



# ANNUAL REPORT 2013-14



## SA LOTTERIES ANNUAL REPORT 2013-14

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## CORPORATE STRATEGIC INTENT

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### Our Mission

To benefit the community of South Australia through the responsible promotion and conduct of lotteries.

### Our Values

In the promotion and conduct of lotteries and the way we conduct our business, we will operate with integrity, accountability and respect.

### Our Goals

1. To promote and conduct lotteries games for the benefit of the South Australian community.
2. To be a corporately responsible and respected organisation that has a broad base of community support.
3. To optimise the allocation of resources.

## 2013-14 HIGHLIGHTS

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SA Lotteries' games generated \$428.9 million in revenue in 2013-14, and created prosperity for the South Australian community via the distribution of:

- **\$257.2 million** in prize money to players of SA Lotteries' games;
- **\$72.36 million** to the Hospitals Fund for the provision, maintenance, development and improvement of public hospitals;
- **\$31.9 million** in commission earnings to retail agents;
- **\$1.7 million** to South Australian suppliers in exchange for goods and services;
- **\$7.2 million** to South Australians employed at SA Lotteries' head office; and
- **\$0.134 million** to the Recreation and Sport Fund for the support and development of recreational and sporting facilities and services.



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## PRESIDING MEMBER AND CHIEF EXECUTIVE REPORT

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**The Honourable Tom Koutsantonis MP**  
**Minister for Finance**  
**Parliament House**  
**ADELAIDE SA 5000**

The *State Lotteries Act 1966* (as amended) provides the governance framework for the Lotteries Commission of South Australia and establishes the Commission's primary functions to promote and conduct lotteries in South Australia and, with the approval of the Minister, make (or amend) rules providing for or regulating the practices, procedures and operations of the organisation.

In accordance with section 18B of the *State Lotteries Act 1966* (as amended), we are pleased to present the Annual Report of the Lotteries Commission of South Australia (the Commission) for the year ended 30 June 2014.

During 2013-14 the Commission's focus has been on:

- its role transition from operator and regulator, to regulator, with full accountability under the *State Lotteries Act 1966* (as amended);
- efficient regulation for lotteries in South Australia;
- effective communication and processes between Tatts Lotteries SA Pty Ltd (Tatts) as the exclusive Master Agent to operate SA Lotteries' products and brands, and the Commission as principal in the relationship;
- ensuring that Tatts and the Commission comply with all requirements and obligations under the contractual arrangements; and
- effective communication and information to all employees especially during the 18 months' transition phase to Tatts operating the SA Lotteries' products and brands, the decommissioning of the Wayville head office and the establishment of the new office in the Adelaide central business district.

The 2013-14 financial year was the first full year that Tatts operated SA Lotteries' products and brands. Tatts is responsible for selling entries into all lottery games and paying prizes associated with those entries, appointing retail agents to sell and pay prizes on those entries, and authorising premises at which retail agents may sell tickets in lottery games.

Tatts acts as the Commission's representative at the meetings of the five national Bloc (prize pooling) arrangements for Saturday X Lotto and Super 66, Monday and Wednesday X Lotto, Oz Lotto, Powerball and The Pools. In addition, Tatts sells the games of Keno and Instant Scratch tickets on behalf of the Commission. As agent of the Commission, Tatts receives a Master Agency fee.

To enable the Commission to fulfil its obligations, Tatts:

- reports daily sales for most games including the major games, as measured by revenue;
- provides monthly trading summaries; and
- provides monthly reconciliations for all game related liabilities.

During the year SA Lotteries' games generated sales of \$428.9 million with \$257.2 million being paid in prizes to South Australian players. This compared with sales of \$462.1 million and prize payments of \$278.7 million for the preceding year. The sales budget was achieved. However, revenue was \$33.2 million less than last year mainly as a result of fewer high jackpots for Oz Lotto and Powerball during 2013-14.

As at 30 June 2014 the retail agency network comprised 597 agents principally small business owners selling SA Lotteries' games. Retail agents received a commission on sales of \$31.9 million.

The Master Agent fee (net of agents' commissions) paid to Tatts was \$53.7 million.

Return to Government includes Gambling tax (41% of net gambling revenue (gross sales less prizes)) and 50% of prizes forfeited (ie prizes unclaimed for 12 months after the draw). Gambling tax of \$70.2 million and unclaimed prizes of \$2.3 million, totalling \$72.5 million, were available for return to government in 2013-14.

Tatts holds and operates the Lotteries Fund for and on behalf of the Commission; however, the control of the Fund is retained by the Commission. As at 30 June 2014 the Fund was \$44.2 million and included game related liabilities of \$30.5 million and the unclaimed prizes reserve of \$10.3 million.

The 18 months' transition period during which time the Commission's employees provided services to Tatts to ensure a smooth and effective transfer of operations was completed in June 2014.

This transition period was a time of considerable change for employees and enabled a gradual transition to the new organisation structure and reduced employee numbers that became effective from 1 July 2014.

The professionalism and commitment of all employees to the successful transition is acknowledged and appreciated.

There were no forced redundancies as a consequence of the transition. During the transition period 41 employees elected to accept an offer of a separation package, 16 employees chose a transfer to a government agency and eight resigned to accept job offers external to the State public sector. The Commission has 11 employees from 1 July 2014.

We acknowledge the outstanding contribution of Commission Member Suzanne Mackenzie. Suzanne, who did not seek another term, was first appointed to the Commission on 1 April 2002.

The Commission has an ongoing role of governance, financial, legal, regulatory and compliance. In 2014-15 the Commission will focus on its regulatory functions; in particular, compliance monitoring and enforcement, the assessment and approval of new lottery products and enhancements, and consumer protection.



**Wayne R Jackson**  
Presiding Member



**June Roache**  
Chief Executive

26 September 2014

## PERFORMANCE MEASURES

Organisational goals were the key drivers of SA Lotteries' activities in 2013-14. These goals were aligned with South Australia's Strategic Plan.

South Australia's Strategic Plan Objective	Performance Measure	Target 2013-14	Actual 2013-14
<b>Goal 1: To promote and conduct lotteries games for the benefit of the South Australian community.</b>			
Our prosperity	Gross sales	\$427.4M	\$428.9M
	SA Lotteries' proportion of Australian Bloc sales	7.29%	6.58%
Our community	Selling system availability:		
	GTECH system (to 6 April 2014)	99.96%	100%
	TattsTech system (from 7 April 2014)	99.96%	100%
	Easisplay Club active membership	210 000	151 253
<b>Goal 2: To be a corporately responsible and respected organisation that has a broad base of community support.</b>			
Our health	Return to Government	\$71.6M	\$73.2M
Our community	Non-compliance with Codes of Practice	6.0%	8.96%
Our environment	Greenhouse gas emissions (KgCO <sup>2</sup> )	600 000	553 930
<b>Goal 3: To optimise the allocation of resources.</b>			
Our education	Average FTEs employed during the year <sup>(1)</sup>	38	35.42
	Training and development costs as a percentage of base salary costs	2.50%	0.72%
Our prosperity	Total operating expenses as a percentage of gross sales <sup>(2)</sup>	4.79%	3.30%
	Cost per average FTEs <sup>(2)</sup>	\$0.54M	\$0.40M
	SA suppliers as a percentage of total suppliers	57%	58%
<sup>(1)</sup> FTEs – Full-time Equivalent employee numbers <sup>(2)</sup> Excludes Master Agent Fee and net loss from disposal of non-current assets			



## FIVE YEAR FINANCIAL SUMMARY

YEAR ENDED 30 JUNE	2014	2013	2012	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>GROSS SALES</b>					
Saturday X Lotto	142,132	144,643	153,216	137,897	125,764
Monday and Wednesday X Lotto	35,812	36,483	37,422	34,684	37,133
Oz Lotto	52,534	67,383	46,695	36,871	44,530
Powerball	57,496	68,027	44,347	42,740	48,673
Keno	103,336	104,922	99,407	95,866	92,566
Instant Scratch tickets	35,667	38,506	40,737	39,113	40,189
Super 66	1,288	1,489	1,114	1,138	1,184
The Pools	595	692	694	631	665
<b>TOTAL GROSS SALES</b>	<b>428,860</b>	<b>462,145</b>	<b>423,632</b>	<b>388,940</b>	<b>390,704</b>
<b>COST OF SALES</b>					
Agents' commission	31,919	34,233	31,538	29,010	29,179
% of gross sales	7.4%	7.4%	7.4%	7.5%	7.5%
Prizes	257,211	278,721	257,120	235,412	233,407
% of gross sales	60.0%	60.3%	60.7%	60.5%	59.7%
Gambling tax on NGR	70,378	75,202	68,270	62,946	64,492
% of gross sales	16.4%	16.3%	16.1%	16.2%	16.5%
GST on NGR	15,605	16,690	15,138	13,957	14,300
% of gross sales	3.6%	3.6%	3.6%	3.6%	3.7%
<b>TOTAL COST OF SALES</b>	<b>375,113</b>	<b>404,846</b>	<b>372,066</b>	<b>341,325</b>	<b>341,378</b>
<b>GROSS MARGIN</b>	<b>53,747</b>	<b>57,299</b>	<b>51,566</b>	<b>47,615</b>	<b>49,326</b>
Other revenue	11,785	18,342	7,570	7,141	6,821
<b>TOTAL INCOME</b>	<b>65,532</b>	<b>75,641</b>	<b>59,136</b>	<b>54,756</b>	<b>56,147</b>
<b>Operating expenses</b>					
Master Agent fee*	53,747	30,826	-	-	-
Other Expenses	17,063	25,119	27,369	25,294	26,734
	70,810	55,945	27,369	25,294	26,734
% of gross sales	16.5%	12.1%	6.5%	6.5%	6.8%
<b>PROFIT BEFORE INCOME TAX EQUIVALENT</b>	<b>(5,278)</b>	<b>19,696</b>	<b>31,767</b>	<b>29,462</b>	<b>29,413</b>
% of gross sales	-1.23%	4.3%	7.5%	7.6%	7.5%
<b>OTHER COMPREHENSIVE INCOME</b>					
Remeasurement of Defined Benefit Plan	532	-	-	-	-
<b>TOTAL COMPREHENSIVE RESULT</b>	<b>(4,746)</b>	<b>19,696</b>	<b>31,767</b>	<b>29,462</b>	<b>29,413</b>
<b>RETURN TO GOVERNMENT</b>					
Gambling tax	70,240	75,197	68,294	63,018	64,571
Income tax equivalent	-	5,568	9,530	8,839	8,824
Dividend	-	15,918	23,265	20,298	21,968
Special Dividend	-	14,954	-	-	-
Unclaimed prizes	2,256	2,550	1,829	2,041	1,610
	72,496	114,187	102,918	94,196	96,973
% of gross sales	16.9%	24.7%	24.3%	24.2%	24.8%
GST on NGR	15,605	16,690	15,138	13,957	14,300
<b>TOTAL RETURN TO GOVERNMENT</b>	<b>88,101</b>	<b>130,877</b>	<b>118,056</b>	<b>108,153</b>	<b>111,273</b>
% of gross sales	20.5%	28.3%	27.9%	27.8%	28.5%

\* Master Agent Fee paid effective from 11 December 2012 and is net of Agent's commissions (refer Note 12 to the Annual Financial Statements).

## CORPORATE GOVERNANCE

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SA Lotteries is a statutory authority empowered by the *State Lotteries Act 1966* (as amended) to promote and conduct lotteries for and on behalf of the State of South Australia.

### The Shareholder

SA Lotteries' shareholder is the Government of South Australia (the Government). For the period 1 July 2013 to 31 January 2014, the Honourable Michael O'Brien MP, as Minister for Finance, was responsible for SA Lotteries. For the period 1 February 2014 to 25 March 2014, the Honourable Jay Weatherill MP as Minister for Finance was responsible for SA Lotteries. Effective from 26 March 2014, the Honourable Tom Koutsantonis MP was appointed the Minister for Finance and assumed responsibility for SA Lotteries.

SA Lotteries ensures that the Government, via the Minister, is informed of major developments affecting SA Lotteries, and ensures compliance with all formal directions issued by the responsible Minister. No Ministerial directions were issued during 2013-14.

### The Commission

The Commission is established under the *State Lotteries Act 1966* (as amended) and is responsible for the governance of SA Lotteries.

Guided by a formal charter, the Commission generally meets monthly to review the organisation's performance and provide direction, as required.

The Commission's role includes, but is not limited to:

- setting the direction, strategy, goals, targets and priorities;
- setting operational parameters, including the annual operating and capital budgets;
- monitoring performance to ensure goals are achieved;
- establishing and maintaining a framework for internal control of the functions of SA Lotteries; and
- reviewing, approving and, where appropriate, revising the Delegated Management Operating Authorities to ensure the empowerment of employees to conduct SA Lotteries' day-to-day operations.

### Commission Membership

The Commission is appointed by the Governor of South Australia and consists of not less than three nor more than five members, one of whom shall be nominated by the Governor as the Presiding Member. A member is appointed for a term of office not exceeding five years. On expiration of his or her term, a member will be eligible for reappointment.

Commission membership as at 30 June 2014 comprised:

**Name:** Wayne R Jackson, BEc, FASA

**Position:** Presiding Member

**Expertise:** Business Management Consultant

**Name:** Suzanne J Mackenzie, B Comm (Accounting), LLB (Hons)

**Position:** Member

**Expertise:** Law

**Name:** June Roache, BAcc, GradCertMgt (Monash), FAICD, FCPA, FAIM

**Position:** Member

**Expertise:** Corporate Strategy and Finance

All Commission members' terms expired on 30 June 2014.

Remuneration for qualifying members was \$24 765 per annum. The Presiding Member received \$37 148 per annum. Further detail of members' remuneration payments is set out in Note 10 to the Annual Financial Statements.

### Meeting attendance

The number of Commission meetings held during the year, together with participation by each member, is detailed within the table below.

	Commission (13 held)
Wayne R Jackson	13
Suzanne J Mackenzie	13
June R Roache	13

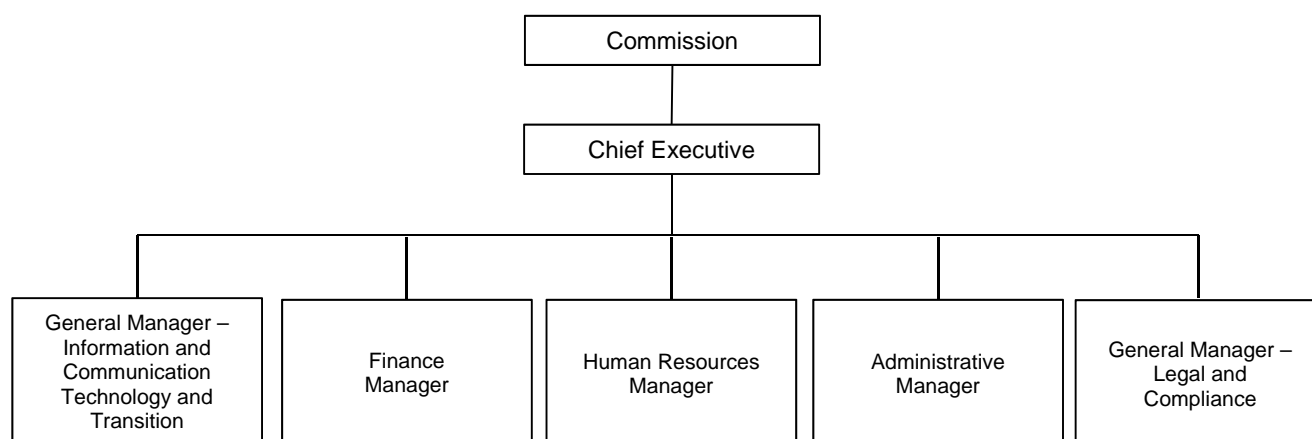
### Master Agent arrangement

SA Lotteries' exclusive Master Agent continued to operate SA Lotteries' products and brands throughout 2013-14 in accordance with the terms of its 40 year licence, expiring on 10 December 2052.

The ownership of SA Lotteries is retained by the Government and gambling tax from the sale of lottery games by the Master Agent in South Australia is returned to the Hospitals Fund and the Recreation and Sport Fund.

The Commission's statutory obligations are retained. Additional obligations include the administration of the contractual arrangements with the Master Agent.

### Organisation structure as at 30 June 2014



## Delegated Management Operating Authorities

The Chief Executive is responsible for the day-to-day management of SA Lotteries to ensure the achievement of corporate goals. Management accountabilities are clearly defined by the Commission through approved Delegated Management Operating Authorities.

## Corporate policy framework

A corporate policy framework is maintained by SA Lotteries, currently comprising 35 policies. Policies are reviewed on at least an annual basis and approved by the Commission. A changed business model has resulted in a detailed review of corporate policies, procedures and guidelines.

## Internal cost control

SA Lotteries has an internal cost control framework to assist in the preclusion of errors and irregularities across the business. The framework encompasses the following three areas:

- Operational controls  
Financial controls and procedures are in place. A Commission Questionnaire details compliance with these controls and procedures to ensure sound principles of corporate governance and accountability.
- Financial reporting  
A comprehensive budgeting system with an annual budget approved by the Commission prior to submission to Government. Monthly actual results are reported against budget.
- Quality and integrity of personnel  
Employees are bound by the Code of Ethics for the South Australian Public Sector. SA Lotteries' Ethics and Culture Policy defines core ethical standards in a code of conduct for employees and through the promotion of organisational values.

## Risk management

Risk assessments are undertaken by SA Lotteries on an ongoing basis to include any new identified corporate risks. Risks in relation to SA Lotteries' relationship with the Master Agent were assessed during the year.

## Protective security and information security

SA Lotteries has a comprehensive Protective Security Policy which seeks to identify all aspects of security which impact on the day-to-day business operations. The Policy forms the basis for the implementation of strategies to protect assets, information and personnel against all possible security breaches.

SA Lotteries conducts its business in accordance with the principles in the Information Security Standard AS/NZS ISO/IEC 27001.

## **Intellectual assets management**

SA Lotteries maintains a register of all trademarks, business names and domain names registered by and in which SA Lotteries has an interest. This register includes intellectual assets under Trade Mark Management Agreements and Trade Mark Licence Agreements which SA Lotteries holds with interstate lottery operators.

## **Fraud and corruption control**

SA Lotteries has a Fraud and Corruption Control Policy to minimise its exposure to fraudulent and corrupt conduct. Any suspected incidents of fraud or corruption are immediately investigated. No instances of fraud were identified during the year.

## **Freedom of information**

SA Lotteries complies with the requirements under the *Freedom of Information Act 1991* (SA) and ensures that appropriate and timely action is taken when access to information is requested.

A Freedom of Information Statement is published on SA Lotteries' corporate website. No requests for information were received during the year.

## **Whistleblowers protection**

Employees and members of the public who disclose public interest information to SA Lotteries are protected under the *Whistleblowers Protection Act 1993* (SA) (the Act). SA Lotteries' Human Resources Manager was the designated officer to receive all disclosures of public interest information for the purposes of the Act pursuant to section 7 of the *Public Sector Act 2009*. No disclosures were made to the designated officer in 2013-14.

## REGULATORY AND COMPLIANCE

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### **Role transition from Operator and Regulator, to Regulator, with full accountability under the *State Lotteries Act 1966***

To ensure that issues that arose during the transition period were identified, the Commission received:

- reports notifying it of issues arising as a result of the transition period at each of its meetings; and
- reports on the management and resolution of such issues.

During the transition period, the Commission was obliged to give all assistance, coordination and cooperation in providing services to Tatts. The Commission provided suitably qualified and experienced personnel to assist Tatts.

### **Efficient regulation for lotteries in South Australia**

In the Gambling Codes of Practice prescribed by the Independent Gambling Authority (IGA), the onus of compliance is placed on the gambling provider, which is the Commission. As the Commission provides lotteries via Tatts as Master Agent, the Commission is, however, required to ensure that the actions of Tatts conform with the Gambling Codes of Practice.

Tatts is obliged to notify the Commission of any notice or correspondence that may be exchanged between it and the IGA, and the Commission provides notification to Tatts of any such exchanges it may have with the IGA.

All lottery games conducted by Tatts are regulated by both a specified set of Game Rules and Rules of general application. The Commission's approval must be sought by Tatts to introduce a new Game or Game Amendment. Each submission must include a description of the new Game or Game Amendment and its impact on the Gambling Codes of Practice, evidence of compliance with the *State Lotteries Act 1966* and other relevant laws and a financial analysis of the expected impact on amounts payable to the Lotteries Fund.

In 2013-14 the Commission assessed and approved the following:

- Lotteries (General) Rules – removal of postal requests for entry, and amendments in preparation for implementation of the TattsTech lottery system;
- Lotteries (Saturday X Lotto) Rules, Lotteries (Oz Lotto) Rules, Lotteries (Powerball) Rules, Lotteries (The Pools) Rules, Lotteries (Keno) Rules, Lotteries (Super 66) Rules, Lotteries (Instant Scratch-Its) Rules, Lotteries (Traditional Lottery) Rules – amendments in preparation for implementation of the TattsTech system;
- Lotteries (Monday and Wednesday X Lotto) Rules – changes to the allocation to the Division One prize pool, and amendments in preparation for implementation of the TattsTech system; and
- Lotteries (Promotional Lottery) Rules.

The use of funds in the Unclaimed Prizes Reserve and the Prize Reserve Fund by Tatts is subject to the prior approval of the Commission before any draw down of funds is made. Following the conduct of the relevant activity supporting the approved usage of funds, Tatts reports on the actual amount drawn down.

## Compliance with Master Agent arrangement obligations

To enable the Commission to review Tatts' compliance with the contractual arrangements, the Commission has received:

- reports outlining the status of Tatts' compliance with the provisions of the contractual arrangements at each of its meetings;
- an Annual Compliance Plan from Tatts for the financial year ending 30 June 2014; and
- an Annual Compliance Report from Tatts for the financial year ending 30 June 2014.

To ensure that issues relating to the Master Agent arising under the contractual arrangements are reported to the Commission and actioned, the Commission has received:

- reports notifying it of Master Agent issues at each of its meetings; and
- reports of the action taken by management to deal with Master Agent issues as they arise.

An annual summary of player complaints is required to be provided by Tatts to the Commission summarising:

- all player complaints received;
- Tatts' response to the complaints and the timeframe in which it was actioned; and
- any appeals by the player.

A report was received covering the period 1 July 2013 to 30 June 2014.

The Commission is required to carry out testing and investigation into the financial and operational capability of Tatts and establish whether all personnel with a relevant financial interest, or in a position to exercise any directorial, management or executive decision in Tatts, are suitable persons. In 2013-14 the Commission undertook suitability testing on three Tatts' directors. The Commission approved two of the directors with the third director resigning before a complete assessment had been made.

## Effective communication and processes between the Master Agent and the Commission

With its appointment as exclusive Master Agent, Tatts undertakes, to the exclusion of the Commission as principal, to:

- sell entries into all lottery games operated by the Commission and pay the prizes associated with those entries;
- appoint retail agents to sell entries on behalf of Tatts; and
- authorise the premises at which retail agents sell entries;

in a manner that is consistent with the contractual arrangements and which enables the Commission to comply with its obligations as Principal under the *State Lotteries Act 1966* and all other applicable laws.

The Commission retains the obligation to establish and report on the Lotteries Fund which holds all money received by Tatts on account of selling entries into lottery games. As a result, Tatts provides trading summaries and reconciliations. The requisite information was provided throughout the financial year.

The Commission remains the owner, licensee and authorised user of certain identified Intellectual Property. Tatts has a sole and exclusive royalty-free licence to use, reproduce, modify, adapt, exploit and commercialise this Intellectual Property. Tatts is required to seek the Commission's approval to abandon the use of any such Intellectual Property. In 2013-14 two applications for abandonment were received and approved by the Commission.

## PEOPLE

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SA Lotteries' employees demonstrated the highest professional standards and commitment to the achievement of corporate goals in 2013-14.

During the year, priority was given to ensuring that all employees were provided with up-to-date information, especially during the transition phase to Tatts operating SA Lotteries' brands and products, the completion of the transition phase, the decommissioning of the Wayville head office and the establishment of the new office in the Adelaide central business district.

### Excess employees

Sixty-three employees were nominated to provide transitional services to the Master Agent for a period from four months up to 18 months. The remaining employees continued in their substantive roles.

Upon expiration of a nominated employee's transitional period, and/or the completion of required responsibilities for SA Lotteries, non-executive employees were declared excess to SA Lotteries' requirements and were provided with the option of accepting a targeted voluntary separation package (TVSP) or access to redeployment in the South Australian Public Sector.

During the transition period 41 employees opted to accept a TVSP and 16 employees elected to participate in the redeployment program.

Confidential guidance and advice for personal and work-related matters continued to be available for employees via SA Lotteries' Employee Assistance Program.

### Employee overview as at 30 June 2014

Employee overview	
Persons	12
Full-Time Equivalent employee numbers	11.2
Persons separated from SA Lotteries during the 2013-14 financial year	61
Persons recruited to SA Lotteries during the 2013-14 financial year	3
Persons on leave without pay	1
Male employees	16.7%
Female employees	83.3%



Status of employees in current position (Full-time equivalents as at 30 June 2014)					
Full-time equivalents	Ongoing	Short-term contract	Long-term contract	Other (casual)	Total
Male	0	1.00	1.00	0	2.00
Female	8.20	0	1.00	0	9.20
<b>Total</b>	<b>8.20</b>	<b>1.00</b>	<b>2.00</b>	<b>0</b>	<b>11.20</b>

*Excludes employees on unpaid leave.*

Status of employees in current position (Persons as at 30 June 2014)					
Persons	Ongoing	Short-term contract	Long-term contract	Other (casual)	Total
Male	0	1	1	0	2
Female	9	0	1	0	10
<b>Total</b>	<b>9</b>	<b>1</b>	<b>2</b>	<b>0</b>	<b>12</b>

*Excludes employees on unpaid leave.*

Number of employees by salary bracket			
Salary bracket	Male	Female	Total
\$0 - \$54 799	0	1	1
\$54 800 - \$69 699	0	2	2
\$69 700 - \$89 199	1	5	6
\$89 200 - \$112 599	0	1	1
\$112 600 +	1	1	2
<b>Total</b>	<b>2</b>	<b>10</b>	<b>12</b>

*Part-time employees reflected as what they would earn if they worked full-time.  
Excludes employees on unpaid leave.*

Executives by gender, classification and status							
Classification	Contract tenured		Contract untenured		Total		
	Male	Female	Male	Female	Male	Female	Total
Level D	0	0	0	1	0	1	1
Level A	0	0	1	0	1	0	1
<b>Total</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>2</b>

Number of Aboriginal and/or Torres Strait Islander employees					
Persons	Male	Female	Total	Percentage of total	Target *
Aboriginal/ Torres Strait Islander	0	0	0	0%	2.0%

\* Target from South Australia's Strategic Plan.

Cultural and linguistic diversity					
Persons	Male	Female	Total	Percentage of total	SA community*
Employees born overseas	1	2	3	25%	22.1%
Employees who speak language(s) other than English at home	1	1	2	16.7%	14.4%

\* Benchmarks from ABS Publication Basic Community Profile (SA) Cat No. 2001.0, 2011 census.

Employees by age bracket and gender					
Age bracket	Male	Female	Total	Percentage of total	Workforce benchmark*
15-19	0	0	0	0%	5.5%
20-24	0	0	0	0%	9.7%
25-29	0	2	2	16.7%	11.2%
30-34	1	1	2	16.7%	10.7%
35-39	0	4	4	33.3%	9.6%
40-44	0	1	1	8.3%	11.4%
45-49	0	1	1	8.3%	11.1%
50-54	1	0	1	8.3%	11.4%
55-59	0	0	0	0%	9.1%
60-64	0	0	0	0%	6.7%
65+	0	1	1	8.3%	3.6%
<b>Total</b>	<b>2</b>	<b>10</b>	<b>12</b>	<b>100%</b>	<b>100%</b>

\*Source: Australian Bureau of Statistics Australian Demographic Statistics, 6291.0.55.001 Labour Force Status (ST LM8) by sex, age, state, marital status – employed – total from Feb78 Supertable, South Australia at November 2013.

## Equal opportunity

SA Lotteries is an equal opportunity employer, ensuring that all persons seeking employment are treated fairly and equitably and are not subject to unlawful discrimination or harassment.

SA Lotteries has an established Disability Discrimination Action Plan (the Plan), which identifies barriers for employees with a disability and recommends strategies for eliminating those barriers. A review in 2013-14 confirmed that the Plan continues to meet all legislative requirements.

As at 30 June 2014 there were no employees with disabilities requiring workplace adaptation.

## A healthy balance

SA Lotteries continued to provide a flexible working environment to assist employees with balancing work and family responsibilities. During the year, 25 per cent of employees benefited from a voluntary flexible working arrangement.

Voluntary flexible working arrangements			
Arrangement	Male	Female	Total
Purchased leave	0	0	0
Flexible hours	0	1	1
Compressed weeks	0	0	0
Part-time	0	2	2
Job share	0	0	0
Working from home	0	0	0

To further support work-life balance and effective workplace practices, all employees were encouraged to take their entitlement of 20 days' annual leave each financial year.

Average leave days taken per full-time equivalent employee				
Leave	2010-11	2011-12	2012-13	2013-14
Sick leave taken*	6.4	7.2	6.7	9.3
Family carer's leave taken	1.4	1.6	1.5	2.1
Miscellaneous special leave	0.3	0.5	0.4	0.3
*Figures do not include unpaid leave				

## Work health and safety

SA Lotteries is committed to ensuring, as far as reasonably practicable, that all employees are safe from injury and risk to health while at work. This is achieved through continually improving work health and safety systems and practices.

During the year, the following work health and safety activities took place:

- an internal audit of SA Lotteries' work health and safety governance program to ensure compliance with the *Work Health and Safety Act 2012* (SA);

- a work health and safety inspection of premises;
- ergonomic assessments of employee workstations at the new premises in the Adelaide central business district;
- First Aid and Warden training for relevant employees at both Wayville and Adelaide premises;
- quarterly work health and safety committee meetings; and
- a review of all work health and safety policies, guidelines and procedures.

In 2013-14 SA Lotteries recorded no workers' compensation claims.

Work Health and Safety (WHS) management	2013-14	2012-13	2011-12
<b>Legislative requirements</b>			
Number of notifiable occurrences pursuant to WHS Act 2012 Part 3	Nil	Nil	Nil
Number of notifiable injuries pursuant to WHS Act 2012 s90, s191 and s195	Nil	Nil	Nil
<b>Injury management legislative requirements</b>			
Number of employees who participated in the rehabilitation program	Nil	3	Nil
Number of employees rehabilitated and reassigned to alternative duties	Nil	1	Nil
Number of employees rehabilitated back to their original work	Nil	2	Nil
Number of open claims (as at 30 June 2013)	Nil	Nil	Nil
Percentage of workers' compensation expenditure over gross remuneration	0.003%	1.7%	0.03%
<b>Number of claims</b>			
Number of new workers' compensation claims	Nil	3	1
Number of fatalities	Nil	Nil	Nil
Number of lost time injuries	Nil	2	1
Number of medical treatment only	Nil	1	Nil
Total number of whole working days lost	Nil	81.3	6
<b>Cost of workers' compensation</b>			
Cost of new claims for financial year	Nil	\$139 849	\$2 174
Cost of all claims excluding lump sum payments	\$251	\$141 162	\$2 174
Amount paid for lump sum payments on the settlement of a claim (s42, s43, s44)	Nil	Nil	Nil
Total amount recovered from external sources (s54) including from a negligent third party	Nil	Nil	Nil
Budget allocation for workers' compensation	\$45 203	\$77 191	\$92 582
<b>Trends</b>			
Injury frequency rate for new lost-time injury/disease for each million hours worked	Nil	Nil	Nil
Most frequent cause (mechanism) of injury	Nil	Repetitive strain	Repetitive strain
Most expensive cause (mechanism) of injury	Nil	Psychological	Repetitive strain

## Enterprise agreement

To ensure protection of employee wages and conditions, SA Lotteries has an Enterprise Agreement that allows for the negotiation of workplace conditions. The current Agreement expires on 30 September 2014. As a result of the change to the organisation's structure from 1 July 2014, the Commission has made the decision that SA Lotteries will participate in negotiations for the new South Australian Public Sector Wages Parity Enterprise Agreement.

## Training and development

Total training and development costs amounted to 0.72 per cent of base salary costs and resulted in 192 hours of training being undertaken by employees during the year.

SA Lotteries also offered fee and study leave support, allowing employees to undertake further education or specialised training related to their field of work, depending on business needs.

Leadership and management training expenditure		
Expenditure type	Total cost	Percentage of total remuneration expenditure*
Total training and development expenditure**	\$23 324	0.27%
Total leadership and management development expenditure**	\$11 321	0.13%
<i>*Total remuneration expenditure is based on gross salaries plus employer superannuation and payroll tax.  ** Total training and development expenditure is based on course fees plus all associated costs, with the exception that the Chief Executive was reimbursed an amount of \$1082 for registration fees only, for attendance at the 2013 Asia Pacific Lottery Association Regional Conference.</i>		

## International associations

Membership of international lottery industry associations provides valuable opportunities for an exchange of information and networking with operators from around the world. In 2013-14, SA Lotteries benefited from membership of the following two key international lottery associations:

- **World Lottery Association (WLA)**

The WLA is a global professional association of lottery and gaming organisations from more than 80 countries on six continents. SA Lotteries' Chief Executive, June Roache, was elected for a two year term as Vice President of the WLA in September 2012.

SA Lotteries is also represented on the WLA Legal Network Committee by SA Lotteries' General Manager - Legal and Compliance, David Hardy.

- **Asia Pacific Lottery Association (APLA)**

As one of five regional lottery industry associations worldwide, APLA represents 38 lottery organisations from 13 countries within the Asia Pacific region. SA Lotteries' Chief Executive, June Roache, completed a four year term as Chairman of APLA in September 2012 and held the position of Immediate Past Chairman of the Association which concluded at the APLA Annual General Meeting in Thailand on 21 November 2013.

## SUPPLIERS

During the year, SA Lotteries spent \$4.3 million sourcing goods or services, with a total of 91 suppliers. Businesses based in South Australia represented 58 per cent of total suppliers, and collectively earned \$1.7 million in exchange for goods and services.

Account payment performance				
Classification	Number of accounts paid	Percentage of accounts paid (by number)	Value \$A of accounts paid	Percentage of accounts paid (by value)
Paid by due date	776	98.23%	\$5 003 964	98.50%
Paid late but paid within 30 days of the due date	14	1.77%	\$76 140	1.50%
Paid more than 30 days from due date	-	-	-	-

SA Lotteries' transparent acquisition process requires the procurement of goods and services valued at \$220 000 (inclusive of GST) or greater, be approved by the State Procurement Board. Contracts are awarded on the basis of specific criteria to ensure that SA Lotteries obtains the best value for money and quality of goods and services.

In 2013-14 there was one consultancy engagement, as detailed within the below table:

Consultants			
Consultant	Purpose of consultancy	Number of consultancies	Value in \$A
<b>Value below \$10 000</b>			
Nil	Nil	0	Nil
<b>Value \$10 000 - \$50 000</b>			
Mercer Australia	Lotteries Commission of South Australia Superannuation Plan strategy and advice	1	\$26 126
<b>Value above \$50 000</b>			
Nil	Nil	0	Nil

## DISTRIBUTION NETWORK

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SA Lotteries' games are available for purchase from more than 597 agencies throughout South Australia. A variety of business types such as newsagencies, kiosks, convenience outlets, supermarkets, chemists, hotels and clubs are represented in the network with SA Lotteries' Keno game also available at selected SA TAB agencies.

From 2012-13 to 2013-14 the distribution network increased by ten agencies as follows:

Distribution network	2013-14		2012-13	
	Number	Percentage of total	Number	Percentage of total
Newsagencies	193	32.3%	190	32.4%
Hotels and clubs	215	36.0%	217	37.0%
Petrol stations and convenience outlets	53	8.9%	43	7.3%
Supermarkets	41	6.9%	37	6.3%
Delicatessens	30	5.0%	35	6.0%
Other	65	10.9%	65	11.1%
<b>Total</b>	<b>597</b>	<b>100%</b>	<b>587</b>	<b>100%</b>

The GTECH online lotteries system was in operation until 6 April 2014, with no central system downtime recorded.

Effective from 7 April 2014, Tatts implemented their TattsTech lottery system to facilitate the sale of entries in games and payment of prizes to players. The implementation included the installation of new point of sale terminals at each agency. Since the changeover to the new system, system availability was 99.98%.

## GAME PERFORMANCE

### Multi-jurisdictional (Bloc) games

SA Lotteries continued its participation in Bloc arrangements in 2013-14 with Tattersall's Sweeps Pty Ltd, Golden Casket Lottery Corporation Limited, NSW Lotteries Corporation Pty Ltd, Tatts NT Lotteries Pty Ltd and the Lotteries Commission of Western Australia.

Bloc arrangements allow the various lottery organisations throughout Australia to pool money to provide larger prizes to players. The licensing structure and operations of each lottery operator remains independent and autonomous.

The Master Agent acted as the appointed representative of SA Lotteries at Bloc meetings. SA Lotteries' games subject to Bloc arrangements are:

- Saturday X Lotto
- Monday and Wednesday X Lotto
- Oz Lotto
- Powerball
- The Pools
- Super 66.

Together with Keno and Instant Scratch tickets, SA Lotteries' eight lottery games provide South Australian players with a choice of purchase price, play options and prize offers. In 2013-14 game sales were \$428.9 million, representing a 7.2 per cent decrease from the previous year.

Any amendments to the Rules governing SA Lotteries' games must be approved by the Commission and the responsible Minister, in accordance with the *State Lotteries Act 1966* (as amended).

#### • Saturday X Lotto

In Saturday X Lotto, six numbers and two supplementary numbers are randomly drawn from a barrel of 45 numbers. Saturday X Lotto offers players Australia-wide the chance to share in an estimated Division One prize pool of \$4 million, with regular Superdraws and Megadraws throughout the year offering \$20 million and over.

2013-14 Sales	Percentage of total sales	2012-13 comparison	Value of prizes won	Highlights
\$142.1 million	33.1%	Decrease of \$2.5 million or 1.7%	\$94.3 million	<ul style="list-style-type: none"> <li>• Over 2.5 million divisional prizes won by players</li> </ul>



- **Monday and Wednesday X Lotto**

In Monday and Wednesday X Lotto, six numbers and two supplementary numbers are randomly drawn from a barrel of 45 numbers. Monday and Wednesday X Lotto is offered Australia-wide.

2013-14 Sales	Percentage of total sales	2012-13 comparison	Value of prizes won	Highlights
\$35.8 million	8.4%	Decrease of \$0.6 million or 1.8%	\$16.8 million	<ul style="list-style-type: none"> <li>• From October 2013 the guaranteed Division One \$1 million prize was made available for up to four winners</li> </ul>

- **Oz Lotto**

In Oz Lotto, seven numbers and two supplementary numbers are randomly drawn from a barrel of 45 numbers every Tuesday. Each week, Oz Lotto offers players Australia-wide the chance to share in a multi-million dollar prize pool, which jackpots if not won.

2013-14 Sales	Percentage of total sales	2012-13 comparison	Value of prizes won	Highlights
\$52.5 million	12.2%	Decrease of \$14.8 million or 22.0%	\$21.7 million	<ul style="list-style-type: none"> <li>• January 2014: Oz Lotto 20<sup>th</sup> birthday promotion</li> </ul>

- **Powerball**

In Powerball, six numbers are randomly drawn from one barrel of 40 numbers, and a seventh Powerball number is drawn from a separate barrel of 20 numbers, every Thursday. Each week, Powerball offers players Australia-wide the chance to share in a multi-million dollar prize pool, which jackpots if not won.

2013-14 Sales	Percentage of total sales	2012-13 comparison	Value of prizes won	Highlights
\$57.5 million	13.4%	Decrease of \$10.5 million or 15.5%	\$17.9 million	<ul style="list-style-type: none"> <li>• 15 jackpots of \$20 million or more offered throughout the year</li> </ul>

- **The Pools**

In the Australia-wide game The Pools, six winning numbers and one supplementary number are determined by the results of a pre-determined list of 38 soccer matches played in either the Northern or Southern hemisphere.

2013-14 Sales	Percentage of total sales	2012-13 comparison	Value of prizes won	Highlights
\$0.6 million	0.1%	Decrease of \$0.097 million or 14.0%	\$0.09 million	<ul style="list-style-type: none"> <li>• June: Quadruple dividends offered to coincide with the 2014 FIFA World Cup</li> </ul>

- **Super 66**

In Super 66, six numbered balls are randomly drawn from six separate compartments that each contains 10 balls numbered zero to nine. Each week, Super 66 offers players in all Australian States and Territories, except New South Wales, the chance to win a guaranteed Division One prize of \$16 666, which jackpots if not won.

2013-14 Sales	Percentage of total sales	2012-13 comparison	Value of prizes won	Highlights
\$1.3 million	0.3%	Decrease of \$0.2 million or 13.5%	\$0.5 million	<ul style="list-style-type: none"> <li>• January: a Division One prize pool of \$1 million offered</li> </ul>

## South Australia based games

- **Keno**

In Keno, 20 numbers are randomly generated from a possible 80 numbers every 3.5 minutes. To play Keno, players can choose to select one number (Spot 1) up to 10 numbers (Spot 10). Players can also select 'Heads', 'Tails' or 'Evens' in the add-on game, Keno Coin Toss. Each draw, Keno offers a guaranteed Spot 10 prize of \$1 million, which jackpots if not won.

2013-14 Sales	Percentage of total sales	2012-13 comparison	Value of prizes won	Highlights
\$103.3 million	24.1%	Decrease of \$1.5 million or 1.5%	\$73.9 million	<ul style="list-style-type: none"> <li>• August 2013: \$1.7 million Keno Spot 10 prize won</li> </ul>

- **Instant Scratch tickets**

Instant Scratch ticket games are a series of themed tickets that provide the opportunity to win instant prizes.

2013-14 Sales	Percentage of total sales	2012-13 comparison	Value of prizes won	Highlights
\$35.7 million	8.3%	Decrease of \$2.8 million or 7.4%	\$19.6 million	<ul style="list-style-type: none"> <li>• Rebranding of game to Instant Scratch-Its in early 2014</li> </ul>

## Tickets sold

During the year, 48.6 million tickets in SA Lotteries' games were sold.

## Customer service

All customer and agent telephone enquiries are managed by the Tatts Lotteries Contact Centre based in Brisbane.

More than 150 000 Easiplay Club members were active during the year.

## CORPORATE SOCIAL RESPONSIBILITY

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### Responsible gambling

The Gambling Code of Practice Notice 2013 (the Gambling Codes) is a mandatory code that prescribes advertising and responsible gambling codes of practice to apply to all forms of lawful commercial gambling offered to South Australians, including lotteries.

SA Lotteries, as a defined gambling provider, is to ensure that its Master Agent and the retail agent network conform to the Gambling Codes as though the Master Agent is a gambling provider.

SA Lotteries continued to consult with the Independent Gambling Authority (IGA) and monitor the Master Agent's compliance with the Gambling Codes, to ensure a safe and responsible gambling environment for players.

- **Codes of practice review**

The IGA completed a review of the individual codes of practice in October 2013 to facilitate the subsequent consolidation of the 14 existing codes of practice across all gambling sectors into one instrument. In the first instance, the existing codes of practice were gazetted in the prescribed format.

On 1 March 2014, the Gambling Codes came into operation. This notice incorporates the in-principle decisions announced by the Authority in its 2011-12 Codes of Practice Review and policy decisions arising from the *Statutes Amendment (Gambling Reform) Act 2013*.

The IGA also released the Gambling Codes of Practice (In-Venue Messaging) variation in February 2014 with a commencement date of 1 July 2014.

- **Compliance program**

An audit of all agencies was completed by the Master Agent during the year, against pre-determined checks of compliance with the codes of practice and the Gambling Codes. Of the 657 audits conducted, 91.04 per cent of agents were compliant. In instances of non-compliance, agencies were assisted to ensure issues were adequately addressed to achieve compliance at subsequent re-audits.

During the year the Commission conducted two internal audits related to the Master Agent's agency audit and compliance processes to provide an assurance on the effectiveness of compliance with relevant rules, codes and regulations. No significant issues were highlighted, however, it was identified that the main reason for non-compliant agency audits was in regards to training for agency employees.

- **Responsible gambling training**

All SA Lotteries agents and their employees must complete responsible gambling training prior to operating a lottery terminal, and complete a refresher training module every two years. Tatts implemented a network-wide program of agent training as a result of the commencement of the new Gambling Codes.

- **Problem gambling reports**

All agents and their employees are trained to identify problem gambling behaviours among players, and to provide appropriate referral advice. During the year, agents were required to immediately report all instances of customer contact in relation to problem gambling to SA Lotteries or to the Master Agent.

Source	Number of problem gambling reports received
Retail outlets / gambling help services	0
Online customers via the Tatts Lotteries Contact Centre	1

- **Barring arrangements**

Barring arrangements are also available upon direct request from a person at risk or via a gambling help service representative on their behalf. As at 30 June 2014, 28 SA Lotteries' agencies had arrangements in place to facilitate barring from the service of lottery products for seven self-identified problem gamblers.

## Environmental responsibility

SA Lotteries continued to embrace business practices to reduce the impact its operations have on the environment.

A target for energy consumption is detailed in South Australia's Strategic Plan. The goal is to improve the energy efficiency of government buildings by 30 per cent from 2001 to 2020.

Performance against annual energy efficiency targets		
Year	Energy Use (GJ)	Greenhouse Gas Emissions (KgCO <sup>2</sup> )
Base year 2000-01	3 834	1 181 764
2013-14	2 458	553 930

SA Lotteries' energy use in 2013-14 represents a 36 per cent reduction from 2000-01 levels.

The new head office located in the Adelaide central business district has a *5 Star Green Star* rating.

Energy use figures in 2014-15 will reflect the changed business model and energy efficiency of the new premises.

## FINANCIAL STATEMENTS

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**STATEMENT OF COMPREHENSIVE INCOME**  
 for the year ended 30 June 2014

	Note	2014 \$'000	2013 \$'000
<b>Income</b>			
Sales revenue	5	428 860	462 145
Cost of sales	6	375 113	404 846
<b>Gross margin</b>		<b>53 747</b>	<b>57 299</b>
Interest revenue		-	1 024
Revenues from SA Government	7	4 360	7 526
Other revenues	8	7 425	9 760
Net gain from the disposal of non-current assets	14	-	32
<b>Total income</b>		<b>65 532</b>	<b>75 641</b>
<b>Expenses</b>			
Employee benefits expenses	9	7 258	8 964
Supplies and services	11	4 040	12 333
Master Agent fee	12	53 747	30 826
Depreciation and amortisation expense	13	2 859	4 656
Net loss from the disposal of non-current assets	14	2 906	-
<b>Total expenses</b>		<b>70 810</b>	<b>56 779</b>
<b>Profit/(loss) before income tax equivalent</b>		<b>(5 278)</b>	<b>18 862</b>
Income tax equivalent expense		-	5 568
<b>Profit/(loss) after income tax equivalent</b>		<b>(5 278)</b>	<b>13 294</b>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to net result</b>			
Remeasurements of Defined Benefit Plan		532	928
<b>Total other comprehensive income</b>		<b>532</b>	<b>928</b>
<b>Total comprehensive result</b>		<b>(4 746)</b>	<b>14 222</b>

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

The above statement should be read in conjunction with the accompanying notes.

**STATEMENT OF FINANCIAL POSITION**  
 as at 30 June 2014

	Note	2014 \$'000	2013 \$'000
<b>Current assets</b>			
Cash and cash equivalents	16	45 937	46 576
Receivables	17	4 053	5 685
<b>Total current assets</b>		<b>49 990</b>	<b>52 261</b>
<b>Non-current assets</b>			
Property, plant and equipment	18	189	5 764
<b>Total non-current assets</b>		<b>189</b>	<b>5 764</b>
<b>Total assets</b>		<b>50 179</b>	<b>58 025</b>
<b>Current liabilities</b>			
Payables	19	20 343	24 141
Employee benefits	20	625	1 867
Other current liabilities	21	16 920	15 888
<b>Total current liabilities</b>		<b>37 888</b>	<b>41 896</b>
<b>Non-current liabilities</b>			
Payables	19	1 134	1 360
Employee benefits	20	95	664
Other non-current liabilities	21	10 318	8 615
<b>Total non-current liabilities</b>		<b>11 547</b>	<b>10 639</b>
<b>Total liabilities</b>		<b>49 435</b>	<b>52 535</b>
<b>Net assets</b>		<b>744</b>	<b>5 490</b>
<b>Equity</b>			
Retained earnings		744	5 490
<b>Total equity</b>		<b>744</b>	<b>5 490</b>

The total equity is attributable to the SA Government as owner.

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The above statement should be read in conjunction with the accompanying notes.



**STATEMENT OF CHANGES IN EQUITY**  
 for the year ended 30 June 2014

	Funds Retained for Capital Purposes \$'000	Asset Reval- uation Surplus \$'000	Building Maint- enance Reserve \$'000	Capital Asset Reserve (Note 22) \$'000	Keno Prize Reserve \$'000	Retained Earnings \$'000	<b>Total</b> \$'000
<b>Balance at 30 June 2012</b>	<b>636</b>	<b>1 151</b>	<b>41</b>	<b>17 217</b>	<b>4 173</b>	<b>-</b>	<b>23 218</b>
Profit after income tax equivalent for 2012-13	-	-	-	-	-	13 294	13 294
Remeasurements of Defined Benefit Plan	-	-	-	-	-	928	928
Total comprehensive result for 2012-13	-	-	-	-	-	14 222	14 222
Transfers:							
• from Retained earnings	-	-	-	887	1 212	(2 099)	-
• to Retained earnings	(636)	(1 151)	(41)	(18 104)	(4 307)	24 239	-
Reserve paid to Master Agent	-	-	-	-	(1 078)	-	(1 078)
Dividend contribution to SA Government	-	-	-	-	-	(15 918)	(15 918)
Special Dividend contribution to SA Government	-	-	-	-	-	(14 954)	(14 954)
<b>Balance at 30 June 2013</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5 490</b>	<b>5 490</b>
Profit after income tax equivalent for 2013-14	-	-	-	-	-	(5 278)	(5 278)
Remeasurements of Defined Benefit Plan	-	-	-	-	-	532	532
Total comprehensive result for 2013-14	-	-	-	-	-	(4 746)	(4 746)
<b>Balance at 30 June 2014</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>744</b>	<b>744</b>

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

The above statement should be read in conjunction with the accompanying notes.

**STATEMENT OF CASH FLOWS**  
 for the year ended 30 June 2014

	Note	2014 \$'000	2013 \$'000
<b>Cash flows from operating activities</b>			
<b>Cash inflows</b>			
Receipts from customers		405 983	435 413
SA Government subsidy		4 680	7 526
Interest received		-	1 192
GST received from the Australian Taxation Office		9 042	7 263
<b>Cash generated from operations</b>		<b>419 705</b>	<b>451 394</b>
<b>Cash outflows</b>			
Prizes paid		(254 262)	(270 510)
Payments to suppliers and employees		(22 637)	(25 798)
Master Agent fee payments		(53 747)	(30 826)
GST paid to the Australian Taxation Office		(16 278)	(17 619)
Distribution to the Hospitals Fund and Recreation and Sport Fund			
• Gambling tax	25	(70 627)	(74 872)
• Dividend	25	(112)	(16 616)
• Special dividend	25	-	(14 954)
• Unclaimed prizes	25	(2 443)	(2 582)
Distribution to the Hospitals Fund for income tax equivalent	25	(48)	(5 975)
<b>Cash used in operations</b>		<b>(420 154)</b>	<b>(459 752)</b>
<b>Net cash provided by (used in) operating activities</b>	26	<b>(449)</b>	<b>(8 358)</b>
<b>Cash flows from investing activities</b>			
<b>Cash inflows</b>			
Proceeds from sale of property, plant and equipment	14	-	1 662
<b>Cash outflows</b>			
Purchase of property, plant and equipment		(190)	(208)
<b>Net cash provided by (used in) investing activities</b>		<b>(190)</b>	<b>1 454</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>(639)</b>	<b>(6 904)</b>
Cash and cash equivalents at the beginning of the financial year		46 576	53 480
<b>Cash and cash equivalents at the end of the financial year</b>	26	<b>45 937</b>	<b>46 576</b>

The above statement should be read in conjunction with the accompanying notes.

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## NOTES TO THE FINANCIAL STATEMENTS

**1. Establishment and function of the Lotteries Commission of South Australia**

The Lotteries Commission of South Australia (the Commission), 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.

On 26 November 2012 the State appointed Tatts Lotteries SA Pty Ltd (Tatts) as its exclusive Master Agent to operate SA Lotteries' brands and products for a term of 40 years, commencing 11 December 2012.

The terms and conditions of the appointment and on-going operation are governed by the Transaction Documents. The Transaction Documents comprise the following:

1. Executed between the Treasurer and Tatts:
  - Implementation Deed
  - Treasurer's Agency Fees Guarantee and Payment Deed
2. Executed between the Commission and Tatts:
  - Master Agency Agreement
  - Intellectual Property Licence Deed
  - Business Assets Sale Deed
  - Operations Deed

In addition, the Transitional Services Agreement executed by the Commission and Tatts for the eighteen month period commencing 11 December 2012, expired on 10 June 2014.

**2. Summary of significant accounting policies****(a) Statement of compliance**

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

The financial statements are general purpose financial statements. The accounts have been prepared in accordance with relevant Australian Accounting Standards and comply with Treasurer's Instructions and accounting policy statements promulgated under the provisions of the *Public Finance and Audit Act 1987*.

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

Australian Accounting Standards and interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Commission for the reporting period ended 30 June 2014. Refer to 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 judgement in the process of applying the Commission's accounting policies. The areas involving a higher degree of judgement or where assumptions and estimates are significant to the financial statements are outlined in the applicable notes;
- accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events are reported; and
- compliance with accounting policy statements issued pursuant to section 41 of the *Public Finance and Audit Act 1987*. In the interest of public accountability and transparency the accounting policy statements require the following note disclosures which have been included in this financial report:
  - (a) revenues, expenses, receivables and payables 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 11). (The term *Consultant* is defined in Accounting Policy Framework APF II *General Purpose Financial Statements Framework*, APS 4.6.);
  - (c) employee targeted voluntary separation package information;
  - (d) employees whose normal remuneration is equal to or greater than the base executive remuneration level (within \$10 000 bandwidths) and the aggregate of the remuneration paid or payable or otherwise made available, directly or indirectly by the entity to those employees; and
  - (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.

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

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

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

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2014 and the comparative information presented.

**(c) Reporting entity**

The reporting entity comprises all activities of the Commission. This includes all transactions processed through the Lotteries Fund which is established under section 16(1) of the *State Lotteries Act 1966*. From 11 December 2012, Tatts holds and operates the Lotteries Fund for and on behalf of the Commission.

**(d) Comparative information**

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

Where presentation or classification of items in the financial statements have been amended, comparative figures have been adjusted.

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 Treasurer's Instruction 22 *Tax Equivalent Payments*, the Commission was required to pay to the State Government an income tax equivalent. The income tax liability was based on the State Taxation Equivalent Regime which applied the accounting profit method. This required that the corporate income tax rate be applied to net profit. Following the appointment of Tatts as Master Agent on 11 December 2012, no payments have been made under the tax equivalent regime.

The Commission is liable for payroll tax, fringe benefits tax and goods and services tax (GST).

*Goods and Services Tax (GST)*

The Commission, in accordance with section 16(3)(b) of the *State Lotteries Act 1966*, is required to pay GST of one eleventh of net gambling revenue (NGR), being gross sales less total prizes paid, direct to the Australian Taxation Office (ATO). The GST on NGR is treated as a cost of sales.

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; and
- receivables and payables which are stated with the amount of GST included.

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 the Commission 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 29 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. For these games, sales revenue as at 30 June for draws or competitions subsequent to that date are treated as sales in advance. Sales revenue for Instant Scratch tickets is recognised as tickets are sold.
- Revenues from SA Government are recognised as income when the Commission obtains control of the subsidy and the income recognition criteria are met (i.e. the amount can be reliably measured and the flow of resources is probable).
- Revenues from fees and charges are derived from the provision of goods and services. This revenue is recognised upon delivery of the goods or services to the recipients.

From 11 December 2012 to 10 June 2014 the costs and disbursements incurred by the Commission in providing agreed services to Tatts have been recovered from Tatts, in accordance with an agreed formula contained in the Transitional Services Agreement.

#### **(h) Expenses**

Expenses are recognised to the extent that it is probable that the flow of economic benefits from the Commission 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 29 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:

*Cost of sales expenses*

Cost of sales expenses include actual prizes paid, gambling tax on net gambling revenue, agents' commission and GST on net gambling revenue and are recognised in the reporting period in which the sales revenue is recognised.

*Employee benefits expenses*

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

Superannuation expenses charged to the Statement of Comprehensive Income represent:

- Contributions made by the Commission to the superannuation plan in respect of current employees;
- Defined benefits accrued during the reporting period; and
- Remeasurements of the Defined Benefit Plan.

Note 2(n) 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 the Commission. 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.

Depreciation is applied to tangible assets such as property, plant and equipment, while amortisation is used in relation to leasehold improvements.

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 as appropriate, which is a change in accounting estimate.

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

Land is not depreciated.

**(i) Current and non-current classification**

Assets and liabilities are characterised as either current or non-current in nature. The Commission has a clearly identifiable operating cycle of twelve 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 twelve months after the reporting date, have been classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.



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

**(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 29 discloses receivables 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 the Commission's cash on hand and deposits held at call, and cash held by Tatts on behalf of the Commission for game related obligations. These are subject to insignificant risk of changes in value and are used in the cash management function on a day-to-day basis.

The Commission's bank account is held with Westpac Banking Corporation in an At Call Deposit account.

Cash held by Tatts for game related obligations, on behalf of the Commission, is held with Westpac Banking Corporation.

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

From 11 December 2012, all game related receivables have been administered by Tatts on behalf of the Commission.

*Sundry receivables*

Sundry receivables are generally receivable within 14-30 days and are carried at amounts due.

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

*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.

From 11 December 2012, all game related prize settlements receivable from Blocs have been administered by Tatts on behalf of the Commission.

*Non-current asset acquisition, recognition and disposal*

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 \$2,000 or more are capitalised.

Assets listed in the Business Assets Sales Deed were purchased by Tatts. The consideration paid for these assets formed part of the aggregate consideration paid by Tatts for the rights to operate SA Lotteries' brands and products.

Assets related to the Online Lotteries System were transferred to Tatts when the GTECH agreement was novated in favour of Tatts in November 2013.

*Revaluation of non-current assets*

All non-current tangible assets are valued at fair value and revaluation of non-current assets is only performed when their fair value at the time of acquisition is greater than \$1 million and estimated useful life is greater than three years.

The Commission obtains an independent valuation of such assets at least every six 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.

The Commission has taken the exemption available under Accounting Policy Framework III *Asset Accounting Framework* paragraph APS 3.18 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 surplus 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 assets.

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

*Impairment*

All non-current tangible and intangible assets are tested for indications 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.

**(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 29 discloses payables 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, GST payable, employment on-costs and Paid Parental Leave Scheme payable.

From 11 December 2012, all game related payables have been administered by Tatts on behalf of the Commission.

*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 the Commission.

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.

The Paid Parental Leave Scheme payable represents amounts which the Commission has received from the Commonwealth Government to forward on to eligible employees via the Commission's payroll process. That is, the Commission is acting as a conduit through which the payment to eligible employees is made on behalf of the Family Assistance Office.

All payables are measured at their nominal amount, are unsecured 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 payment the day following the draw, or in the case of Instant Scratch tickets and minor Keno prizes, on the date of sale or draw. Division 1 prizes for lotto matrix type games are normally paid 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 Scratch tickets 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.

From 11 December 2012, all prizes payable have been administered by Tatts on behalf of the Commission.

#### *Employment on-costs*

Employment on-costs include superannuation contributions, payroll tax and WorkCover levies with respect to outstanding liabilities for salaries, long service leave, annual leave and skills and experience retention entitlements. 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, skills and experience retention entitlement 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 and the skills and experience retention entitlement liability are expected to be payable within twelve months and are 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 of 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.

The estimated liability for long service leave is based on assumptions over expected future salary levels, experience of employee departures and periods of service.

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

*Unclaimed Prizes Reserve*

Other than a prize in a Special Appeal Lottery (note 2(l)), 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 the Commission and transferred into the Unclaimed Prizes Reserve. Subsection 16C(4) of the *State Lotteries Act 1966* requires the Commission to pay:

- 50 per cent of the amount derived from unclaimed prizes in The Pools (and other sports lotteries or special lotteries) to the Recreation and Sport Fund; and
- 50 per cent of the amount derived from unclaimed prizes in other lotteries to the Hospitals Fund.

The balance in the Reserve is applied by the Commission 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 the Commission that they are a winner of a prize in a lottery conducted by the Commission, despite the fact that a prize has been forfeited to the Commission, the winning ticket has been lost or destroyed or the period of notice of a claim for the prize has expired.

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 per cent of the ex gratia payment, depending on the game played.

The Unclaimed Prizes Reserve is administered by Tatts on behalf of the Commission and must only be disbursed in accordance with approvals given by the Commission.

*Distribution of funds to Government*

In accordance with subsection 16(3) of the *State Lotteries Act 1966*, the Commission 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(l)), applying the net proceeds and unclaimed prizes less the GST on NGR to the beneficiary(s) of those lotteries; and
- retaining funds for certain designated purposes.

From 11 December 2012, gambling tax is paid from the Lotteries Fund by Tatts on behalf of the Commission to the State.

As detailed in note 2(f), the Commission was required, prior to the commencement of the Transaction Documents, to make tax equivalent payments as a result of the application of the tax equivalent regime. In accordance with the provisions of the *State Lotteries Act 1966* and Treasurer's Instruction 22 *Tax Equivalent Payments*, the transfer of funds to the Hospitals Fund was reflected in the financial statements in the form of:

- (i) a gambling tax of 41 per cent on NGR in respect of all lotteries conducted by the Commission except sports lotteries, special lotteries and special appeal lotteries;

- (ii) an income tax equivalent payment (calculated on the accounting profits method), recorded as an expense item in the Statement of Comprehensive Income;
- (iii) a dividend, represented by net profit after income tax equivalent payment and increased/decreased by funds retained for certain designated purposes; and
- (iv) unclaimed prizes.

As at 10 December 2012, surplus cash over and above Game Related Liabilities held in the Lotteries Fund of the Commission, was paid to the State in accordance with the Implementation Deed.

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 25.

**(l) Special Appeal Lotteries**

Section 13AB of the *State Lotteries Act 1966* enables the Commission to conduct Special Appeal Lotteries. Tatts is to do all things necessary to assist the Commission to conduct Special Appeal Lotteries and will receive compensation in accordance with the Master Agency Agreement and the Treasurer's Agency Fees Guarantee and Payment Deed.

No Special Appeal Lotteries were conducted during the financial year.

**(m) Operating leases**

The Commission has an accommodation lease agreement for its office. In respect of this operating lease, the lessor effectively retains substantially the entire risks and benefits incidental to ownership of the leased asset.

The Commission is responsible for maintaining any improvements that it makes and repairing any damage to the premises caused by staff, customers, contractors or visitors.

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.

**(n) Superannuation**

The Commission has an established superannuation plan for its employees, the Lotteries Commission of South Australia Superannuation Plan (the Plan), a sub-plan 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 the Commission and the Commission's obligation is limited to these contributions. The withdrawal benefit for defined benefit members may be taken immediately or deferred until preservation age. Currently the Plan only has a few members remaining. During the financial year the Commission determined to wind up the Plan in 2014-15.

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 4 July 2014.

Actuarial gains and losses are recognised in full, in the period in which they occur, and are recognised in Other 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.

The Commission also contributes to other externally managed superannuation plans. These contributions are expensed when they fall due and the Commission's obligation is limited to these contributions.

**(o) 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. Relevant amounts are transferred to retained earnings when an asset is disposed of or derecognised.

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

The Commission's funds retained for capital purposes which represent the historical cost of the investment in land and buildings at 24-26 Payneham Road Stepney (warehouse) were paid to the SA government following the sale of the property on 2 July 2012.

**(q) 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. Cash to support this reserve, as at 10 December 2012, was transferred to the State prior to completion in accordance with the Implementation Deed.

*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 the Commission's agents and ACTTAB Limited. To the extent possible, the equivalent value of the Keno Spot 10 prize won is transferred from the reserve to retained earnings and paid to the Hospitals Fund.

From 11 December 2012, the Spot 10 \$1M guaranteed amount and the accrued jackpot amount was paid to, and is held for and on behalf of the Commission, by Tatts.

**(r) Unrecognised contractual commitments and contingent assets and liabilities**

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

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

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.

**(s) Insurance**

The Commission has arranged, through the SA Government Captive Insurance Corporation (SAICORP), a division of the South Australian Government Financing Authority (SAFA) to insure all major risks of the organisation. The excess payable under this arrangement varies depending on each class of insurance held.

**(t) Events after the reporting period**

Where an event occurs after 30 June and before the date the financial statements are authorised for issue, and those events provide information about conditions that existed at 30 June, adjustments are made to amounts recognised in the financial statements. Note disclosure is made where there is a material impact on the results of subsequent years.

**3. New and revised Accounting Standards and policies**

The Commission did not voluntarily change any of its accounting policies in 2013-14.

Australian Accounting Standards and interpretations that have recently been issued or amended, but are not yet effective, have not been adopted by the Commission for the reporting period ended 30 June 2014.

The Commission 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 the Commission, except in relation to AASB 119 *Employee Benefits* issued in September 2011. AASB 119 came into effect from financial years commencing on or after 1 January 2013. The main amendments to the reissued standard relevant to the Commission are in relation to accounting for defined benefit plans. The amendments require actuarial gains and losses to be recognised in Other Comprehensive Income as well as additional disclosures. The change in accounting policy has been applied retrospectively and comparative figures have been restated in notes 9, 20, 26 and 28.

**4. Related party**

The Commission is controlled by the SA Government. Transactions and balances between the Commission and related parties (ie other SA Government controlled entities) are disclosed in Note 29.



## 5. Sales revenue

	<b>2014</b>	2013
	\$'000	\$'000
Saturday X Lotto	142 132	144 643
Keno	103 336	104 922
Powerball	57 496	68 027
Oz Lotto	52 534	67 383
Monday/Wednesday Lotto	35 812	36 483
Instant Scratch tickets	35 667	38 506
Super 66	1 288	1 489
The Pools	595	692
<b>Total sales revenue</b>	<b>428 860</b>	<b>462 145</b>

Sales revenue includes Agents' commissions.

## 6. Cost of sales

	<b>2014</b>	2013
	\$'000	\$'000
Prizes	257 211	278 721
Gambling tax on net gambling revenue	70 378	75 202
Agents' commissions	31 919	34 233
GST on net gambling revenue paid to the ATO	15 605	16 690
<b>Total cost of sales</b>	<b>375 113</b>	<b>404 846</b>

## 7. Revenues from SA Government

	<b>2014</b>	2013
	\$'000	\$'000
Revenues from SA Government	4 360	7 526
<b>Total revenues from SA Government</b>	<b>4 360</b>	<b>7 526</b>

Following the appointment of Tatts as the Commission's exclusive Master Agent to operate SA Lotteries' brands and products, effective from 11 December 2012, the Commission is funded by a subsidy from the SA Government.

## 8. Other revenues

	<b>2014</b>	2013
	\$'000	\$'000
Agents' fees and charges	-	1 934
Easiplay Club service fees	-	276
Reimbursements from Master Agent	4 835	6 945
TVSPs recovered from DTF (refer note 9)	2 522	357
Sundry	68	248
<b>Total other revenues</b>	<b>7 425</b>	<b>9 760</b>

## 9. Employee benefits expenses

	<b>2014</b>	2013
	\$'000	\$'000
Salaries (including annual leave)	3 606	7 349
TVSPs (refer below)	3 195	357
Long service leave	(266)	31
Skills and experience retention leave	(3)	26
Commission members' fees	62	98
Employment on-costs – other	205	527
Employment on-costs – superannuation contributions	269	689
Increase/decrease in carrying value of defined benefit superannuation plan liability	190	(113)
<b>Total employee benefits expenses</b>	<b>7 258</b>	<b>8 964</b>

## Targeted voluntary separation packages (TVSPs)

	<b>2014</b>	2013
	\$'000	\$'000
Amounts paid during the reporting period to separated employees:		
TVSPs	3 195	357
Annual leave, long service leave and skills and experience retention leave paid to those employees	906	70
	<u>4 101</u>	<u>427</u>
Recovery received from the Department of Treasury and Finance (DTF)	2 522	357
<b>Net cost to the Commission*</b>	<u>1 579</u>	<u>70</u>

\*The Commission has not accrued the June 2014 recovery to be received from DTF for TVSPs (\$673,000). Reimbursement from DTF is expected in September 2014.

Annual leave, long service leave and skills and experience retention leave are not reimbursable by DTF (\$906,000).

The number of employees who received TVSPs during the reporting period was 35 (6).

### Remuneration of employees

The table includes all employees who received remuneration equal to or greater than the base executive remuneration level during the year. Remuneration of employees reflects all costs of employment including salaries and wages, payments in lieu of leave, TVSP payments, retention payments, superannuation contributions, salary sacrifice benefits, fringe benefits and any fringe benefits tax paid or payable in respect of those benefits. The total remuneration received by these employees for the year was \$1.995 million (\$2.104 million).

	2014 No.	2013 No.
The number of employees whose remuneration received or receivable falls within the following bands:		
\$161 500 - \$171 499	1	-
\$251 500 - \$261 499	1	-
\$281 500 - \$291 499	1	1
\$291 500 - \$301 499	1	1
\$301 500 - \$311 499	1	-
\$311 500 - \$321 499	-	1
\$321 500 - \$331 499	-	1
\$331 500 - \$341 499	1	-
\$351 500 - \$361 499	1	-
\$871 500 - \$881 499	-	1
<b>Total number of employees</b>	<b>7</b>	<b>5</b>

## 10. Key management personnel

### (a) Commission members

The following persons held the position of member of the Commission for the full financial year:

W R Jackson, BEc, FASA Presiding Member

S J Mackenzie, B Comm (Accounting), LLB (Hons)

J R Roache BAcc, GradCertMgt (Monash) FAICD, FCPA, FAIM\*

No Commission member has entered into a contract with the Commission since the end of the previous financial year.

**(b) Commission members' remuneration**

The total remuneration received and receivable by Commission members includes fees, superannuation contributions, salary sacrifice benefits, fringe benefits tax and professional indemnity insurance paid on behalf of Commission members.

	<b>2014</b>	2013
	No.	No.
The number of Commission members whose remuneration received or receivable falls within the following bands:		
\$0 to \$9 999	1	2
\$10 000 to \$19 999	-	1
\$20 000 to \$29 999	1	1
\$30 000 to \$39 999	-	2
\$40 000 to \$49 999	1	-
<b>Total number of Commission members</b>	<b>3</b>	<b>6</b>
	<b>2014</b>	2013
	\$'000	\$'000
The total remuneration received or receivable by Commission members was:	69	115

\* In accordance with Department of Premier and Cabinet Circular 16, State Government employees did not receive any remuneration for Commission duties during the financial year.

**(c) Other key management personnel**

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 the Commission.

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

J R Roache BAcc, GradCertMgt (Monash) FAICD, FCPA, FAIM - Chief Executive  
 J F Favretto BA - General Manager - Information and Communications Technology and Transition  
 D G Hardy LLB, BA GDLP - General Manager - Legal and Compliance  
 C J Yeeles BComm, CPA - Finance Manager (1 July 2013 to 14 February 2014)  
 P Marsden, BComm, CPA - Finance Manager (12 March to 30 June 2014)

**(d) Other key management personnel compensation**

	<b>2014</b>	2013
	\$'000	\$'000
The compensation of key management personnel included in employee benefits expenses (refer note 9) is as follows:		
Short-term employee benefits	854	2 025
Post-employment benefits **	124	190
Long-term employee benefits	16	14
<b>Total key management personnel compensation</b>	<b>994</b>	<b>2 229</b>

\*\* 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.

## 11. Supplies and services

	<b>2014</b>	2013
	\$'000	\$'000
Computer operations	1 686	3 343
Operating leases	1 162	882
Other occupancy costs	466	582
Other	231	926
External audit fees	185	160
Internal audit fees	171	97
Motor vehicle fleet costs	56	166
Temporary staff and contractors	30	59
Consultancies	26	18
Marketing and promotions	14	4 037
Training costs	8	148
Insurance	5	39
Tickets, coupons, terminal rolls and ribbons	-	1 748
Distribution and freight to Agents	-	128
Bad debts	-	5
Gambling tax - other	-	(5)
<b>Total supplies and services</b>	<b>4 040</b>	<b>12 333</b>

	<b>2014</b>	2013	<b>2014</b>	2013
	No.	No.	\$'000	\$'000
<b>Consultancies</b>				
The number and dollar amount of consultancies paid/payable (included in supplies and services expense) that fell within the following bands:				
Below \$10 000	-	-	-	-
\$10 000 to \$50 000	1	1	26	18
Above \$50 000	-	-	-	-
<b>Total paid/payable to consultants engaged</b>	<b>1</b>	<b>1</b>	<b>26</b>	<b>18</b>

## 12. Master Agent fee

	<b>2014</b>	2013
	\$'000	\$'000
Gross sales	428 860	247 103
less prizes	257 211	148 700
less gambling tax on NGR	70 378	40 345
less GST on NGR	15 605	8 945
<b>Gross Master Agent fee (including Agents' commissions)</b>	<b>85 666</b>	<b>49 113</b>
less Agents' commissions	31 919	18 287
<b>Net Master Agent fee</b>	<b>53 747</b>	<b>30 826</b>

The Master Agent fee is payable to Tatts as the Commission's exclusive Master Agent for operating SA Lotteries' brands and products. Under clause 8.3 of the Master Agency Agreement, the Master Agent remits the amount of the Master Agent fee less Agents' commissions to an account nominated by the Master Agent. 2013-14 was the first full year of Tatts operating as Master Agent.

## 13. Depreciation and amortisation expense

	<b>2014</b>	2013
	\$'000	\$'000
<b>Depreciation</b>		
Plant and equipment	77	122
Online lotteries system	2 365	4 216
<b>Total depreciation</b>	<b>2 442</b>	<b>4 338</b>
<b>Amortisation</b>		
Leasehold improvements	417	318
<b>Total amortisation</b>	<b>417</b>	<b>318</b>
<b>Total depreciation and amortisation</b>	<b>2 859</b>	<b>4 656</b>

In 2012-13 the Commission reassessed the useful life of the online lotteries system, resulting in a reduction in the estimated useful life. This resulted in a higher depreciation expense reflected in 2012-13 and 2013-14. In November 2013 the online lotteries system was transferred to Tatts following novation of the GTECH agreement in favour of Tatts.

In 2012-13 the Commission reassessed the useful life of the leasehold improvements for the Wayville office, resulting in a reduction in the estimated useful life. This resulted in a higher amortisation expense reflected in 2012-13 and 2013-14. In May 2014 leasehold improvement assets for the Wayville office were decommissioned.

## 14. Net gain (loss) from disposal of non-current assets

	2014	2013
	\$'000	\$'000
Proceeds from disposal	-	1 662
Less: Net book value of assets disposed	2 906	1 630
<b>Net gain (loss) from disposal of non-current assets</b>	<b>(2 906)</b>	<b>32</b>
Assets are derecognised on disposal or when no future economic benefits are expected from the asset's use or disposal.		
<u>Warehouse property</u>		
Proceeds from disposal	-	1 660
Less: Net book value of assets disposed	-	1 455
<b>Net gain (loss) from disposal of non-current assets</b>	<b>-</b>	<b>205</b>
<u>Former Wayville head office plant and equipment</u>		
Proceeds from disposal	-	-
Less: Net book value of assets disposed	5	-
<b>Net gain (loss) from disposal of non-current assets</b>	<b>(5)</b>	<b>-</b>
<u>Sundry assets</u>		
Proceeds from disposal	-	2
Less: Net book value of assets disposed	5	62
<b>Net gain (loss) from disposal of non-current assets</b>	<b>(5)</b>	<b>(60)</b>
<u>Assets transferred to Tatts</u>		
Proceeds from disposal	-	-
Less: Net book value of assets disposed	2 896	113
<b>Net gain (loss) from disposal of non-current assets</b>	<b>(2 896)</b>	<b>(113)</b>

The assets transferred to Tatts relate to the online lotteries system which was transferred following novation of the GTECH agreement in favour of Tatts on 18 November 2013. The proceeds from disposal of these assets formed part of the aggregate consideration paid by Tatts to the State for the right to operate the Commission's brands and products.

## 15. Auditor's remuneration

	2014	2013
	\$'000	\$'000
Audit fees paid/payable to the Auditor-General's Department relating to the audit of the financial statements	185	160
<b>Total audit fees</b>	<b>185</b>	<b>160</b>

The Auditor-General is the auditor of the Commission.

**Other Services**

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

## 16. Cash and cash equivalents

	<b>2014</b>	2013
	\$'000	\$'000
Deposits held at call and cash on hand	1 652	1 567
Funds held by the Master Agent	44 285	45 009
<b>Total cash and cash equivalents</b>	<b>45 937</b>	<b>46 576</b>

In accordance with clause 7 of the Master Agency Agreement, Tatts hold and operate the Lotteries Fund for and on behalf of the Commission. The Commission assigned all of its right, title and interest to future interest earnings on the Lotteries Fund to the Master Agent. The consideration for the assignment of interest was included in the aggregate consideration paid by Tatts for the transaction to the State.

**Interest rate risk**

Deposits held at call and cash on hand are non-interest bearing. The carrying amount of cash and cash equivalents represents fair value.

## 17. Receivables

	<b>2014</b>	2013
	\$'000	\$'000
<b>Current</b>		
Agent debtors	2 416	2 133
Prize settlements receivable from Blocs	837	1 108
Sundry receivables	795	2 436
Prepayments	5	8
<b>Total current receivables</b>	<b>4 053</b>	<b>5 685</b>

<i>Ageing analysis of receivables</i>	Overdue for			TOTAL \$'000
	< 30 days \$'000	30 - 60 days \$'000	> 60 days \$'000	
Sundry receivables	255	-	-	255

*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 the Commission at the reporting date fail to honour their obligations. It is not anticipated that parties will fail to discharge their obligations. The major portion of monies owing relates to the operation of SA Lotteries' brands and products by the Master Agent.

*Net fair values*

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



## 18. Property, plant and equipment

	<b>2014</b>	2013
	\$'000	\$'000
<b>Plant and equipment</b>		
Plant and equipment at cost (deemed fair value)	119	310
Accumulated depreciation	(119)	(228)
<b>Total plant and equipment</b>	-	82
<b>Online lotteries system</b>		
Online lotteries system at cost (deemed fair value)	-	13 395
Accumulated depreciation	-	(8 246)
<b>Total online lotteries system</b>	-	5 149
<b>Work-in-progress</b>		
Leasehold improvements at cost (deemed fair value)	189	-
Online lotteries system at cost (deemed fair value)	-	116
<b>Total work-in-progress</b>	189	116
<b>Leasehold improvements</b>		
Leasehold improvements at cost (deemed fair value)	-	2 465
Accumulated amortisation	-	(2 048)
<b>Total leasehold improvements</b>	-	417
<b>Total property, plant and equipment</b>	189	5 764

**Reconciliation of property, plant and equipment**

The following table shows the movement of property, plant and equipment during 2013-14 and 2012-13.

	Land	Buildings	Plant & equipment	Online lotteries system	Work-in-progress	Leasehold improvements	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Carrying amount at 1 July 2013</b>	-	-	82	5 149	116	417	5 764
Additions	-	-	-	1	189	-	190
Assets derecognised (including disposals)	-	-	(5)	(2 788)	(113)	-	(2 906)
Transfers	-	-	-	3	(3)	-	-
Depreciation and amortisation	-	-	(77)	(2 365)	-	(417)	(2 859)
<b>Carrying amount at 30 June 2014</b>	-	-	-	-	189	-	189
<b>Carrying amount at 1 July 2012</b>	920	535	374	9 182	93	737	11 841
Additions	-	-	-	2	207	-	209
Assets derecognised (including disposals)	(920)	(535)	(170)	(3)	-	(2)	(1 630)
Transfers	-	-	-	184	(184)	-	-
Depreciation and amortisation	-	-	(122)	(4 216)	-	(318)	(4 656)
<b>Carrying amount at 30 June 2013</b>	-	-	82	5 149	116	417	5 764

Land and buildings assets were comprised entirely of the Stepney warehouse.

	2014	2013
	\$'000	\$'000
The carrying amount of property, plant and equipment that would have been recognised if these assets were stated at cost is:		
Plant and equipment	-	82
Online lotteries system	-	5 149
Work-in-progress	189	116
Leasehold improvements	-	417
<b>Total carrying amount of property, plant and equipment that would have been recognised if these assets were stated at cost</b>	<b>189</b>	<b>5 764</b>

**Impairment**

There were no indications of impairment of property, plant and equipment assets at 30 June 2014.

## 19. Payables

	<b>2014</b>	2013
	\$'000	\$'000
<b>Current</b>		
Prizes payable	13 271	15 793
Undistributed funds (note 25)	5 915	6 649
GST payable	606	653
Creditors and accrued expenses	507	820
Employment on-costs	44	226
<b>Total current payables</b>	<b>20 343</b>	<b>24 141</b>
<b>Non-current</b>		
Prizes payable	1 125	1 350
Employment on-costs	9	10
<b>Total non-current payables</b>	<b>1 134</b>	<b>1 360</b>
<b>Total payables</b>	<b>21 477</b>	<b>25 501</b>

Based on an actuarial assessment performed by the Department of Treasury and Finance, the percentage of long service leave expected to be taken as leave has remained at the 2013 rate of 40% and the rate for the calculation of employer superannuation on-costs has increased from 10.2% in 2013 to 10.3% in 2014. These rates are used in the employment on-cost calculation.

*Interest rate and credit risk*

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

## 20. Employee benefits

	<b>2014</b>	2013
	\$'000	\$'000
<b>Current</b>		
Annual leave	91	496
Long service leave	307	1 345
Skills and experience retention entitlement	3	26
Accrued salaries and wages	5	-
Defined benefit superannuation plan liability (note 28(f))	219	-
<b>Total current employee benefits</b>	<b>625</b>	<b>1 867</b>
<b>Non-Current</b>		
Long service leave	95	103
Defined benefit superannuation plan liability (note 28(f))	-	561
<b>Total non-current employee benefits</b>	<b>95</b>	<b>664</b>
<b>Total employee benefits</b>	<b>720</b>	<b>2 531</b>

## 21. Other liabilities

	<b>2014</b>	2013
	\$'000	\$'000
<b>Current</b>		
Prize Reserve Funds (a)	8 162	9 577
Keno Prize Reserve (b)	3 903	1 612
Monday & Wednesday X Lotto Division 1 Prize Reserve (c)	3 365	2 775
Unearned revenue - sales in advance	1 490	1 924
<b>Total current other liabilities</b>	<b>16 920</b>	<b>15 888</b>
<b>Non-current</b>		
Unclaimed prizes reserve (d)	10 318	8 615
<b>Total non-current other liabilities</b>	<b>10 318</b>	<b>8 615</b>
<b>Total other liabilities</b>	<b>27 238</b>	<b>24 503</b>

**(a) Prize Reserve Funds**

Balance at 1 July	9 577	8 659
Allocated to prize reserve funds	11 563	11 418
Applied to additional or increased prizes	(12 978)	(10 500)
Balance at 30 June	8 162	9 577

An agreed proportion of the total amount of net sales (gross sales less Agents' commissions) for each of Saturday X Lotto, Monday & Wednesday X Lotto, Oz Lotto, Powerball, Super 66 and The Pools is set aside to accumulate as the Prize Reserve Fund for each game in accordance with the respective Game Rules. These funds are applied from time to time for the payment of additional or increased prizes in subsequent lotteries or prizes in respect of missed prize entries for previous lottery draws.

**(b) Keno Prize Reserve**

Balance at 1 July	1 612	1 078
Allocated to prize reserve	4 031	534
Applied to prizes	(1 740)	-
Balance at 30 June	3 903	1 612

In accordance with the Game Rules, the Keno Prize Reserve is funded by 32.967% of Keno Spot 10 net sales (gross sales less Agents' commission) to meet the Keno Spot 10 prize which comprises the guaranteed amount of \$1M and the jackpot amount.

	<b>2014</b>	2013
	\$'000	\$'000
<b>(c) Monday &amp; Wednesday X Lotto Division 1 Prize Reserve</b>		
Balance at 1 July	2 775	1 194
Allocated to prize reserve	7 599	9 148
Applied to prizes	(7 009)	(7 567)
Balance at 30 June	3 365	2 775

In accordance with the Game Rules, the Monday and Wednesday X Lotto Division 1 Prize Reserve was funded by 27% of net sales (gross sales less Agents' commissions) to meet the Division 1 prize until 18 December 2013. The percentage of net sales used to fund the reserve was 20% between 19 December 2013 and 30 April 2014. From 1 May 2014 onwards, the percentage used has been 17%.

**(d) Unclaimed Prizes Reserve**

Balance at 1 July	8 615	6 603
Unclaimed monies forfeited	4 521	5 099
Balance before distributions	13 136	11 702
Monies provided for distribution to the Hospitals Fund	(2 255)	(2 549)
Monies provided for distribution to the Recreation and Sport Fund	(1)	(1)
Applied to additional or increased prizes in subsequent lottery draws, prizes in promotional lotteries or ex gratia payments	(562)	(537)
Balance at 30 June	10 318	8 615

**22. Capital asset reserve**

	2014	2013
	\$'000	\$'000
Capital asset reserve comprises:		
• Capital fund account	-	-
• Capital fund assets (at written down value)	-	-
	-	-
<b>Capital fund account</b>		
Balance at 1 July	-	6 032
Transfer from retained earnings	-	887
Transfer to SA Government	-	(6 710)
Assets financed	-	(209)
Balance at 30 June	-	-
<b>Capital fund assets</b>		
Written down value at 1 July	-	11 185
Assets financed	-	209
Depreciation	-	(1 085)
Transfer to SA Government	-	(6 048)
Transfer to retained earnings	-	(4 086)
Written down value of assets disposed of	-	(175)
Written down value at 30 June	-	-

The cash balance of the capital asset reserve was transferred to SA Government Consolidated Account as part of the special dividend paid in 2012-13.

## 23. Unrecognised contractual commitments

	2014	2013
	\$'000	\$'000
<b>Operating lease commitments</b>		
Commitments in relation to operating leases contracted for at the reporting date but not recognised as liabilities are payable as follows:		
Within one year	146	677
Later than one year but not longer than five years	563	-
<b>Total operating lease commitments</b>	<b>709</b>	<b>677</b>

	2014	2013
	\$'000	\$'000
<i>Representing:</i>		
Non-cancellable operating leases	709	579

The Commission's operating lease relates to office accommodation leased from the Department of Planning, Transport and Infrastructure - Building Management Accommodation and Property Services unit. The five year lease is non-cancellable with a five year right of renewal. Rental provisions within the lease agreement require future lease payments to be increased by 3.25% per annum. The initial lease term expires on 31 January 2019.

	2014	2013
	\$'000	\$'000
<b>Other commitments</b>		
Other expenditure contracted for at the reporting date but not recognised as liabilities are payable as follows:		
Within one year	66	1 749
Later than one year but not longer than five years	19	1 650
<b>Total other commitments</b>	<b>85</b>	<b>3 399</b>

The Commission's other commitments are for existing agreements relating to system software, communication and associated services and other fixed services. The decrease in other commitments is due primarily to the transfer of the online lotteries system and associated expenditure commitments to Tatts, following novation of the GTECH agreement in November 2013.

**Master Agent fee**

The Commission's commitments include a monthly Master Agent fee payable to Tatts for a term of 40 years commencing 11 December 2012. No amounts payable by the Commission to the Master Agent are disclosed as the fee is based on a formula which is contingent on gross sales, prizes, gambling tax on net gambling revenue, Agents' commissions and GST on net gambling revenue. The amount is paid on a monthly basis.

## 24. Contingent assets and liabilities

The Commission is not aware of any contingent assets or contingent liabilities.

The Commission has made no guarantees.

## 25. Distribution of funds to SA Government

	Balance	Balance	Distribution				Balance	Balance
	1 July	1 July	Provided		(Paid)		30 June	30 June
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	Commission	Master Agent	Commission	Master Agent	Commission	Master Agent	Commission	Master Agent
Gambling tax	131	6 046	-	70 240	(131)	(70 496)	-	5 790
Income tax equivalent	48	-	-	-	(48)	-	-	-
Dividend	112	-	-	-	(112)	-	-	-
Special dividend	-	-	-	-	-	-	-	-
Unclaimed prizes	-	312	-	2 256	-	(2 443)	-	125
<b>Totals 2013-14</b>	291	6 358	-	72 496	(291)	(72 939)	-	5 915
<b>Totals 2012-13</b>	7 461	-	72 403	41 784	(79 574)	(35 425)	291	6 358

Comprising:

**Distribution to Hospitals Fund**

Gambling tax	131	6 034	-	70 107	(131)	(70 363)	-	5 778
Income tax equivalent	48	-	-	-	(48)	-	-	-
Dividend	112	-	-	-	(112)	-	-	-
Special dividend	-	-	-	-	-	-	-	-
Unclaimed prizes	-	312	-	2 255	-	(2 442)	-	125
<b>Totals</b>	291	6 346	-	72 362	(291)	(72 805)	-	5 903

**Distribution to Recreation and Sport Fund**

Gambling tax	-	12	-	133	-	(133)	-	12
Dividend	-	-	-	-	-	-	-	-
Unclaimed prizes	-	-	-	1	-	(1)	-	-
<b>Totals</b>	-	12	-	134	-	(134)	-	12

The payment of the income tax equivalent and dividend applied to the period 1 July 2012 to 10 December 2012 (ie the period prior to the commencement of the Transaction Documents).

## 26. Cash flow reconciliation

	2014	2013
	\$'000	\$'000
<b>Reconciliation of cash and cash equivalents</b>		
Statement of Financial Position	45 937	46 576
Statement of Cash Flows	45 937	46 576
<b>Reconciliation of net profit after income tax equivalent to net cash provided by (used in) operating activities:</b>		
<b>Profit after income tax equivalent</b>	(5 278)	13 294
Less: Dividend contribution provided	-	(15 918)
Less: Special dividend contribution provided	-	(14 954)
Less: Keno Prize Reserve paid to Master Agent	-	(1 078)
Less: Unclaimed prizes distribution provided	(2 256)	(2 550)
<b>Add (less): non-cash items</b>		
Depreciation and amortisation expense	2 859	4 656
Net (gain) loss on disposal of non-current assets	2 906	(32)
Increase (decrease) in carrying value of defined benefit superannuation plan net liability	190	(113)
<b>Changes in assets / liabilities</b>		
(Increase) decrease in receivables	1 741	15 832
Decrease in inventories	-	571
Increase (decrease) in payables (including undistributed funds)	(4 134)	(17 455)
Increase (decrease) in employee benefits	(1 469)	(46)
Increase in other liabilities	4 992	9 435
<b>Net cash provided by (used in) operating activities</b>	<b>(449)</b>	<b>(8 358)</b>

## 27. Financial risk management

The Commission 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 a corporate policy approved by the Commission.

The Commission has non-interest bearing assets (cash at bank, cash on hand and receivables) and liabilities (payables and other liabilities). The maturity of financial assets and liabilities are disclosed separately in the relevant notes: current items mature in less than 12 months; non-current items mature in more than 12 months.

The Commission's exposure to cash flow interest risk is minimal.

The Commission's exposure to credit risk is minimal. The major portion of monies owing relates to the operation of SA Lotteries' brands and products by Tatts as the Master Agent. It is not anticipated that parties will fail to discharge their obligations. The Commission has policies and procedures in place to ensure that transactions occur with parties with appropriate credit history.



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

## 28. Superannuation

### (a) Nature of the benefits provided by the Plan

Defined benefit members receive lump sum benefits on retirement, death, disablement and withdrawal. The defined benefit section of the Plan is now closed to new members. All new members receive accumulation only benefits.

### (b) Description of the regulatory framework

The Superannuation Industry (Supervision) (SIS) legislation governs the superannuation industry and provides the framework within which superannuation plans operate. The SIS Regulations require an actuarial valuation to be performed for each defined benefit superannuation plan every three years, or every year if the plan pays defined benefit pensions.

### (c) Description of other entities' responsibilities for the governance of the Plan

The Plan's Trustee is responsible for the governance of the Plan. The Trustee has a legal obligation to act solely in the best interests of Plan beneficiaries. The Trustee has the following roles:

- Administration of the Plan and payment to the beneficiaries from Plan assets when required in accordance with the Plan rules;
- Management and investment of the Plan assets; and
- Compliance with superannuation law and other applicable regulations.

The prudential regulator, the Australian Prudential Regulation Authority (APRA), licences and supervises regulated superannuation plans.

### (d) Description of risks

There are a number of risks to which the Plan exposes the Commission. The more significant risks relating to the defined benefits are:

- **Investment risk** – the risk that investment returns will be lower than assumed and the Commission will need to increase contributions to offset this shortfall.
- **Salary growth risk** – the risk that wages or salaries (on which future benefit amounts will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions.
- **Legislative risk** – the risk that legislative changes could be made which increase the cost of providing the defined benefits.

The defined benefit assets are invested in the Mercer Cash investment option. The assets are diversified within this investment option and therefore the Plan has no significant concentration of investment risk.

**(e) Description of significant events**

During the year, the Commission has determined to wind up the Plan in September 2014. As a result, an amount of \$138,000 was included in the superannuation expense for the year ending 30 June 2014 as a curtailment loss from revaluing the liabilities for all members as the Deferred Leaving Service Benefit in anticipation of their entitlements following the Plan wind up.

**(f) Reconciliation of the net defined benefit (liability)/asset**

	2014	2013
	\$'000	\$'000
<b>Net defined benefit (liability)/asset at start of year</b>	(561)	(1 421)
Current service cost	(269)	(389)
Net interest	(13)	(32)
Past service cost	(138)	33
Actual return on plan assets less interest income	430	730
Actuarial losses (gains) arising from changes in financial assumptions	142	192
Actuarial losses (gains) arising from liability experience	(40)	6
Employer contributions	230	320
<b>Net defined benefit asset/(liability) at end of year</b>	<b>(219)</b>	<b>(561)</b>

**(g) Reconciliation of the fair value of plan assets**

	2014	2013
	\$'000	\$'000
<b>Fair value of plan assets at beginning of financial year</b>	7 670	6 379
Interest income	183	168
Actual return on Plan assets less interest income	430	730
Employer contributions	230	320
Contributions by plan participants	80	162
Benefits paid	(4 357)	(302)
Taxes, premiums and expenses paid	(131)	(122)
Transfers in	1	335
<b>Fair value of plan assets at end of financial year</b>	<b>4 106</b>	<b>7 670</b>

**(h) Reconciliation of the defined benefit obligation**

	2014	2013
	\$'000	\$'000
<b>Present value of defined benefit obligation at beginning of financial year</b>	8 231	7 800
Current service cost	269	389
Interest cost	196	200
Contributions by plan participants	80	162
Actuarial losses (gains) arising from changes in financial assumptions	(142)	(192)
Actuarial losses (gains) arising from liability experience	40	(6)
Benefits paid	(4 357)	(302)
Taxes, premiums and expenses paid	(131)	(122)
Transfers in	1	335
Past service cost	138	(33)
<b>Present value of defined benefit obligation at end of financial year</b>	<b>4 325</b>	<b>8 231</b>

**(i) Reconciliation of the effect of the asset ceiling**

The asset ceiling has no impact on the net defined benefit (liability)/asset.

**(j) Fair value of plan assets**

<b>As at 30 June 2014</b>				
<b>Asset category</b>	<b>Total (\$'000)</b>	<b>Quoted prices in active markets for identical assets – Level 1 (\$'000)</b>	<b>Significant observable inputs – Level 2 (\$'000)</b>	<b>Unobservable inputs – Level 3 (\$'000)</b>
Cash and cash equivalents	-	-	-	-
Equity instruments	-	-	-	-
Debt instruments	-	-	-	-
Derivatives	-	-	-	-
Real estate	-	-	-	-
Investment funds – Mercer cash*	4 106	-	4 106	-
Asset-based securities	-	-	-	-
Structured debt	-	-	-	-
<b>Total</b>	<b>4 106</b>	<b>-</b>	<b>4 106</b>	<b>-</b>

\* The Mercer Cash investment option is a low risk cash investment which is invested in 100% cash assets.

The percentage invested in each asset class at the reporting date is:

	<b>2014</b>	2013
Australian equity	0%	24%
International equity	0%	34%
Fixed income	0%	19%
Property	0%	5%
Alternative assets	0%	14%
Cash^	100%	4%
<b>Total Plan Assets</b>	<b>100%</b>	<b>100%</b>

^ Asset allocation as at 30 June 2014 is currently unavailable. Asset allocation at 31 May 2014 has been used.

**(k) Fair value of entity's own financial instruments**

The fair value of Plan assets includes no amounts relating to:

- any of the Commission's own financial instruments; or
- any property occupied by, or other assets used by, the Commission.

**(l) Significant actuarial assumptions at the reporting date**

	<b>2014</b>	2013
<b>Assumptions to determine defined benefit cost</b>		
Discount rate	3.50% pa	2.90% pa
Expected salary increase rate	3.50% pa	3.50% pa

	2014	2013
<b>Assumptions to determine defined benefit obligation (DBO)</b>		
Discount rate	3.50% pa	3.50% pa
Expected salary increase rate	3.00% pa	3.50% pa

The DBO has been set to the Deferred Leaving Service Benefits in anticipation of the Plan winding up in 2014-15.

**(m) Asset-liability matching strategies**

There are no asset and liability matching strategies adopted by the Plan.

**(n) Funding arrangements**

The financing objective adopted at the 30 June 2012 actuarial investigation of the Plan, in a report dated 11 April 2013, is to maintain the value of the Plan's assets at least equal to:

- 100% of accumulation account balances plus
- 105% of vested benefits for defined benefit members over the period to the next investigation.

In that valuation, it was recommended that the Commission contributes to the Plan as follows:

Category	1/7/12-30/6/13	From 1/7/13
Defined benefit members	14.4% of salaries	17.0% of salaries
Accumulation members	9% of ordinary times earnings (increasing to 9.25% from 1 July 2013 and to 9.5% from 1 July 2014 as required under Superannuation Guarantee legislation)	
Top up on defined benefit member exit	In the event that a member elects to take a Deferred Leaving Service Benefit, the additional payment would represent the shortfall for that member, if any, between their vested benefit and their Deferred Leaving Service Benefit.	
	It may also be necessary to make an additional contribution in the event of the death or permanent disablement of a member aged less than 55.	

This recommended contribution program is expected, on the basis of the actuarial assumptions adopted for this investigation, to enable the Plan to meet its financing objectives over the period to 30 June 2015.

In anticipation of the Plan wind up, the recommendation of a top up if a member elects a Deferred Leaving Service Benefit will no longer apply. If required, the Commission will make any top up contributions to ensure the Plan has enough assets to meet the transfer value.

**(o) Maturity profile of defined benefit obligation**

The weighted average duration of the defined benefit obligation as at 30 June 2014 is eight years assuming Plan continuity. The duration is used to set the discount rate when valuing curtailment impact.

The expected benefits for the year ending 30 June 2015 will be determined as the transfer value of the Plan at the wind up date. As at 30 June 2014, the transfer value determined as the Deferred Leaving Service Benefit is estimated to be \$4,292,000.

## 29. Transactions with SA Government

As required by APS 4.1 of Accounting Policy Framework II *General Purpose Financial Statements Framework*, the following table discloses revenues, expenses, receivables and payables 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		
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	
	<b>INCOME</b>						
5.	<b>Sales revenue</b>	-	-	428 860	462 145	428 860	462 145
6.	<b>Cost of sales</b>						
	Prizes	-	-	(257 211)	(278 721)	(257 211)	(278 721)
	Gambling tax on NGR	(70 378)	(75 202)	-	-	(70 378)	(75 202)
	Agents' commissions	-	-	(31 919)	(34 233)	(31 919)	(34 233)
	GST on NGR paid to the ATO	-	-	(15 605)	(16 690)	(15 605)	(16 690)
	<b>Total cost of sales</b>	(70 378)	(75 202)	(304 735)	(329 644)	(375 113)	(404 846)
7.	<b>Interest revenue</b>	-	817	-	207	-	1 024
	<b>Revenues from SA Government</b>	4 360	7 526	-	-	4 360	7 526
8.	<b>Other revenues</b>	2 557	362	4 868	9 398	7 425	9 760
	<b>TOTAL INCOME (excluding net gain from disposal of non-current assets)</b>	(63 461)	(66 497)	128 993	142 106	65 532	75 609
	<b>EXPENSES</b>						
9.	<b>Employee benefits expenses</b>	446	467	6 812	8 497	7 258	8 964
11.	<b>Supplies and services</b>						
	Marketing and promotions	-	-	14	4 037	14	4 037
	Computer operations	24	26	1 662	3 317	1 686	3 343
	Tickets, coupons, terminal rolls and ribbons	-	-	-	1 748	-	1 748
	Operating leases	161	105	1 001	777	1 162	882
	Other occupancy costs	3	9	463	573	466	582
	Distribution and freight to Agents	-	-	-	128	-	128
	Motor vehicle fleet costs	56	166	-	-	56	166
	Internal audit fees	-	-	171	97	171	97
	External audit fees	185	160	-	-	185	160
	Training costs	1	-	7	148	8	148
	Insurance	5	38	-	1	5	39
	Temporary staff and contractors	-	-	30	59	30	59
	Gambling tax - other	-	17	-	( 22)	-	( 5)
	Consultancies	-	-	26	18	26	18
	Bad debts	-	-	-	5	-	5
	Other	20	2	211	924	231	926
	<b>Total supplies and services</b>	455	523	3 585	11 810	4 040	12 333

Note	SA Government		Non-SA Government		Total	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
12. <b>Master Agent fee</b>	-	-	53 747	30 826	53 747	30 826
<b>TOTAL EXPENSES (excluding depreciation and amortisation and net loss from disposal of non-current assets)</b>	901	990	64 144	51 133	65 045	52 123
17. <b>Receivables</b>						
<b>Current</b>						
Agent debtors	-	-	2 416	2 133	2 416	2 133
Prize settlements receivable from Blocs	-	-	837	1 108	837	1 108
Sundry receivables	-	110	795	2 326	795	2 436
Prepayments	5	-	-	8	5	8
<b>Total current receivables</b>	5	110	4 048	5 575	4 053	5 685
19. <b>Payables</b>						
<b>Current</b>						
Creditors and accrued expenses	380	247	127	573	507	820
Prizes payable	-	-	13 271	15 793	13 271	15 793
GST payable	-	-	606	653	606	653
Undistributed funds	5 915	6 649	-	-	5 915	6 649
Employment on-costs	23	110	21	116	44	226
<b>Total current payables</b>	6 318	7 006	14 025	17 135	20 343	24 141
<b>Non-current</b>						
Prizes payable	-	-	1 125	1 350	1 125	1 350
Employment on-costs	5	5	4	5	9	10
<b>Total non-current payables</b>	5	5	1 129	1 355	1 134	1 360
<b>Total payables</b>	6 323	7 011	15 154	18 490	21 477	25 501

## CERTIFICATION OF THE FINANCIAL STATEMENTS

We certify that the attached general purpose financial statements for the Lotteries Commission of South Australia:

- comply with 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 the Lotteries Commission of South Australia; and
- present a true and fair view of the financial position of the Lotteries Commission of South Australia as at 30 June 2014 and the results of its operations and cash flows for the financial year.

In our opinion the internal controls employed by the Lotteries Commission of South Australia for the financial year over its financial reporting and its preparation of the general purpose financial statements have been effective throughout the financial year and there are reasonable grounds to believe the Lotteries Commission of South Australia will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Commission.



**Wayne R Jackson**  
Presiding Member



**June Roache**  
Chief Executive



**Pip Marsden**  
Finance Manager

11 September 2014

## INDEPENDENT AUDITOR'S REPORT



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Auditor-General's Department

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**To the Presiding Member  
Lotteries Commission of South Australia**

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* and section 18A(2) of the *State Lotteries Act 1966*, I have audited the accompanying financial report of the Lotteries Commission of South Australia for the financial year ended 30 June 2014. The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2014
- a Statement of Financial Position as at 30 June 2014
- a Statement of Changes in Equity for the year ended 30 June 2014
- a Statement of Cash Flows for the year ended 30 June 2014
- notes, comprising a summary of significant accounting policies and other explanatory information
- a Certificate from the Presiding Member, the Chief Executive and the Finance Manager.

**The responsibility of the Members of the Lotteries Commission of South Australia for the Financial Report**

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

**Auditor's Responsibility**

My responsibility is to express an opinion on the financial report based on the audit. The audit was conducted in accordance with the requirements of the *Public Finance and Audit Act 1987* and Australian Auditing Standards. The auditing standards require that the auditor comply with relevant ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Members of the Lotteries Commission of South Australia, as well as the overall presentation of the financial report.



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

**Opinion**

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 2014, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.



**S O'Neill**  
**AUDITOR-GENERAL**  
22 September 2014