equal to or greater than \$100 000.

SA Lotteries did not voluntarily change any of its accounting policies in 2010-11.

Except for early adoption of AASB 2009-12 which mainly relates to terminology changes, the AASs and interpretations that have recently been issued or amended, but are not yet effective, have not been adopted for the reporting period ended 30 June 2011. SA Lotteries has assessed the impact of the new and amended standards and interpretations and considers there will be no impact on the accounting policies or the financial statements of SA Lotteries.

4. Related party

SA Lotteries is controlled by the SA Government. Transactions and balances between SA Lotteries and related parties (ie other SA Government controlled entities) are disclosed in note 27.

5. Sales revenue	Note	2011 \$'000	2010 \$'000
Saturday X Lotto		137 897	125 764
Monday/Wednesday X Lotto		34 684	37 133
Oz Lotto		36 871	44 530
Powerball		42 740	48 673
Keno		95 866	92 566
Instant Scratchies		39 113	40 189
Super 66		1 138	1 184
The Pools		631	665
Total sales revenue		388 940	390 704

Sales revenue includes agents' commission.

6. Cost of sales		2011	2010
Prizes		235 412	233 407
Gambling tax on net gambling revenue		62 946	64 492
Agents' commission		29 010	29 179
GST on net gambling revenue paid to ATO		13 957	14 300
Total cost of sales		341 325	341 378

7. Other revenues		2011	2010
Agents' fees and charges		3 649	3 577
Easiplay Club service fees		442	374
Sundry		585	628
Total other revenues		4 676	4 579

8. Employee benefits expenses		2011	2010
Salaries (including annual leave)		5 997	6 419
Long service leave		137	204
Employment on-costs - superannuation contributions	26(j)	641	677
Decrease in carrying value of defined benefit superannuation plan net asset/liability	26(e)	(7)	102
Employment on-costs - other		426	490
Commission members' fees		121	137
Total employee benefits expenses		7 315	8 029

Remuneration of employees

The table covers all employees who received remuneration of \$130 700 or more during the year. Remuneration reflects all costs of employment including salaries, superannuation contributions, FBT, any other salary sacrifice benefits, and payment of leave entitlements on ceasing employment. Employer contributions for employees who are members of the defined benefit section of the SA Lotteries Superannuation Plan were reduced from 1 July 2007 and subsequently increased from 5 January 2009 in accordance with actuarial advice and Commission endorsement.

The number of employees whose remuneration received or receivable falls within the following bands:	2011 Number	2010 Number
\$140 700 - \$150 699	-	1
\$150 700 - \$160 699	1	1
\$160 700 - \$170 699	1	1
\$170 700 - \$180 699	1	1
\$320 700 - \$330 699	1	1
Total	4	5

In accordance with the revised APF II, SA Lotteries has changed its accounting policy and now discloses all employees who receive remuneration equal to or lesser than the base executive remuneration level rather than all employees who receive remuneration equal to or greater than \$100 000. The impact of this change in accounting policy is the number of employees disclosed has reduced by 10 for 2011 and 7 for 2010.

Total remuneration received or receivable by employees whose remuneration was \$130 700 or more	2011 \$'000	2010 \$'000
	822	948

Key management personnel compensation

The key management personnel are the Commission members and the senior management team (including the Chief Executive) who have responsibility for the strategic direction and management of SA Lotteries.

Commission members

The following persons held the position of Member of the SA Lotteries for the full financial year unless otherwise stated:

H J Ohff, PhD, BA(Hons), BCom, FIEAust, CPEng - Presiding Member
 S J Mackenzie, BComm(Acc), LLB (Hons)
 W R Jackson, BEc, FASA
 A E Lindsay, BA(Hons), LLB(Hons)
 A E Heyworth, BA(Acc), MBA(AGSM), SF Fin, FAICD**

Commission members' remuneration

The total remuneration received and receivable by Commission members includes fees, superannuation contributions, FBT and professional indemnity insurance paid on behalf of commission members.

The number of Commission members whose remuneration received or receivable falls within the following bands:	2011 Number	2010 Number
\$0 to \$9 999	1	1
\$20 000 to \$29 999	-	1
\$30 000 to \$39 999	3	3
\$40 000 to \$49 999	1	1
Total	5	6

Total remuneration received or receivable by Commission members	2011 \$'000	2010 \$'000
	148	165

** In accordance with DPC Circular 16, government employees did not receive any remuneration for Commission duties during the financial year.

No Commission member has entered into a contract with SA Lotteries since the end of the previous financial year and there were no material contracts with Commission members' interests at the end of the financial year.

Senior management team

The senior management team comprised the following persons for the full financial year, unless otherwise stated:

J R Roache, BAcc, CPA, Grad Cert Mgt (Monash), FAICD, FAIM - Chief Executive
 I D Clayfield, BEc, FCA - General Manager Financial and Corporate Services (1 July 2010 to 12 November 2010)
 C J Yeeles, BComm, CPA - Acting General Manager Financial and Corporate Services
 (15 November 2010 to 7 December 2010)
 C I McSporran, BEc - Chief Financial Officer (8 December 2010 to 30 June 2011)
 J F Favretto, BA - General Manager Information and Communications Technology
 D G Hardy, LLB, BA GDLP, MBA - General Manager Legal and Risk Management/Company Secretary
 C M Mulvihill, BComm, CPA, MBA - General Manager Marketing and Sales

The compensation of key management personnel included in employee benefits expenses is as follows:	2011 \$'000	2010 \$'000
Short-term employee benefits	865	951
Post-employment benefits*	181	191
Long-term employee benefits	18	18
Total key management personnel compensation	1 064	1 160

* Post-employment benefits include an allocation of the change in the defined benefit superannuation plan liability to key management personnel based on the share of the defined benefit obligation.

TVSPs

No employees were paid TVSPs during the reporting period.

9. Supplies and services		2011	2010
	Note	\$'000	\$'000
Marketing and promotions		6 471	6 176
Computer operations		2 998	3 235
Tickets, coupons, terminal rolls and ribbons		1 787	1 937
Operating leases		933	835
Other occupancy costs		635	626
Temporary staff and contractors		212	483
Agent distribution costs		242	271
Consultancies		19	8
Motor vehicle fleet costs		224	243
Insurance		132	124
External audit fees	12	151	129
Internal audit fees		171	223
Training costs		141	670
Gambling tax - other		72	79
Other		1 458	1 503
Total supplies and services		<u>15 646</u>	<u>16 542</u>

Consultancies

	2011		2010	
The number and dollar amount of consultancies paid/payable (included in supplies and services) that fell within the following bands:	Number	\$'000	Number	\$'000
Below \$10 000	2	5	2	8
Between \$10 000 and \$50 000	1	14	-	-
Above \$50 000	-	-	-	-
Total paid/payable to consultants engaged	<u>3</u>	<u>19</u>	<u>2</u>	<u>8</u>

10. Depreciation and amortisation expense

Depreciation:	2011	2010
	\$'000	\$'000
Buildings	38	38
Plant and equipment	174	155
Online lotteries system	1 855	1 681
Total depreciation	<u>2 067</u>	<u>1 874</u>

Amortisation:

Leasehold improvements	245	248
Intangible assets - software	3	41
Total amortisation	<u>248</u>	<u>289</u>
Total depreciation and amortisation	<u>2 315</u>	<u>2 163</u>

11. Net loss on derecognition of non-current assets

Proceeds from disposal	1	-
Net book value of assets derecognised	(19)	-
Net loss on derecognition of non-current assets	<u>(18)</u>	<u>-</u>

Assets are derecognised on disposal or when no future economic benefits are expected from the asset's use or disposal.

12. Auditor's remuneration

Audit services

Audit fees payable for the financial year	151	153
Under (Over) accrual	-	(24)
External audit fees expense	<u>151</u>	<u>129</u>

The Auditor-General is the auditor of SA Lotteries.

Other services

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

13. Cash and cash equivalents	2011	2010
	\$'000	\$'000
Bank balances and cash on hand	10 546	8 089
Short-term deposits	42 000	42 000
Total cash and cash equivalents	<u>52 546</u>	<u>50 089</u>

Bank balances comprise unrepresented cheques net of outstanding deposits and cash on hand.

Short-term deposits are with the SAFA.

Interest rate risk

Cash on hand is non-interest bearing. Bank balances and short-term deposits earn a floating interest rate based on daily bank deposit rates. The weighted average interest rate earned was 4.93 percent (3.75 percent).

Net fair values

The carrying amount of cash and cash equivalents represents fair value.

14. Receivables	2011	2010
	\$'000	\$'000
Current:		
Agent debtors	1 489	2 251
Prize settlements receivable from Blocs	611	16 622
Sundry receivables	339	363
Prepayments	344	331
Total current receivables	<u>2 783</u>	<u>19 567</u>
Non-current:		
Prepayments	133	186
Total non-current receivables	<u>133</u>	<u>186</u>
Total receivables	<u>2 916</u>	<u>19 753</u>

Interest rate risk

All receivables are non-interest bearing.

Credit risk

Credit risk represents the loss that would be recognised if parties owing monies to SA Lotteries at the reporting date fail to honour their obligations. SA Lotteries minimises its credit risk in relation to agents by undertaking its sales transactions with a large number of agents and, in accordance with policy, requiring those agents to remit outstandings on a twice weekly basis. It is not anticipated that counterparties will fail to discharge their obligations. In addition, there is no concentration of credit risk.

Net fair values

The carrying amount of receivables approximates net fair value due to being receivable on demand.

15. Property, plant and equipment	2011	2010
	\$'000	\$'000
Land and buildings:		
Land at fair value	920	700
Buildings at fair value	580	650
Accumulated depreciation	-	(114)
Total land and buildings	<u>1 500</u>	<u>1 236</u>
Plant and equipment:		
Plant and equipment at cost (deemed fair value)	2 101	2 111
Accumulated depreciation	(1 596)	(1 661)
Total plant and equipment	<u>505</u>	<u>450</u>
Online lotteries system:		
Online lotteries system at cost (deemed fair value)	13 038	12 981
Accumulated depreciation	(2 164)	(310)
Total online lotteries system	<u>10 874</u>	<u>12 671</u>
Leasehold improvements:		
Leasehold improvements at cost (deemed fair value)	2 532	2 476
Accumulated amortisation	(1 523)	(1 281)
Total leasehold improvements	<u>1 009</u>	<u>1 195</u>
Total property, plant and equipment	<u>13 888</u>	<u>15 552</u>

Reconciliation of property, plant and equipment

The following table shows the movement of property, plant and equipment during 2010-11 and 2009-10.

	Carrying amount 01.07.10	Additions	Assets derecognised (incl disposals)	Revaluation increment	Depreciation and amortisation	Carrying amount 30.06.11
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2011						
Land	700	-	-	220	-	920
Buildings	536	-	-	82	(38)	580
Plant and equipment	450	246	(17)	-	(174)	505
Online lotteries system	12 671	58	-	-	(1 855)	10 874
Leasehold improvements	1 195	61	(2)	-	(245)	1 009
Total	15 552	365	(19)	302	(2 312)	13 888

	Carrying amount 01.07.09	Additions	Assets derecognised (incl disposals)	Depreciation and amortisation	Carrying amount 30.06.10
	\$'000	\$'000	\$'000	\$'000	\$'000
2010					
Land	700	-	-	-	700
Buildings	574	-	-	(38)	536
Plant and equipment	368	237	-	(155)	450
Online lotteries system	2 750	11 602	-	(1 681)	12 671
Leasehold improvements	1 436	7	-	(248)	1 195
Total	5 828	11 846	-	(2 122)	15 552

Valuation of property, plant and equipment

The valuation of the 24-26 Payneham Road, Stepney property was performed by Simon Hickin AAPI, Certified Practising Valuer, an independent valuer from Jones Lang LaSalle, as at 30 June 2011. The valuer arrived at fair value based on recent market transactions for similar land and buildings in the area taking into account zoning and restricted use and was determined on an in-use value, assuming a fully tenanted (subject to a notional five plus five year lease back) basis.

The carrying amount of property, plant and equipment that would have been recognised if these assets were stated at cost is:	2011	2010
	\$'000	\$'000
Land and buildings	335	346
Plant and equipment	505	450
Online lotteries system	10 818	12 671
Leasehold improvements	1 009	1 195
Total carrying amount of property, plant and equipment that would have been recognised if these assets were stated at cost	12 667	14 662

Impairment

There were no indications of impairment of property, plant and equipment assets at 30 June 2011.

16. Intangible assets

Software:		
Software at cost	182	182
Accumulated amortisation	(182)	(179)
Total intangible assets	-	3

Reconciliation of intangible assets

The following table shows the movement of intangible assets during 2010-11 and 2009-10:

Carrying amount at 1 July	3	44
Additions	-	-
Amortisation	(3)	(41)
Carrying amount at 30 June	-	3

Impairment

There were no indications of impairment of intangible assets at 30 June 2011.

17. Payables		2011	2010
Current:	Note	\$'000	\$'000
Creditors and accrued expenses		2 539	3 241
Prizes payable		13 427	29 623
GST payable		790	455
Undistributed funds	24	8 090	8 253
Employment on-costs		102	121
Total current payables		24 948	41 693
Non-current:			
Prizes payable		1 356	960
Employment on-costs		92	108
Total non-current payables		1 448	1 068
Total payables		26 396	42 761

Based on an actuarial assessment performed by DTF, the percentage of long service leave expected to be taken as leave is 35 percent (45 percent). This rate is used in the calculation of employment on-costs. The net financial effect of the change on employment on-costs in the current financial year is a decrease of \$4000.

Interest rate risk

All payables are non-interest bearing.

Net fair values

The carrying amount of payables represents fair value due to the amounts being payable on demand.

18. Employee benefits		2011	2010
Current:	Note	\$'000	\$'000
Annual leave		542	666
Long service leave		124	95
Accrued salaries		-	108
Total current employee benefits		666	869
Non-current:			
Long service leave		920	935
Defined benefit superannuation plan liability	26(d)	421	428
Total non-current employee benefits		1 341	1 363
Total employee benefits		2 007	2 232
Total current and non-current employee liability (ie aggregate employee benefit (above) plus related employment on-costs (note 17)) is:		2 201	2 461

Based on an actuarial assessment by DTF the benchmark for measurement of the long service leave liability has changed from the 2010 benchmark of 5.5 years to five years in 2011. The net financial effect of the change in the current financial year is an increase in employee benefits plus related employment on-costs liability and employee benefits expenses of \$14 000.

One day of salaries for the pay period ended 1 July 2011 is prepaid and is included in note 14.

19. Other liabilities		2011	2010
Current:		\$'000	\$'000
Prize Reserve Fund ^(a)		8 349	7 434
Unearned revenue - sales in advance		2 048	1 464
Total current other liabilities		10 397	8 898
Non-current:			
Unclaimed Prizes Reserve ^(b)		6 939	8 586
Total non-current other liabilities		6 939	8 586
Total other liabilities		17 336	17 484
(a) Prize Reserve Fund:			
Balance at 1 July		7 434	8 700
Allocated to Prize Reserve Fund		10 675	11 021
Applied to additional or increased prizes		(9 760)	(12 287)
Balance at 30 June		8 349	7 434

19. Other liabilities (continued)

SA Lotteries sets aside a proportion of the total amount of net sales (gross sales revenue less agents' commission) for X Lotto, Oz Lotto, Powerball, Super 66 and The Pools in the prize reserve fund in accordance with the rules of each game. These funds are available for distribution at any time as additional or increased prizes in subsequent lottery draws in the respective games or as prizes in respect of missed prize entries for previous lottery draws.

(b) Unclaimed Prizes Reserve:	2011	2010
	\$'000	\$'000
Balance at 1 July	8 586	8 020
Unclaimed monies forfeited	4 102	3 220
	<u>12 688</u>	<u>11 240</u>
Monies provided for distribution to the Hospitals Fund	(2 040)	(1 608)
Monies provided for distribution to the Recreation and Sport Fund	(1)	(2)
Applied to additional or increased prizes in subsequent lottery draws, prizes in promotional lotteries or ex gratia payments	<u>(3 708)</u>	<u>(1 044)</u>
Balance at 30 June	<u>6 939</u>	<u>8 586</u>

20. Capital asset reserve

Capital asset reserve comprises:

Capital fund account	4 396	2 761
Capital fund assets (at written down value)	13 161	15 073
	<u>17 557</u>	<u>17 834</u>

Capital Fund account:

Balance at 1 July	2 761	12 607
Transfer from retained earnings	2 000	2 000
Assets financed	(365)	(11 846)
Balance at 30 June	<u>4 396</u>	<u>2 761</u>

Capital Fund assets:

Written down value at 1 July	15 073	4 730
Assets financed	365	11 846
Depreciation	(2 258)	(1 503)
Written down value of assets disposed of	(19)	-
Written down value at 30 June	<u>13 161</u>	<u>15 073</u>

21. Unrecognised contractual commitments

Capital commitments

Capital commitments contracted for at the reporting date but not recognised as liabilities are payable as follows:

Within one year	-	2 557
Later than one year but not longer than five years	-	-
Total capital commitments	<u>-</u>	<u>2 557</u>

Operating lease commitments

Commitments in relation to operating leases contracted at the reporting date but not recognised as liabilities are payable as follows:

Within one year	793	758
Later than one year but not longer than five years	1 528	2 148
Later than five years	-	-
Total operating lease commitments	<u>2 321</u>	<u>2 906</u>

Representing:

Non-cancellable operating leases	<u>2 321</u>	<u>2 906</u>
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The 10 year accommodation operating lease at 24-25 Greenhill Road (Head Office) is non-cancellable with rent payable monthly in advance. Rental provisions within the lease agreement require future lease payments to be increased by 3 percent per annum. The lease term expires 3 May 2014.

A memorandum of administrative arrangement with the Department for Transport, Energy and Infrastructure for the remote computer site at Glenside is non-cancellable with rent payable monthly in advance. Rent per rack payable is fixed for the term of the lease agreement. The five year term expires 30 June 2014.

Other commitments	2011	2010
Other expenditure contracted for at the reporting date but not recognised as liabilities are payable as follows:	\$'000	\$'000
Within one year	2 323	2 480
Later than one year but not longer than five years	4 980	6 428
Later than five years	517	1 125
Total other commitments	<u>7 820</u>	<u>10 033</u>

SA Lotteries' other commitments are for existing and new agreements relating to online lotteries system software, hardware, communications and associated services and other fixed services.

22. Contingent assets and liabilities

SA Lotteries is not aware of any contingent assets.

A claim for damages was received by SA Lotteries on 15 July 2008 for alleged loss of potential winnings. Proceedings were served on SA Lotteries in October 2010. The claim is for unspecified damages, interest and costs. At this time it is not possible to estimate the dollar effect of this claim or whether the claim will be successful.

Other than this claim, SA Lotteries is not aware of any contingent liabilities.

SA Lotteries has made no guarantees.

23. Cash flow reconciliation

Reconciliation of cash and cash equivalents:	2011	2010
Statement of Financial Position	\$'000	\$'000
Statement of Cash Flows	<u>52 546</u>	<u>50 089</u>
	<u>52 546</u>	<u>50 089</u>

Reconciliation of net profit after income tax equivalent to net cash provided by (used in) operating activities

Profit after income tax equivalent	20 623	20 589
Dividend contribution provided	(20 298)	(21 968)
Unclaimed prizes distribution provided	(2 041)	(1 610)
Non-cash items:		
Depreciation and amortisation expense	2 315	2 163
Net loss on derecognition of non-current assets	18	-
Increase (Decrease) in carrying value of defined benefit superannuation plan net liability	(7)	102
Changes in assets/liabilities:		
Decrease (Increase) in receivables	16 837	42 092
Decrease (Increase) in inventories	63	(217)
Increase (Decrease) in payables (including undistributed funds)	(15 125)	(52 340)
Increase (Decrease) in employee benefits	(218)	137
Increase (Decrease) in other liabilities	1 893	971
Net cash provided by (used in) operating activities	<u>4 060</u>	<u>(10 081)</u>

Financing facility

SA Lotteries has the following arrangements within SAFA:	2011	2010
Working capital facility	\$'000	\$'000
Amount used	8 000	8 000
Unused working capital facility	<u>-</u>	<u>-</u>
	<u>8 000</u>	<u>8 000</u>

The working capital facility was established on 22 June 2010 as a general operations contingency measure only.

24. Distribution of funds to SA Government

		Balance	Distribution	Distribution	Balance
		01.07.10	provided	(paid)	30.06.11
		\$'000	\$'000	\$'000	\$'000
Gambling tax	Note 6,9	5 910	63 018	(63 228)	5 700
Income tax equivalent		773	8 839	(8 899)	713
Dividend		1 425	20 298	(20 160)	1 563
Unclaimed prizes		145	2 041	(2 072)	114
Totals 2010-11		<u>8 253</u>	<u>94 196</u>	<u>(94 359)</u>	<u>8 090</u>
Totals 2009-10		<u>13 155</u>	<u>96 973</u>	<u>(101 875)</u>	<u>8 253</u>

24. Distribution of funds to SA Government (continued)	Balance	Distribution	Distribution	Balance
Comprising:	01.07.10	provided	(paid)	30.06.11
Distribution to Hospitals Fund:	\$'000	\$'000	\$'000	\$'000
Gambling tax	5 902	62 879	(63 104)	5 677
Income tax equivalent	773	8 839	(8 899)	713
Dividend	1 336	20 204	(20 076)	1 464
Unclaimed prizes	145	2 040	(2 071)	114
Totals	<u>8 156</u>	<u>93 962</u>	<u>(94 150)</u>	<u>7 968</u>
Distribution to Recreation and Sport Fund:				
Gambling tax	8	139	(124)	23
Income tax equivalent				
Dividend	89	94	(84)	99
Unclaimed prizes	-	1	(1)	-
Totals	<u>97</u>	<u>234</u>	<u>(209)</u>	<u>122</u>

25. **Financial risk management**

SA Lotteries is exposed to a variety of financial risks, including market risk, credit risk and liquidity risk.

Risk management is carried out by all areas of the organisation and risk management policies and practices are in accordance with the Australian Risk Management Standards and an internal written policy approved by the Commission.

SA Lotteries has non-interest bearing assets (cash on hand, receivables and inventories) and liabilities (payables and other liabilities) and interest bearing assets (bank balances and short-term deposits). The maturity of financial assets and liabilities is disclosed separately in the relevant notes: current items mature in less than 12 months; non-current items mature between one and five years.

SA Lotteries' exposure to cash flow interest risk is minimal. SA Lotteries is exposed to price risk for changes in interest rates that relate to investments at fair value.

SA Lotteries' exposure to credit risk is minimal. SA Lotteries has policies and procedures in place to ensure that transactions occur with agents with appropriate credit history. SA Lotteries has no significant concentration of credit risk.

Liquidity risk arises where an organisation is unable to meet its financial obligations as and when they fall due. SA Lotteries has consistent and stable cash flows from operations, which means its exposure to liquidity risk is minimal. SA Lotteries' exposure to liquidity risk is insignificant based on past experience and current expectations regarding risk.

26. **Superannuation**

(a) <i>Expense (Income) recognised in the Statement of Comprehensive Income</i>	Note	2011 \$'000	2010 \$'000
Amounts recognised as expense (income) in respect of the defined benefit superannuation plan as follows:			
Current service cost		300	308
Interest cost		286	283
Expected return on plan assets		(390)	(357)
Actuarial loss (gain)		95	179
Superannuation expense (income)		<u>291</u>	<u>413</u>

The expense (income) is recognised in the following item in the Statement of Comprehensive Income:

Employee benefits expenses	26(e)	<u>291</u>	<u>413</u>
(b) <i>Reconciliation of the present value of the defined benefit obligation</i>			
Present value of defined benefit obligation at 1 July		6 588	5 717
Current service cost		300	308
Interest cost		286	283
Contributions by plan participants		200	244
Actuarial losses (gains)		153	254
Benefits paid		(777)	(107)
Taxes, premiums and expenses paid		(109)	(111)
Transfers in		-	-
Present value of defined benefit obligation at 30 June		<u>6 641</u>	<u>6 588</u>

(c) Reconciliation of the fair value of defined benefit plan assets	2011	2010
	\$'000	\$'000
Fair value of plan assets at 1 July	6 160	5 391
Expected return on Plan assets	390	357
Actuarial gains (losses)	58	75
Employer contributions	298	311
Contributions by plan participants	200	244
Benefits paid	(777)	(107)
Taxes, premiums and expenses paid	(109)	(111)
Transfers in	-	-
Fair value of plan assets at 30 June	<u>6 220</u>	<u>6 610</u>

The fair value of Plan assets includes no investments over which SA Lotteries retains ownership control relating to:

- any of SA Lotteries' own financial instruments; or
- any property occupied by, or other assets used by, SA Lotteries.

(d) Reconciliation of the asset recognised in the Statement of Financial Position	2011	2010
	\$'000	\$'000
Defined benefit obligation	6 641	6 588
Fair value of Plan assets	6 220	6 160
Surplus (Deficit)	<u>(421)</u>	<u>(428)</u>
Net superannuation liability	<u>(421)</u>	<u>(428)</u>

The amount included in the Statement of Financial Position arising from SA Lotteries' net superannuation asset/liability in respect of its defined benefit plan is shown in note 18:

Employee benefits (non-current):

Defined benefit superannuation plan liability	<u>421</u>	<u>428</u>
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(e) Movement in asset recognised in the Statement of Financial Position		
Net superannuation asset (liability) at 1 July	(428)	(326)
Expense recognised in Statement of Comprehensive Income	(291)	(413)
Employer contributions	298	311
Net movement	<u>7</u>	<u>(102)</u>
Net superannuation liability at 30 June	<u>(421)</u>	<u>(428)</u>

(f) Plan assets	Percentage invested*		Plan assets	
The percentage invested in each asset class at the reporting date:	2011	2010	2011	2010
	Percent	Percent	\$'000	\$'000
Australian equity	27	29	1 679	1 786
Overseas equity	27	32	1 679	1 971
Fixed interest and bonds	14	12	871	739
Property	10	10	622	616
Alternative assets**	11	10	684	616
Cash	11	7	685	432
Total plan assets	<u>100</u>	<u>100</u>	<u>6 220</u>	<u>6 160</u>

* Asset allocation as at 30 June 2011 was not available. The asset allocation at 31 December 2010 has been used as an approximation of the allocation as at the reporting date.

** Alternative assets generally comprise those investments which do not fit within the traditional broad asset classes (such as shares, property, fixed interest and cash).

(g) Expected rate of return on plan assets

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets in each class and allowing for the correlations of the investment returns between asset classes. The returns used for each asset class are net of investment tax, investment fees, and asset-based administration fees.

(g) Expected rate of return on plan assets (continued)	Expected rate of return
The expected rate of return for each asset class at 30 June is as follows:	2011 2010
	Percent Percent
Australian equity	7.5 7.5
Overseas equity	6.7 6.7
Fixed interest and bonds	4.7 4.7
Property	6.1 6.1
Alternative assets	5.7 5.7
Cash	3.8 3.8
Weighted average expected return	6.75 6.75

(h) Actual return on plan assets	2011	2010
	\$'000	\$'000
Actual return on plan assets	448	432

(i) Principal actuarial assumptions	2011	2010
The principal actuarial assumptions at the reporting date (expressed as weighted averages):	Percent p.a.	Percent p.a.
Discount rate (active members)	4.6	4.5
Expected rate of return on plan assets (active members)	6.75	6.75
Expected salary increase rate	2.5 for 1 year 3.5 thereafter	2.5 for 2 years 3.5 thereafter

(j) Contributions	2011	2010
Contributions paid/payable by SA Lotteries to superannuation plans:	\$'000	\$'000
Defined benefit members	262	294
Defined contribution (accumulation) members	392	378
Private funds	3	5
Total contributions	641	677

(k) Expected employer contributions		
The estimated employer contributions expected to be paid to the Plan during the year beginning after the reporting date	272	289

The estimated employer contributions are based on a contribution rate of 14.4 percent of defined benefit members' salaries (refer note 26(m)(ii)).

(l) Historical information	2011	2010	2009	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000
Present value of defined benefit obligation	6 641	6 588	5 717	5 385	6 323
Fair value of Plan assets	6 220	6 160	5 391	5 927	7 405
Surplus (Deficit) in Plan	(421)	(428)	(326)	542	1 082
Experience adjustments gain (loss):					
Plan assets	58	75	(1 220)	(1 110)	655
Plan liabilities	(188)	(86)	379	540	(561)

(m) Funding arrangements for employer contributions

(i) Surplus (Deficit)

The following is a summary of the most recent financial position of the SA Lotteries Superannuation Plan calculated in accordance with AAS 25.

	As at
	30.06.09
Defined benefit members:	\$'000
Accrued benefits	4 807
Net market value of plan assets	4 653
Net surplus (deficit)	(154)
Accumulation members and additional accumulation accounts for defined benefit members:	
Assets and benefits	2 402

(i) *Surplus (Deficit) (continued)*

(The Plan is subject to a triennial review and is externally managed. The last full actuarial investigation was conducted as at 30 June 2009 by Stuart Mules, FIAA, of Mercer (Australia) Pty Limited. The report was dated 31 May 2010.)

(ii) *Current contribution rates*

As at 30 June 2011, the current contribution rates, in accordance with actuarial advice and Commission endorsement, are:

- 14.4 percent of defined benefit members' salaries effective from 6 July 2009
- at the Superannuation Guarantee rate for accumulation members.

(iii) *Funding method*

The method used to determine the employer contribution recommendations at the last actuarial review was the 'target' funding method. The method adopted affects the timing of the cost to SA Lotteries.

Under the 'target' funding method, the employer contribution rate is determined with the aim of maintaining the assets at or close to the value of accrued benefits and above the total of the vested benefits (leaving service benefits) by a margin sufficient to give security against adverse circumstances.

(iv) *Economic assumptions*

The long-term economic assumptions adopted for the last triennial actuarial review of the Plan as at 30 June 2009 were:

	<i>Weighted average assumptions Percent p.a.</i>
Expected rate of return on assets (discount rate)	6.75
Expected salary increase rate	2.5 for 3 years to 2011-12 3.5 thereafter

(n) *Nature of asset/liability*

SA Lotteries has recognised a liability in the Statement of Financial Position in respect of its defined benefit superannuation arrangements. If a surplus exists in the Plan, SA Lotteries is able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Plan's actuary.

27. Transactions with SA Government

As required by APS 4.1 of APF II, the following table discloses revenues, expenses, financial assets and liabilities where the counterparty/transaction is with an entity within the SA Government as at the reporting date, classified according to their nature.

	Note	SA Government		Non-SA Government		Total	
		2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Income:							
Sales revenue	5	-	-	388 940	390 704	388 940	390 704
Cost of sales:	6						
Prizes		-	-	(235 412)	(233 407)	(235 412)	(233 407)
Gambling tax on NGR		(62 946)	(64 492)	-	-	(62 946)	(64 492)
Agents' commission		-	-	(29 010)	(29 179)	(29 010)	(29 179)
GST on NGR paid to ATO		-	-	(13 957)	(14 300)	(13 957)	(14 300)
Total cost of sales		(62 946)	(64 492)	(278 379)	(276 886)	(341 325)	(341 378)
Interest revenue		2 100	1 835	365	407	2 465	2 242
Other revenues	7	18	30	4 658	4 549	4 676	4 579
Total income		(60 828)	(62 627)	115 584	118 774	54 756	56 147
Expenses:							
Employee benefits expenses	8	365	430	6 950	7 599	7 315	8 029
Supplies and services:	9						
Marketing and promotions		-	-	6 471	6 176	6 471	6 176
Computer operations		52	-	2 946	3 235	2 998	3 235
Tickets, coupons, terminal rolls and ribbons		-	-	1 787	1 937	1 787	1 937
Operating leases		131	132	802	703	933	835
Other occupancy costs		22	16	613	610	635	626
Temporary staff and contractors		-	-	212	483	212	483
Agent distribution costs		-	-	242	271	242	271

27. Transactions with SA Government (continued)

	Note	SA Government		Non-SA Government		Total	
		2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Supplies and services: (continued)							
Consultancies		-	-	19	8	19	8
Motor vehicle fleet costs		223	234	1	9	224	243
Insurance		72	124	60	-	132	124
External audit fees		151	129	-	-	151	129
Internal audit fees		-	-	171	223	171	223
Training costs		-	-	141	670	141	670
Gambling tax - other		72	79	-	-	72	79
Other		22	19	1 436	1 484	1 458	1 503
Total supplies and services		<u>745</u>	<u>733</u>	<u>14 902</u>	<u>15 809</u>	<u>15 646</u>	<u>16 542</u>
Total expenses (excluding depreciation and amortisation)		<u>1 110</u>	<u>1 163</u>	<u>21 852</u>	<u>23 408</u>	<u>22 961</u>	<u>24 571</u>
Financial assets:							
Receivables:	14						
Current:							
Agent debtors		-	-	1 489	2 251	1 489	2 251
Prize settlements receivable from Blocs		-	-	611	16 622	611	16 622
Sundry receivables		175	171	164	192	339	363
Prepayments		-	-	344	331	344	331
Total current receivables		<u>175</u>	<u>171</u>	<u>2 608</u>	<u>19 396</u>	<u>2 783</u>	<u>19 567</u>
Non-current:							
Prepayments		-	-	133	186	133	186
Total current receivables		<u>-</u>	<u>-</u>	<u>133</u>	<u>186</u>	<u>133</u>	<u>186</u>
Total receivables		<u>175</u>	<u>171</u>	<u>2 741</u>	<u>19 582</u>	<u>2 916</u>	<u>19 753</u>
Financial liabilities:							
Payables:	17						
Current:							
Creditors and accrued expenses		242	282	2 297	2 959	2 539	3 241
Prizes payable		-	-	13 427	29 623	13 427	29 623
GST payable		-	-	790	455	790	455
Undistributed funds		8 090	8 253	-	-	8 090	8 253
Employment on-costs		42	49	60	72	102	121
Total current payables		<u>8 374</u>	<u>8 584</u>	<u>16 574</u>	<u>33 109</u>	<u>24 948</u>	<u>41 693</u>
Non-current:							
Prizes payable		-	-	1 356	960	1 356	960
Employment on-costs		51	54	41	54	92	108
Total non-current payables		<u>51</u>	<u>54</u>	<u>1 397</u>	<u>1 014</u>	<u>1 448</u>	<u>1 068</u>
Total payables		<u>8 425</u>	<u>8 638</u>	<u>17 971</u>	<u>34 123</u>	<u>26 396</u>	<u>42 761</u>