

**SOUTH AUSTRALIA**

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**Report**

**of the**

**Auditor-General**

**for the**

**Year ended 30 June 2002**

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*Tabled in the House of Assembly and ordered to be published, 13 May 2003*

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**Second Session, Fiftieth Parliament**

**Supplementary Report**

**Agency Audit Report: XTAB Pty Ltd**

By Authority: J. D. Ferguson, Government Printer, South Australia

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2003





Government  
of South Australia



**Auditor-General's  
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12 May 2003

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Gentlemen,

**Auditor-General's Supplementary Report: Agency Audit Report: XTAB Pty Ltd (formerly South Australian Totalizator Agency Board)**

Pursuant to the provisions of section 36(3) of the *Public Finance and Audit Act 1987*, I herewith provide to each of you a copy of my Supplementary Report 'Agency Audit Report: XTAB Pty Ltd' containing the accounts of the XTAB Pty Ltd.

The accounts of XTAB Pty Ltd were not included in my Report to Parliament dated 30 September 2002 as the company was unable to finalise its financial statements in sufficient time to enable the audit to be completed at the time the September Report was being finalised.

It was found necessary to issue a qualified audit opinion in the Independent Audit Report for the XTAB Pty Ltd. The reason for, and extent of, the qualification in the Independent Audit Report is described in the commentary in this Report.

Yours sincerely,

K I MacPherson  
**AUDITOR-GENERAL**



**Report of the Auditor-General 2001-02  
Supplementary Report: Agency Audit Report: XTAB Pty Ltd**

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# **XTAB PTY LTD (FORMERLY SOUTH AUSTRALIAN TOTALIZATOR AGENCY BOARD)**

## **OVERVIEW**

### **STRUCTURE OF THIS SECTION OF THE REPORT**

This section of the Report is comprised of three parts to provide commentary with respect to the South Australian Totalizator Agency Board (SA TAB) namely:

- *Sale of SA TAB* — this part provides commentary on the processes followed to sell the SA TAB.
- *SA TAB Sale Proceeds* — this part provides commentary on the proceeds received from the sale and the application of those proceeds.
- *XTAB Pty Ltd* — this part provides details of the operations of the SA TAB for the period 1 July 2001 to the date of sale and the subsequent activities to wind down the assets and liabilities of the business to 30 June 2002.

## **SALE OF SA TAB**

In February 1998, the South Australian Government announced that it was considering the sale of the SA TAB. A scoping review was undertaken to determine whether a sale was the best option for the State. As a result of the review, the Government agreed in principle to the sale of the SA TAB in February 2000 and commenced a sale process.

In June 2000, legislation to allow for the disposal of the SA TAB was introduced into Parliament. The legislation comprised: an Act for the disposal of the SA TAB, titled '*TAB (Disposal) Act 2000*' and a companion Act to provide for a new regulatory regime in the context of the sale of the SA TAB, titled '*Authorised Betting Operations Act 2000*'. The two Acts were assented to in December 2000.

Responsibility for managing/coordinating the sale of the SA TAB was assigned to the Asset Sales Unit (Gaming) within the Department for Administrative and Information Services (DAIS). The unit also engaged consultants to conduct much of the technical work for the sale.

As part of the sale process, an independent Probity Auditor was appointed by the then Minister for Government Enterprises.

Throughout the sale process, Audit consulted with the Asset Sales Unit (Gaming) and the Independent Probity Auditor in respect to the processes and procedures that were developed for the sale.

Following a direction by the Minister for Government Enterprises pursuant to the *TAB (Disposal) Act 2000*, the South Australian Totalizator Agency Board was registered as a proprietary company (SA TAB Pty Ltd) under the Corporations Law on 26 April 2001.

In August 2001 Cabinet approved the sale of SA TAB to the TAB Queensland Limited.

On 31 October 2001 the Independent Probity Auditor's Report was tabled in Parliament by the Minister for Government Enterprises. In the Report, the Independent Probity Auditor concluded that the process followed by the Asset Sales Unit (Gaming) for the sale of the SA TAB was conducted in a fair and equitable manner with due regard to probity.

Settlement of the sale of the SA TAB occurred on 14 January 2002. Under the sale agreement, the assets of the SA TAB were purchased by UNITAB Pty Ltd, a subsidiary of TAB Queensland Limited. As part of the settlement, the SA TAB Pty Ltd was renamed XTAB Pty Ltd and became the vehicle to wind down the assets and liabilities of the business.

### **Audit Comment**

Audit is satisfied that the processes followed for the sale of the SA TAB were conducted in a fair and equitable manner with due regard to probity.

## SA TAB SALE PROCEEDS

### INTRODUCTION

The objectives of the sale of the SA TAB as approved by Cabinet were to:

- achieve the best overall financial value outcome for the taxpayers of South Australia through a fair and equitable sale process;
- obviate the Government's exposure to the risks of owning and operating the SA TAB;
- sell the SA TAB to a party which has the capacity to manage the business as an ongoing entity and can meet the obligations of SA TAB under the Racing Distribution Agreement;
- encourage the ongoing development of the business and promote employment in the State.

To account for the settlement of the sale of the SA TAB an interest bearing Special Deposit Account titled 'TAB Sale - Proceeds' was created at the Department of Treasury and Finance, pursuant to section 8 of the *Public Finance and Audit Act 1987*. Proceeds received from the sale and the subsequent application of those proceeds have been transacted through this account.

The Department of Treasury and Finance prepared a set of financial statements for this account as at 30 June 2002. The financial statements have been audited and are reproduced in this part of the Report.

### COMMENTARY ON FINANCIAL OUTCOME OF SALE

As a result of the sale of the SA TAB, total revenue credited to the Special Deposit Account to 30 June 2002 was \$46.8 million and comprised:

	<b>\$'million</b>
Proceeds from the sale of SA TAB	<b>44.3</b>
Return from the South Australian Racing Industry	<b>2.1</b>
Interest	<b>0.4</b>

To 30 June 2002, \$41 million of this revenue had been expended on the following:

	<b>\$'million</b>
Staff redundancies	<b>16.1</b>
Payments to the South Australian Racing Industry	<b>14.7</b>
Pooling Agreement termination costs	<b>6.3</b>
Payment to TAB Queensland re shortfall in product fees	<b>3.6</b>
Other	<b>0.3</b>

In respect to this \$41 million of expenditure, it is important to point out that it does not recognise the following expenditure and potential outlays associated with the sale of the SA TAB:

- an additional \$1.2 million that will be required to be paid in respect of the termination of TAB Corp Pooling Agreement;
- expenditure incurred by the Department for Administrative and Information Services for preparatory work and the disposal totalling \$9.5 million which was funded directly from Parliamentary appropriations;
- as disclosed in Note 9 to the financial statements, the State Government is liable for any shortfall between the actual product fees payable by TAB Queensland Limited to the South Australian Racing Industry and 39 percent of Net Waging Revenue (NWR) up to June 2004. The maximum amount payable is capped at \$6 million per annum.

Pursuant to the sale agreement, an amount of \$3.6 million was paid to TAB Queensland for the period 14 January to 30 June 2002. While the actual amount that could become payable for the 2002-03 and 2003-04 financial years will depend on the NWR in those years, potentially the State could be required to pay TAB Queensland a further \$12 million over the next two years.

- as disclosed in the financial statements of XTAB Pty Ltd (formerly known as SA TAB Pty Ltd and prior to that the South Australian Totalizator Agency Board) there are still 10 employees who are availing themselves of the South Australian Government's career transition facilities until 13 January 2003. As at 30 June 2002, the employee entitlements (ie annual leave and long service leave) due to these 10 employees totalled \$160 000.
- pursuant to an agreement between the State Government and the three representative racing bodies, the State Government agreed to provide guarantees and interest rate subsidies in respect to loans made to those organisations up to a maximum loan limit of \$20 million.

As at 30 June 2002, no organisation had applied for a guarantee and accordingly no government guarantees had been executed.

In respect to the interest rate subsidies, an amount of \$17 700 was paid by the Department of Treasury and Finance during 2001-02. Under the agreement the interest rate subsidies could continue to be paid up to and including the financial year ending 30 June 2012. While the actual amount of the subsidy to be paid will depend upon the actual interest rates and the balance of the loans outstanding throughout the period, a conservative estimate could be \$100 000.

It should also be recognised that pursuant to the Sale Agreement and the Racing Distribution Agreement, the State Government will receive fixed amounts during the period 1 July 2004 to 30 June 2016 through increases in the Duty payable by TAB Queensland for operating its business in South Australia. The Net Present Value of these amounts is estimated to be \$14.3 million.

If these additional expenditures and potential outlays and revenues are taken into account, then the final outcome of the sale could be:

	<b>\$'million</b>
Total revenues	61.1
Total expenditure	64.0
Potential Shortfall	<u>2.9</u>

In addition to this potential outcome, it is important to recognise that prior to the sale, the South Australian Government received a yearly distribution from the SA TAB comprising a tax equivalent amount, a share of the unclaimed dividends and a share of the profits from operations.

The amounts received by the South Australian Government over the last five years were:

<b>Financial Year ended 30 June</b>	<b>\$'million</b>
1997	20.634
1998	23.591
1999	22.220
2000	22.426
2001 <sup>(1)</sup>	14.006

<sup>(1)</sup> The reduction was the result of the revised distribution arrangements following the introduction of the GST.

Under the post-sale arrangements, the South Australian Government will only receive a duty payable by TAB Queensland for operating its business in South Australia. For the financial year ended 30 June 2001, the duty amounted to \$5.9 million (\$6.3 million in 2001-02).

***Based on the 2001 financial information, the South Australian Government has forgone and will continue to forgo in the order of \$8 million a year through the sale of the SA TAB.***

## **CONCLUSION**

Based upon the aforementioned financial information, it is difficult to conclude that the taxpayers of South Australia have achieved a satisfactory financial outcome ensuing from the restructuring of payments to the local racing industry and the disposal of the SA TAB.

## TAB SALE - PROCEEDS

### Statement of Financial Performance for the 6 months ended 30 June 2002

	Note	2002 \$'000
<b>EXPENSES FROM ORDINARY ACTIVITIES:</b>		
Expenses from ordinary activities	3	41 002
<b>Total Expenses</b>		<u>41 002</u>
<b>REVENUES FROM ORDINARY ACTIVITIES:</b>		
Interest		407
Proceeds from asset sales		43 500
Other revenue from ordinary activities	4	2 899
<b>Total Revenues</b>		<u>46 806</u>
<b>NET SURPLUS</b>		<u>5 804</u>
<b>TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER</b>		<u><u>5 804</u></u>

### Statement of Financial Position as at 30 June 2002

	Note	2002 \$'000
<b>CURRENT ASSETS:</b>		
Cash		11 055
Receivables		53
Other		64
<b>Total Current Assets</b>		<u>11 172</u>
<b>Total Assets</b>		<u>11 172</u>
<b>CURRENT LIABILITIES:</b>		
Payables	5	5 368
<b>Total Current Liabilities</b>		<u>5 368</u>
<b>Total Liabilities</b>		<u>5 368</u>
<b>NET ASSETS</b>		<u>5 804</u>
<b>EQUITY:</b>		
Retained surplus	6	5 804
<b>TOTAL EQUITY:</b>		<u><u>5 804</u></u>

### Statement of Cash Flows for the 6 months ended 30 June 2002

	Note	2002 Inflows (Outflows) \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
<b>PAYMENTS:</b>		
Expenses from ordinary activities		(35 634)
<b>Total Payments</b>		<u>(35 634)</u>
<b>RECEIPTS:</b>		
Interest		343
Proceeds from asset sales		43 500
Other revenue from ordinary activities		2 846
<b>Total Receipts</b>		<u>46 689</u>
<b>Net Cash provided by Operating Activities</b>	7	<u>11 055</u>
<b>NET INCREASE IN CASH HELD</b>		<u>11 055</u>
<b>CASH AT BEGINNING OF PERIOD</b>		<u>-</u>
<b>CASH AT 30 JUNE 2002</b>		<u><u>11 055</u></u>

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

**1. Objectives**

In January 2002, a Special Deposit Account called the 'TAB Sale - Proceeds' was established. The purpose of the account is to 'apply proceeds of the sale in accordance with section 14 of the *TAB (Disposal) Act 2000* and to account for the net proceeds'.

Under the *TAB (Disposal) Act 2000* section 14 'The Treasurer may only apply proceeds of a sale agreement -

- (a) in payment of the costs of restructuring and disposal of the TAB business; and
- (b) in payment of amounts for the development of the racing industry; and
- (c) in payment to an account at the Treasury to be used for the purposes of retiring State debt'.

## TAB Sale - Proceeds

## 2. Summary of Significant Accounting Policies

(a) **Basis of Accounting**

The accounts have been prepared in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, application Accounting Standards and applicable Urgent Issues Group Consensus Views. The accounts are prepared on the accrual basis and in accordance with conventional historic cost principles except where stated.

(b) **The Reporting Entity**

The financial arrangements of the TAB Sale - Proceeds are administered by the Department of Treasury and Finance through an interest bearing Special Deposit Account titled 'TAB Sale - Proceeds' through which the TAB Sales will conduct its activities. The Account's principal source of funds consists of revenues from the sale of assets.

(c) **Cash**

For the purposes of the Statement of Cash Flows, cash includes cash deposits which are readily convertible to cash on hand and which are used in the cash management function on a day-to-day basis.

(d) **Comparative Figures**

Activities in this account were recorded from 1 January 2002.

(e) **Rounding**

All amounts are rounded to the nearest thousand dollars.

## 3. Operating Expenses from Ordinary Activities

	<b>2002</b>
	<b>\$'000</b>
Human resources redundancies	16 108
Payments to South Australian Racing Industry (SARI)	14 711
Pooling Agreement termination costs	6 297
Payment to TABQ under Sale Agreement (Note 9)	3 580
Probity investigation costs	84
Reimbursement of costs to DAIS for preparatory work and disposal <sup>(1)</sup>	222
	<u>41 002</u>

(1) Gross expenses incurred by DAIS for preparatory work and disposal (excluding Redundancies and Payments to SARI)  
Less: Funding from Consolidated Account received by DAIS

9 720  
9 498  
222

## 4. Operating Revenue from Ordinary Activities

Return from South Australian Racing Industry	2 054
TAB Working Capital surplus	792
Other	53
	<u>2 899</u>

## 5. Payables

Payment to TABQ under Sale Agreement (Note 9)	3 580
Probity investigation costs	84
Human resources redundancies	1 704
	<u>5 368</u>

## 6. Retained Surplus

Balance at beginning of period	-
Net surplus	5 804
	<u>5 804</u>

**Balance at 30 June 2002**

## 7. Reconciliation of Net Cash provided by Operating Activities

Net cash provided by Operating Activities	11 055
Change in assets and liabilities:	
Increase (Decrease) in receivables	117
(Increase) Decrease in creditors and accruals	<u>(5 368)</u>
<b>Net Surplus</b>	<u>5 804</u>

## 8. After Balance Date Events

Since 30 June 2002 it has been resolved that an additional payment of \$1.2 million (excluding GST) is to be paid in respect of the termination of TABCorp Pooling Agreement.

## 9. Contingent Liability

Under the Sale Agreement, the State has agreed to make payments to TABQ at the end of each financial year, up to June 2004, representing the difference in actual product fees by TABQ to the local Racing Industry and 39 percent of Net Waging Revenue (NWR) in those years. The likely costs is uncertain as it depends on the level of NWR in those years, but the amount is capped at \$6 million per annum.

## XTAB PTY LTD

### INTRODUCTION

Following a direction by the Minister for Government Enterprises pursuant to the *TAB (Disposal) Act 2000*, the South Australian Totalizator Agency Board (TAB) was registered as a proprietary company (SA TAB Pty Ltd) under the Corporations Law on 26 April 2001.

In August 2001, the Minister for Government Enterprises announced that the TAB had been purchased by TAB Queensland Limited subject to probity checks by the Gaming Supervisory Authority.

Settlement of the sale of the SA TAB occurred on 14 January 2002. Under the sale agreement, the assets of the SA TAB were purchased by UNITAB Pty Ltd, a subsidiary of TAB Queensland Limited. As part of the settlement, the SA TAB Pty Ltd was renamed XTAB Pty Ltd and became the vehicle to wind down the assets and liabilities of the business.

### AUDIT MANDATE AND COVERAGE

#### Audit Authority

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to audit the accounts of the XTAB Pty Ltd in respect of each financial year.

#### Scope of Audit

The audit covered the major financial systems of the TAB and included an assessment of the adequacy of internal controls within those systems. The extent of audit coverage was influenced by the work performed by the Audit Department of the TAB. The specific areas of audit attention included:

- wagering system, including bets and dividends
- expenditure, including accounts payable and salaries and wages
- budgetary control and management reporting
- non-current assets, including adequacy of asset register maintenance
- internal audit activities
- distributions.

### AUDIT FINDINGS AND COMMENTS

#### Commentary on General Financial Controls

The overall internal control structure of XTAB Pty Ltd was assessed as satisfactory.

### CONTROLS OPINION

As required by subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987*, the audit of XTAB Pty Ltd included an assessment of the controls exercised in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities. The assessment also considered whether those controls were consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

Audit formed the opinion that the controls exercised by XTAB Pty Ltd in relation to the receipt, expenditure and investment of money; the acquisition and disposal of property; and the incurring of liabilities, were sufficient to provide reasonable assurance that the financial transactions of the organisations were conducted properly and in accordance with law.

## EXTRACT FROM INDEPENDENT AUDIT REPORT

### **Qualification**

*In accordance with the requirements of Auditing Standard AUS 702 'The Audit Report on a General Purpose Financial Report', attention is drawn to the following:*

- (a) The financial accounting treatment accorded to certain non-current assets differs from the requirements of Accounting Standard AASB 1021 'Depreciation'. The difference in treatment arises from specific legislative provisions of the Racing Act 1976 [repealed], with which there was compliance.*
- (b) As disclosed in Note 1(a) to the financial statements, the financial accounting treatment accorded to income tax differs from the requirements of Accounting Standard AASB 1020 'Income Taxes'. The difference in treatment arises from specific legislative provisions of the Public Finance and Audit Act 1987 in particular, the Treasurer's Instructions promulgated pursuant to that Act, and the Racing Act 1976 [repealed], with which there was compliance.*

### **Qualified Audit Opinion**

*In my opinion, except for the effects on the financial report of the matters referred to in the qualification paragraphs, the financial report of XTAB Pty Ltd is in accordance with:*

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of XTAB Pty Ltd's financial position as at 30 June 2002 and of its performance for the year ended on that date; and*
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and**
- (b) other mandatory professional reporting requirements in Australia.*

## INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Notes 6(b) and 21 to the financial statements outline the distribution of assets and liabilities as a result of the sale of the TAB. The significant transactions related to the transfer of net non-current assets to UNITAB Pty Ltd of \$8.4 million and \$5 million, being the sum of the Section 69 Capital Fund balance and the Capital Infrastructure Fund balance, paid to the South Australian Government.

## XTAB PTY LTD

## Statement of Financial Performance for the year ended 30 June 2002

	Note	2002 \$'000	26.4.01 to 30.6.01 \$'000
Turnover	2	360 459	113 104
Dividends paid to customers	2	(304 355)	(95 546)
<b>Commission</b>		<b>56 104</b>	<b>17 558</b>
Other revenue from ordinary activities	2	6 976	2 745
Distribution expenses		(10 924)	(3 891)
Marketing expenses		(6 125)	(1 561)
Occupancy expenses		(2 422)	(824)
Information technology expenses		(2 251)	(725)
Other expenses from ordinary activities		(16 241)	(4 506)
<b>Profit from Ordinary Activities before Income Tax Expense</b>		<b>25 117</b>	<b>8 796</b>
Income tax expense relating to ordinary activities	3	(804)	(429)
<b>Profit from Ordinary Activities after related Income Tax Expense</b>		<b>24 313</b>	<b>8 367</b>
<b>NET PROFIT</b>	10	<b>24 313</b>	<b>8 367</b>
<b>TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER</b>		<b>24 313</b>	<b>8 367</b>

## Statement of Financial Position as at 30 June 2002

	Note	2002 \$'000	26.4.01 to 30.6.01 \$'000
<b>CURRENT ASSETS:</b>			
Cash		-	2 661
Receivables	5	-	229
Investments	6	-	22 999
Inventories		-	1 108
Other		-	908
<b>Total Current Assets</b>		<b>-</b>	<b>27 905</b>
<b>NON-CURRENT ASSETS:</b>			
Investments		-	67
Property, plant and equipment	7	-	9 546
<b>Total Non-Current Assets</b>		<b>-</b>	<b>9 613</b>
<b>Total Assets</b>		<b>-</b>	<b>37 518</b>
<b>CURRENT LIABILITIES:</b>			
Accounts payable	8	-	4 150
Current tax liability		-	502
Provisions	9	-	2 182
Other		-	16 530
<b>Total Current Liabilities</b>		<b>-</b>	<b>23 364</b>
<b>NON-CURRENT LIABILITIES:</b>			
Provisions		-	426
<b>Total Non-Current Liabilities</b>		<b>-</b>	<b>426</b>
<b>Total Liabilities</b>		<b>-</b>	<b>23 790</b>
<b>NET ASSETS</b>		<b>-</b>	<b>13 728</b>
<b>FUNDS AND RESERVES:</b>			
Accumulated capital	11	-	13 728
Contributed Equity	12	-	-
<b>TOTAL FUNDS AND RESERVES</b>		<b>-</b>	<b>13 728</b>
Contingent Liabilities	17		

XTAB Pty Ltd

## Statement of Cash Flows for the year ended 30 June 2002

		2002	26.4.01 to 30.6.01
		Inflows (Outflows)	Inflows (Outflows)
	Note	\$'000	\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers		360 459	113 104
Rental received		649	227
Interest and bill discounts received		584	424
Proceeds from sundry activities		1 671	758
Proceeds from refunds outstanding		158	88
Decrease in refunds outstanding		158	(45)
Proceeds from unclaimed dividends		844	355
Decrease in unclaimed dividends		1 295	(3)
Proceeds from fractions		3 125	922
Payment of dividends to customers		(304 355)	(95 546)
Payments to suppliers and employees		(35 703)	(13 206)
Decrease in telephone betting deposits		(4 665)	(99)
Payment to Treasurer - Working Capital surplus		(792)	-
Funds transferred to purchaser		(8 121)	-
<b>Net Cash provided by Operating Activities</b>	19	<b>15 307</b>	<b>6 979</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Payments for property, plant and equipment		(334)	(667)
Proceeds from sale of property, plant and equipment		81	1
<b>Net Cash used in Investing Activities</b>		<b>(253)</b>	<b>(666)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Distributions paid		(33 613)	(2 280)
Payment to Treasurer - Capital and Infrastructure Funds distribution		(5 047)	-
- Return from South Australian Racing Industry		(2 054)	-
<b>Net Cash used in Financing Activities</b>		<b>(40 714)</b>	<b>(2 280)</b>
<b>NET (DECREASE) INCREASE IN CASH HELD</b>		<b>(25 660)</b>	<b>4 033</b>
<b>CASH AT 1 JULY</b>		<b>25 660</b>	<b>21 627</b>
<b>CASH AT 30 JUNE</b>	19	<b>-</b>	<b>25 660</b>

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 1. Summary of Accounting Policies

**Financial Reporting Framework**

The financial report of XTAB Pty Ltd (SA TAB Pty Ltd) is a general purpose financial report which has been prepared in accordance with the *Racing Act 1976* (repealed) and as per the *TAB (Disposal) Act 2000*, the requirements of the Accounting Policy Statements issued by the Treasurer pursuant to the *Public Finance and Audit Act 1987*, the applicable Australian Accounting Standards and Urgent Issues Group Consensus Views, and complies with the requirements of the law.

The accounts have been prepared on the basis of historical cost and do not take into account changes in money values or, except where stated, current valuations of non-current assets.

The former SA TAB Pty Ltd (now XTAB Pty Ltd) was sold to UNITAB Pty Ltd (a subsidiary of TAB Queensland Limited) on 14 January 2002 for \$44.3 million. These funds were deposited into a sales proceeds account held with the Department of Treasury and Finance and, as such, SA TAB Pty Ltd received \$nil consideration of the sale of its assets.

A number of the employees of the SA TAB Pty Ltd transferred to UNITAB Pty Ltd and became employees of that entity. The employees who did not transfer to the new entity remain employees of XTAB Pty Ltd. These employees will be availed the SA Government career transition facilities provided through the Department for Administrative and Information Services until 13 January 2003 after which these services and employment will cease. As at 30 June 2002 10 employees remained in this program.

Since 14 January 2002 employees of XTAB Pty Ltd have been paid through the Department for Administrative and Information Services and the amount paid has been recognised in that agency's administered financial statement. Similarly, any leave entitlements due at 13 January 2003 will also be administered by the Department for Administrative and Information Services.

**Significant Accounting Policies**

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 events is reported.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report.

**(a) Income Tax Equivalent Regime**

Pursuant to a Ministerial Direction and Treasurer's Instruction 22, an income tax equivalent regime applied to the SA TAB. The regime required the SA TAB to pay amounts (to the South Australian Government as part of its distribution) deemed to be equivalent to that which would have been paid to the Commonwealth if it was not exempt from the taxation laws of the Commonwealth.

The income tax equivalent regime has been applied in a manner that is consistent with the requirement, pursuant to section 69(2) of the *Racing Act 1976*, to pay 45 percent of the balance remaining, after deducting the amount of the payments required by subsection (1a) of section 69, to the Treasurer to be credited to the Hospitals Fund.

XTAB Pty Ltd

**(a) Income Tax Equivalent Regime (continued)**

As a result of the application of the income tax equivalent regime, the transfer of funds to the Hospitals Fund has been reflected in the financial statements as:

- (i) income tax expense relating to ordinary activities;
- (ii) profit distributable to the South Australian Government (refer Note 4).

**(b) Employee Entitlements**

*(i) Long Service Leave*

The liability for employee entitlements to long service leave represents the present value of the estimated future cash outflows to be made by the employer resulting from employees' services provided up to the balance date. In determining the liability for employee entitlements, consideration has been given to future increases in wage and salary rates. Related on-costs have also been included in the liability.

*(ii) Annual Leave*

The annual leave liability recognised in the accounts represents the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date.

*(iii) Sick Leave*

No provision has been made in respect of sick leave, as on average, sick leave taken is less than the total entitlements that accrue each year.

*(iv) Superannuation*

The SA TAB contributed to separate externally managed superannuation funds. Contributions are charged as an expense in the period in which they occur.

*(v) Workers Compensation*

The SA TAB paid a levy to WorkCover who meets all liabilities associated with workers compensation. Transition employees are included under the Department for Administrative and Information Services WorkCover return until 13 January 2003.

**(c) Leases**

Operating lease payments are charged as an expense in the period in which they are incurred.

**(d) Requirements of the Racing Act 1976 and Other Related Matters**

*(i) Fractions*

• *Racing*

Section 76 of the *Racing Act 1976*, provided for fractions to accrue to the SA TAB for payment as to one half to the South Australian Government and the balance to the controlling authorities in the respective shares as specified in section 69(2)(b).

• *Football*

Section 84G of the *Racing Act 1976*, provided for fractions to accrue to the SA TAB for payment in equal shares to the South Australian Government and the South Australian National Football League Inc.

*(ii) Unclaimed Dividends*

• *Racing*

Section 78 of the *Racing Act 1976*, provides for dividends unclaimed for a period of six months to accrue to the SA TAB for payment as to one half to the South Australian Government and the balance to the controlling authorities in the respective shares as specified in section 69(2)(b).

• *Football*

Section 84H of the *Racing Act 1976* provided for dividends unclaimed for a period of six months to accrue to the SA TAB for payment in equal shares to the South Australian Government and the South Australian National Football League Inc.

• *Fixed Odds Betting*

Section 84N of the *Racing Act 1976*, provided for dividends unclaimed to accrue to the SA TAB for payment to the South Australian Government.

*(iii) Refunds Outstanding*

Refunds outstanding more than six months accrue to the SA TAB as general revenue and form part of trading distributions.

*(iv) Doubles and Multiples*

Section 69(1a)(b) of the *Racing Act 1976*, provided for 1 percent of turnover from doubles and 1.4 percent of turnover from multiple betting made with the SA TAB to be payable to the controlling authorities in the respective shares as specified in section 69(2)(b).

*(v) State Tax*

• *Racing*

Section 69 (1a)(f) provided for a state tax equivalent to 6 percent of the net gambling revenue to be paid to the South Australian Government.

## XTAB Pty Ltd

- (v) *State Tax (continued)*
- *Football*  
Section 84B(ba) provided for a state tax equivalent to 6 percent of the net gambling revenue to be paid to the South Australian Government.
- (vi) *Net Gambling Revenue Payment*
- *Racing*  
Section 69(1a)(g) provided for a payment equivalent to 18.45 percent of the net gambling revenue to be paid to the controlling authorities in the respective shares as specified in section 69(2)(b).
  - *Football*  
Section 84B(bb) provided for a payment equivalent to 15.09 percent of the net gambling revenue to be paid to the South Australian National Football League Inc.

**(e) Goods and Services Tax**

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except:

- Where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense.

**(f) Comparative Figures**

The assets of XTAB Pty Ltd (formerly SA TAB Pty Ltd) were sold to UNITAB Pty Ltd (now named SATAB Pty Ltd) a subsidiary of TAB Queensland Limited on 14 January 2002 in accordance with the Business Sale Agreement. Previously XTAB Pty Ltd existed as a statutory authority unit converted into an entity under the *Corporations Act* on 26 April 2001. Comparative figures for the SA TAB extend to the period of when the entity operated as an entity under the *Corporations Act*. Thus amounts shown for the 2001 year relate to the period 26 April 2001 to 30 June 2001 and 2002 amounts related to the total financial year however trading only occurred between 1 July 2001 and 13 January 2002.

**2. Profit from Ordinary Activities**

Profit from ordinary activities before income tax includes the following items of revenue and expense.

		26.4.01	
<b>(a) Operating Revenue</b>		<b>2002</b>	to 30.6.01
		<b>\$'000</b>	\$'000
Turnover		<b>360 459</b>	113 104
Interest revenue		<b>577</b>	364
Rental revenue		<b>601</b>	206
Fractions		<b>3 125</b>	922
Unclaimed dividends		<b>844</b>	355
Outstanding refunds		<b>158</b>	88
Oncourse costs recovered		<b>1 149</b>	427
Sundry income		<b>522</b>	383
		<b>367 435</b>	115 849
<b>(b) Expenses</b>			
Dividends paid to customers		<b>304 355</b>	95 546
Employee entitlements		<b>135</b>	122
Ordinary lease rental expenses		<b>2 422</b>	556
Defined benefit superannuation expenses		<b>-</b>	188
<b>(c) Other Expenses from Ordinary Activities</b>			
Expenses include:			
Goods and Services Tax		<b>5 100</b>	7 430
State tax		<b>3 353</b>	4 895
Pools administration fee		<b>2 478</b>	3 429
Betting tickets		<b>982</b>	1 429
<b>3. Income Tax</b>			
Income tax attributable to income tax equivalent regime (Note 1(a))		<b>804</b>	429
<b>4. Distributions and Retentions</b>			
<b>(a) Distribution Recipients</b>			
Thoroughbred Racing SA		<b>13 518</b>	4 913
Harness Racing SA		<b>3 218</b>	1 170
Greyhound Racing SA		<b>1 655</b>	601
<b>Total Racing Industry</b>		<b>18 391</b>	6 684
South Australian National Football League Inc		<b>108</b>	57
South Australian Government		<b>4 702</b>	2 256
<b>Total</b>		<b>23 201</b>	8 997
<b>(b) Retentions</b>			
Capital fund		<b>1 916</b>	588
<b>5. Current Assets - Receivables</b>			
Debtors		<b>-</b>	229



## XTAB Pty Ltd

**11. Accumulated Capital**

The Accumulated Capital balance was comprised primarily of funds provided from racing turnover. The actual cash funds available for capital expenditure was \$nil (refer Note 6) plus the amount in the Capital Infrastructure Fund \$nil (refer Note 6).

As SA TAB's assets were purchased from section 69 Capital Fund, the accounting treatment to introduce the transactions into the financial records of SA TAB was to charge the Fund account with the cost of the assets, with a contra entry to the Accumulated Capital account.

	Capital Fund \$'000	2002 Other Capital \$'000	Total \$'000	Capital Fund \$'000	2001 Other Capital \$'000	Total \$'000
Balance at 1 July	2 616	11 112	13 728	2 708	11 813	14 521
Net (Decrease) (refer Note 6 (a))	(2 616)	-	(2 616)	(92)	-	(92)
Net asset movements	-	(11 112)	(11 112)	-	85	85
Transfer from reserves	-	-	-	-	(786)	(786)
<b>Balance at 30 June</b>	-	-	-	2 616	11 112	13 728

**12. Contributed Equity**

(a)	Share Capital	2002 Shares	2002 \$	26.4.01 to 30.6.01 Shares	26.4.01 to 30.6.01 \$
	Ordinary shares - fully paid	1	1	1	1

Share held by Minister for Government Enterprises of South Australia in his capacity as a body corporate (pursuant to section 7 of the *Administrative Arrangements Act 1994*).

**13. Directors' Remuneration**

	2002 \$'000	26.4.01 to 30.6.01 \$'000
Total income received or due and receivable by all Directors of the economic entity:		
Directors' fees	20	30

The number of Directors of the Board whose income from the economic entity falls within the following bands  
\$0 - \$9 999

7	6
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**14. Executives' Remuneration**

The economic entity was sold on 14 January 2002. At that point in time no executive had received more than \$100 000 as a salary package.

In addition a number of executives took advantage of redundancy arrangements associated with the sale.

**15. Auditors' Remuneration**

	2002 \$'000	26.4.01 to 30.6.01 \$'000
Remuneration for audit or review of the financial reports of the SA TAB:		
Auditors of the SA TAB: Auditor-General of South Australia	65	12

**16. Other Information**

(a) The SA TAB Pty Ltd was located in South Australia. The Company was incorporated on 26 April 2001 and its core assets and business were sold to a subsidiary of TAB Queensland Limited on 14 January 2002 in accordance with the TAB Business Sale Agreement. The registered office during this time was 14 Pulteney Court, Adelaide, South Australia. Residual accounting functions and administrative responsibilities are and have been discharged through the appropriate agencies of the Department for Administrative and Information Services and Department of Treasury and Finance as directed by the Minister for Government Enterprises.

(b) The organisation's functions and objectives were set out in the *Racing Act 1976* and subsequently the *TAB (Disposal) Act 2000*.

(c) The number of full-time equivalent employees at 30 June was 10. These employees will be availed the SA Government career transition facilities provided through the Department for Administrative and Information Services until 13 January 2003 after which these services and employment with the SA TAB will cease.

**17. Contingent Liabilities**

The SA TAB is aware of a potential claim for breach of lease obligations. The claim has not been quantified.

Proceedings have been lodged against SA TAB for an alleged breach of contract. The SA TAB is currently defending the claim. The maximum exposure for SA TAB is \$5 000.

## XTAB Pty Ltd

**18. Related Parties' Disclosure**

During the financial period the following persons held the position of Director of the SA TAB:

Mr John G Branson, LL.B (Presiding Member)	
Appointed Presiding Member	
Appointed	26.4.2001
Resigned	15.8.2001
Mr William (Bill) A Dawson	
Appointed	26.4.2001
Resigned	15.8.2001
Ms Janet E Grieve	
Appointed	26.4.2001
Resigned	15.8.2001
Mr David J Seymour-Smith	
Appointed	26.4.2001
Resigned	15.8.2001
Ms Vickie A Chapman, LL.B, GDLP	
Appointed	26.4.2001
Resigned	15.8.2001
Mr Richard P Krantz, FCA	
Appointed	26.4.2001
Resigned	15.8.2001
Mr John M Patten, B.Ec, FCA	
Appointed	26.4.2001
Resigned	15.8.2001
Mr Robert S Ruse	
Appointed	16.8.2001
Mr Terry Evans	
Appointed	16.8.2001
Mr John T Hill	
Appointed	16.8.2001

Details of Directors' remuneration are set out in Note 13.

No Director has, since becoming a Director of the SA TAB, entered into a contract or transaction with the SA TAB.

Mr Branson holds a \$1.00 ordinary share in SA TAB Staff Superannuation Fund Pty Ltd, the trustee company of the SA TAB's staff superannuation fund.

Apart from the above interests, no Directors have a pecuniary interest, either direct or indirect, in any firm, trust or company with which the SA TAB or any entity controlled by the SA TAB, had entered into a transaction during the financial period.

**19. Statement of Cash Flows****(a) Reconciliation of Cash**

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank, and short-term investments in money market instruments.

Cash at the end of the financial period as shown in the Statement of Cash Flows is	<b>2002</b>	26.4.01
reconciled to the related items in the Statement of Financial Position as follows:	<b>\$'000</b>	to 30.6.01
Cash	-	2 661
Short-term investments	-	22 999
	-	<u>25 660</u>

**(b) Reconciliation of Net Cash provided by Operating Activities to Profit from Ordinary Activities before Income Tax**

Profit from ordinary activities before income tax	<b>25 117</b>	8 796
Change in operating assets and liabilities	<b>(3 692)</b>	(1 670)
Telephone betting deposits	<b>(4 665)</b>	(99)
Refunds outstanding	<b>(158)</b>	(45)
Unclaimed dividends outstanding	<b>(1 295)</b>	(3)
<b>Net Cash provided by Operating Activities</b>	<b>15 307</b>	<u>6 979</u>

**20. Consultancies**

Amounts paid for consultancies

**64**      36

**21. Distribution Accounts relating to Business Sale Agreement**

	<b>2002</b>		
	<b>Assets</b>	<b>Liabilities</b>	<b>Equity</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
As at 13 January 2002	<b>35 198</b>	<b>26 223</b>	<b>8 975</b>
Transactions post-sale relating to pre-sale events	<b>(13 859)</b>	<b>(13 859)</b>	-
Distribution to SA Government per the Business Sale Agreement	<b>(2 045)</b>	<b>(1 531)</b>	<b>(514)</b>
Distribution to South Australian Racing Industry	<b>(2 054)</b>	<b>(2 054)</b>	-
Working capital to UNITAB Pty Ltd per Sale Agreement	<b>(81)</b>	-	<b>(81)</b>
Net non-current assets transferred to UNITAB Pty Ltd	<b>(17 159)</b>	<b>(8 779)</b>	<b>(8 380)</b>
<b>Financial Position as at 30 June</b>	<b>-</b>	<b>-</b>	<b>-</b>