Lotterywest
Statement of Corporate Intent
(Annual Business Plan and Budget)
2011/2012

Revised 22 September 2011
# Table of Contents

- Introduction .................................................................................................................. 3
- Jan Stewart PSM ........................................................................................................ 4
- Statement of Strategic Intent ....................................................................................... 5
  - Our Vision .................................................................................................................. 5
  - Our Purpose .............................................................................................................. 5
  - Our Values ............................................................................................................... 5
- Reporting Framework .................................................................................................. 6
  - Lotterywest Reporting Framework ........................................................................... 6
- Budget 2011/2012 ........................................................................................................ 7
  - Executive Summary .................................................................................................. 7
  - Sales Budget 2011/12 ............................................................................................... 8
  - Profit & Loss Statement ............................................................................................ 12
  - Risk Evaluation ........................................................................................................ 13
  - Operational Expenses .............................................................................................. 13
  - Capital Expenditure .................................................................................................. 15
- Lotterywest Key Performance Indicators .................................................................... 15
- Accounting Policies .................................................................................................... 17
Introduction

Lotterywest has a long and proud history of serving the community of Western Australia. Established as the Lotteries Commission of Western Australia in 1932 and holding its first lottery "consultation" in March 1933, Lotterywest was established to provide a State authorised form of gambling, to control illegal lotteries and most importantly to raise money for the community of Western Australia.

Today, Lotterywest continues to provide the chance to dream to the many loyal players who enjoy our lotto products, instant lottery games, our daily numbers game, Cash 3 and Soccer Pools. Lotterywest not only operates the lottery but also distributes the proceeds directly to a wide range of community organisations and charities throughout Western Australia. This makes Lotterywest unique among the Australian lotteries with only a very small number of other lotteries in the world sharing this responsibility. Increasingly Lotterywest has taken a leadership role in this state and nationally in our innovative grant making and community development practices.

In addition to the grants we distribute directly, Lotterywest's charter is also to raise money for the State's health services, sporting organisations and the arts.

We operate our games of Lotto in partnership with the other Lottery operators in Australia. Our population is not of a sufficient size to generate the life changing win for which our players are looking. This means our partnership with our colleagues in other states and territories is a critical element of our planning for continued success in our business.

Our distribution channels are another critical element of our success. Lotterywest's Strategic Plan outlines our continued focus on the support and development of the small businesses throughout the state who sell Lotterywest products. Managing a retail distribution network in a state the size of Western Australia is a particular challenge for us.

Lotterywest is a values based organisation. Our values of Rewarding, Inspiring, Trusted and Engaging create a focus and guide all that we do.

Lotterywest is committed to responsible gaming, recognising the need for balance between our commercial operations and the need to raise funds for our beneficiaries with our responsibilities to our players and to the public. This means our goal is to ensure business sustainability and achieve modest growth each year while observing our commitment to responsible play.

This Statement of Corporate Intent affirms our commitment to be a leader in building a better Western Australia.

The environment in which we operate shapes our capacity to achieve our goals. As with all businesses, we operate in rapidly changing times. While Western Australia experienced a limited level of hardship during the Global Financial Crisis compared with some countries, the overall economic climate will be one that presents challenges for us in accurately predicting and achieving the patterns of growth which our beneficiaries have experienced from us for more than a decade.

Our priority for the distribution of our products will remain with our retail distribution network although early in 2011 we added and online sales channel to reduce the risk of losing sales to other online gambling providers. We work in partnership with 500 small businesses
around our state, who sell our products. We recognise that the majority of our customers enjoy their direct and personal service and we will continue to support them in providing that service.
Changes in technology continue to add value and drive efficiencies and we will need to continue to invest in the business improvements which technology can offer.
In the financial year covered by this Statement of Corporate Intent (2011/12), we will continue to seek new opportunities for improved products and services to our players and retailers, to be partners of choice to the many providers of the goods and services we require to operate our lottery, to provide opportunities for the development of our staff and to provide community leadership and an innovative, flexible and responsive grants program to the community sector of Western Australia.

The Board and staff of Lotterywest are committed to service and excellence in all that we do.

Jan Stewart PSM
Chief Executive Officer
Statement of Strategic Intent

Our Vision
To be a leader in building a better Western Australia

Our Purpose
To enhance the quality of life and well being for all Western Australians through the funding and support we provide to our beneficiaries and by operating our lottery business with excellence and integrity.

Our Values
Lotterywest is an organisation committed to serving the community of Western Australia with excellence and integrity. Four core values underpin all that we do:

Rewarding We seek to ensure that the experience of all those with whom we come into contact – players, grant seekers, business partners and the community as a whole will be a valued and rewarding one and that all will be treated with courtesy and respect.

Inspiring We motivate, encourage and inspire ourselves and others to achieve greater things for the benefit of the community of Western Australia.

Trusted We are honest, reliable and trustworthy. We conduct ourselves professionally with the highest standards of integrity and excellence in all our business operations and in our relationships with all our stakeholders.

Engaging We actively seek relationships with all our stakeholders based on principles of mutual respect and strive to enhance the achievement of their goals and ours.

In enacting these values, we recognise the diversity of the interests of our stakeholders and seek to achieve a balance of approach which takes into account this diversity.
Reporting Framework

This document details Lotterywest’s key financial and operational objectives for the 2011/12 financial year. It outlines the objectives and assumptions underpinning the budget projections.

Lotterywest, as part of its ongoing business practice, prepares various planning documents including a strategic plan and annual business plan. These documents are approved by the Lotterywest Board and submitted to the responsible Minister.

Lotterywest’s planning requirements have now been legislated in the Lotteries Commission Act 1990 (as amended). This was part of a State Government initiative (under the Machinery of Government Bill), to improve consistency in planning and service delivery across Western Australian public sector organisations by legislating the requirement for all government trading enterprises to provide two planning documents:
1. Strategic Development Plan (SDP), providing a 5 year outlook; and
2. Statement of Corporate Intent (SCI), providing a 1 year outlook.

Lotterywest’s Strategic Plan and Annual Business Plan comply with the requirements as detailed in the Regulations to the Act for the annual submission of an SDP and SCI. These documents are submitted to the Premier as the responsible Minister.

Lotterywest Reporting Framework

The following table details the key planning documents prepared and published by Lotterywest:

<table>
<thead>
<tr>
<th>Internal Use Documents</th>
<th>Description</th>
<th>Use</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Plan</td>
<td>Outlines key business outcome areas and high level strategies to achieve outcomes</td>
<td>Approved by the Lotterywest Board and used internally to focus work resources and effort and to monitor and evaluate organisational strategies in achieving outcomes</td>
</tr>
<tr>
<td>Annual Business Plan and Budget</td>
<td>Details organisational financial and operational objectives for the financial year and how these will be achieved</td>
<td>Approved by the Lotterywest Board and used internally to focus work resources and effort and to monitor and evaluate organisational performance against budget and targets</td>
</tr>
<tr>
<td>Business Unit Annual Operational Plans</td>
<td>Outlines Business Unit objectives, detailing specific initiatives and activities to achieve objectives</td>
<td>Approved by the Business Unit General Manager and used by Business Units to focus work resources and effort and to monitor and evaluate outcomes against plan</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Legislated Required Documents</th>
<th>Description</th>
<th>Use</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lotterywest Strategic Development Plan (SDP)</td>
<td>This document is based on Lotterywest’s Strategic Plan (see above) but also includes additional information as stipulated under section 8 of the Lotteries Commission Act 1990 (as amended). Additional information includes: economic and financial objectives, capital expenditure requirements, competitive and pricing strategies</td>
<td>Approved by the Lotterywest Board and submitted to the Premier as the responsible Minister, and to the Department of Treasury and Finance</td>
</tr>
<tr>
<td>Lotterywest Statement of Corporate Intent (SCI)</td>
<td>This document is based on Lotterywest’s Annual Business Plan and Budget (see above) but also includes additional information as stipulated under section 8 of the Lotteries Commission Act 1990 (as amended). Additional information includes: accounting policies, and the type of information provided in an annual report</td>
<td>Approved by the Lotterywest Board and submitted to the Premier as the responsible Minister, and to the Department of Treasury and Finance. Document is subsequently tabled in Parliament</td>
</tr>
</tbody>
</table>
The following information outlines Lotterywest's key operational and financial objectives for the financial year 2011/12. The information detailed in this report aligns with and supports the outcomes and strategies documented in Lotterywest's Strategic Development Plan 2011 – 2015 (also referred to Lotterywest's Strategic Plan 2011 – 2015).

Budget 2011/2012

Executive Summary

- Total 2010/11 sales result: $683.3m
- Total 2011/12 sales budget: $742.5m
- Increase on current year result: $59.2m (8.7%)
- Operational expenses 2011/12 budget: $52.2m
- Expenses as a % of sales: 7.0%
- Total statutory and Direct grant funding 2011/12: $248.0m
- Direct grants 2011/12: $110.0m

Overview

The 2011/12 sales budget of $742.5 million represents growth of 8.7% on the sales result for 2010/11 financial year.

A number of planning scenarios using different variables were developed and considered in deriving this growth target. The planning process included analysis of environmental and economic factors combined with a bottom up approach to establish sales budgets for each game and each draw.

The key factors considered in establishing the 2011/12 sales budget are:

- planned price increases for OZ Lotto & Powerball from June 2011
- additional draw for Saturday Lotto (financial year 2011/12 starts on Friday and end on Saturday)
- upgrade of the Superdraw in July 2011 to $30 million (normally - $20 million)
- Impact of planned business initiatives, including:
  - Play online – increase in sales from new distribution channel
  - Improved communication - new product marketing initiatives with the objective of improving effectiveness of communications
  - Expanded retailer development program with retailer incentives as a key component of the program
  - Review of the instant ticket (Scratch’n’Win) portfolio to improve the range and prize structures offered to players
  - Review of the retail distribution channel to improve distribution of instant tickets
Sales Budget 2011/12

The table below details actual results for the past two years and budget for the 2011/12.

<table>
<thead>
<tr>
<th>PRODUCT SALES</th>
<th>Actual 2009/10 $000</th>
<th>Actual 2010/11 $000</th>
<th>Budget 2011/12 $000</th>
<th>Budget vs Act 2010/11 $000</th>
<th>Budget vs Act 2010/11 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saturday Lotto</td>
<td>298,229</td>
<td>320,904</td>
<td>319,444</td>
<td>-1,460</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Monday/Wednesday Lotto</td>
<td>50,487</td>
<td>47,261</td>
<td>69,127</td>
<td>21,866</td>
<td>46.3%</td>
</tr>
<tr>
<td>OZ Lotto</td>
<td>125,770</td>
<td>104,147</td>
<td>114,653</td>
<td>10,506</td>
<td>10.1%</td>
</tr>
<tr>
<td>Powerball</td>
<td>114,467</td>
<td>99,274</td>
<td>118,635</td>
<td>19,361</td>
<td>19.7%</td>
</tr>
<tr>
<td>Super 66</td>
<td>2,848</td>
<td>2,800</td>
<td>2,800</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Pools</td>
<td>1,785</td>
<td>1,295</td>
<td>1,560</td>
<td>265</td>
<td>20.5%</td>
</tr>
<tr>
<td>Cash 3</td>
<td>8,345</td>
<td>8,851</td>
<td>9,127</td>
<td>276</td>
<td>3.1%</td>
</tr>
<tr>
<td>Scratch'nWin</td>
<td>99,552</td>
<td>98,812</td>
<td>106,932</td>
<td>8,120</td>
<td>8.2%</td>
</tr>
<tr>
<td><strong>Total Sales</strong></td>
<td><strong>701,483</strong></td>
<td><strong>683,344</strong></td>
<td><strong>742,478</strong></td>
<td><strong>59,134</strong></td>
<td><strong>8.7%</strong></td>
</tr>
</tbody>
</table>

Sat, Mon & Wed | 348,716             | 368,165             | 388,873             | 20,406                      | 5.5%                    |
| OZ & PB       | 240,237             | 203,421             | 233,485             | 30,067                      | 14.8%                   |

Saturday Lotto

The budgeted sales for Saturday Lotto of $319.4 million represents a decrease of $1.5 million (0.5%) on the estimated outcome for the current financial year.

This outcome is anticipated as a result of the following key factors;

- The full year impact of the price and game change for Saturday Lotto introduced in January 2011. Saturday Lotto had a 9.1% price increase per game and introduced an extra prize division, Division 6, which is expected to deliver solid sales growth.
- An additional draw for Saturday Lotto as the financial year for 2011/12 starts on Friday and ends on Saturday.
- The Division 1 prize for the Superdraw on July 16th has increase from the standard offer of $20 million to $30 million. This is expected to increase sales for this draw by approximately 30%.
- Lotterywest will work with newly appointed communications partners to explore and implement a range of new product and marketing initiatives that will improve the effectiveness of communications across our brand and games, including Saturday Lotto.

Monday and Wednesday Lotto

Monday and Wednesday Lotto were added to the Lotterywest portfolio in May 2006. These games initially grew in popularity and participation amongst players, aided by the introduction of the $5 million Superdraw offer on Monday Lotto and a price increase for both games in October 2008. However, since this time sales have experienced a plateau.
The 2011/12 budget for Monday and Wednesday Lotto was determined on the basis of this sales trend and that changes to the communications strategy planned for next year will not target these games in the short term.

Additionally, the proposed price increase for these games, tentatively planned for April 2012, has not been included in the sales budget until specific details have been confirmed and approved.

**OZ Lotto and Powerball**

The sales performance of both OZ Lotto & Powerball depends heavily on the frequency and level of jackpots. Player spend and participation rates correlate directly with jackpotting levels as does Lotterywest’s marketing support.

The 2011/12 sales budget for OZ Lotto & Powerball combined amounts to $233.5 million and represents an increase of $30.1 million (14.8%) over the outcome for the 2010/11 financial year.

The number of jackpots for OZ Lotto & Powerball used in establishing the 2011/12 budget is based on the statistical probability of jackpot occurrence for each game. The level, or prize offered, for each jackpot is agreed to by the Bloc.

The expected sales at each jackpot level, however, is based on the current sales trend in Western Australia, planned marketing support and impact of the upcoming approved price increases (June 2011).

**OZ Lotto**

As illustrated below, sales for OZ Lotto have declined this year, predominantly as a result of less frequent jackpotting.

![OZ Lotto - Weekly Sales Trend](image)

When jackpotting frequency and level are taken into account, sales for OZ Lotto have been favourable.

The figures below show that for the year to date period ending March 2011, the level of prize money offered for Division 1 has dropped by almost 22%, whilst sales have only decreased 10%. This performance was considered in determining the OZ Lotto budget.
OZ Lotto | YTD, Mar’11  | YTD, Mar’10  | Var. (%)  
---|---|---|---
Sales  | $75.35M | $83.67M  | -9.9%  
Div. 1 Offer  | $345M  | $440M  | -21.6%

The other major factor in setting the OZ Lotto budget was the price increase (10.0%) is scheduled for mid June 2011. Lotterywest is assuming a price rise retention rate of approximately 80%.

This retention rate is considerably higher than that expected for other games. However, it is based on the assumption that this price increase, the first since the game launched 1994, will be well accepted by the players. OZ Lotto is regarded to be a premium game in Lotterywest’s portfolio and according to research segmentation studies the game attracts the most loyal player following.

**Powerball**

Sales for Powerball have declined this year despite a price increase of 8.3% in March 2010. While the frequency of jackpotting being lower than expected has certainly contributed to this decline, a range of economic and environmental factors have also impacted on player purchasing trends. Sales figures from our Bloc partners indicate this is a national trend.

The other major factor considered in setting the Powerball budget was the planned price increase of 15.4% scheduled for June this year.

Based on current game trends and results following recent price increases, the expected retention rate is approximately 30%.

**Super 66, Soccer Pools, Cash 3**

These products continue to add value and choice to Lotterywest’s portfolio and are predominantly played by the game’s loyal players. Combined sales of Super 66, Soccer Pools and Cash 3 of $13.5 million represents 1.8% of total annual sales.
The 2011/12 sales budget for these games is based on the current sales trends and with the exemption of the daily televised draws for Cash 3 there is limited marketing support allocated to these products. A small sales increase is budgeted.

**Instant Tickets (Scratch’n’Win)**

The 2011/12 sales budget for Lotterywest’s instant ticket games, Scratch’n’Win, is $106.9 million. This is an increase of $8.1 million (8.2%) from the current year’s estimated forecast.

This budgeted sales growth is expected to be the result of a number of strategies including:
- 2nd stream of games with a significantly different prize structure and game mechanics added at the $1.00 and $2.00 price points
- special occasion, short term (13 weeks) games added at the $3.00 price point
- re-introduction of a premium game at the $20.00 price point
- renewed focus placed on Scratch’n’Win product marketing and greater emphasis on improved ticket design and prize structures
- changes in distribution that will increase retail exposure

The charts below shows annual Scratch’n’Win sales over the past decade. Sales have remained relatively flat since 2007/08.

The significant sales growth during 2006/07 financial year was attributed to the introduction of the $10.00 price point. The introduction of this game proved to be a successful addition to the Scratch’n’Win portfolio.

The introduction of higher price point tickets has become a global trend for many successful lotteries. Lotterywest has planned the launch of our first $20.00 ticket in 2011/12.
Profit & Loss Statement

Following is the Profit & Loss result for the 2010 and 2011 financial years and budget for 2011/12.

<table>
<thead>
<tr>
<th>PROFIT &amp; LOSS STATEMENT</th>
<th>Actual 2009/10</th>
<th>Actual 2010/11</th>
<th>Budget 2011/12</th>
<th>Budget vs Act 2010/11</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$000</td>
<td>$000</td>
<td>$000</td>
<td>$000</td>
</tr>
<tr>
<td>SALES</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lotto</td>
<td>$591,801</td>
<td>$574,107</td>
<td>$624,859</td>
<td>50,752 8.8%</td>
</tr>
<tr>
<td>Scratch’nWin</td>
<td>$99,552</td>
<td>$99,087</td>
<td>$106,932</td>
<td>7,454 7.9%</td>
</tr>
<tr>
<td>Cash 3</td>
<td>$8,345</td>
<td>$8,840</td>
<td>$9,127</td>
<td>287 3.2%</td>
</tr>
<tr>
<td>Pools</td>
<td>$1,785</td>
<td>$1,310</td>
<td>$1,660</td>
<td>250 19.1%</td>
</tr>
<tr>
<td></td>
<td><strong>$701,483</strong></td>
<td><strong>$683,344</strong></td>
<td><strong>$742,478</strong></td>
<td><strong>59,134 8.7%</strong></td>
</tr>
<tr>
<td>OTHER INCOME</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>$14,687</td>
<td>$18,801</td>
<td><strong>$17,000</strong></td>
<td>-1,801 -9.6%</td>
</tr>
<tr>
<td>Forfieted Prizes</td>
<td>$9,102</td>
<td>$7,293</td>
<td>$7,529</td>
<td>236 3.2%</td>
</tr>
<tr>
<td>Other</td>
<td>$4,786</td>
<td>$4,257</td>
<td>$6,132</td>
<td>875 20.6%</td>
</tr>
<tr>
<td></td>
<td><strong>$28,575</strong></td>
<td><strong>$30,351</strong></td>
<td><strong>$29,661</strong></td>
<td>-690 -2.3%</td>
</tr>
<tr>
<td>TOTAL INCOME</td>
<td><strong>$730,058</strong></td>
<td><strong>$713,695</strong></td>
<td><strong>$772,139</strong></td>
<td><strong>58,444 8.2%</strong></td>
</tr>
<tr>
<td>COST OF SALES</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prizes</td>
<td>$392,952</td>
<td>$383,415</td>
<td><strong>$415,047</strong></td>
<td>31,632 8.3%</td>
</tr>
<tr>
<td>Retailer Commission</td>
<td>$57,772</td>
<td>$56,010</td>
<td><strong>$61,000</strong></td>
<td>4,990 8.9%</td>
</tr>
<tr>
<td>GST</td>
<td>$28,056</td>
<td>$27,275</td>
<td><strong>$29,766</strong></td>
<td>2,491 9.1%</td>
</tr>
<tr>
<td>EXPENDITURE</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Exp.</td>
<td>$47,187</td>
<td>$49,763</td>
<td><strong>$52,176</strong></td>
<td>2,413 4.8%</td>
</tr>
<tr>
<td>FUNDING</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hospitals</td>
<td>$103,818</td>
<td>$101,012</td>
<td><strong>$110,378</strong></td>
<td>9,364 9.3%</td>
</tr>
<tr>
<td>Sports</td>
<td>$12,977</td>
<td>$12,627</td>
<td><strong>$13,797</strong></td>
<td>1,170 9.3%</td>
</tr>
<tr>
<td>Arts</td>
<td>$12,977</td>
<td>$12,627</td>
<td><strong>$13,797</strong></td>
<td>1,170 9.3%</td>
</tr>
<tr>
<td>Direct Grants</td>
<td>$105,031</td>
<td>$112,487</td>
<td><strong>$110,000</strong></td>
<td>-2,487 -2.2%</td>
</tr>
<tr>
<td></td>
<td><strong>$234,803</strong></td>
<td><strong>$238,753</strong></td>
<td><strong>$247,870</strong></td>
<td><strong>9,217 3.9%</strong></td>
</tr>
<tr>
<td>TOTAL EXPENSES</td>
<td><strong>$760,770</strong></td>
<td><strong>$755,216</strong></td>
<td><strong>$805,869</strong></td>
<td><strong>50,743 6.7%</strong></td>
</tr>
<tr>
<td>GRANTS &amp; SUBSIDIES</td>
<td>$28,056</td>
<td>$27,275</td>
<td><strong>$29,766</strong></td>
<td>2,491 9.1%</td>
</tr>
<tr>
<td>SURPLUS/LOSS FOR PERIOD</td>
<td>-$2,656</td>
<td>-$14,246</td>
<td>-$4,054</td>
<td>10,192 71.5%</td>
</tr>
<tr>
<td>ASSET REVALUATION</td>
<td>-$1,233</td>
<td>$1,134</td>
<td></td>
<td>-1,134 -100.0%</td>
</tr>
<tr>
<td>PROFIT/ LOSS</td>
<td>-$3,889</td>
<td>-$13,112</td>
<td>-$4,054</td>
<td>9,058 69.1%</td>
</tr>
</tbody>
</table>

Operating Expenses as a % of Sales 6.7% 7.3% 7.0%
Total Funding as a % of Sales 33.5% 34.9% 33.4%

Summary:

- Total budgeted sales for the 2011/12 financial year of $742.5 million represents an increase of 8.7% over the outcome for the 2010/11 financial year.
- Operating expense budget totals $52.2 million. This is an increase of $2.4 million on 2010/11 and results in an expense to sales ratio of 7.0%. This is in line with Lotterywest's long term target ratio of 7.0%.
- Total funding to the community of $248.0 million represents 33.4% of total sales.
Retained Earnings

The draw down of Retained Earnings (Reserves) is part of the overall strategy to distribute surplus reserves back to the community through the direct grants program as provided for in the Lottery Commission Act (1990). The Board has taken the view that there should be careful draw down on reserves over a number of years to allow the direct grants budget to remain at relatively stable levels. Longer term financial forecasts indicate a levelling off of the reserves position once the surpluses have been distributed. We will continue to carefully monitor the need and expectations of the community sector to ensure that we have not created a level of expectation that cannot be met and will adjust the direct grant budgets as business requirements suggest is necessary.

Risk Evaluation

The projection of an 8.7% per annum sales growth needs to be understood in the context of the intrinsic unpredictability of the Lottery business which makes the accurate forecasting of sales growth a significant challenge. The most unpredictable element is the performance of the two jackpotting game – OZ Lotto and Powerball which make up approximately 30% of our sales revenue.

Our sales forecasts are based on a statistical model of frequency of jackpots used by all Bloc members but the extent to which jackpot events occur in practice is unpredictable (as can be evidenced by the pattern of very low jackpots over the last 12 months). Combined with this unpredictability is the performance of the retail market in this state. The last 12 months have demonstrated a significant change in retailing and consumer behaviour with economists predicting this to continue over the medium term.

Therefore, these figures represent our best estimate using all the information available to us about trends generally in mature lotteries such as ours and what we believe is achievable in the current Western Australian market with the appropriate marketing mix for all our products and with the present retail distribution network. We believe that the risk of Lotterywest not achieving these estimates needs to be documented and a conservative approach should be taken in the projections of the revenue we expect to raise in this period for the beneficiaries.

Note: Financial Approval Disclaimer

The figures provided in this report represent the budget position of Lotterywest at time of completion, which was the 2010 Mid Year Review process completed in October 2010. Budget figures have recently been revised and will be submitted to State Government for approval during the 2011 Mid Year Review process scheduled for October 2011.

Operational Expenses

Lotterywest’s estimated operating expenses for the 2011/2012 financial year of $52.2 million represents 7.0% of gross sales.

The increase in the expense budget is primarily the result of 2 factors. The first of these is a $2.5 million spend on corporate and grant advertising. Approximately every three years, the key corporate, product branding and grant advertising needs to be renewed as there is need for the advertising to continue to attract the consumer’s attention. All advertising has a degree of ‘wear out’ factor and without this regular investment in new creative treatment we
would struggle to achieve revenue targets. The main new creative and production element makes up $1.5 million of this increase in marketing expenditure. There has also been an increase in specific product marketing of $1 million but this has been offset by other lottery operational expense savings – primarily consumable supplies.

The other element is staff costs which increase by $830,000. While headcounts remain relatively steady (although there has been movement between functional areas), in recent years an element of staff costs have been capitalised against corporate projects.

As illustrated in the table below, the 2011/12 expense budget represents an increase of 4.8% ($2.4 million) in comparison to the outcome for the 2010/11 financial year. Excluding depreciation costs, the increase in expenses is 3.6% ($1.6 million).

<table>
<thead>
<tr>
<th>Lotterywest Operating Expenses</th>
<th>Actual 2009/10 $000</th>
<th>Actual 2010/11 $000</th>
<th>Budget 2011/12 $000</th>
<th>Budget vs Act 2010/11 $000</th>
<th>Budget vs Act 2010/11 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Expenses (Excl. Depreciation)</td>
<td>41,549</td>
<td>43,885</td>
<td>45,454</td>
<td>1,569</td>
<td>3.6%</td>
</tr>
<tr>
<td>Depreciation</td>
<td>5,638</td>
<td>5,878</td>
<td>6,722</td>
<td>844</td>
<td>14.4%</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>47,187</td>
<td>49,763</td>
<td>52,176</td>
<td>2,413</td>
<td>4.8%</td>
</tr>
<tr>
<td>Total Expenses as % of Sales</td>
<td>6.7%</td>
<td>7.30%</td>
<td>7.7%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Lotterywest People</th>
<th>Actual 2010/11 $000</th>
<th>Budget 2011/12 $000</th>
<th>Budget vs Act 2010/11 $000</th>
<th>Budget vs Act 2010/11 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>16,831</td>
<td>15,178</td>
<td>-1,653</td>
<td>-9.8%</td>
</tr>
<tr>
<td>Capitalised Salaries</td>
<td>1,242</td>
<td>0</td>
<td>-1,242</td>
<td>-100.0%</td>
</tr>
<tr>
<td>Total Salaries</td>
<td>15,589</td>
<td>15,178</td>
<td>-411</td>
<td>-2.6%</td>
</tr>
<tr>
<td>Staffing Levels</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Full Time Equivalents</td>
<td>192.9</td>
<td>195.6</td>
<td>3</td>
<td>1.4%</td>
</tr>
<tr>
<td>Business Enhancement Project</td>
<td>13</td>
<td>0</td>
<td>-13</td>
<td>-100.0%</td>
</tr>
</tbody>
</table>

**Salaries**

Approximately $1.2 million of salary costs incurred in 2010/11 were capitalised. The estimated salary cost in 2011/12 recognises these costs as requiring to be expensed. The budgeted salaries for 2011/12 total $15.2 million, a decrease of 2.6%.
Capital Expenditure

The following table details Lotterywest's proposed capital expenditure plan for 2011/12. Capital expenditure items need to be approved by Government.

<table>
<thead>
<tr>
<th>Capital Investment Plan</th>
<th>Actual 2010/11 $'000</th>
<th>Budget 2011/12 $'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Expenditure Category</td>
<td>Furniture and Fittings</td>
<td>203</td>
</tr>
<tr>
<td></td>
<td>Land and Buildings</td>
<td>273</td>
</tr>
<tr>
<td></td>
<td>New Gaming/Lotto Games</td>
<td>1,642</td>
</tr>
<tr>
<td></td>
<td>Other Computer Equipment</td>
<td>354</td>
</tr>
<tr>
<td></td>
<td>Plant and Equipment</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Point of Sale</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Management Information Systems</td>
<td>153</td>
</tr>
<tr>
<td></td>
<td>Lotteries History</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Business Enhancement Program</td>
<td>10,582</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td></td>
<td>13,207</td>
</tr>
</tbody>
</table>

Lotterywest Key Performance Indicators

The following Key Performance Indicators represent the annual performance targets Lotterywest aims to achieve in 2011/12 and the measures on which performance will be evaluated. Progress towards the achievement of targets is monitored regularly with explanations provided on variances between actual and planned performance.

The following information outlines the structure for reporting on Lotterywest's Key Performance Indicators.

In accordance with Treasurer's Instruction 904, these indicators have been selected as fulfilling the required qualitative characteristics; relevance, appropriateness, verifiability, freedom from bias and quantifiability.

Two distinct types of indicators are identified:

**1. Effectiveness indicators** - measure the extent to which outcomes are achieved; and

**2. Efficiency indicators** - compare resources input against resulting outputs.

The table below shows the budgeted Key Performance Indicators for Lotterywest compared with previous actual and forecast results.
## Key Performance Indicator Table

<table>
<thead>
<tr>
<th>Business Element</th>
<th>Outcomes</th>
<th>Measures</th>
<th>Category of Measure</th>
<th>Base Line 2009/10</th>
<th>Forecast 2010/11</th>
<th>Budget 2011/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Beneficiaries</td>
<td>Optimise returns to the beneficiaries stated in our 1.1 Act.</td>
<td>i Grants per Capita</td>
<td>Effectiveness</td>
<td>$106.71</td>
<td>$104.53</td>
<td>$106.12</td>
</tr>
<tr>
<td></td>
<td></td>
<td>ii Grants as % of Sales</td>
<td>Effectiveness</td>
<td>34.2%</td>
<td>34.8%</td>
<td>34.0%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>iii Grants expenses per $ of grants distributed</td>
<td>Efficiency</td>
<td>$0.052</td>
<td>$0.054</td>
<td>$0.061</td>
</tr>
<tr>
<td></td>
<td>1.2 Provide leadership in the community which best contributes and supports the quality of life for Western Australians.</td>
<td>iv Stakeholder Satisfaction</td>
<td>Effectiveness / Efficiency</td>
<td>na</td>
<td>≥ 80%</td>
<td>≥ 80%</td>
</tr>
<tr>
<td>2 Lottery Operations</td>
<td>Develop and manage our business to achieve excellent business performance, including meeting our sales targets in a responsible manner.</td>
<td>v Sales per Adult</td>
<td>Effectiveness</td>
<td>$394.25</td>
<td>$378.92</td>
<td>$394.15</td>
</tr>
<tr>
<td></td>
<td></td>
<td>vi Lottery Expenses as % of Sales</td>
<td>Efficiency</td>
<td>5.9%</td>
<td>6.5%</td>
<td>6.9%</td>
</tr>
<tr>
<td>3 Organisational Development and People</td>
<td>Ensure that we have talented leadership and that our staff are equipped with the skills, knowledge and motivation to lead and manage our business to achieve our business objectives.</td>
<td>vii Staff Engagement</td>
<td>Effectiveness</td>
<td>Actively: 45%</td>
<td>Slightly: 35%</td>
<td>TBA</td>
</tr>
<tr>
<td></td>
<td></td>
<td>viii Net Promoter Score</td>
<td>Effectiveness</td>
<td>4</td>
<td>TBA</td>
<td>TBA</td>
</tr>
<tr>
<td></td>
<td></td>
<td>ix Employees skills and capability rating</td>
<td>Effectiveness</td>
<td>na</td>
<td>&gt;80%</td>
<td>&gt;80%</td>
</tr>
<tr>
<td>3.2 Ensure that we provide a safe and healthy work environment.</td>
<td></td>
<td>x No of OHS incidents</td>
<td>Effectiveness</td>
<td>1 incident</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>4 Business Framework</td>
<td>Provide a business model to achieve organisational objectives through the alignment of technologies, processes, governance and social responsibility.</td>
<td>xi System Availability</td>
<td>Effectiveness</td>
<td>98.8%</td>
<td>98.90%</td>
<td>98.90%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>xii Sales per FTE</td>
<td>Efficiency</td>
<td>$3,594,000</td>
<td>$3,567,368</td>
<td>$3,652,138</td>
</tr>
<tr>
<td></td>
<td></td>
<td>xiii Meeting Compliance requirements</td>
<td>Effectiveness</td>
<td>90.0%</td>
<td>&gt; 90%</td>
<td>&gt; 90%</td>
</tr>
<tr>
<td>5 Reputation and Stakeholder Relations</td>
<td>A positive relationship with all stakeholders and a reputation within the Western Australian community in which the role we play is undertaken and held in high esteem.</td>
<td>xiv Public Awareness (recognition) level of Lotterywest's Brand</td>
<td>Effectiveness</td>
<td>na</td>
<td>≥ 90%</td>
<td>≥ 90%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>xv Stakeholder Satisfaction</td>
<td>Effectiveness</td>
<td>na</td>
<td>≥ 80%</td>
<td>≥ 80%</td>
</tr>
</tbody>
</table>
Accounting Policies

The following accounting policies apply to the preparation of Lotterywest's annual financial statements.

1. **Australian Equivalents to International Financial Reporting Standards**

Lotterywest is the trading name of the Lotteries Commission which operates according to the provisions of the Lotteries Commission Act 1990 as amended.

Lotterywest's financial statements refer to the Lotteries Commission as Lotterywest.

Lotterywest's financial statements are been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), which comprise a Framework for the Preparation and Presentation of Financial Statements (the Framework) and Australian Accounting Standards (including the Australian Accounting Interpretations).

In preparing financial statements Lotterywest has adopted, where relevant to its operations, new and revised Standards and Interpretations from their operative dates as issued by the Australian Accounting Standards Board (AASB) and formerly the Urgent Issues Group (UIG).

**Early adoption of Standards**

Lotterywest cannot early adopt an Australian Accounting Standard or Australian Accounting Interpretation unless specifically permitted by Treasurer's Instruction 1101 "Application of Australian Accounting Standards and Other Pronouncement". No Standards and Interpretations that have been issued or amended but are not yet effective have been early adopted by Lotterywest for the annual reporting period. Consequently, Lotterywest has not applied the following Australian Accounting Standard that has been issued but is not yet effective. This standard will be applied from its application date:

**Future Impact of Australian Accounting Standards not yet operative**

AASB 101 'Presentation of Financial Statements' (September 2007). This Standard has been revised and will change the structure of the financial statements. These changes will require that owner changes in equity are presented separately from non-owner changes in equity. Lotterywest does not expect any financial impact when the Standard is first applied on or after 1 January 2009.

AASB 2009-2 This requires fair value measurement to be disclosed by the source of input, using the following three level hierarchy:

- Quoted prices in active markets for identical assets and liabilities (Level 1)
- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either direct (as prices) or indirectly (derived from prices) (Level 2)
- Inputs for the assets or liability that are not based on observable market data (unobservable inputs) (Level 3)
2. Summary of Significant Accounting Policies

(a) General Statement

The financial statements constitute a general purpose financial report which has been prepared in accordance with the Australian Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board as applied by the Treasurer's Instructions. Several of these are modified by the Treasurer's Instructions to vary application, disclosure, format and wording.

The Financial Management Act and the Treasurer's Instructions are legislative provisions governing the preparation of financial statements and take precedence over the Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board.

Where modification is required and has a material or significant financial effect upon the reported results, details of that modification and the resulting financial effect are disclosed in the notes to the financial statements.

(b) Basis of Preparation

Lotterywest's financial statements are been prepared on the accrual basis of accounting using the historical cost convention, modified by the revaluation of land and buildings which have been measured at fair value.

The accounting policies adopted in the preparation of the financial statements have been consistently applied throughout all periods unless otherwise stated.

(c) Income Recognition

Revenue is measured at the fair value of consideration received or receivable. Revenue is recognised for major business activities as follows:

Sales revenue
Revenue is recognised from the sale of tickets when the significant risks and rewards of ownership control transfer to the purchaser and can be measured reliably.

Sales revenue representing gross sales of all games of Lotto, Cash 3, Soccer Pools and Super 66, is recorded as at the date of the respective draw. Sales of instant lottery tickets are recognised when books of tickets are activated.

Grants, donations, gifts or other non reciprocal contributions
Revenue is recognised at fair value when Lotterywest obtains control over the assets comprising the contributions, usually when cash is received.

Other non reciprocal contributions that are not contributions by owners are recognised at their fair value. Contributions of services are only recognised when a fair value can be reliably determined and the services would be purchased if not donated.
Interest
Revenue is recognised as the interest accrues.

Gains
Gains may be realised or unrealised and are recognised on a net basis. These include gains arising on the disposal of non current assets and some revaluation of non current assets.

(d) Property, Plant and Equipment

Capitalisation/Expensing of assets
Items of property, plant and equipment and infrastructure costing $5,000 or more are recognised as assets and the cost of utilising assets is expensed (depreciated) over their useful lives. Items of property, plant and equipment and infrastructure costing less than $5,000 are immediately expensed direct to the Income Statement (other than where they form part of a group of similar items which are significant in total).

Lotterywest has changed the above assets capitalisation policy from 1 July 2008 (previously the assets capitalisation threshold was $1,000). Consequently and in compliance with TI 1101, all assets with a cost of less than $5,000 that were acquired and have been capitalised prior to 1 July 2008 were written down in the current year ‘Income Statement’ as opposed to adjusting the opening balance of the previous year ‘Retaining Earnings’ account as the amount is considered to be immaterial.

Initial recognition and measurement
All items of property, plant and equipment are initially recognised at cost.

For items of property, plant and equipment acquired at no cost or for nominal cost, the cost is their fair value at the date of acquisition.

Subsequent measurement
After recognition as an asset, Lotterywest uses the revaluation model for the measurement of land and buildings and the cost model for all other property, plant and equipment. Land and buildings are carried at their fair value less accumulated depreciation on buildings and accumulated impairment losses. All other items of property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses.

Where market evidence is available, the fair value of land and buildings is determined on the basis of current market buying values determined by reference to recent market transactions.

When buildings are revalued by reference to recent market transactions, the accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount.

Where market evidence is not available, the fair value of land and buildings is determined on the basis of existing use. This normally applies where buildings are specialised or where land use is restricted. Fair value for existing use assets is determined by reference to the cost of replacing the remaining future economic benefits embodied in the asset, i.e. the
written-down current replacement cost. Where the fair value of buildings is dependent on using the depreciated replacement cost, the gross carrying amount and the accumulated depreciation are restated proportionately.

Independent valuations of land and buildings are provided annually by the Western Australian Land Information Authority (Valuation Services) and recognised with sufficient regularity to ensure the carrying amount does not differ materially from the assets fair value at the balance sheet date.

The most significant assumptions in estimating fair value are made in assessing whether to apply the existing use basis to assets and in determining estimated useful life. Professional judgement by the valuer is required where the evidence does not provide a clear distinction between market type assets and existing use assets.

Derecognition
Upon disposal or derecognition of an item of property, plant and equipment, any revaluation reserve relating to that asset is retained in the asset revaluation reserve.

Depreciation of non current assets
All non current assets having a limited useful life are systematically depreciated over their estimated useful lives in a manner which reflects the consumption of their future economic benefits.

Land is not depreciated. Depreciation on other assets is provided on the straight line basis, using rates which are reviewed annually. Estimated useful lives for each class of depreciable asset are:

- Buildings: 50 years
- Leasehold Improvements: 10 years
- Equipment and Fittings: 5 to 10 years
- Computer Equipment: 5 to 8 years

(e) Intangibles
All acquired and internally developed intangible assets are initially measured at cost. For assets acquired at no cost or for nominal cost, cost is their fair value at the date of acquisition.

The cost model is applied for subsequent measurement requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Costs incurred of less than $5,000 are immediately expensed directly to the Income Statement.

Amortisation for intangible assets with finite useful lives is calculated for the period of the expected benefit (estimated useful life) on the straight line basis using rates which are reviewed annually. All intangible assets controlled by Lotterywest have a finite useful life and zero residual value. The expected useful life for computer software is 5 to 8 years.

Licences
Licences have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses.
Computer software
Software that is an integral part of the related hardware is treated as property, plant and equipment. Software that is not an integral part of the related hardware is treated as an intangible asset. Software costing less than $5,000 is expensed in the year of acquisition.

(f) Impairment of Assets

Property, plant and equipment and intangible assets are tested for any indication of impairment at each reporting date. Where there is an indication of impairment, the recoverable amount is estimated. Where the recoverable amount is less than the carrying amount, the asset is written down to the recoverable amount and an impairment loss is recognised.

As Lotterywest is a not-for-profit entity, the recoverable amount is the higher of an asset’s fair value less costs to sell and depreciated replacement costs.

The risk of impairment is generally limited to circumstances where an asset’s depreciation is materially understated or where the replacement cost is falling or where there is a significant change in useful life. Each relevant class of assets is reviewed annually to verify that the accumulated depreciation/amortisation reflects the level of consumption or expiration of the asset’s future economic benefits and to evaluate any impairment risk from falling replacement costs.

The carrying value of intangible assets is reviewed for impairment annually when the asset is not yet in use, or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

(g) Work in Progress

Costs associated with assets under development for use by Lotterywest are recognised as work in progress. Once completed, the assets are transferred to the appropriate asset account and are depreciated or amortised, as appropriate.

No depreciation is provided during construction of assets or on holding costs of Community Projects that are subsequently transferred as a direct grant.

(h) Leases

Lotterywest has a number of government operating lease arrangements for motor vehicles, where the lessors retain effectively all of the risks and benefits incident to the ownership of the leased vehicles. Lotterywest also holds an operating lease for its business premises. Equal instalments of the lease payments are charged to the Income Statement over the lease term (i.e. on a straight line basis over the lease term), as this is representative of the pattern of benefits to be derived from the leased vehicles and business premises.

(i) Financial Instruments

In addition to cash and cash equivalents, Lotterywest has four categories of financial instrument:

- Loans and receivables;
- Held to maturity investments (commercial bills, floating notes);
- Available for sale assets (floating note tied to an equity index); and
Financial liabilities (finance leases, prizes and other payables, and community grants).

Initial recognition and measurement is at fair value. Subsequent measurement is at either amortised cost using the effective interest method.

The fair value of short-term receivables and payables is the face value because there is no interest rate applicable and subsequent measurement is not required as the effect of discounting is not material.

(j) Cash and Cash Equivalents

For the purpose of the Cash Flow Statement, cash and cash equivalents includes restricted cash and cash equivalents. These include cash on hand and short-term deposits with original maturities of three months or less that are readily convertible to a known amount of cash and which are subject to insignificant risk of changes in value, and bank overdrafts.

(k) Inventories

Inventories are valued, on the first-in first-out basis, at the lower of cost and net realisable value.

Inventories not held for resale are valued at cost unless they are no longer required, in which case they are valued at net realisable value.

(l) Receivables

Receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. The collectability of receivables is reviewed on an ongoing basis and any receivables identified as uncollectible are written-off. The allowance for uncollectible amounts (doubtful debts) is raised when there is objective evidence that Lotterywest will not be able to collect its debts. The carrying amount of receivables is equivalent to fair value as it is due for settlement within 30 days.

(m) Investments and Other Financial Assets

Lotterywest classifies its investments into the following categories: loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date. Investments not at fair value are initially recognised at cost being the fair value of consideration given, including directly attributable transaction costs.

After initial recognition, investments classified as held for trading and available-for-sale, are measured at fair value. Gains or losses on investments held for trading are recognised in the income statement. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates are classified as held-to-maturity when management has a positive intention and
ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification.

Loans and receivables and held-to-maturity investments, such as commercial bills, are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Lotterywest assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired.

(n) Payables

Payables, including amounts not yet billed, are recognised when Lotterywest becomes obliged to make future payments as a result of a purchase of assets or services at the amounts payable. Other than payables in respect of prizes and grants (see 2(o) and 2(p)), settlement generally occurs within 30 days, as a result the carrying amount is considered to be equivalent to fair value.

(o) Prizes

Division 1 prizes are paid two weeks after the date of the draw, subject to claim. The majority of other prizes are claimed and paid within a few days of the draw taking place.

Prize liabilities are recognised by draw for Lotto, Super 66, Cash 3 and Soccer Pools and activation of Instant lotteries by Retailers.

(p) Grants to Eligible Organisations

Grants are recognised when approved by the Minister. Unconditional grants are paid in full within days of the Minister’s approval. Conditional grants are paid as and when conditions are fulfilled.

If a grant is refunded but it is expected that it will be reissued, the amount is credited to the grant liability, otherwise the amount is written back.

When a grant is written back regardless of when it was approved, it is treated as a reduction of the current year’s grant expenditure.

(q) Provisions

Provisions are liabilities of uncertain timing and amount. Lotterywest only recognises a provision where there is a present legal or constructive obligation as a result of a past event and when the outflow of resources embodying economic benefits is probable and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each balance date and adjusted to reflect the current best estimate.
Provisions – Employee Benefits

Annual leave and long service leave
The liability for annual and long service expected to be settled within 12 months after the end of the balance sheet date is recognised and measured at the undiscounted amounts expected to be paid when the liabilities are settled. Long service leave expected to be settled more than 12 months after the end of the reporting date is measured at the present value of amounts expected to be paid when the liabilities are settled. Leave liabilities are in respect of services provided by employees up to the balance sheet date.

When assessing expected future payments, consideration is given to expected future wage and salary levels including non-salary components such as employer superannuation contributions. In addition, the long service leave liability also considers the experience of employee departures and periods of service.

The expected future payments are discounted to present value using market yields at the balance sheet date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

All annual leave and unconditional long service leave provisions are classified as current liabilities as Lotterywest does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Superannuation
The Government Employees Superannuation Board (GESB) administers the following superannuation schemes.

Employees may contribute to the Pension Scheme, a defined benefit pension scheme now closed to new members, or to the Gold State Superannuation Scheme (GSS), a defined benefit lump sum scheme also closed to new members. Employees commencing employment prior to 16 April 2007 who were not members of either the Pension or the GSS Schemes became non-contributory members of the West State Superannuation Scheme (WSS). Employees commencing employment on or after 16 April 2007 became members of the GESB Super Scheme (GESBS). Both of these schemes are accumulation schemes. Lotterywest makes concurrent contributions to GESB on behalf of employees in compliance with the Commonwealth Government’s Superannuation Guarantee (Administration) Act 1992. These contributions extinguish the liability for superannuation charges in respect of the WSS and GESBS Schemes.

The Pension Scheme and the pre-transfer benefit for employees who transferred to the GSS Scheme are defined benefit schemes. These benefits are wholly unfunded and the liabilities for future payments are provided for at balance sheet date. The liabilities under these schemes have been calculated separately for each scheme annually by the GESB’s actuaries using the projected unit credit method.

The expected future payments are discounted to present value using market yields at the balance sheet date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

The GSS Scheme, the WSS Scheme, and the GESBS Scheme, where the current service superannuation charge is paid by Lotterywest to the GESB, are defined contribution schemes. The liabilities for current service superannuation charges under the GSS
Scheme, the WSS Scheme, and the GESBS Scheme are extinguished by the concurrent payment of employer contributions to the GESB.

The Gold State Superannuation Scheme is a defined benefit scheme for the purpose of employees and whole of government reporting. However, from Lotterywest's perspective, apart from the transfer benefits, it is a defined contribution plan under AASB 119.

**Superannuation expense**
The superannuation expense of the defined benefit plan is made up of the following elements:
- Current service cost;
- Interest cost (unwinding of the discount);
- Actuarial gains and losses; and
- Past service cost.

Actuarial gains and losses of the defined benefit plans are recognised immediately as income or expense in the income statement.

The superannuation expense of the defined contribution plans is recognised as and when the contributions fall due.

**Provisions – Other**

**Employment on costs**
Employment on-costs, including workers' compensation insurance and payroll tax, are not employee benefits and are recognised separately as liabilities and expenses when the employment to which they relate has occurred. Employment on-costs are not included as part of Lotterywest's 'Employee benefits expense' and the related liability is included in Employment on-costs provision.

**(r) Accrued Salaries**

Accrued salaries represent the amount due to staff but unpaid at the end of the financial year, as the end of the last pay period for that financial year does not coincide with the end of the financial year. Accrued salaries are settled within a few days of the end of the financial year. Lotterywest considers the carrying amount of the accrued salaries to be equivalent to the net fair value.

**(s) Resources Received Free of Charge or for Nominal Value**

Resources received free of charge or for nominal value which can be measured reliably, are recognised as revenues and as assets or expenses, as appropriate, at fair value.

**(t) Goods and Services Tax and Grants from State Government**

The Goods and Services Tax (GST) is not applied to the consumption of gambling services. It is however, applied to the operators' margin defined as the subscription (wagering less sales commission) less the amount of prizes. Accordingly the State Government provides reimbursement to gambling operators (including Lotterywest) for GST paid on the operators' margin. Lotterywest applies the reimbursement to maintain the level of community grants.
The GST paid on the operator's margin is disclosed as a cost of producing trading profit (see note 4). Treasurers' Instruction 1102 also requires the reimbursement of the GST to be disclosed as a grant from the State Government rather than offset against the cost to which it applies.

(u) **Foreign Currency Translation**

Transactions denominated in a foreign currency are translated at the rates in existence at the dates of the transactions. Foreign currency receivables and payables at reporting date are translated at exchange rates current at reporting date. Exchange gains and losses (if any) are brought to account in determining the result for the year.

(v) **Comparative Figures**

Prior year comparatives have been reclassified, where necessary, to achieve consistency in disclosure and conform with presentation in the current financial period.

(w) **Reporting Entity**

The reporting entity is the Lotteries Commission.