

Lotteries Commission of South Australia

Financial report
for the year ended
30 June 2020



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To the Commissioner Lotteries Commission of South Australia

Opinion

I have audited the financial report of the Lotteries Commission of South Australia for the financial year ended 30 June 2020.

In my opinion, the accompanying financial report gives a true and fair view of the financial position of the Lotteries Commission of South Australia as at 30 June 2020, its financial performance and its cash flows for the year then ended in accordance with the relevant Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2020
- a Statement of Financial Position as at 30 June 2020
- a Statement of Changes in Equity for the year ended 30 June 2020
- a Statement of Cash Flows for the year ended 30 June 2020
- Notes, comprising significant accounting policies and other explanatory information
- a Certificate from the Commissioner and Director, Financial Services, Department of Treasury and Finance.

Basis for opinion

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

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

Responsibilities of the Commissioner for the financial report

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

Auditor's responsibilities for the audit of the financial report

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* and section 18A(2) of the *State Lotteries Act 1966*, I have audited the financial report of the Lotteries Commission of South Australia for the financial year ended 30 June 2020.

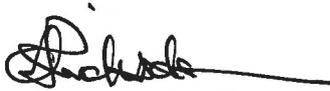
My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an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

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

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Lotteries Commission of South Australia's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Commissioner
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

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

A handwritten signature in black ink, appearing to read 'A. Richardson', with a long horizontal line extending to the right.

Andrew Richardson

Auditor-General

29 September 2020

Lotteries Commission of South Australia

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
Income			
Sales revenue	9	552 218	538 632
Cost of sales	10	482 983	470 718
Gross margin		69 235	67 914
Resources received free of charge		54	-
Revenues from SA Government	11	582	1 124
Other revenues		2	1
Total income		69 873	69 039
Expenses			
Employee benefits expenses	5	241	510
Supplies and services	7	348	457
Master Agent fee	8	69 235	67 914
Amortisation expense	14	5	4
Total expenses		69 829	68 885
Net result		44	154
Total comprehensive result		44	154

The net result and total comprehensive result are attributable to the SA Government as owner.

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

Lotteries Commission of South Australia

STATEMENT OF FINANCIAL POSITION as at 30 June 2020

	Note	2020 \$'000	2019 \$'000
Current assets			
Cash and cash equivalents	12	74 285	70 164
Receivables	13	4 117	5 319
Total current assets		78 402	75 483
Non-current assets			
Property, plant and equipment	14	-	21
Receivables	13	1 717	2 452
Total non-current assets		1 717	2 473
Total assets		80 119	77 956
Current liabilities			
Payables	15	28 281	35 327
Employee benefits	17	-	151
Game related liabilities	18	22 056	20 383
Total current liabilities		50 337	55 861
Non-current liabilities			
Payables	15	20 354	12 134
Employee benefits	17	-	153
Game related liabilities	18	9 180	9 673
Total non-current liabilities		29 534	21 960
Total liabilities		79 871	77 821
Net assets		248	135
Equity			
Retained earnings		248	135
Total equity		248	135

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

Unrecognised contractual commitments 19

Contingent assets and liabilities 20

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

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STATEMENT OF CHANGES IN EQUITY for the year ended 30 June 2020

	Retained Earnings \$'000	Total \$'000
Balance at 30 June 2018	(19)	(19)
Net Result for 2018-19	154	154
Total comprehensive result for 2018-19	154	154
Balance at 30 June 2019	135	135
Net result for 2019-20	44	44
Total comprehensive result for 2019-20	44	44
Liabilities transferred as a result of an administrative restructure	3	69
Balance at 30 June 2020	248	248

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

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

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STATEMENT OF CASH FLOWS
for the year ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
Cash flows from operating activities			
Cash outflows			
Prizes paid		(325 624)	(310 782)
Payments to suppliers and employees		(1 435)	(958)
Master Agent fee payments		(80 392)	(78 410)
GST paid to the Australian Taxation Office		(8 957)	(8 378)
Distribution of funds to SA Government	16	(93 194)	(87 668)
Cash used in operations		(509 602)	(486 196)
Cash inflows			
Receipts from customers		513 141	497 872
SA Government subsidy	11	582	1 124
Cash generated from operations		513 723	498 996
Net cash provided by (used in) operating activities		4 121	12 800
Net increase (decrease) in cash and cash equivalents		4 121	12 800
Cash and cash equivalents at the beginning of the financial year		70 164	57 364
Cash and cash equivalents at the end of the financial year	12	74 285	70 164

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), is established under the *State Lotteries Act 1966*, with the primary function of promoting and conducting lotteries in South Australia.

Tatts Lotteries SA Pty Ltd (Tatts), as a subsidiary company of Tabcorp Holdings Limited, operates the Commission's brands and products, as the appointed Master Agent for a term expiring in December 2052. It is required to provide the Commission with all information relevant to its performance as Master Agent and for the proper operation of the agency arrangement.

The terms and conditions of the appointment and on-going operations of the Master Agent are governed by a number of Transaction Documents.

The Commission, in its capacity as principal, monitors Tatts' compliance with the Transaction Documents and retains the power to instruct Tatts to comply with its obligations under those documents.

On the 1 January 2020 the Acting Executive Director, Organisation and Governance of the Department of Treasury and Finance (DTF) was appointed as Commissioner. The office administration functions of the Commission were transferred to DTF.

2. Basis of preparation

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

The accounting policies set out in the notes have been applied in preparing the financial statements for the year ended 30 June 2020 and the comparative information presented.

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

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

For the 2019-20 financial statements the Commissioner is required to comply with the new Treasurer's Instruction (Accounting Policy Statements) changes effective 1 June 2020.

(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 financial statements have been prepared in accordance with relevant Australian Accounting Standards with reduced disclosure requirements and comply with Treasurer's Instructions and Accounting Policy Statements issued by the Treasurer under the provisions of the *Public Finance and Audit Act 1987*.

The Commission has applied Australian Accounting Standards that are applicable to not-for-profit entities, as the Commission is a not-for-profit entity.

(b) 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*. Tatts holds and operates the Lotteries Fund for and on behalf of the Commission.

(c) Comparative information

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

Where presentation or classification of items in the financial statements have been amended, comparative figures have been adjusted to conform to changes in presentation or classification in these financial statements unless impracticable.

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

Lotteries Commission of South Australia

(d) Taxation

The Commission is not subject to income tax. 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 Master Agent calculates and forwards the GST on a monthly basis for the Commission to remit directly to the ATO. The GST on NGR is treated as a cost of sales.

Other 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.

(e) 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.

(f) Events after the reporting period

There have been no events subsequent to 30 June 2020 that have had a material impact on the information disclosed in these financial statements.

(g) Continuity of operations

The SA Government is committed and has consistently demonstrated a commitment to the ongoing funding of the Commission to enable it to perform its functions.

3. Changes to the Commission

Per the State Budget 2019-20 Budget Measures statements efficiency measures were implemented as follows:

- From 1 January 2020 the Acting Executive Director, Organisation and Governance of the Department of Treasury and Finance was appointed as Commissioner.
- From 28 March 2020 all staff were transferred from the Commission to the Department of Treasury and Finance.
- From 1 April 2020 all office administration functions of the Commission were transferred to the Department of Treasury and Finance.

Transferred out

The following liabilities were transferred to the Department of Treasury and Finance:

	\$'000
Employee benefit liabilities	69
Total liabilities transferred	69

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4. New and revised Accounting Standards and policies

The Commission did not voluntarily change any of its accounting policies during 2019-20

Treasurer's Instructions (Accounting Policy Statements)

The Treasurer has approved changes to the *Treasurer's Instructions (Accounting Policy Statements) 2019* to be made and operational for the 2019-20 financial reporting period, effective 1 June 2020. The changes made are in relation to:

- Leases - the appropriate approach for subsequent measurement of leases under AASB 16 is the cost method.
- Presentation - It was determined that the Net Cost of Services format used for the Statement of Comprehensive Income and Statement of Cash Flows no longer provides information that is meaningful to report to users. The standard approach under AASB 101 Presentation of Financial Statements is to be adopted.
- Income of Not-for-profit Entities - a number of amendments to AASB 1004 Contributions.

Accounting Standards

The Commission has assessed the impact of the Australian Accounting Standards and Interpretations that became effective 1 July 2019 and considers there will be no material impact on the accounting policies or the financial statements as outlined below.

Reference	Title and date of Standard application	Summary	Impact on financial statements	Application date for the Commission
AASB 16	<i>Leases</i> 1 January 2019	<p>This new standard introduces a single accounting model for lessees.</p> <p>The standard requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.</p> <p>A lessee is required to recognise a right-to-use asset representing its right to use the underlying leased asset, and a lease liability representing its obligations to make lease payments.</p> <p>In effect, the majority of leases currently classified as operating leases will be reported on the Statement of Financial Position.</p>	<p>This new standard is a significant departure from the past 30 years of accounting for leases.</p> <p>AASB 16 was expected to have an impact on the Statement of Financial Position. However, in the case of accommodation leases Cabinet Circular PC018 clarifies that clauses that convey the right to use the accommodation are not enforceable. This means that for accounting purposes these arrangements do not meet the definition of a lease.</p> <p>The Commission has assessed the implications of AASB 16 and concluded there is no impact on the Statement of Financial Position.</p>	1 July 2019

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Reference	Title and date of Standard application	Summary	Impact on Financial Statements	Application date for the Commission
AASB 15	<i>Revenue from Contracts with Customers</i> 1 January 2019	<p>AASB 15 is the new standard for revenue recognition and replaces AASB 111 <i>Construction Contracts</i> and AASB 118 <i>Revenue</i>.</p> <p>It establishes a comprehensive framework for determining whether, how and when revenue is recognised.</p> <p>The principle in the new standard is 'when control of a good or service transfers to a customers' rather than 'when the risk and rewards of ownership reside'.</p>	The Commission has assessed the implications of AASB 15 and concluded there is no impact on the financial statements.	1 July 2019
AASB1058	<i>Income for Not-for-Profit Entities</i> 1 January 2019	<p>This Standard clarifies and simplifies the income recognition requirements that apply to not-for-profit entities in conjunction with AASB 15.</p> <p>AASB 15 and 1058 will supersede the majority of income recognition requirements relating to public sector not-for profit entities, previously in AASB 1004.</p> <p>The timing of income recognition depends on whether a transaction gives rise to a liability or other performance obligation or a contribution by owners related to an asset received by the entity,</p> <p>AASB 1058 applies when a not-for-profit entity receives volunteer services or enters into other transactions where the consideration to acquire the asset is significantly less than the fair value of the asset principally to enable the entity to further its objectives.</p>	The Commission has assessed the implications of AASB 1058 and concluded there is no material impact on the financial statements.	1 July 2019

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5. Employee benefits expenses	2020	2019
	\$'000	\$'000
Salaries	255	415
Annual leave	6	35
Long service leave	(34)	16
Skills and experience retention leave	1	3
Employment on-costs - other	3	(2)
Employment on-costs - superannuation contributions	10	43
Total employee benefits expenses	241	510

For the 2019-20 financial year employee benefit expenses are for the period 1 July 2019 until 27 March 2020. From 28 March 2020 all employees were transferred to DTF and therefore no employee benefit expenses incurred after this date are included in the Commission's financial statements.

Employment on-costs - superannuation contributions

The superannuation employment on-cost charge represents the Commission's contribution to superannuation plans in respect of current service of current employees.

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 \$0.290 million (\$0.207 million).

	2020	2019
	No.	No.
The number of employees whose remuneration received or receivable falls within the following band:		
\$194 001 - \$214 000	-	1
\$274 001 - \$294 000	1	-
Total number of employees	1	1

6. Key management personnel

The key management personnel are the Treasurer and the Commissioner who have responsibility for the direction and management of the Commission.

The key management personnel comprised the following persons for the full financial year unless otherwise stated:

Hon R Lucas MLC - Treasurer

D G Hardy, LLB, BA, GDLP - Commissioner - Contract expired (not reappointed) 31/12/19

H T Scott - Commissioner - appointed 1/01/2020*

Total compensation for key management personnel was \$0.290 million in 2019-20 and \$0.207 million in 2018-19

*As an employee of the Department of Treasury and Finance. Ms Scott does not receive remuneration from the Commission for her duties as Commissioner.

Salaries and other benefits the Treasurer receives are excluded from the totals above. The Treasurer's remuneration and allowances are set by the *Parliamentary Remuneration Act 1990* and the Remuneration Tribunal of SA respectively and are payable from the Consolidated Account (via the Department of Treasury and Finance) under section 6 of the *Parliamentary Remuneration Act 1990*.

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7. Supplies and services	2020	2019
	\$'000	\$'000
Accommodation lease	107	155
Internal audit fees	31	131
External audit fees	84	79
Computing and communications	25	40
Net loss on disposal of assets	16	-
Services provided by DTF	54	-
Other	14	24
Other occupancy costs	17	28
Total supplies and services	348	457

The Commission paid for all supplies and services incurred up to 31 March 2020. From 1 April 2020 DTF assumed responsibility for the payment of the Commissions supplies and services (excluding external audit fees).

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

Accommodation lease payments are recognised on a straight line basis over the lease term. As of 1 July 2020, StudySA will assume full responsibility for the remaining accommodation lease payments.

The Commission receives services from employees whose salaries are paid for by DTF. These services are recognised only when a fair value can be determined and the services would be purchased if they had not been donated. A corresponding resource received free of charge has been recognised as income.

	2020	2019	2020	2019
	No.	No.	\$'000	\$'000
Consultancies				
The number and dollar amount of consultancies paid/payable (included in supplies and services expense) that fell within the following band:				
Below \$10 000	1	-	4	-
Total paid/payable to consultants engaged	1	-	4	-

8. Master Agent fee	2020	2019
	\$'000	\$'000
Gross sales	552 218	538 632
less prizes	331 051	321 769
less gambling tax on NGR	90 678	88 914
less GST on NGR	20 106	19 715
Gross Master Agent fee (including Agents' commissions)	110 383	108 234
less Agents' commissions	41 148	40 320
Net Master Agent fee	69 235	67 914

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.

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9. Sales revenue	2020	2019
	\$'000	\$'000
Saturday X Lotto	133 843	127 408
Keno	115 803	120 648
Powerball	142 942	121 731
Oz Lotto	53 497	73 639
Instant Scratch tickets	36 328	32 002
Monday and Wednesday X Lotto	38 059	32 998
Set for Life	24 664	20 446
Lucky Lotteries - Mega Jackpot	3 585	6 686
Lucky Lotteries - Super Jackpot	2 039	1 268
Super 66	1 458	1 806
Total sales revenue	552 218	538 632

Sales revenue includes Agents' commissions.

Sales revenue for Saturday X Lotto, Monday and Wednesday X Lotto, Oz Lotto, Powerball, Keno, Super 66, Set for Life and Lucky Lotteries 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.

10. Cost of sales	2020	2019
	\$'000	\$'000
Prizes	331 051	321 769
Gambling tax on net gambling revenue	90 678	88 914
Agents' commissions	41 148	40 320
GST on net gambling revenue	20 106	19 715
Total cost of sales	482 983	470 718

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.

11. Revenues from SA Government	2020	2019
	\$'000	\$'000
Revenues from SA Government	582	1 124
Total revenues from SA Government	582	1 124

The Commission receives a subsidy from the SA Government. This is recognised on receipt.

The subsidy ceased 31 March 2020 on the transfer of the office administration functions to DTF.

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).

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12. Cash and cash equivalents	2020	2019
	\$'000	\$'000
Deposits with the Treasurer	332	534
Funds held by the Master Agent	73 953	69 630
Total cash and cash equivalents	74 285	70 164

In accordance with clause 7 of the Master Agency Agreement, Tatts holds and operates the Lotteries Fund for and on behalf of the Commission. The Commission assigned all of its rights, 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.

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 with the Treasurer, 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 the Commonwealth Bank of Australia in an At Call Deposit account.

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

Cash is measured at nominal value.

Deposits with the Treasurer

The Commission has one special deposit account with the Treasurer, a general operating account. The Commission does not earn interest on its deposits with the Treasurer.

13. Receivables	2020	2019
	\$'000	\$'000
Current		
Agent debtors	2 691	3 203
Prize settlements receivable from Blocs	1 426	2 109
Sundry receivables	-	1
Prepayments	-	6
Total current receivables	4 117	5 319
Non-current		
Receivable from Master Agent	1 717	2 452
Total non-current receivables	1 717	2 452
Total receivables	5 834	7 771

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.

All game related receivables are administered by Tatts on behalf of the Commission.

Prize settlements receivable from Blocs

Saturday X Lotto, Monday and Wednesday X Lotto, Oz Lotto, Powerball, Super 66, Set for Life and Lucky Lotteries 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.

All game related prize settlements receivable from Blocs are administered by Tatts on behalf of the Commission.

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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.

14. Property, plant and equipment	2020 \$'000	2019 \$'000
Plant and equipment		
Plant and equipment at cost (deemed fair value)	-	11
Accumulated depreciation	-	(11)
Total plant and equipment	-	-
Leasehold improvements		
Leasehold improvements at cost (deemed fair value)	-	185
Accumulated amortisation	-	(164)
Total leasehold improvements	-	21
Total property, plant and equipment	-	21

All non current assets having limited useful life are systematically depreciated/amortised over their useful life in a manner that reflects the consumption of their service potential. Depreciation/Amortisation is calculated on a straight line basis over the estimated useful life of the assets.

Reconciliation of property, plant and equipment

The following table shows the movement of property, plant and equipment during 2019-20 and 2018-19.

	Leasehold improve- ments \$'000	Total \$'000
Carrying amount at 1 July 2019	21	21
Depreciation and amortisation	(5)	(5)
Disposals	(16)	(16)
Carrying amount at 30 June 2020	-	-
Carrying amount at 1 July 2018	25	25
Depreciation and amortisation	(4)	(4)
Carrying amount at 30 June 2019	21	21

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.

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.

All property, plant & equipment with a value of \$10,000 or more are capitalised, otherwise it is expensed.

All property, plant & equipment were in relation to the Commission premises fit out. The Commission disposed of all property, plant and equipment when it vacated the premises effective 23 December 2019.

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15. Payables	2020	2019
	\$'000	\$'000
Current		
Prizes payable	16 734	22 167
Distribution of funds to SA Government payable (note 16)	9 537	10 364
GST payable	1 097	1 223
Creditors and accrued expenses	913	1 559
Employment on-costs	-	14
Total current payables	28 281	35 327
Non-current		
Prizes payable	20 354	12 128
Employment on-costs	-	6
Total non-current payables	20 354	12 134
Total payables	48 635	47 461

Payables include creditors, accrued expenses, prizes payable, GST payable, employment on-costs and undistributed funds.

The Commission paid for all supplies and services incurred up until 31 March 2020. From 1 April 2020 DTF assumed responsibility for the payment of all supplies and services (excluding external audit fees).

All game related payables are administered by Tatts on behalf of the Commission.

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 and Set for Life 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.

All prizes payable are administered by Tatts on behalf of the Commission.

Employment on-costs include payroll tax, WorkCover levies and superannuation contributions. The Commission makes contributions to one State Government superannuation scheme. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the superannuation scheme.

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.

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16. Distribution of funds to SA Government

	Balance 1 July \$'000	Distribution		Balance 30 June \$'000
		Provided \$'000	(Paid) \$'000	
Distribution to Hospital Fund				
Gambling tax	10 277	90 775	(91 661)	9 391
Unclaimed prizes	87	1 592	(1 533)	146
Totals 2019-20	10 364	92 367	(93 194)	9 537
Totals 2018-19	7 645	90 387	(87 668)	10 364

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 Net Gambling Revenue (NGR);
- making allowances for operating and capital expenses;
- in respect of Special Appeal Lotteries (note 2(e)), 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.

Gambling tax is paid from the Lotteries Fund by Tatts on behalf of the Commission to the State.

In accordance with the provisions of the *State Lotteries Act 1966* 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) unclaimed prizes.

The composition of all amounts due and payable to Government on account of the Hospitals Fund are detailed in this note.

17. Employee benefits

	2020 \$'000	2019 \$'000
Current		
Annual leave	-	127
Long service leave	-	11
Skills and Experience Retention leave	-	4
Accrued salaries and wages	-	9
Total current employee benefits	-	151
Non-Current		
Long service leave	-	153
Total non-current employee benefits	-	153
Total employee benefits	-	304

From 28 March 2020 all employees were transferred to DTF consequently the Commission has no employee benefit liabilities as at 30 June 2020.

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

The Commission makes contributions to the State Government and externally managed superannuation schemes. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the respective superannuation schemes.

Salaries, annual leave and sick leave

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

The annual leave and skills and experience retention liabilities are expected to be payable within 12 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.

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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 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.

18. Game related liabilities	2020	2019
	\$'000	\$'000
Current		
Prize Reserve Funds (a)	13 783	14 710
Keno Prize Reserve (b)	3 499	2 835
Monday and Wednesday X Lotto Division 1 Prize Reserve (c)	456	-
Set for Life Division 1 Prize Reserve (d)	982	324
Unearned revenue - sales in advance	3 336	2 514
Total current game related liabilities	22 056	20 383
Non-current		
Unclaimed prizes reserve (e)	9 180	9 673
Total non-current game related liabilities	9 180	9 673
Total game related liabilities	31 236	30 056

(a) Prize Reserve Funds

Balance at 1 July	14 710	10 728
Allocated to prize reserve funds	15 111	15 252
Applied to additional or increased prizes	(16 038)	(11 270)
Balance at 30 June	13 783	14 710

An agreed proportion of the total amount of net sales (gross sales less Agents' commissions) for each of Saturday X Lotto, Monday and Wednesday X Lotto, Oz Lotto, Powerball, Super 66, Set for Life and Lucky Lotteries 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	2 835	3 866
Allocated to prize reserve	84 125	87 638
Applied to prizes	(83 461)	(88 669)
Balance at 30 June	3 499	2 835

The Keno Prize Reserve is funded by a portion of net sales (gross sales less Agents' commissions) to meet the Keno prizes won.

(c) Monday and Wednesday X Lotto Division 1 Prize Reserve

Balance at 1 July	-	601
Allocated to prize reserve	7 664	6 414
Applied to prizes	(7 208)	(7 015)
Balance at 30 June	456	-

In accordance with the Game Rules, the Monday and Wednesday X Lotto Division 1 Prize Reserve was funded by 18% of net sales (gross sales less Agents' commissions) to meet Division 1 prizes until 6 May 2020. From 11 May 2020 onwards the percentage was 21%.

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	2020 \$'000	2019 \$'000
(d) Set for Life Division 1 Prize Reserve		
Balance at 1 July	324	(738)
Allocated to prize reserve	5 231	5 180
Applied to prizes	(4 573)	(4 118)
Balance at 30 June	982	324

In accordance with the Game Rules, the Set for Life 1st Prize Reserve was funded by a 20% contribution of net sales (gross sales less Agents' commissions) to meet the 1st prizes.

(e) Unclaimed Prizes Reserve		
Balance at 1 July	9 673	10 855
Unclaimed monies forfeited	3 183	2 768
Balance before distributions	12 856	13 623
Monies provided for distribution to the Hospitals Fund	(1 592)	(1 384)
Applied to additional or increased prizes in subsequent lottery draws, prizes in promotional lotteries or ex gratia payments	(2 084)	(2 566)
Balance at 30 June	9 180	9 673

Other than a prize in a Special Appeal Lottery (note 2(e)), 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 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.

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19.	Unrecognised contractual commitments		
		2020	2019
		\$'000	\$'000

Operating lease commitments

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

Within one year	-	135
Later than one year but not longer than five years	-	526
Total operating lease commitments	-	661

	2020	2019
	\$'000	\$'000

Representing:

Non-cancellable operating leases	-	661
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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 no right of renewal. Rental provisions within the lease agreement require future lease payments to be increased by 3.25% per annum. The lease term expires on 31 January 2024.

Effective from 1 July 2020 StudySA will assume full responsibility for the non cancellable operating lease.

	2020	2019
	\$'000	\$'000

Other commitments

Other expenditure contracted for at the reporting date but not recognised as liabilities are payable as follows:

Within one year	-	166
Later than one year but not longer than five years	-	199
Total other commitments	-	365

The Commission paid for all supplies and services incurred until 31 March 2020. As of 1 April 2020 DTF assumed responsibility for the payments of all supplies and services (excluding external audit fees), consequently the Commission no longer has unrecognised contractual commitments as at 30 June 2020.

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

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.

Master Agent Fee

The Commission is required to pay a monthly Master Agent fee to Tatts for a term of 40 years commencing 11 December 2012. No amounts payable to the Master Agent are disclosed as commitments 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.

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

The Commission has made no guarantees.

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.

Lotteries Commission of South Australia

21. Financial risk management

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

Risk Management assessments are carried out by the Commission. Commission risk management policies have been established in accordance with the Risk Management Policy Statement issued by the Premier and Treasurer.

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.

Lotteries Commission of South Australia

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 2020 and the results of its operations and cash flows for the financial year.

We certify that 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 reporting period.



Tracey Scott
Commissioner



Les Jones
Director, Financial Services, Department of Treasury and Finance

23 September 2020

Lotteries Commission of South Australia

Report of the Auditor-General

to be provided by Auditor-General's Department