

# ANNUAL REPORT 2007





## NATIONAL LOTTERIES BOARD

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**Mr. M Mpahlwa**

Minister of Trade and Industry

**Report of the National Lotteries Board for the period 1 April 2006 to 31 March 2007.**

I am honoured to be able to present the ninth Annual Report of the National Lotteries Board for the year ended 31 March 2007, in accordance with section 12 of the Lotteries Act (No. 57 of 1997), as amended, and the Public Finance Management Act (No. 1 of 1999), as amended.

J. A. Foster  
Chairman



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### CHAIRPERSON'S MESSAGE

I am honoured to be submitting a message for inclusion in the 9th Annual Report of the National Lotteries Board. The financial year ending 31 March 2007 has been very difficult for the Board. As a result of delays in the appointing of the new Distributing Agency Members by the Department of Trade and Industry, the National Lottery Distribution Trust Fund (NLDTF) found itself without Distributing Agencies for four months. However, once the appointments were finalised and the orientation programme completed, the agencies met immediately and focussed their efforts on addressing the backlog. On behalf of the Board, I would like to congratulate all Members of the Distributing Agencies on their appointment and thank them for their endeavours and sacrifices in order to adjudicate all outstanding applications. It is through their committed efforts that we will continue to make a difference to the lives of those who are more vulnerable.

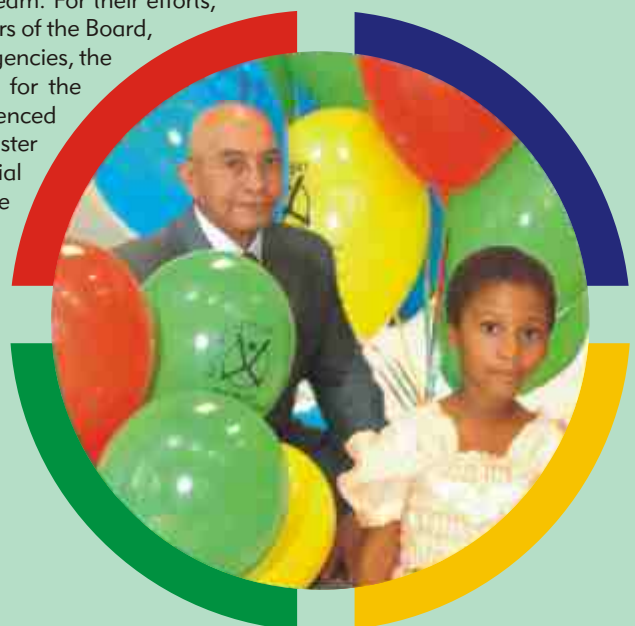
Based on the requirements of the Lotteries Act, the PFMA and PAJA, the Board set up a special committee to ensure that the adjudication process was fair, impartial and consistent. It is our contention that such oversight is essential in an environment where the Board has no control over the disbursement of funds for which it is accountable. This committee is no different to any of the other executive committees of the Board and is not intended to curb or amend the decision-making authority of the Distributing Agencies in any way.

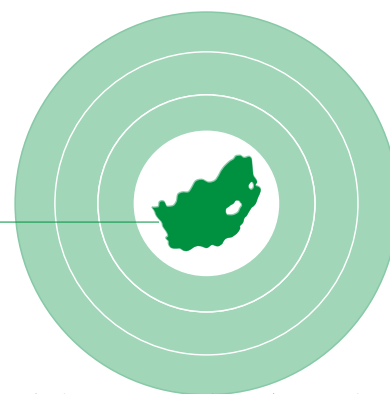
The Board spent considerable time and effort in the year under review on the evaluation of Bids for the second licence to operate the National Lottery and made its recommendation to the Minister of Trade and Industry in April 2006. After due consideration and interaction with the Board, Minister Mpahlwa pronounced Gidani (Pty) Ltd. as the preferred bidder and Uthingo Management (Pty) Ltd. as the second preferred bidder. The announcement was followed by licence negotiations between the Board and Gidani and the Minister issued the licence to Gidani on 29 September 2006. On 15 November 2006, Uthingo Management (Pty) Ltd instituted legal proceedings in the High Court to set aside the Minister's decision. Although the Board was cited as a respondent and affidavits were filed on its behalf, the Board decided to be represented by the legal team appointed by the Minister. The High Court set aside the Minister's decision on the grounds that the Minister failed to satisfy himself that the applicants complied with the requirements of section 13 of the Lotteries Act in particular those relating to probity and whether political office bearers had a financial interest in the applicants. The Minister decided not to appeal. The Board was instructed to investigate certain of the issues raised in the judgement, reconsider its recommendations in the light of the judgement and prepare a fresh report with its recommendations. To this end, the Board instituted a process to secure the information necessary to permit the Minister to make a properly informed decision as required under section 13(2)(b)(iv) and (3)(a) and (b) of the Lotteries Act.

Although the Auditor General gave an opinion that the Board's financial statements, financial performance and cash flows were in order, the Auditor General did raise, but without qualifying its opinion, certain ancillary matters. We will be requesting a meeting with the Auditor General to resolve those matters that the Board is not able to attend to itself. The Board is however pleased that the audit has once again confirmed the integrity and dedication with which the Board fulfils its function.

The achievements of the Board are as a result of a strong team. For their efforts, I would like to convey my deepest appreciation to the Members of the Board, the Chief Executive Officer, the Members of the Distributing Agencies, the Members of the Audit Committee, and staff of the Board for the continued support, in the very trying circumstances we experienced in the past year. I am also appreciative of the support from Minister Mpahlwa and the Department of Trade and Industry. A special thank you to Uthingo Management for conducting the National Lottery during the first licence period.

J A Foster  
Chairperson





## ACTIVITIES OF THE BOARD

### SECOND LOTTERY LICENCE

The Lotteries Act, 1997, establishes the procedure and requirements for the granting of a licence to conduct a National Lottery. The first licence was issued to Uthingo Management (Pty) Ltd in 1999. That licence expired on 31 March 2007.

In July 2005 the Minister of Trade and Industry issued an invitation for parties to apply for the Request For Proposal (RFP). There were four applicants that paid the prescribed application fee: Uthingo Management (Pty) Ltd (Uthingo), Nikan'Abantu Our Lottery Solutions (Pty) Ltd (Nikan'Abantu), Igwiya Gaming (Pty) Ltd (Igwiya) and Gidani (Pty) Ltd (Gidani).

The National Lotteries Board evaluated the four applicants against the criteria contained in the RFP and the Lotteries Act in order to determine the most suitable applicant to conduct the Lottery. On the basis of that evaluation, it recommended a first preferred bidder, Gidani, and a second preferred bidder, Uthingo. On 29 September 2006, the Minister issued a licence to Gidani.

On 15 November 2006, Uthingo instituted an application in the High Court to set aside the Minister's decision to grant Gidani the licence to conduct the National Lottery. On 5 March 2007, the High Court set aside the Minister's decision.

In order to cure the deficiencies identified in the High Court judgment, the Minister and the Board instituted a process to secure the information necessary to permit the Minister to make a properly informed decision under section 13(2)(b)(iv) and (3)(a) and (b) of the Act.

### THE NATIONAL LOTTERY

A total of 116 millionaires were produced in the last financial year. Millions of South Africans have won prizes in the other six prize categories. The highest level of sales recorded in any Draw was R97.8 million (LOTTO and LOTTO Plus) in Draw number 647 (R35 million guaranteed jackpot on 3 March 2007).

Since the launch of the National Lottery in March 2000, a total of 718 millionaires have been created.

#### LOTTO and LOTTO Plus Millionaires per province for period under review:

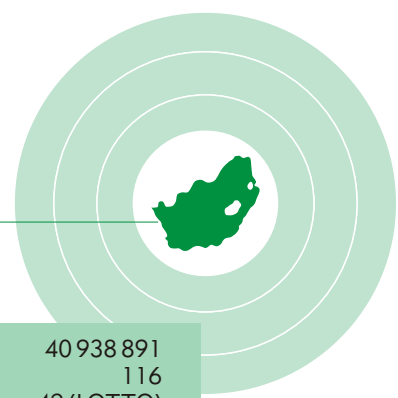
Province	Total
Gauteng	45
Western Cape	22
KZN	13
Mpumalanga	4
Free State	5
Eastern Cape	8
North West	7
Limpopo	9
Northern Cape	3

#### Ticket Sales per Province (LOTTO and LOTTO Plus) for the period under review:

Province	Ticket Sales (R million)
Eastern Cape	274
Free State	187
Gauteng	1,509
KwaZulu Natal	542
Mpumalanga	251
North West	241
Northern Cape	124
Limpopo	192
Western Cape	652
<b>Grand Total (incl. VAT)</b>	<b>3,972</b>

- The product sales figure above includes advance sales for up to 9 draws.
- Subscription sales are not included in the above figures.
- The product sales period above includes draws 552 to 655.

## CHAIRPERSON'S REPORT



Salient Lottery facts for the year under review are as follows:

Prize Winners	40 938 891
Millionaires	116
Rollovers	42 (LOTTO)
Highest Jackpot	R35 million
Highest Prize	R34 million
Average Number of Players per Week	4 993 126 transactions
Total LOTTO Sales (incl. VAT) - LOTTO & LOTTO Plus, excl. Wina Manje & Sportstake	R4 billion
Highest Weekly LOTTO Sales	R128 million
Total Prizes Paid	R2 billion
Total Contribution to NLDTF	R1 billion

- Total Wina Manje sales R204 million (Incl. VAT)
- Total SportStake sales R122 million (Incl. VAT)
- The total LOTTO sales figure above includes realised subscription sales.
- The total LOTTO sales figure above includes draws 551 to 655, in line with the standard financial accounting year.

### Terminal Rollout:

	31 March 2006	31 March 2007
SA Post Office	617	713
Chain Stores	1690	1818
Independent Retailers	4796	4758
Forecourts	922	981
<b>Total</b>	<b>8025</b>	<b>8270</b>

The figures above represent online terminals that are capable of selling tickets. It excludes terminals that are installed and connected to the network, but that have been suppressed and therefore not capable of selling tickets.

### Fraud, Copyright & Trademark Issues:

There have been 36 attempts to defraud the National Lottery. The status of these attempts is indicated in the table below.

Cases withdrawn by the prosecutor	1
Cases in Court	3
Convictions	1
Resolved by Uthingo Security Staff	31

### Copyright:

On 3 October 2006 the Pretoria High Court granted an interdict in favour of the National Lotteries Board and Uthingo Management (Pty) Limited, restraining Online Lottery Services (Pty) Limited from trading as Lottofun or selling lottery tickets. Online Lottery Services were also ordered to remove the mark LOTTOFUN, from all material as this would be infringing the registered mark, LOTTO. The Court also found that Online Lottery had contravened the Lotteries Act and ruled that it may not sell tickets for the game operated by Uthingo at a price higher than that which is printed on the tickets or sell lottery game tickets in contravention of the Rules of the National Lottery.

An application by Online Lottery Services to have the trade mark LOTTO expunged from the trade mark register was dismissed with costs.

Online Lottery Services has since launched an application for leave to appeal the judgment.

### Performance Standard Measures of Uthingo Management, operator of the National Lottery:

As part of its bid commitments and during Licence negotiations, Uthingo and the Board agreed on a set of performance measures in respect of the National Lottery. The set of measures currently used will be extended as the National Lottery evolves and new activities are added. The more important measures are indicated in the table that follows:



Performance Area	Measure	Attained
Availability of Online Facilities (Central Systems)	99.98%	100%
Availability of Network	99.60%	99.85%
Terminal Reliability (number of unscheduled repair visits per year per terminal)	2.0	2.1
Timeliness of Payments to the NLDTF	100%	100%
System Validation of Online prizes on the morning after draw	98%	100%
Payments of Walk-in claims exceeding R50 000 in less than 1 hour	90%	99.68%
Processing of undisputed postal claims and cheques dispatched within 5 days	80%	100%
Processing of damaged online tickets and cheques posted within 20 days	90%	100%
Player Relations: Replies required by mail within 5 days	95%	100%
Player Relations: Answering of Calls within 5 seconds - Peak	65%	98%
Player Relations: Answering of Calls within 5 seconds - Off-peak	90%	99%
Player Relations: Complaints resolved within 10 days	85%	99%

## Responsible Play Programme activities:

The Responsible Play Programme focused on ensuring that all print, electronic and billboard advertisements carry the Responsible Play logo. In addition, players were regularly reminded to play responsibly, through print and electronic communication.

## SOCIETY AND OTHER LOTTERIES

Regulations in respect of Society and Other Lotteries were promulgated on 18 April 2000 in Government Gazette No. 21119.

In terms of the regulations, societies (non profit organisations) that wish to raise funds through lottery-type competitions must first register with the National Lotteries Board and comply with requirements of the regulations. In doing so, all organisations are obliged to inform the Board of each competition they run. The regulations also govern, amongst others, the amount that can be raised in each lottery, the frequency of lotteries and the amount that can be allocated to legitimate expenses. Organisations are afforded the opportunity to apply for exemptions, should they so require.

## Applications for Registration

	Received	Approved	Declined	Outstanding
Applications for Society Registration	10	7	0	3
Applications for Scheme Registration	42	37	2	3

## Application for Exemption

Reg. No.	Name of Society	Draw Date	Nature of Exemption Granted
00067	Carel Du Toit trust	31.10.07	Level of expenses
00096	Hospice Association of the Witwatersrand	12 draws per annum	Level of expenses

## ILLEGAL LOTTERIES

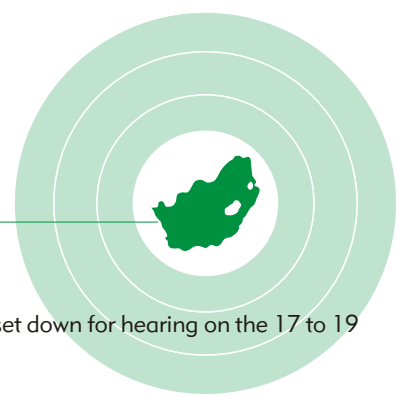
The Board has instituted litigation in the High Court against Firststrand Bank Limited, which is conducting the "Million a Month" competition, as well as against the South African Children's Charity Trust and the SABC for conducting and promoting the "Winikaya competition" as both competitions are deemed illegal lotteries because they contravene the Lotteries Act.

With regard to the Firststrand Bank matter, the Court *a quo* has handed down judgement on 16 December 2006 in favour of the Board and ruled that the "Million a Month" competition is indeed an illegal competition, however Firststrand Bank has lodged an appeal to the Supreme Court of Appeal and the matter has not been finalised as yet.

The Winikaya competition conducted by the Children's Trust is an illegal lottery and not a promotional competition as the Trust is not promoting any goods or services in terms of the Act. The Trust also made an attempt to change the rules of the competition, but the changes did not alter the structure of the competition. The Trust has made some changes to the Board of Trustees and submitted affidavits to this effect just before the court case commenced.

The Winikaya matter was postponed *sine die* in order for the new trustee to be joined. The Court has ordered on 20 February 2007 that Michael Tainton be joined as the new trustee in the proceedings as the 9th respondent. A letter was





received from the office of the Deputy Judge President on 18 April that the matter is set down for hearing on the 17 to 19 October 2007.

### PROMOTIONAL COMPETITIONS

As the industry watchdog, the National Lotteries Board is becoming aware of more illegal lotteries, many of which are conducted through cell phones.

The Board is not opposed to companies promoting their goods and services through competitions, provided that all legislation is adhered to. It has come to the attention of the Board that there are some companies who under the guise of competitions are in fact running illegal lotteries. Many of these are conducted through cell phones.

Participants are charged rates higher than the normal cell phone charges. In terms of the Act this is not allowed and it is the intention of the Board to clamp down on these competitions and the public has been advised through media releases and interviews that participation in such lotteries is illegal.

The Department of Trade and Industry has recommended that the section on promotional competitions in the Lotteries Act and the regulations on promotional competitions be incorporated in the Consumer Bill. This has been drafted and published for comment and is expected to become law in the next year.

The Board, however, continues to police the operations of promotional competitions by taking appropriate legal action against offenders that conduct unlawful competitions. The Board will be assisted by the Consumer Investigations Inspectorate (Consumer and Corporate Regulation Division of the Department of Trade and Industry) who will be tasked with the regulatory functions once the Consumer Bill has been enacted.

### IMPACT ASSESSMENT STUDY

The National Lottery was initiated with the intention of diverting revenue received from ticket sales to assist NGOs with identified projects in the fields of Arts, Culture & National Heritage; Charities; and Sport & Recreation. Since the term of the first Distributing Agencies came to an end at the end of March 2006, the Board decided to conduct an Impact Assessment study on the grants allocated in the period commencing with the start of the National Lottery and up to the end of March 2006. The study was conducted by a team led by Prof. Philip Frankel from the School of Social Sciences at the University of the Witwatersrand.

The study was concerned with the social impact of the NLDTF grant making and looked at what was achieved and what was not achieved. This included such factors as donor-beneficiary relations, beneficiary capacity and the organisational aspects of the donor itself.

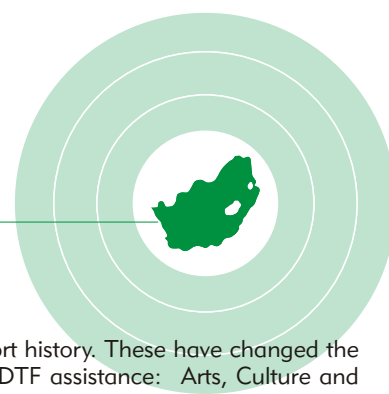
While the relative success of a national lottery can be measured through indices that focus on total revenue, managerial efficiency or the amounts returned to society through tax and good causes, it is not possible to measure social impact with scientific exactitude because of insufficient data, under-developed methodologies of social research or, as shown in innumerable econometric models of social behaviour, because "impact" involves individual or community perception.

A mass sample survey was used for the purpose of tapping into beneficiary's subjectivities or perceptions about the service provided by the NLDTF in supporting grant usage, about the application and grant allocation process, the purposes to which grants were put, and, ultimately their perceived impact from the perspective of the beneficiary.

The study was based on the response of 2 130 respondents. This represents half of the number of beneficiary organisations. Many of the beneficiaries are recipients of more than one grant allocation. In the period researched the funds allocated to each sector can be broken down as follows:

Arts, Culture and National Heritage	R1,10 billion
Charities	R2,20 billion
Miscellaneous Purposes	R0,03 billion
Sport and Recreation	R1,30 billion





The number of individual grants amount to in excess of 9 000.

The NLDTF has funded a diversity of projects during the course of its relatively short history. These have changed the grant-making landscape across South Africa, in the designated core areas for NLDTF assistance: Arts, Culture and National Heritage, Sport and Recreation and Charities.

The research concluded that there is clearly a high level of positive feeling among beneficiaries with regard to the NLDTF with roughly three-quarters of current beneficiaries saying that they will approach the NLDTF as a first point of funding in the future clearly suggesting ongoing social impact.

Almost half (46%) of the respondents approached the NLDTF because of its positive image and approximately 30% claiming to approach the NLDTF for top-up funding. The remainder chose 'other' as a reason for approaching the fund. 95% of beneficiaries found the application process to be manageable and 72,5% had the applications either fully or partially funded. More than 75% of the respondents had their applications approved within one year with 70% receiving payment within 6 months of approval. 75% of beneficiaries said that the time it takes for approval could impact negatively on their projects.

The survey nonetheless found NLDTF funding to be both strategic and critical with 63% of respondents unequivocally believing that they could not have completed their projects without the grant from the NLDTF and 32% admitting that they could only complete part of the project without NLDTF support. 3% stated that they could have completed the project without intervention from the NLDTF.

The Survey revealed that the overwhelming majority of NLDTF grants result in successful projects, i.e. projects that are believed by beneficiaries to have social impact. Bearing in mind that it is unlikely that beneficiaries would openly admit to their failure to have used an NLDTF grant in a socially non-productive manner, almost all respondents believe that their work has had impact on South African society, a very small minority (5.1%) are uncertain and a miniscule 0,8 % readily admit to no ostensible impact i.e. tantamount to outright failure.

Most respondents pointed to the ways in which NLDTF grants allowed them to achieve their original objectives, for example, to help the blind or to support sport development. However organisations were quick to point out that the NLDTF grants had assisted the organisation itself in other perhaps unintended ways, for example, by increasing organisational capacity or enhancing community morale.

The study concluded that the "NLDTF has had a significant social impact since its inception. Whilst the processes used to assess and disburse grants may need to be streamlined, there can be no doubting the impact that grants have had on Non-Profit Organisations. This impact, as outlined above, is felt not just in the sense that these grants have allowed organisations to meet their intended objectives (direct consequences) but also, and perhaps as importantly, in that they have contributed enormously to the development of organisational capacity and enhancing the morale of communities who would otherwise receive very little developmental assistance at all (secondary consequences).

The Board intends to release the published form of the study in the coming months.

### WORK MANAGEMENT STUDY

The Board conducted a work management study of the grantmaking process. The study has been completed and highlights areas in which process improvements can be obtained. The Board will implement the recommendations in the coming year.

### BENEFICIARY RELATIONS

To address and investigate queries and appeals received from applicants and beneficiaries post-adjudication, the Board has set up a beneficiary relations section that will be linked to the Communications Department. This office will address and investigate queries and appeals of applicants where inadequate or unsatisfactory responses have been provided by staff working with applications. The Board is in the process of appointing staff in order to be able to address these queries speedily.

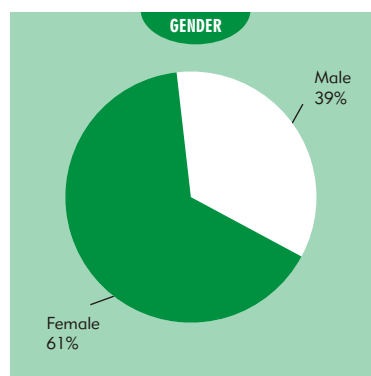
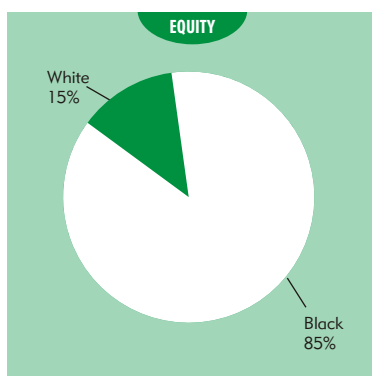
### STAFF OF THE BOARD

At the end of March 2007, there were 59 employees, 58 of whom are South African. The female component of the Board's staff is 36 (61%), two of whom are previously disadvantaged persons with a physical disability.

The Board is committed to equity and redress. In appointing new staff, every effort is made to give preference to applicants from previously disadvantaged groups. 85% of the Board's staff is black.



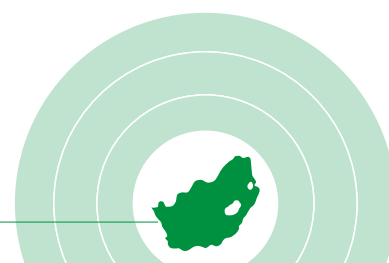
	African	Coloured	Indian	White
Executive Management	2	1	1	1
Staff	41	1	2	8
<b>TOTAL</b>	<b>43</b>	<b>2</b>	<b>5</b>	<b>9</b>



## PERFORMANCE AGAINST PRE-DETERMINED OBJECTIVES

Since the Board is a regulator, and since the process of regulation and its outcomes are very difficult to predict and to plan for, the Board relies on the specification of its functions in the Lotteries Act and directions given to it by the Minister of Trade and Industry as the primary objectives of its operation and performance. The National Treasury supports this view. Specifically, these objectives and the Board's performance against them are presented below.

Objective	Boards Performance
Ensure that the National Lottery and Sport Pools are conducted with all due propriety.	<ul style="list-style-type: none"> <li>Continuous monitoring of the Operator's control and security environments through regular compliance programmes.</li> <li>To date, the integrity of the National Lottery has not been compromised.</li> </ul>
Ensure that the interest of every participant in the National Lottery is adequately protected.	<ul style="list-style-type: none"> <li>Continuous monitoring of the gaming and prize payment environments and the Operator's call centre.</li> <li>Compliance visits to the live draw.</li> <li>Compliance visits to Retailers.</li> </ul>
Ensure that the net proceeds of the National Lottery are as large as possible.	<ul style="list-style-type: none"> <li>Continuous monitoring of Sales and Prizes and the tranche calculations as specified in the Licence.</li> <li>Continuous monitoring of ancillary revenue.</li> <li>Continuous monitoring of all categories of expenditure incurred by the Operator.</li> </ul>
Administer the National Lottery Distribution Trust fund (NLDTF) and hold it in trust.	<ul style="list-style-type: none"> <li>Tight controls on the receipt and investment of monies generated.</li> <li>Tight controls on the disbursement of monies to beneficiaries.</li> </ul>
Monitor, regulate and police lotteries incidental to exempt entertainment, private lotteries, society lotteries and any competition contemplated in Section 54 of the Lotteries Act.	<ul style="list-style-type: none"> <li>Continuous monitoring of lottery-related activity in the market.</li> <li>Processes in place for registration of lottery managers, operators and fundraising schemes.</li> </ul>
Advise the Minister on percentages of money to be allocated in terms of Section 26(3) of the Lotteries Act.	<ul style="list-style-type: none"> <li>The Board has since made five proposals regarding the allocation of monies. Four have been approved. The current proposal is under consideration by the Minister.</li> </ul>



Advise the Minister on the efficacy of legislation pertaining to lotteries and ancillary matters.	<ul style="list-style-type: none"> <li>The Board has since made proposals to the Minister regarding amendments to the Lotteries Act on three occasions. Two amendments have already been implemented.</li> </ul>
Advise the Minister on establishing and implementing a social responsibility program in respect of lotteries.	<ul style="list-style-type: none"> <li>The Board, in conjunction with the Operator, has a comprehensive social responsibility programme. The Board monitors the programme annually.</li> </ul>
Administer and invest the money paid into the National Lottery Distribution Trust Fund in accordance with the Lotteries Act.	<ul style="list-style-type: none"> <li>The Board has received approval from the Minister of Finance for its investment strategy and currently invests in strict accordance with this policy.</li> </ul>
Make such arrangements as may be specified in the licence for the protection of prize monies and sums for distribution.	<ul style="list-style-type: none"> <li>The Board has, at the start up of the Lottery, approved and authorised the various trusts to hold monies reserved for outstanding prizes. The status of these trusts is monitored continually.</li> </ul>
Provide the administrative and management support to the Distributing Agencies for the purposes of grant making.	<ul style="list-style-type: none"> <li>The Board has set up the Central Applications Office and has to date, in cooperation with the Distributing Agencies, allocated in excess of 9 000 grants totalling R4,6 billion.</li> <li>The current cost to disbursement is below 2%. The international average is approximately 11%.</li> </ul>

The Board has initiated the development of measurable outcomes in respect of its efficiency in the area of grant disbursements and the throughput in the Central Applications Office. While these are in the process of being refined, the following figures reflect the throughput performance of the office for the period under review:

Disbursements: Actual = R792 million (Budgeted = R1 billion)

## Turnaround Times:

Application to adjudication Actual average = 18 weeks (Standard = 8 weeks)

Adjudication to payment Actual average = 6 weeks (Standard = 8 weeks)

The average turn around times have increased as a result of the unanticipated longer period it took the Department of Trade and Industry to appoint the Distributing Agencies.

## NATIONAL LOTTERY DISTRIBUTION TRUST FUND (NLDTF)

In terms of the Lotteries Act, the Board is the trustee of the NLDTF and reports on its activities to Parliament through the Department of Trade and Industry. The National Lotteries Board also serves as the Distributing Agency for Miscellaneous Purposes.

## The Distributing Agencies

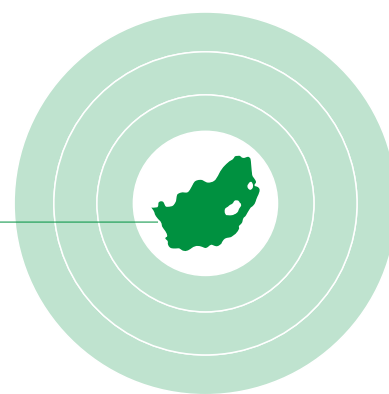
Following the expiry of the contracts of the members of the Distributing Agencies, the Department of Trade and Industry confirmed the appointment of the new members of the Distributing Agencies as follows:

### Arts, Culture and National Heritage (appointment confirmed on 14 June 2006)

Dr. Nathan Bagarette (Chairperson)  
 Prof. Dorcas Jafta (Deputy Chairperson)  
 Ms. Marie Human  
 Adv. Sonwabile Mancotywa  
 Dr. Alfred Nevhutanda  
 Prof. Bheki Ntuli  
 Mr. Oupa Salemane  
 Ms. Evelyn Senna

### Charities (appointment confirmed on 14 June 2006)

Dr. Teboho Maitse (Chairperson)  
 Dr. Joyce Matube (Deputy Chairperson)  
 Ms. Penelope Beck  
 Mrs. Margaret Grobbelaar  
 Mr. Musa Madonsela  
 Mr. Arthur Magerman  
 Mr. Gordon McDonald



### Sport and Recreation (Appointment confirmed on 6 December 2006)

Mr. Gideon Sam (Chairperson)  
Ms. Hajera Kajee (Deputy Chairperson)  
Mrs. Motlatsi Keikabile  
Mr. Vinesh Maharaj  
Dr. Joe Phaahla  
Dr. Sam Ramsamy  
Mr. Thulani Tshabalala  
Ms. Ilse van Buynder  
Mrs. Celest van Niekerk

The Members of the Distributing Agencies are all engaged in full-time employment and are the experts in their respective sectors. As such, they are suitably aware of the needs of their sector and can make decisions based on their experience of the sector and expertise.

All appointments are made by the Minister of Trade and Industry after consultation with Cabinet colleagues responsible for Arts & Culture; Social Development; and Sport and Recreation. The Chairpersons are also chosen by the Minister of Trade and Industry. The Deputy Chairpersons are elected by the members of the relevant Distributing Agency.

The orientation programme for the Distributing Agencies for Arts, Culture and National Heritage; and Charities was held on 14 August 2006. The first adjudication meeting of the Charities Distributing Agency was held on 18 August 2006, whereas the first allocations meeting for the Distributing Agency for Arts, Culture and National Heritage was held on 22 August 2006. The Distribution Agency for Sport and Recreation met for their orientation programme on 8 February 2007 and resumed with adjudication on 9 February 2007. The three Distributing Agencies have been meeting regularly since to adjudicate on applications that were called for by the previous Distributing Agencies in 2005.

Since there were no calls for applications in 2006, the Distributing Agencies met separately and as soon as was feasible for a policy workshop to come up with a recommendation for the policy to be followed in the next call for applications. The recommended policy is submitted to the Board and Minister of Trade and Industry for endorsement.

The **Charities** sector made a call for new applications on 14 January 2007 with dates by which applications should be submitted as follows:

National Bodies; KwaZulu Natal; North West; Mpumalanga	30 March 2007
Gauteng; Northern Cape; Limpopo	31 May 2007
Eastern Cape; Free State; Western Cape	27 July 2007

The Charities sector's focus in the call for applications was on social welfare developmental programmes, adult basic education and training (ABET), after-school care programmes, schools operating in poor rural areas for the building of toilets, classrooms and fencing provided they could submit substantiated proof that funding was not available from the relevant Provincial Departments of Education. It was also desired that applicants showed beneficiary community representation in their staff/management and board/committees. Provision was yet again made for newer prospective applicants who did not yet meet the qualifying criteria to apply in partnership with more established organisations.

The call for applications in the **Sport and Recreation** sector was advertised on 11 March 2007 with one deadline set for 11 May 2007. There were different focus areas for different tiers of sport, with macro-bodies; national, provincial and regional federations; provincial academies of sport; municipalities; schools; tertiary institutions; and clubs being targeted for specific aspects of sports development. Areas of development were the upgrading of facilities, sports equipment, team preparation, hosting of international sporting events, coaching, and capacity development. These areas tied in with National objectives for sport.

In the **Arts, Culture and National Heritage** sector there was a greater percentage of applications still to be adjudicated when the new members were appointed due to the later call for 2005 applications when compared to the other 2 sectors. It was deemed best that all outstanding applications be adjudicated before the next call for applications is made. Policy recommendations have been finalised and the next call would be made once outstanding activities have been completed. This sector might be seen to take longer periods in adjudicating and finalising applications. This can be attributed to the fact that the projects funded in this sector are larger and therefore requiring greater scrutiny and time in making decisions.

In the absence of the RDP Fund, no funds were reserved for this sector. The amendment of the Lotteries Act with regards the **Reconstruction and Development Programme (RDP)** allocation has not yet been finalised.





The National Lotteries Board, as Distributing Agency for Miscellaneous Purposes made two allocations in this sector. Grants from this allocation go to registered organisations in the non-profit sector whose activities fall outside the three main funding sectors of the NLDTF.

## Basic requirements for funding from the NLDTF are:

1. Proof of registered not-for-profit organisation (NPO), Section-21 Company or non-profit Trust.
2. Constitution in line with relevant sector.
3. Project in line with the call for applications.
4. Costed Budget and Implementation Plan.
5. Two most-recent years' audited Financial Statements.

## NLDTF ALLOCATIONS

For the period 01 April 2006 to 31 March 2007, the breakdown of the funding process is as follows:

Category	Amount Available for Distribution R million	No. of Approved Beneficiaries	Amount Allocated R million
Arts, Culture & National Heritage	598 (28%)	117	235,0 (39%)
Charities	962 (45%)	689	428,2 (45%)
Miscellaneous Purposes	107 (5%)	2	34,0 (32%)
RDP	-	-	-
Sport & Recreation	470 (22%)	55	117,7 (25%)
<b>TOTAL</b>	<b>2 137 (100%)</b>	<b>863</b>	<b>814,9 (38%)</b>

The lower than usual spending can be attributed to the fact that there were no distributing agency allocations meetings from March to August 2006. All unexpended funds are retained in the Trust Fund and will be made available for allocation in the next financial year.

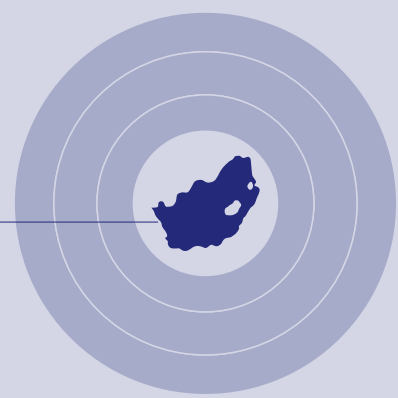
For the period 01 April 2006 to 31 March 2007, the distribution of good cause monies per province and per sector is as follows:

	Arts, Culture & National Heritage R million	Charities R million	Sport & Recreation R million	Miscellaneous Purposes R million	TOTAL R million
National Bodies	8,9	87,9	67,2	34,0	198,0
Eastern Cape	8,4	37,2	5,1	--	50,7
Free State	1,7	14,9	--	--	16,6
Gauteng	127,4	112,7	21,8	--	261,9
KwaZulu Natal	26,3	47,8	3,7	--	77,8
Limpopo	7,3	15,9	5,3	--	28,5
Mpumalanga	7,0	27,1	3,4	--	37,5
Northern Cape	2,4	16,5	3,1	--	22,0
North West	6,7	11,1	3,2	--	21,0
Western Cape	38,9	57,1	4,9	--	100,9
<b>TOTAL</b>	<b>235,0</b>	<b>428,2</b>	<b>117,7</b>	<b>34,0</b>	<b>814,9</b>

For a detailed list of all allocations in the period under review, please refer to pages 59 to 64.

Included in the detailed list are conditional allocations made in the 2006/2007 financial year that we are obliged to accrue for. In the event of conditions not being met, this will be rectified in the next financial year and identified in the financial statements.

## REPORT OF THE AUDIT COMMITTEE



We are pleased to present our report for the financial year ended 31 March 2007.

### Audit Committee Members and Attendance:

The audit committee consists of the members listed hereunder and meets at least four times per annum as per its approved terms of reference. During the current year five meetings were held.

Name of Member	Number of Meetings Attended
N. Axten (Chairperson)	5
R.K. Nayager	3
J.F.J. Scheepers	4
S. Thomas	5

The external auditors, the Chief Executive Officer, internal auditors as well as the Chief Financial Officer have a standing invitation for audit committee meetings and have attended most of the meetings during the year under review.

Currently the audit committee comprises four members, all of whom are from the private sector and two of whom are members of the Board.

### Audit Committee Responsibility

The Audit Committee reports that it has complied with its responsibilities arising from Treasury Regulations 3.1.13, 27.1.7 and 27.1.10(b) and (c) issued in terms of the Public Finance Management Act 1 of 1999, as amended by Act 29 of 1999.

The Audit Committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

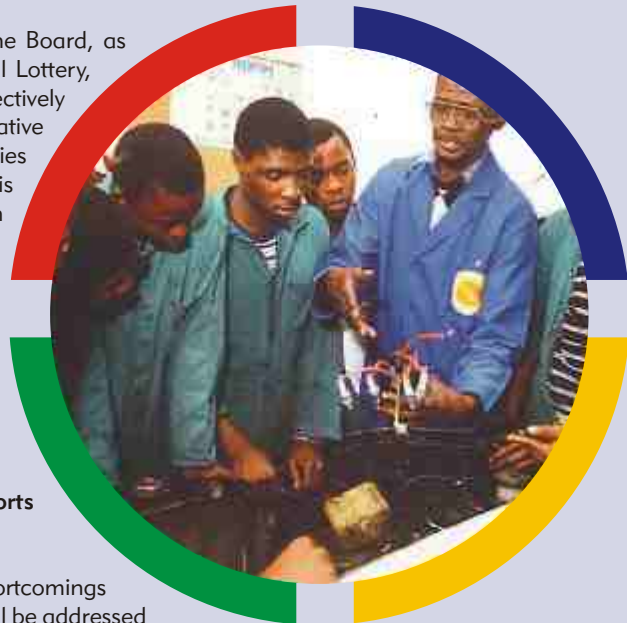
### The effectiveness of internal control

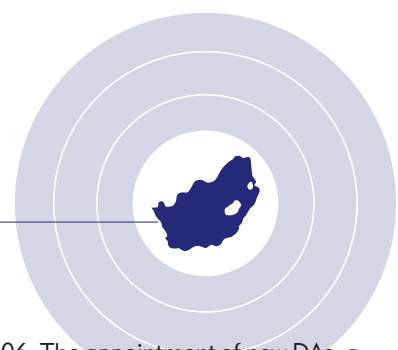
During the year under review the internal controls of the Board, as regarding its responsibilities as regulator of the National Lottery, were considered to be adequate, and have been effectively discharged. However, the secretarial and administrative functions performed on behalf of the Distributing Agencies have proved to be unsatisfactory in certain respects. This is mainly due to the system being incapable of coping with the current volumes.

The performance audit by the Auditor-General on the grant management system, together with an outside evaluation commissioned by the Board, has highlighted shortcomings relating thereto. The Board is currently reviewing these systems and controls to rectify the deficiencies identified, and provide more effective control.

### The quality of management and monthly/quarterly reports submitted in terms of the PFMA

As indicated in the Auditor-General's report, there are shortcomings in reports in respect of performance information which will be addressed and rectified by management.





### Distributing Agencies

The term of office of the Distributing Agencies (DAs) came to an end on 31 March 2006. The appointment of new DAs, a function of the Minister of Trade and Industry, took longer than anticipated. As a result the NLDTF was without DAs for Charities and Arts, Culture and National Heritage for four months and without a DA for Sport and Recreation for ten months. In the absence of DAs, no new allocations could be made. The NLB did, however, have special permission from the Minister to approve and make tranche payments until such time that the DAs were appointed.

The Lotteries Act established the National Lotteries Board (Accounting Authority) and the National Lottery Distribution Trust Fund. The Accounting Authority is ultimately responsible for the funds received and disbursed under its management. Although payments are processed by the Board, such payments are made in accordance with decisions made by the DAs. The Minister of Trade and Industry appoints DA members in consultation with the Minister responsible for the relevant sector in which the decisions are made. Although the Board makes payments of grants from funds held in Trust, an effective approval mechanism does not exist in that the accounting authority has no control over the decisions made by the DAs. Although the Board has instituted an oversight committee to review the allocations made by the various DAs, this committee does not have the legal authority to revoke allocation decisions made by the DA's.

### Internal Audit

The Board has outsourced the internal audit function to a private firm of chartered accountants and although only certain areas were covered during the period under review the Audit Committee has reviewed the adequacy of the coverage of a three year rolling plan for the years 2007/2008 to 2009/2010 which still has to be approved by the Board.

### Evaluation of Financial Statements

The Audit Committee has:

- reviewed and discussed the audited annual financial statements to be included in the annual report with the Auditor-General and the Accounting Officer;
- reviewed the Auditor-General's management letter and management's response thereto.

The Audit Committee concurs and accepts the Auditor-General's conclusions on the annual financial statements and is of the opinion that the audited annual financial statements be accepted and read together with the report of the Auditor-General. The Audit Committee has received the Auditor-General's management report on the performance audit of grant management. This report is in the process of being reviewed with the Auditor-General.

N. Axten  
Chairperson of the Audit Committee



The National Lotteries Board presents its ninth Annual Report, which forms part of the audited Financial Statements of the National Lotteries Board (NLB) and the National Lottery Distribution Trust Fund (NLDTF) for the year ended 31 March 2007.

### 1 NATURE OF OPERATIONS

The NLB is the regulator of the National Lottery and other lotteries as identified in the Lotteries Act, 1997 (Act No. 57 of 1997). Uthingo Management (Pty) Ltd is a private company that operated the National Lottery under licence from the Government for a period of seven years, which expired on 31 March 2007. The Operator of the National Lottery pays monies into the NLDTF in terms of the licence agreement. These proceeds are destined for good causes as specified in the Lotteries Act and allocated to applicants who meet the required criteria by Distributing Agencies appointed by the Minister of Trade and Industry. The NLB manages the NLDTF and accounts for all running costs. The NLB withdraws the necessary funds required from the NLDTF, based on overall annual budget approval by the Minister of Trade and Industry.

### 2 STATEMENT OF RESPONSIBILITY

The NLB is responsible for the maintenance of adequate accounting records and the preparation and integrity of the financial statements and the related information. The auditors are responsible to report on the fair presentation of the financial statements. The financial statements have been prepared in accordance with the basis of preparation as set out in the accounting policies notes to the NLB and NLDTF financial statements and in the manner required by the Public Finance Management Act, 1999.

The NLB is also responsible for the entity's system of internal control. These are designed to provide reasonable, but not absolute assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of the assets, and to prevent and detect misstatement and loss. Nothing has come to the attention of the NLB to indicate that any material breakdown in the functioning of these controls, procedures and system has occurred during the year under review. In addition the NLB has engaged the services of a work-measurement specialist to conduct a comprehensive study of all the processes in the grant-making cycle. The NLB will use the results of this study to implement corrective measures as required.

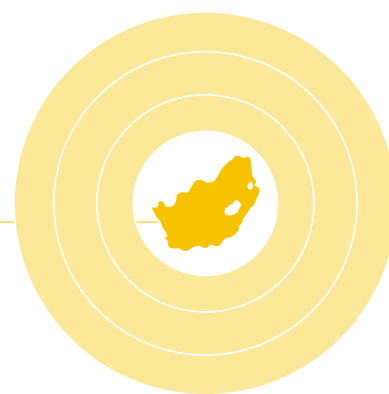
The financial statements have been prepared on the going concern basis, since the NLB Board Members have every reason to believe that the NLB has adequate resources in place to continue in operation for the foreseeable future. Despite the temporary suspension of the National Lottery, the NLB is satisfied that sufficient funds are available for distribution to good causes for existing as well as new applications in the coming financial year.

### 3 OPERATING AND FINANCIAL REVIEW

The financial results of the NLB and the NLDTF are fully dealt with in the attached Financial Statements.

Being a regulatory body, the NLB's objectives are prescribed in the Lotteries Act. It is the NLB's continuous aim to meet or exceed these objectives. The Chairperson's report covers all accomplishments in greater detail.

During the period under review, the NLB evaluated all submissions from applicants for the Licence to operate the National Lottery as the licence held by Uthingo Management (Pty) Ltd was due to expire on 31 March 2007. Following the Board's recommendations and successful conclusion of licence negotiations, the Minister of Trade and Industry issued the Licence to Gidani (Pty) Ltd for a period of seven years with effect from 1 April 2007. On 15 November 2006 Uthingo Management (Pty) Ltd launched an application to the High Court of South Africa challenging the decision of Minister Mpahlwa to award the licence to Gidani (Pty) Ltd. On 5 March 2007 the High Court set aside the Minister's decision to award the Licence to operate the National Lottery to Gidani (Pty) Ltd, on the grounds that insufficient investigation was carried out in terms of shareholders and the shareholders of shareholders of all bidding consortia. Inasmuch as the Minister of Trade and Industry and the NLB were convinced that all due process was followed, the decision was not appealed as it was believed that the appeal process would cause undue delays in the rollout of the National Lottery. Since the setting aside of the Licence to operate the National Lottery, the NLB has carried out an intensive investigation into the shareholders and the shareholders of shareholders of all four bidding consortia in order to make a new recommendation to the Minister of Trade and Industry. It is envisaged that the Minister would announce the preferred bidder in July 2007 with the intention that the National Lottery be resumed as soon as possible thereafter.



#### 4 MEMBERS OF THE BOARD

Mr. Joe Foster (Chairperson)	re-appointed 03/12/2003
Mr. Norman Axten	re-appointed 03/12/2003
Ms Nora Fakude-Nkuna	re-appointed 03/12/2003
Mr. Henry Makgothi	re-appointed 03/12/2003
Ms Shelley Thomas	re-appointed 03/12/2003
Mr. George Negota	appointed 03/12/2003
Ms Astrid Ludin	resigned 23/04/2007

#### 5 EMOLUMENTS AND REMUNERATION

The notes to the Financial Statements provide full disclosure in respect of Board Members' emoluments, Distributing Agency emoluments, Audit Committee Members' emoluments and Senior Management remuneration.

#### 6 MATERIAL EVENTS AFTER YEAR END

As a result of the High Court having set aside the Minister's decision to award the Licence to operate the National Lottery to Gidani (Pty) Ltd, the National Lottery has been suspended since the end of March 2007 when the Licence held by Uthingo Management (Pty) Ltd came to an end. There were no contingency plans in place because it was envisaged that the transition from one licence period to the next would be smooth. Further, the Lotteries Act makes no provision for the extension of a Licence within one year of expiry. The suspension of the licence has an effect on the contribution of fresh funds into the NLDTF since 1 April 2007 and this would continue as long as the National Lottery is suspended. However, since the inception of the National Lottery, grants to good causes have been made from a reserve of funds rather than from current revenue. The NLDTF has sufficient funds available for distribution in the year ahead. As long as prospective beneficiaries meet the necessary grant conditions, they will receive funding for existing as well as new applications.

#### 7 MATERIALITY FRAMEWORK IN TERMS OF TREASURY REGULATION 28.1.5.

During the year under review for purposes of material (sections 50(1), 55(2) and 66(1) of the Public Finance Management Act) and significant (section 54 (2) of the Public Finance Management Act), the Board developed and agreed a framework of acceptable levels of materiality and significance in consultation with the external auditors. Overall materiality for the period under review was agreed as being approximately 0.375% of prior year actual expenditure. This amounts to R75 000 and R4 500 000 for the NLB and NLDTF respectively.

#### 8 INTERNAL AUDIT

Treasury Regulation 27 requires internal audits to be conducted in accordance with the standards set by the Institute of Internal Auditors. The Board has outsourced the internal audit function to SAB&T Inc. Chartered Accountants (SA). They have conducted their assignment in terms of the internal audit coverage plan as agreed with management. The following areas were covered during the period under review:

- Risk assessment;
- Evaluation of policies and procedures; and
- Audit of the Board's human resources function.

#### 9 EXTERNAL AUDIT

The Auditor-General will continue to perform the statutory audit in accordance with the Lotteries Act, 1997 (Act No. 57 of 1997) and the Public Audit Act, 2004 (Act No. 25 of 2004).

The Financial statements set out on pages 22 to 41 for the National Lotteries Board and pages 46 to 57 for the National Lottery Distribution Trust Fund were approved by the Board and are signed on their behalf.

J A Foster  
Chairperson  
13 July 2007

V Ram  
Chief Executive Officer





## **NATIONAL LOTTERIES BOARD (NLB)**

**ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 March 2007**

# REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE NATIONAL LOTTERIES BOARD FOR THE YEAR ENDED 31 MARCH 2007

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## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I have audited the accompanying financial statements of the National Lotteries Board (Board) which comprise the statement of financial position as at 31 March 2007, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 22 to 41.

### Responsibility of the accounting authority for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, with the effective Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and the Lotteries Act, 1997 (Act No. 57 of 1997). This responsibility includes:
  - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
  - selecting and applying appropriate accounting policies
  - making accounting estimates that are reasonable in the circumstances.

### Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 12(4) of the Lotteries Act, 1997 (Act No. 57 of 1997), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing and General Notice 647 of 2007, issued in Government Gazette No. 29919 of 25 May 2007. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
6. An audit also includes evaluating the:
  - appropriateness of accounting policies used
  - reasonableness of accounting estimates made by management
  - overall presentation of the financial statements.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### Basis of accounting

8. The public entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in note 1 to the financial statements.

### Opinion

9. In my opinion the financial statements present fairly, in all material respects, the financial position of National Lotteries Board as at 31 March 2007 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by National Treasury of South Africa, as described in note 1 of the accounting policies to the financial statements, and in the manner required by the PFMA and the Lotteries Act.

# REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE NATIONAL LOTTERIES BOARD FOR THE YEAR ENDED 31 MARCH 2007

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## Emphasis of matters

10. Without qualifying my audit opinion, I draw attention to the following matters:

### Property, plant and equipment

11. The methodology followed by the Board to assess the useful lives and residual values of property, plant and equipment did not meet the requirements of International Accounting Standards (IAS) 16 and was also not in line with the Board's accounting policy. This constitutes non-compliance with the entity's chosen reporting framework.

### Board meeting minutes

12. Minutes to the Board meetings held since January 2007 were not submitted for audit inspection. I could therefore not ascertain whether any issues that may have a material impact on the financial statements were discussed at these Board meetings.

## OTHER MATTERS

13. I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

### Material non-compliance with applicable legislation

14. Section 10(a) of the Lotteries Act No. 57 of 1997 (Lotteries Act) states: "the board shall, applying the principles of openness and transparency and in addition to its other functions in terms of this Act, - advise the Minister on the issuing of the licence to conduct the National Lottery as contemplated in section 13(1) and on any other matter contemplated in section 14(2)(g)". Section 13(1) of the Lotteries Act further states that "the Minister may, after consultation with the board, issue one licence at one time authorising a person to conduct the National Lottery". The Minister of Trade and Industry announced on 31 July 2006 the preferred bidder as well as a second preferred bidder for the second lottery licence. Subsequent to the Minister announcing the preferred bidder of the second lottery licence, a high court application (case number: 37942/2006) was brought against the Minister (first respondent), National Lotteries Board (second respondent), and the preferred bidder (third respondent) by one of the applicants. The high court order set aside the awarding of the lottery licence to the preferred bidder and ruled that the first, second and third respondents were jointly and severally liable to pay the cost of the applicant, which cost will include cost consequent upon employment of two counsel. The high court judgement indicated that the Minister and the National Lotteries Board failed to consider or take into account mandatory and material information prescribed by section 13 of the Lotteries Act. At the date of this report, the re-awarding of the second lottery licence was still under consideration by the Minister.
15. Section 51(1)(a)(i) of the PFMA states that the accounting authority must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control. This requirement was not complied with as follows:
- The Board does not have an approved employee performance management policy. Bonuses were however provided for and paid out.

### Matters of governance

16. Employment contracts for the Chief Executive Officer and Chairman of the Board could not be provided for audit inspection therefore they could not be verified.
17. Two interest-free debts amounting to R24 464 each and a third of R1 864 were provided to three members of the Board. This constitutes non-compliance with Treasury regulation 11.5.1 which indicates that "interest must be charged on debts to the state at an interest rate determined by the Minister of Finance in terms of section 80 of the Act". No repayments of these debts were received during the financial year under review. At 31 March 2007, these debts were yet to be repaid.

### Performance audit report

18. A separate performance audit report on Grant Management at the National Lotteries Board was performed and will be issued in due course.

# REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE NATIONAL LOTTERIES BOARD FOR THE YEAR ENDED 31 MARCH 2007

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## OTHER REPORTING RESPONSIBILITIES

### Reporting on performance information

19. I have not reviewed the performance information as set out on pages 10 to 11.

### Responsibilities of the accounting authority

20. The accounting authority has additional responsibilities as required by section 55(2)(a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the public entity.

### Responsibility of the Auditor-General

21. I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with General Notice 646 of 2007, issued in Government Gazette No. 29919 of 25 May 2007.

22. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

23. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

## AUDIT FINDINGS

### Performance information not received in time

24. I was not able to review the reported performance information as set out on pages 10 to 11 of the annual report, since the final information was not received in time to enable me to complete an evaluation of the quality of the reported performance information.

### Lack of system generating performance information

25. The Board does not have a formal internal control system supporting the measurement and reporting of performance against predetermined objectives.

### No quarterly reporting on performance information

26. The Board did not include performance information on progress in achieving measurable objectives and targets in the quarterly reports presented to the executive authority, as required by Treasury Regulations 30.2.1.

### Budget process

27. The budgeting process was not aligned to the strategic objectives of the NLB/NLDTF.

### Content of business plan

28. Key performance measures included in the NLB/NLDTF Business plan were not linked to strategic objectives included in the Business plan.

## APPRECIATION

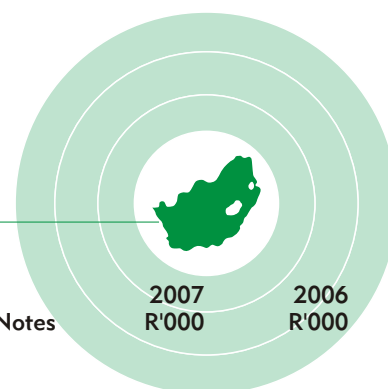
29. The assistance rendered by the staff of the National Lotteries Board during the audit is sincerely appreciated.



F Joubert for Auditor-General  
Pretoria  
31 July 2007



## STATEMENT OF FINANCIAL PERFORMANCE for the year ended 31 March 2007



### REVENUE

	Notes	2007 R'000	2006 R'000
Transfers and subsidies received	1	25 194	11 735
Licence fees	2	-	228
Application fees for Licence to conduct National Lottery	3	-	8 000
Other income	4	46	692
<b>TOTAL REVENUE</b>		<b>25 240</b>	<b>20 655</b>

### EXPENDITURE

Administrative expenses	5	4 458	2 637
Staff costs	6	13 505	11 284
Audit fees	7	1 484	633
Other operating expenses	8	5 657	6 077
Depreciation and amortisation	9	360	208
Loss on disposal of fixed assets	10	26	-
<b>TOTAL EXPENDITURE</b>		<b>25 490</b>	<b>20 839</b>

### DEFICIT FROM OPERATIONS

Finance income	11	250	184
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### SURPLUS FOR THE YEAR

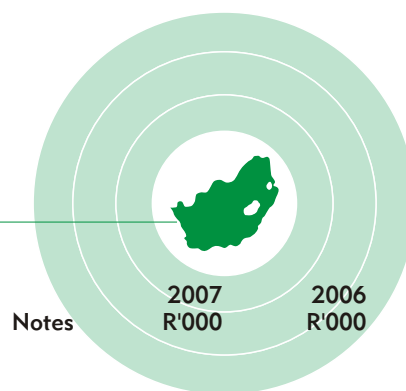
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# STATEMENT OF FINANCIAL POSITION

## as at 31 March 2007



### ASSETS

#### Non-current assets

	Notes	2007 R'000	2006 R'000
Property, plant and equipment	12	528	649
Intangible assets	13	173	299
		<u>701</u>	<u>948</u>

#### Current assets

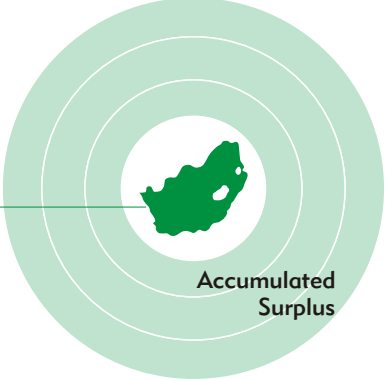
Investments in securities	14	161 821	147 448
Trade and other receivables	15	10 534	3 490
Prepayments and advances	16	14	14
Cash and cash equivalents	17	871	3 943
		<u>173 240</u>	<u>154 895</u>
<b>Total assets</b>		<u><u>173 941</u></u>	<u><u>155 843</u></u>

### LIABILITIES

#### Current liabilities

Trade and other payables	18	173 941	155 843
<b>Total liabilities</b>		<u><u>173 941</u></u>	<u><u>155 843</u></u>

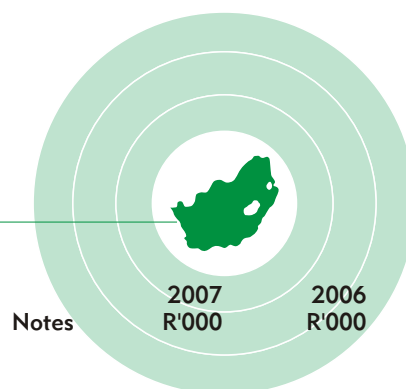
**STATEMENT OF CHANGES IN NET ASSETS**  
**for the year ended 31 March 2007**



	R'000
Balance at 1 April 2005	-
Net surplus for the year	-
Balance at 1 April 2006	-
Net surplus for the year	-
Balance at 31 March 2007	-



## CASH FLOW STATEMENT for the year ended 31 March 2007



### Cash flow from operating activities

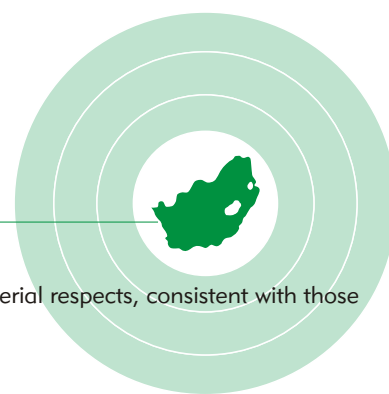
Cash receipts from NLDTF and other parties		14 910	20 508
Cash paid to suppliers and employees		(18 093)	(17 251)
Cash (used in)/generated from operations	19	(3 183)	3 257
Investment income		250	184
<b>Net cash (used in)/generated from operating activities</b>		<b>(2 933)</b>	<b>3 441</b>

### Cash flow from investing activities

Acquisition of property, plant and equipment		(133)	(232)
Acquisition of intangible assets		(6)	(329)
<b>Net cash used in investing activities</b>	20	<b>(139)</b>	<b>(561)</b>

### Net (decrease)/increase in cash and cash equivalents

Cash and cash equivalents at the beginning of the year		3 943	1 063
<b>Cash and cash equivalents at the end of the year</b>	17	<b>871</b>	<b>3 943</b>



The following are the principal accounting policies of the NLB which are, in all material respects, consistent with those applied in the previous year:

## 1 Basis of preparation

The financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practices (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, with the effective Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP Statement as follows:

### Standard of GRAP

GRAP 1: Presentation of financial statements  
GRAP 2: Cash flow statements  
GRAP 3: Accounting policies, changes in accounting estimates and errors

### Replaced Statement of GAAP

AC101: Presentation of financial statements  
AC118: Cash flow statements  
AC103: Accounting policies, changes in accounting estimates and errors

Currently the recognition and measurement principles in the above GRAP and GAAP Statements do not differ or result in material differences in items presented and disclosed in the financial statements. The implementation of GRAP 1, 2 & 3 has resulted in the following changes in the presentation of the financial statements:

#### 1. Terminology differences:

##### Standard of GRAP

Statement of financial performance  
Statement of financial position  
Statement of changes in net assets  
Net assets  
Surplus/deficit  
Accumulated surplus/deficit

##### Replaced Statement of GAAP

Income statement  
Balance sheet  
Statement of changes in equity  
Equity  
Profit/loss  
Retained earnings

2. The cash flow statement can only be prepared in accordance with the direct method.

3. The amount and nature of any restrictions on cash balances is required.

Paragraph 11 - 15 of GRAP 1 has not been implemented due the fact that the budget reporting standard has not been developed by the local standard setter and the international standard is not effective for this financial year. Although the inclusion of budget information would enhance the usefulness of the financial statements, non-disclosure will not affect the objective of the financial statements.

The financial statements have been prepared on a going concern basis and the accounting policies have been applied consistently throughout the period. The measurement base applied is historical cost.

## 2 Revenue recognition

Revenue is recognised when it is probable that future economic benefits will flow to the enterprise and these benefits can be measured reliably. The following specific bases apply:

Assistance from the NLDTF is based on actual operating costs for which the Board is responsible. The Board withdraws the amounts as and when required, based on overall approval by the Minister of Trade and Industry. Income is generally recognised as operating costs are defrayed, the end result being the surrendering of surpluses to (or recovering of any deficit from) the NLDTF, thus not accounting for any accumulated surplus.

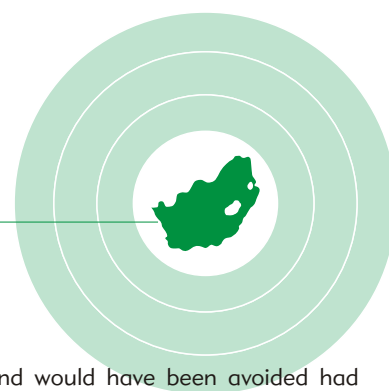
Revenue arising from licence fees is recognised on an accrual basis in accordance with the substance of the license contract.

Interest income is accrued on a time proportion basis, taking into account the principal outstanding and the effective interest rate over the period to maturity.

Fees received from bidders are recognised as they accrue.

## 3 Irregular and fruitless and wasteful expenditure

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of any applicable legislation, including:



- The PFMA, or
- Any legislation providing for procurement procedures.

Fruitless and wasteful expenditure means expenditure that was made in vain and would have been avoided had reasonable care been exercised.

Any irregular and fruitless and wasteful expenditure is charged against income in the period in which it is incurred.

#### **4 Retirement benefit costs**

The Government Employees Pension Fund is a defined benefit fund, which provides retirement and death benefits for the Chairperson. Government guarantees any unfunded liability. The pension plan is generally funded by contributions from the Chairperson and the National Lotteries Board. The contributions are charged to the statement of financial performance in the year to which they relate.

The Provident Fund to which all other employees belong is a defined contribution fund, which provides retirement, death and disability benefits. The National Lotteries Board funds the plan as part of the cost to the Board. The contributions are charged to the statement of financial performance in the year to which they relate.

#### **5 Property, plant and equipment**

All property, plant and equipment are initially recorded at cost. Assets are stated at historical cost less accumulated depreciation and accumulated impairment losses, and are written off over the expected useful life of the asset.

The residual value and useful lives of assets are reviewed and adjusted if appropriate at the end of each financial year. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Depreciation is calculated on the straight-line method to write off the cost of assets to their residual values over their estimated useful lives:

- |                          |              |
|--------------------------|--------------|
| • Furniture and fittings | 5 to 9 years |
| • Office equipment       | 5 to 7 years |
| • Computer equipment     | 3 to 5 years |
| • Motor vehicles         | 4 to 8 years |

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in or charged against income.

#### **6 Intangible assets**

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with identifiable software products controlled by the Board and will generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Intangible assets are stated at historical cost less accumulated amortisation and are written off over a period of three years on the straight-line method. Expenditure that enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a new acquisition.

#### **7 Impairment**

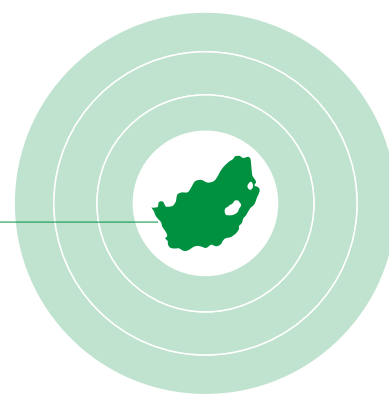
At each reporting date, the Board reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are immediately recognised as an expense.

#### **8 Leased assets**

Operating leases

Leases of assets under which the lessor effectively retains all the risks and benefits of ownership are classified as operating leases. Payments made under operating leases are charged to the statement of financial performance as incurred, over the period of the lease. Operating leases currently only relate to the premises being leased by the National Lotteries Board and future increments are CPIX based.





## **9 Financial instruments**

### **Recognition**

Financial assets and financial liabilities are recognised when the Board becomes a party to the contractual provisions of the instrument.

All "regular way" purchases and sales of financial assets are initially recognised using trade date accounting.

### **Measurement**

Financial instruments are initially measured at cost, which includes transaction costs. Subsequent to initial recognition these instruments are measured as set out below.

### **Financial assets**

The Board's principal financial assets are investments and loans, accounts receivable and cash and cash equivalents.

- **Trade and other receivables**  
Trade and other receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.
- **Cash and cash equivalents**  
Cash and cash equivalents are measured at cost plus interest income as it accrues.
- **Investments and originated loans**  
Investments are recognised as capital invested plus interest as it accrues.

The Board classifies its funds placed with various banking institutions in the form of fixed deposits, banker's acceptances, promissory notes and negotiable certificates of deposit as originated loans and receivables. This category of accounting for investments affords the opportunity of early conversion to cash if required, and not having to necessarily hold all instruments to maturity. These investments are also classified as current assets as it is the express intention to have all investments mature within twelve months from the reporting date. All funds are placed with high credit quality financial institutions approved by the Minister of Finance.

### **Cash and Cash equivalents**

Cash and cash equivalents are shown at the original capital invested plus accrued interest. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, and investments in money market instruments that mature in less than three months and are not only considered to be low risk investments, but may also be converted to cash earlier if considered necessary.

### **Financial liabilities**

The Board's principal financial liabilities comprise trade and other payables. Financial liabilities are recognised at amortised cost, namely original debt less principal payments and amortisations.

## **10 Provisions**

Provisions are recognised when:

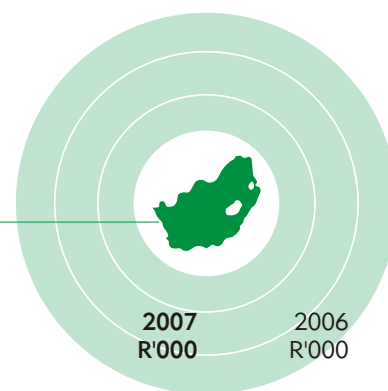
- the NLB has a present legal or constructive obligation as a result of past events;
- it is more likely than not, that an outflow of resources will be required to settle the obligation; and
- the amount of the obligation has been reliably estimated.

Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect of one item included in the same class of obligation may be small.

Provisions are measured at the present value of the expenditure expected to be incurred, in order to settle the obligation, using a discount rate that reflects current market assessments of the time value of money, and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2007



## 1 Transfers and subsidies received

Assistance received according to section 34 of the Lotteries Act

2007 R'000	2006 R'000
25 194	11 735

## 2 Licence fees

Recognition of lottery licence fees (refer note 19)

2007 R'000	2006 R'000
-	228

## 3 Application fees for licence to conduct National Lottery

Fees paid by applicants

2007 R'000	2006 R'000
-	8 000

## 4 Other income

Registration fees: Societies and Other Lotteries

2007 R'000	2006 R'000
46	42

Application fees: Request for Proposal for Licence to conduct National Lottery

2007 R'000	2006 R'000
-	350

Application fee: Sports Pool Game

2007 R'000	2006 R'000
-	50

Licence fee: Sports Pool

2007 R'000	2006 R'000
-	250

Total

2007 R'000	2006 R'000
46	692

## 5 Administrative expenses

General and administrative expenses

2007 R'000	2006 R'000
133	208

Insurance

2007 R'000	2006 R'000
41	42

Audit committee emoluments

2007 R'000	2006 R'000
235	190

Board Members' emoluments

2007 R'000	2006 R'000
242	503

Bank charges

2007 R'000	2006 R'000
23	20

Distributing agency emoluments

2007 R'000	2006 R'000
1 837	1 321

Legal fees

2007 R'000	2006 R'000
1 651	150

Stationery and printing

2007 R'000	2006 R'000
223	203

Venues and facilities

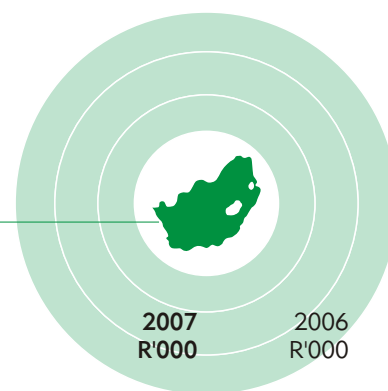
2007 R'000	2006 R'000
73	-

Total

2007 R'000	2006 R'000
4 458	2 637

Legal fees spent in the current year came about mainly as a result of instituting legal action against institutions that were conducting illegal lotteries and promotional competitions, as well as defending/acting against NLDTF beneficiaries who breached grant agreements. Costs were also incurred in defending against Uthingo Management (Pty) Ltd's application to set aside the Minister's decision to award the Licence to operate the National Lottery, to Gidani (Pty) Ltd.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2007



### 6 Staff costs

#### Salaries

-Basic salaries	8 570	7 195
-Performance awards	1 307	918
-Periodic payments	32	25
-Temporary staff	338	109
-Leave payments/provisions	(13)	231

Defined Provident Fund contribution plan expense	1 125	923
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#### Social Contributions

-Medical	608	467
-UIF	58	51
-Risk benefit and management	347	281

Executive Board Member's emoluments	1 133	1 084
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<b>Total</b>	<b>13 505</b>	<b>11 284</b>
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Average number of persons employed	52	43
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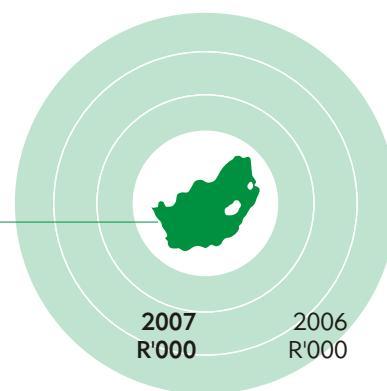
Included in the above staff costs are the following amounts paid to or receivable by senior management: (R'000)

	CEO	CFO	Manager HR and Admin	Manager Central Applications	Manager Public Relations	Manager Legal
Basic salary	604	369	205	301	226	211
Provident fund	135	93	61	74	53	47
Annual bonus	70	48	36	42	31	26
Travel allowance	78	96	130	142	84	48
Medical aid	28	18	30	13	13	12
<b>Total</b>	<b>915</b>	<b>624</b>	<b>462</b>	<b>572</b>	<b>407</b>	<b>344</b>

### 7 Audit fees

	2007 R'000	2006 R'000
Statutory audit	890	633
Performance audit	594	-
<b>Total</b>	<b>1 484</b>	<b>633</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2007



### 8 Other operating expenses

	2007 R'000	2006 R'000
Advertising and publicity	384	219
Consultants, contractors and special services	1 254	3 568
Courier and postage	39	73
Internal audit sub-contracted	186	-
Equipment items expensed as per Board's policy	3	2
Maintenance, repairs and running costs	64	55
- Property and buildings	35	4
- Machinery and equipment	16	8
- Other maintenance, repairs and running costs	13	43
Meeting refreshments expense	100	73
Rentals in respect of operating leases (minimum lease payments)		
- Premises	2 235	697
Staff training and development	85	29
Telephone and fax	226	217
Travel and subsistence	1 081	1 144
Total	5 657	6 077

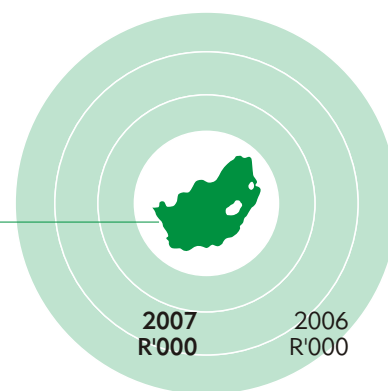
### 9 Depreciation and amortisation

	2007 R'000	2006 R'000
<b>Depreciation charge</b>	<b>228</b>	<b>111</b>
- Office equipment	49	55
- Vehicles	2	(128)
- Computer equipment	152	144
- Furniture and fittings	25	40
<b>Amortisation of intangibles</b>		
- Computer software	132	97
Total	360	208

### 10 Loss on disposal of fixed assets

	2007 R'000	2006 R'000
Fixed assets written off	26	-

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2007



## 11 Finance income

### Interest income

- Loans	2	3
- Bank deposits	248	181
Total	250	184

## 12 Property, plant and equipment

	Office Equipment R'000	Motor Vehicles R'000	Computer Equipment R'000	Furniture & Fittings R'000	Total R'000
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### Year ended 31/3/2006

Opening net carrying amount 129 26 268 105 528

Gross carrying amount	432	232	1 142	896	2 702
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Accumulated depreciation	303	206	874	791	2 174
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Additions 42 - 177 13 232

Depreciation charge (56) (26) (177) (55) (314)

Depreciation: Useful life and residual value adjustments 1 154 33 15 203

Closing net carrying amount 116 154 301 78 649

Gross carrying amount	474	232	1 319	909	2 934
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Accumulated depreciation	358	78	1 018	831	2 285
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### Year ended 31/3/2007

Opening net carrying amount 116 154 301 78 649

Gross carrying amount	474	232	1 319	909	2 934
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Accumulated depreciation	358	78	1 018	831	2 285
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Additions 27 - 106 - 133

Loss on disposals (16) - (4) (6) (26)

Gross carrying amount	233	-	138	42	413
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Accumulated depreciation	217	-	134	36	387
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Depreciation charge (69) (51) (191) (41) (352)

Depreciation: Useful life and residual value adjustments 20 49 39 16 124

Closing net carrying amount 78 152 251 47 528

Gross carrying amount	268	232	1 287	867	2 654
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Accumulated depreciation	190	80	1 036	820	2 126
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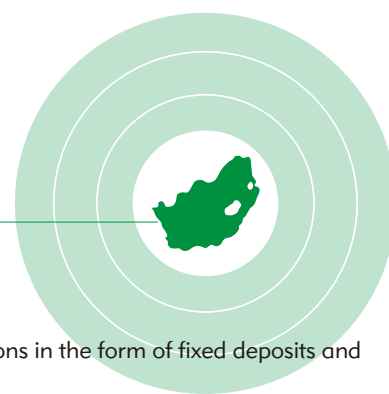


### 13 Intangible assets

Intangible assets refer to the capitalised value of software costs incurred in the development of the Grant Management System used by the National Lottery Distribution Trust Fund, and the National Lotteries Board/National Lottery Distribution Trust Fund website.

	Computer Software
	R'000
<b>Year ended 31/3/2006</b>	
Opening net carrying amount	67
- Gross carrying amount	496
- Accumulated amortisation	429
Additions	329
Amortisation charge	97
Closing net carrying amount	299
- Gross carrying amount	825
- Accumulated amortisation	526
<b>Year ended 31/3/2007</b>	
Opening net carrying amount	299
- Gross carrying amount	825
- Accumulated amortisation	526
Additions	6
Amortisation charge	132
Closing net carrying amount	173
- Gross carrying amount	831
- Accumulated amortisation	658





#### 14 Investments in securities

With reference to notes 15 and 18, funds are invested with various banking institutions in the form of fixed deposits and negotiable certificates of deposit. The Escrow investment comprises:

	2007 R'000	2006 R'000
<b>Originated loans and receivables</b>		
Capital amount	97 727	94 441
Interest capitalised	53 366	42 791
Interest accrued	10 728	10 216
Closing balance	161 821	147 448

#### 15 Trade and other receivables

	2007 R'000	2006 R'000
Uthingo Management (Pty) Ltd - Escrow	-	3 286
Assistance from NLDTF	10 376	-
Staff loans	93	134
Travel advances to Board Members	51	-
VAT receivable	-	45
Interest receivable	14	25
	10 534	3 490

The amount due from Uthingo Management (Pty) Ltd in the previous year was raised in accordance with the Licence to operate the National Lottery, whereby the Licensee is to pay a specified amount to the Board, in order to assist with the continued operation of the National Lottery after expiry, termination or revocation of the licence for any reason. Refer to note 14 for the cumulative status of amounts received.

#### 16 Prepayments and advances

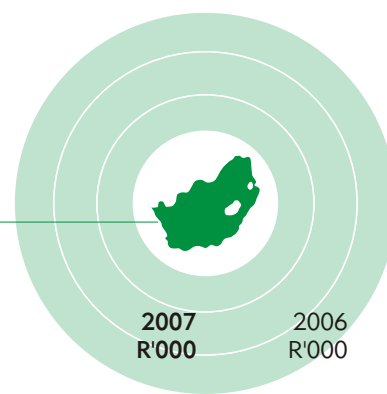
	2007 R'000	2006 R'000
Prepayments - short term insurance	14	14

#### 17 Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances that are held with registered banking institutions and that are subject to insignificant interest rate risk. The carrying amount of these assets approximates their fair value.

	2007 R'000	2006 R'000
Cash at bank	868	3 941
Cash on hand	3	2
	871	3 943

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2007



### 18 Trade and other payables

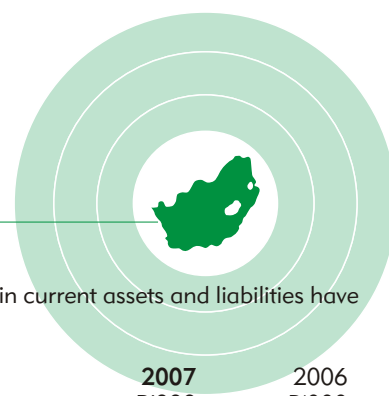
	2007 R'000	2006 R'000
Accruals	969	1 052
Escrow liability	161 821	150 734
Assistance from NLDTF surrendered	-	2 718
Leave pay and bonuses	1 151	1 339
Other payables	10 000	-
	<b>173 941</b>	<b>155 843</b>

With reference to notes 14 and 15 above, the Escrow liability represents the amount reserved in order to assist with the continued operation of the National Lottery after expiry, termination or revocation of the licence for any reason. This need has not materialised, so the funds will be transferred to the National Lottery Distribution Trust Fund and made available for good causes in the new financial year.

### 19 Cash (used in)/generated from operations

	2007 R'000	2006 R'000
Surplus for the year	-	-
Adjusted for:		
- Depreciation on property, plant and equipment	352	314
- Depreciation: change in accounting estimates	(124)	(203)
- Amortisation of intangible assets	132	97
- Loss on disposal of property, plant and equipment	26	-
- Investment income	(250)	(184)
- Deferred income - licence fees	-	(228)
Operating cash flows before working capital changes	136	(204)
Working capital changes	(3 319)	3 461
- Increase in receivables	(10 330)	(116)
- Increase in payables	7 011	3 577
<b>Cash (used in)/generated from operations</b>	<b>(3 183)</b>	<b>3 257</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2007



With reference to notes 14, 15 and 18 relating to Escrow, the following movements in current assets and liabilities have been recognised as non cash flow items:

	2007 R'000	2006 R'000
Decrease/(increase) in receivables	3 286	(3 164)
Increase in payables	11 087	13 876
Increase in Escrow investments	(14 373)	(10 712)
	-	-

### 20 Net cash used in investing activities

	2007 R'000	2006 R'000
Acquisition of property, plant and equipment	(133)	(232)
Acquisition of intangible assets	(6)	(329)
<b>Cash used in investing activities</b>	<b>(139)</b>	<b>(561)</b>

### 21 Operating lease arrangements

#### The Board as lessee

Office premises are leased. Rentals are charged as an expense as and when incurred.

The Board physically moved to its current premises at the new dti campus in July 2004. The new lease agreement with the Department of Trade and Industry is still in the process of being finalised. An amount of R3 856 000 has been budgeted for operating lease payments in respect of premises for the next financial year, in consultation with the Department of Trade and Industry. The Department of Trade and Industry has also indicated that future increments will be CPIX based.

### 22 Related party transactions

The National Lotteries Board is the regulator of the National Lottery. Uthingo Management (Pty) Ltd is a private company that operated the National Lottery under licence from the Government. The Operator pays monies into the National Lottery Distribution Trust Fund in terms of the licence agreement. These proceeds are destined for good causes as specified in the Lotteries Act, and allocated to deserving applicants by Distributing Agencies appointed by the Minister of Trade and Industry. The National Lotteries Board manages the National Lottery Distribution Trust Fund and accounts for all running costs. The Board withdraws the necessary funds required from the Trust Fund, based on overall annual approval by the Minister of Trade and Industry. All National departments of Government are regarded as related parties in accordance with Circular 4 of 2005: Guidance on the term "state-controlled entities" in the context of IAS24 (AC126) - Related Parties, issued by the South African Institute of Chartered Accountants. No transaction is implicated simply by the nature or existence of the relationships between these entities. However, the following transactions and balances were recorded relating to transactions with related parties as defined above:

	Notes	2007 R'000	2006 R'000
NLDTF: Transfers and subsidies received	1	25 194	11 735
DTI: Operating lease payments	6	2 235	697
Uthingo: Escrow receivables	15	-	3 286
Board Members (Travel Advances)	15	51	-

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2007



In addition to the above, the Minister of Trade and Industry appoints the members to the three Distributing Agencies. It is the duty of the Distributing Agency Members to advise in terms of policy for the allocation of good cause monies and to adjudicate applications for funding within their respective sectors. Note 24 below lists the respective Distributing Agency Members by Sector, together with the emoluments paid or receivable by them for the period under review.

### 23 Board Members' Emoluments

The following emoluments were paid to or receivable by the Board Members during the period under review:

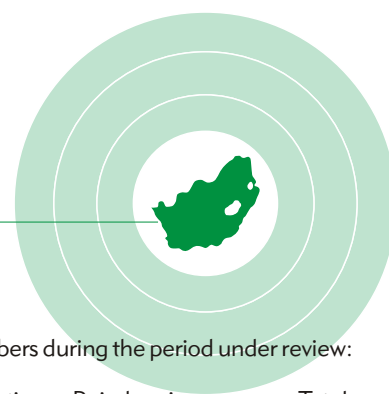
Executive Chairperson	R'000
Basic salary	587
Home owner allowance	13
Annual bonus	47
Performance bonus (prior-year underprovision)	9
Travel allowance	186
Medical aid	19
Pension fund	82
Entertainment allowance	2
<b>Total</b>	<b>945</b>

In addition to the above, an accrual has been raised for a performance bonus of R159 000 and a pro-rated annual bonus of R25 000.

### Non-executive Board Members

	Number of Meetings	Meeting Attendance	Reimbursive Travel	Total
		R'000	R'000	R'000
Axten N	5	57	6	63
Fakude-Nkuna N	4	65	-	65
Makgothi H	5	27	-	27
Thomas S	5	66	5	71
Negota G	5	16	-	16
<b>Total</b>		<b>231</b>	<b>11</b>	<b>242</b>

In her capacity as Minister's Nominee, A Ludin of the Department of Trade & Industry received no remuneration for the period under review.



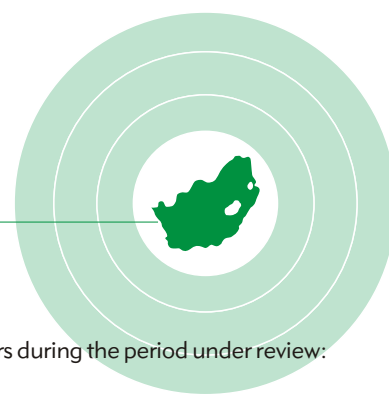
## 24 Distributing Agency Members' Emoluments

The following emoluments were paid to or receivable by the Distributing Agency Members during the period under review:

	Meeting Attendance	Reimbursive Allowances	Total
	R'000	R'000	R'000
<b>Arts, Culture &amp; National Heritage</b>			
Bagarette N	104	10	114
Senna E	91	9	100
Mancotywa S	63	4	67
Human M	80	3	83
Jafta DN	74	5	79
Ntuli BD	70	2	72
Nevhutanda NA	73	19	92
Salemane L	89	11	100
<b>Total</b>	<b>644</b>	<b>63</b>	<b>707</b>

	R'000	R'000	R'000
<b>Charities</b>			
Maitse TE	242	12	254
Grobbelaar MR	152	5	157
Madonsela M	139	16	155
Magerman AS	151	17	168
Matube JM	125	3	128
McDonald GA	105	3	108
Beck PA	83	11	94
<b>Total</b>	<b>997</b>	<b>67</b>	<b>1 064</b>

	R'000	R'000	R'000
<b>Sport &amp; Recreation</b>			
Sam GN	14	1	15
Kajee H	9	-	9
Keikabile MR	11	-	11
Maharaj HD	10	2	12
van Buynder I	8	1	9
Tshabalala T	7	1	8
Mketeni FG	-	-	-
van Niekerk C	2	-	2
<b>Total</b>	<b>61</b>	<b>5</b>	<b>66</b>



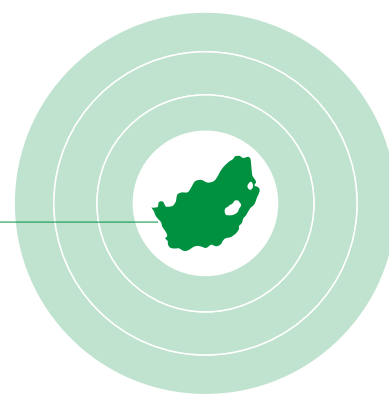
## 25 Audit Committee Members' Emoluments

The following emoluments were paid to or receivable by the Audit Committee Members during the period under review:

	Number of Meetings	Meeting Attendance	Reimbursive Allowances	Total
		R'000	R'000	R'000
Scheepers JFJ	4	57	-	57
Axten N	5	58	1	59
Thomas S	5	74	1	75
Nayager R	3	44	-	44
Total		233	2	235







## **26 Financial instruments**

### **Credit risk**

Financial assets that could subject the NLB to credit risk consist principally of cash at bank and cash equivalents, deposits and accounts receivable. The NLB's cash equivalents are placed with high credit quality financial institutions. Accounts receivable is presented net of the allowance for doubtful receivables or loan write-offs. Credit risk with respect to trade receivables is limited to the lottery operator.

### **Fair values**

The carrying amount of cash and cash equivalents, deposits, accounts receivable and accounts payable approximated their fair values due to the short term maturities of those assets and liabilities.

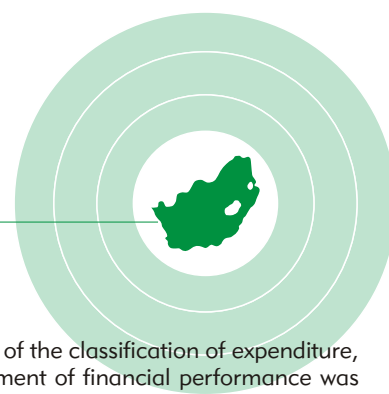
## **27 Taxation**

The National Lotteries Board is exempt from income tax in terms of Section 10(1)(cA) of the Income Tax Act, 1962.

## **28 Contingent liabilities**

Over and above the order from the High Court to set aside the decision to award the Licence to operate the National Lottery to Gidani (Pty) Ltd, the Court ordered that the applicant, Uthingo Management (Pty) Ltd, be compensated for costs incurred, which costs will include costs consequent upon the employment of two Counsel. The first, second and third respondents, being the Minister of Trade and Industry, the NLB and Gidani (Pty) Ltd respectively, are jointly and severally liable to pay the said costs.





## 29 Comparative information

In order that there be more detail and consistency with National Treasury in respect of the classification of expenditure, certain expense items were reclassified. The comparative information in the statement of financial performance was therefore restated after the following amendments:

	Note	R'000
Administrative expenses	5	
General and administrative expenses		(555)
Board members' emoluments		(1 084)
Travel and subsistence		(1 144)
Rentals in respect of operating leases		(697)
Insurance		42
Bank charges		20
Legal fees		150
Venues and facilities		203
Staff costs	6	
Executive Board Member's emoluments		1 084
Other operating expenses	8	
Travel and subsistence		1 144
Rentals in respect of operating leases		697
Courier and postage		73
Telephone and fax		217
Legal fees		(150)
Net effect on total expenditure		-



## **NATIONAL LOTTERY DISTRIBUTION TRUST FUND (NLDTF)**

**ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 March 2007**

# REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE NATIONAL LOTTERY DISTRIBUTION TRUST FUND FOR THE YEAR ENDED 31 MARCH 2007

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## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I have audited the accompanying financial statements of the National Lottery Distribution Trust Fund (NLDTF) which comprise the statement of financial position as at 31 March 2007, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 46 to 57.

### Responsibility of the accounting authority for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, with the effective Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and the Lotteries Act, 1997 (Act No. of 1997). This responsibility includes:
  - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
  - selecting and applying appropriate accounting policies
  - the making accounting estimates that are reasonable in the circumstances.

### Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) and sections 28(4), 29(4), 30(4) and 31(4) of the Lotteries Act, 1997 (Act No. 57 of 1997), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing and General Notice 647 of 2007, issued in Government Gazette No. 29919 of 25 May 2007. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
6. An audit also includes evaluating the:
  - appropriateness of accounting policies used
  - reasonableness of accounting estimates made by management
  - overall presentation of the financial statements.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### Basis of accounting

8. The public entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in note 1 to the financial statements.

### Opinion

9. In my opinion the financial statements present fairly, in all material respects, the financial position of National Lottery Distribution Trust Fund as at 31 March 2007 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by National Treasury of South Africa, as described in note 1 of the accounting policies to the financial statements, and in the manner required by the PFMA and the Lotteries Act.

### OTHER MATTERS

10. I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

# **REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE NATIONAL LOTTERY DISTRIBUTION TRUST FUND FOR THE YEAR ENDED 31 MARCH 2007**

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## **Matters of governance**

- 11 The Lotteries Act established the National Lotteries Board and the NLDTF. The accounting authority is ultimately responsible for the funds received and disbursed under its management. Although payments are processed by the Fund, such payments are made in accordance with decisions made by the distributing agencies (DA's). DA members are appointed by the Minister of Trade and Industry in consultation with the Minister responsible for the relevant sector in which decisions are made. Although the Board administers and assists in the payment of grants made from funds held in the Trust, an effective approval mechanism does not exist in that the accounting authority has no control over the decisions made by the DA's. Although the Board has instituted an oversight committee to review the allocations made by the various DA's, this committee does not have the legal authority to revoke allocation decisions made by the DA's. This matter was also reported on in my previous report and little progress had been made in resolving it.
- 12 The term of office of the various Distributing Agencies ended in March 2006. The Distributing Agencies for Arts, Culture & National Heritage and Charities were reappointed in August 2006 whilst the Distributing Agency for Sport and recreation was reappointed during February 2007 by the Minister of Trade of Industry. The non-existence of Distributing Agencies for this extended period of time impacted negatively on the service delivery of the National Lotteries Board and the NLDTF.
- 13 The Distributing Agencies had requested the National Lotteries Board to arrange visits to 148 beneficiary premises. These site visits were not performed as requested by the Distributing Agencies and the related grants were disbursed without the requirements of the Distributing Agencies being met.

## **Performance audit reports**

- 14 A separate performance audit on Grant Management at the National Lotteries Board was performed and will be issued in due course.

## **OTHER REPORTING RESPONSIBILITIES**

### **Reporting on performance information**

- 15 I have not reviewed the performance information as set out on pages 10 to 11.

### **Responsibilities of the accounting authority**

- 16 The accounting authority has additional responsibilities as required by section 55(2)(a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the public entity.

### **Responsibility of the Auditor-General**

- 17 I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with General Notice 646 of 2007, issued in Government Gazette No. 29919 of 25 May 2007.
- 18 In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
- 19 I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

### **Audit findings**

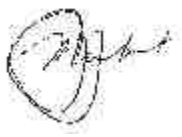
- 20 The audit findings in respect of performance information regarding the NLDTF are included in the audit report of the NLB.

### **Appreciation**

- 21 The assistance rendered by the staff of the National Lottery Distribution Trust Fund during the audit is sincerely appreciated.

**REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT  
ON THE FINANCIAL STATEMENTS OF THE NATIONAL LOTTERY  
DISTRIBUTION TRUST FUND FOR THE YEAR ENDED 31 MARCH 2007**

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F Joubert for Auditor-General

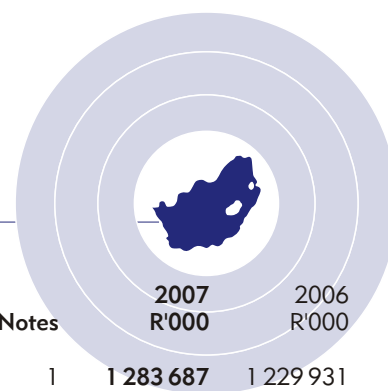
Pretoria

31 July 2007



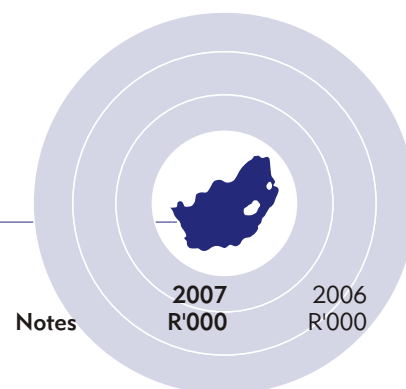


## STATEMENT OF FINANCIAL PERFORMANCE for the year ended 31 March 2007



	Notes	2007 R'000	2006 R'000
Revenue	1	1 283 687	1 229 931
Penalties received	2	-	25 897
Other income	3	19 409	7 247
<b>TOTAL REVENUE</b>		<b>1 303 096</b>	<b>1 263 075</b>
<b>EXPENDITURE</b>			
Allocation of grants	4	739 122	1 187 326
Assistance to the National Lotteries Board	5	25 194	11 735
Administrative expenses	6	16	17
<b>TOTAL EXPENDITURE</b>		<b>764 332</b>	<b>1 199 078</b>
<b>SURPLUS FROM OPERATIONS</b>		<b>538 764</b>	<b>63 997</b>
Finance income	7	320 564	257 366
Finance cost	8	(4 333)	-
<b>SURPLUS FOR THE YEAR</b>		<b>854 995</b>	<b>321 363</b>

# STATEMENT OF FINANCIAL POSITION as at 31 March 2007



## ASSETS

### Current assets

Investments in securities	9	3 176 327	2 439 979
Trade and other receivables	10	102 150	32 423
Cash and cash equivalents	11	1 148 608	1 137 425
<b>Total assets</b>		<b>4 427 085</b>	<b>3 609 827</b>

## SURPLUS AND RESERVES

Surplus	12	2 992 015	2 137 020
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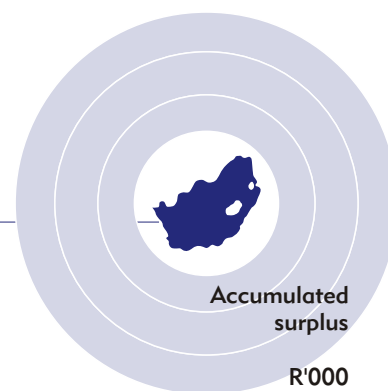
## LIABILITIES

### Current liabilities

Provision for allocations by Distributing Agencies	13	1 424 694	1 472 807
Trade and other payables	14	10 376	-
		<b>1 435 070</b>	<b>1 472 807</b>
<b>Total equity and liabilities</b>		<b>4 427 085</b>	<b>3 609 827</b>

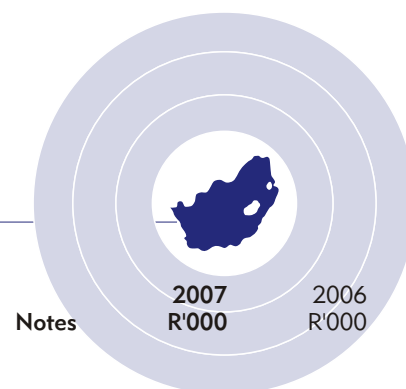


## STATEMENT OF CHANGES IN NET ASSETS for the year ended 31 March 2007



Balance at 1 April 2005	1 815 657
Surplus for the year	<u>321 363</u>
Balance at 1 April 2006	2 137 020
Surplus for the year	<u>854 995</u>
Balance at 31 March 2007	<u><u>2 992 015</u></u>

## CASH FLOW STATEMENT for the year ended 31 March 2007



### Cash flow from operating activities

Cash receipts from Uthingo and other parties		1 233 369	1 240 308
Cash paid to beneficiaries, NLB and other parties		(802 069)	(1 023 781)
Cash generated from operations	15	431 300	216 527
Finance income		320 564	257 366
Finance cost		(4 333)	-
<b>Net cash from operating activities</b>		<b>747 531</b>	<b>473 893</b>

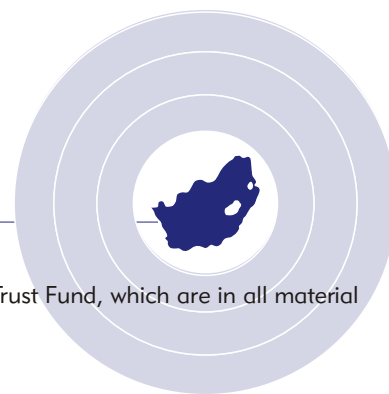
### Cash flow from investing activities

Increase in investments		(736 348)	(473 885)
<b>Net cash used in investing activities</b>	16	<b>(736 348)</b>	<b>(473 885)</b>

### Net increase in cash and cash equivalents

		11 183	8
Cash and cash equivalents at the beginning of the year		1 137 425	1 137 417
<b>Cash and cash equivalents at the end of the year</b>		<b>1 148 608</b>	<b>1 137 425</b>





Unless otherwise stated, the following are the principal accounting policies of the Trust Fund, which are in all material respects, consistent with those applied in the previous year:

## 1 Basis of preparation

The financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practices (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, with the effective Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP Statement as follows:

### Standard of GRAP

GRAP 1: Presentation of financial statements  
GRAP 2: Cash flow statements  
GRAP 3: Accounting policies, changes in accounting estimates and errors

### Replaced Statement of GAAP

AC101: Presentation of financial statements  
AC118: Cash flow statements  
AC103: Accounting policies, changes in accounting estimates and errors

Currently the recognition and measurement principles in the above GRAP and GAAP Statements do not differ or result in material differences in items presented and disclosed in the financial statements. The implementation of GRAP 1, 2 & 3 has resulted in the following changes in the presentation of the financial statements:

#### 1. Terminology differences:

##### Standard of GRAP

Statement of financial performance  
Statement of financial position  
Statement of changes in net assets  
Net assets  
Surplus/deficit  
Accumulated surplus/deficit

##### Replaced Statement of GAAP

Income statement  
Balance sheet  
Statement of changes in equity  
Equity  
Profit/loss  
Retained earnings

2. The cash flow statement can only be prepared in accordance with the direct method.

3. The amount and nature of any restrictions on cash balances is required.

Paragraph 11 - 15 of GRAP 1 has not been implemented due the fact that the budget reporting standard has not been developed by the local standard setter and the international standard is not effective for this financial year. Although the inclusion of budget information would enhance the usefulness of the financial statements, non-disclosure will not affect the objective of the financial statements.

The financial statements have been prepared on a going concern basis and the accounting policies have been applied consistently throughout the period. The measurement base applied is historical cost.

## 2 Revenue recognition

Revenue is recognised when it is probable that future economic benefits will flow to the enterprise and these benefits can be measured reliably. The following specific bases apply:

- Share of ticket sales, unclaimed prize money and other scheduled proceeds according to the licence agreement is recognised as it accrues.
- Interest income is recognised as it accrues, taking into account the effective yield in respect of investments, unless collectability is in doubt.

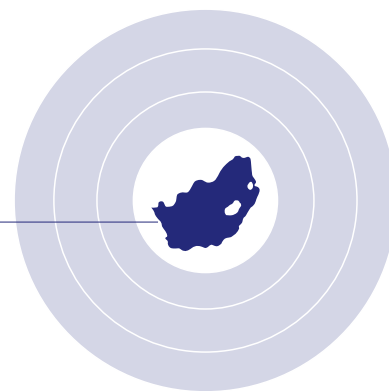
## 3 Irregular and fruitless and wasteful expenditure

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of any applicable legislation, including:

- The PFMA, or
- Any legislation providing for procurement procedures.

Fruitless and wasteful expenditure means expenditure that was made in vain and would have been avoided had reasonable care been exercised.

Any irregular and fruitless and wasteful expenditure is charged against income in the period in which it is incurred.



#### **4 Financial instruments**

##### **Recognition**

Financial assets and financial liabilities are recognised when the NLDTF becomes a party to the contractual provisions of the instrument. Financial instruments carried on the statement of financial position include cash and bank balances, investments, receivables and payables. All "regular way" purchases and sales of financial assets are initially recognised using trade date accounting.

##### **Measurement**

Financial instruments are initially measured at cost. Subsequent to initial recognition, these instruments are measured according to the particular methods adopted as disclosed in the individual policy statements as set out below.

##### **Financial assets**

The Fund's principal financial assets are investments and loans, accounts receivable and cash and cash equivalents.

- Trade and other receivables  
Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.
- Investments  
Investments are recognised as capital invested plus interest as it accrues.

The Fund classifies its funds placed with various banking institutions in the form of fixed deposits, banker's acceptances, promissory notes and negotiable certificates of deposit as originated loans and receivables. This category of accounting for investments affords the opportunity of early conversion to cash if required, and not having to necessarily hold all instruments to maturity. These investments are also classified as current assets as it is the express intention to have all investments mature within twelve months from the reporting date. All funds are placed with high credit quality financial institutions approved by the Minister of Finance.

Cash and Cash equivalents Cash and cash equivalents are shown at the original capital invested plus accrued interest. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, and investments in money market instruments that mature in less than three months and are not only considered to be low risk investments, but may also be converted to cash earlier if considered necessary.

##### **Financial liabilities**

The Fund's principle financial liabilities comprise trade and other payables. Financial liabilities are recognised at amortised costs, namely original debts less principal payments and amortisations.

#### **5 Provisions**

Provisions for allocation of grants to beneficiaries are recognised when:

- the NLDTF has a present legal or constructive obligation as a result of past events;
- it is more likely than not, that an outflow of resources will be required to settle the obligation; and
- the amount of the obligation has been reliably estimated.

Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect of one item included in the same class of obligation may be small. Provisions are measured at the present value of the expenditure expected to be incurred, in order to settle the obligation, using a discount rate that reflects current market assessments of the time value of money, and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

#### **6 Allocation of grants**

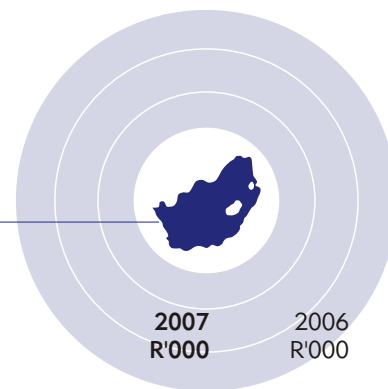
Allocations are accounted for once applications for assistance from individual entities are approved by the respective distributing agencies.

#### **7 Assistance to the National Lotteries Board**

The assistance to The National Lotteries Board is based on actual operating costs for which the Board is responsible.



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2007



## 1 Revenue

An analysis of the Fund's revenue is as follows:

- Game sales	1 201 029	1 146 765
- Unclaimed prizes	82 658	83 166
	<b>1 283 687</b>	<b>1 229 931</b>

## 2 Penalties received

	2007 R'000	2006 R'000
Shortfall in terminal distribution paid in terms of Schedule 12 of Licence Agreement	-	25 897

## 3 Other Income

	2007 R'000	2006 R'000
Ancillary activity payment in terms of Schedule 4 of Licence Agreement	7 274	7 208
Unspent portion iro social responsibility in terms of Schedule 14 of Licence Agreement	5 171	-
Unspent portion of self insurance in terms of clause 15.6 of Licence Agreement	6 926	-
Shortfall in retailer commission paid in terms of Schedule 5 of Licence Agreement	38	39
	<b>19 409</b>	<b>7 247</b>

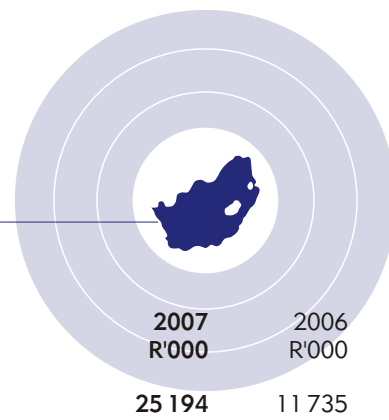
## 4 Allocation of grants

	2007 R'000	2006 R'000
Current year allocations	814 868	1 273 303
Prior year movement		
- Grants withdrawn before cash disbursed	(27 963)	(63 317)
- Grants withdrawn and refunded by beneficiary	(4 097)	(1 403)
- Grants withdrawn but refund still outstanding	(925)	(5 637)
- Grants increased	135	1 558
Impact of present valuing commitments payable beyond twelve months (refer note 13)	(42 896)	(17 178)
Net allocations for the year	<b>739 122</b>	<b>1 187 326</b>

The term of office of the three Distributing Agencies came to an end on 31 March 2006. The appointment of new Distributing Agencies took longer than anticipated. As a result the NLDTF was without Distributing Agencies for Charities, and Arts, Culture and National Heritage for four months and without a Distributing Agency for Sport and Recreation for ten months. In the absence of Distributing Agencies, no new allocations could be made hence the reduction in current year allocations.

Grants withdrawn refer to allocations subsequently withdrawn or suspended where beneficiaries did not meet suspensive conditions.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2007



## 5 Assistance to the National Lotteries Board

Grant to the National Lotteries Board

2007 R'000	2006 R'000
25 194	11 735

The grant is based on actual operating costs for which the Board is responsible.

## 6 Administrative expenses

Bank charges

2007 R'000	2006 R'000
16	17

## 7 Finance income

Investments

Bank

Unclaimed prizes

Beneficiaries

2007 R'000	2006 R'000
298 382	229 853
821	3 844
21 145	21 452
216	2 217
320 564	257 366

## 8 Finance cost

Interest recognised in respect of time value of money

2007 R'000	2006 R'000
4 333	-

## 9 Investments in securities

Investments in the form of fixed deposits, promissory notes and negotiable certificates of deposit with maturity dates greater than three months but no more than twelve months:

### Originated loans and receivables

Capital amount

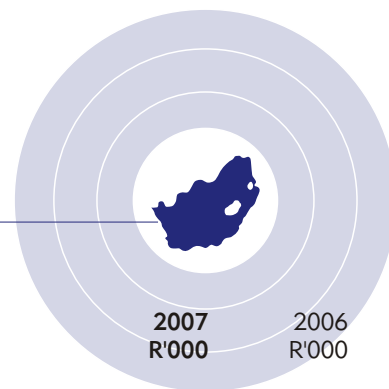
Accrued interest

2007 R'000	2006 R'000
3 075 430	2 367 785
100 897	72 194
3 176 327	2 439 979

Average yield on investments

9.29%	7.23%
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## NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2007



### 10 Trade and other receivables

	2007 R'000	2006 R'000
Uthingo Management (Pty) Ltd	90 289	16 263
Uthingo Participants Trust	6 487	4 981
Interest receivable on current and call accounts	2 996	473
Claims from beneficiaries inclusive of interest	2 378	7 988
Assistance to National Lotteries Board surrendered	-	2 718
	<b>102 150</b>	<b>32 423</b>

### 11 Cash and cash equivalents

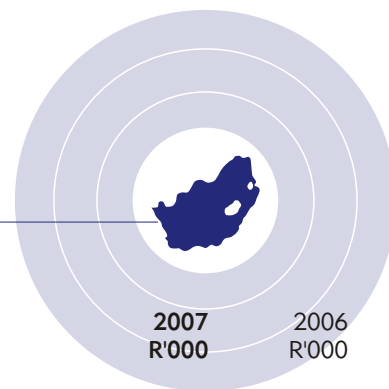
Cash and cash equivalents comprise cash and bank balances that are held with registered banking institutions and that are subject to insignificant interest rate risk. The carrying amount of these assets approximates to their fair value.

	2007 R'000	2006 R'000
Cash	26 429	1 134
Call deposits	9 586	106 100
Fixed deposits, promissory notes and negotiable certificates of deposit with maturity dates less than three months	1 112 593	1 030 191
	<b>1 148 608</b>	<b>1 137 425</b>

### 12 Capital and reserves

	2007 R'000	2006 R'000
<b>Accumulated surplus</b>		
Opening balance	2 137 020	1 815 657
Surplus for the year	854 995	321 363
Closing balance	<b>2 992 015</b>	<b>2 137 020</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2007



### 13 Provision for allocations by Distributing Agencies

	2007 R'000	2006 R'000
Opening balance in respect of grants accrued	1 472 807	1 297 510
Charged to the statement of financial performance		
• Current provision	814 868	1 273 303
• Additional provisions to prior year allocations	135	1 558
• Unused amounts reversed	(32 985)	(70 357)
• Impact of present valuing commitments payable beyond twelve months	(42 896)	(17 178)
• Interest recognised in respect of time value of money	4 333	-
Used during the year	(791 568)	(1 012 029)
	<b>1 424 694</b>	<b>1 472 807</b>

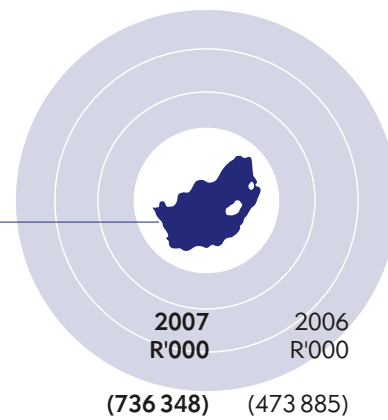
Allocations by Distributing Agencies are paid subject to beneficiaries meeting suspensive conditions. The timing and amount of the payments are subject to the beneficiaries' ability to comply with the suspensive conditions. An expense is recognised for the present value of approved allocations made to beneficiaries by the Distributing Agencies. A discount rate of 8.9% was used (2006 : 7.2%).

### 14 Trade and other payables

	2007 R'000	2006 R'000
Assistance to the National Lotteries Board	10 376	-

### 15 Cash generated from operations

	2007 R'000	2006 R'000
Surplus for the year	854 995	321 363
Adjusted for:		
- Investment income	(320 564)	(257 366)
- Finance costs	4 333	-
Operating cash flows before working capital changes	538 764	63 997
Working capital changes	(107 464)	152 530
- Increase in receivables	(69 727)	(22 767)
- (Decrease)/increase in provisions	(48 113)	175 297
- Increase in trade and other payables	10 376	-
<b>Cash generated from operations</b>	<b>431 300</b>	<b>216 527</b>



## 16 Net cash used in investing activities

Investment by way of fixed deposits, negotiable certificates of deposits and promissory notes

## 17 Financial instruments

### Credit risk

Financial assets that could subject the Fund to credit risk consist principally of cash at bank and cash equivalents, deposits and accounts receivable. The Fund's cash equivalents are placed with high credit quality financial institutions approved by the Minister of Finance. Accounts receivable is presented net of the allowance for doubtful receivables.

### Fair values

The carrying amount of cash and cash equivalents, deposits, accounts receivable and accounts payable approximated their fair values due to the short term maturities of those assets and liabilities.

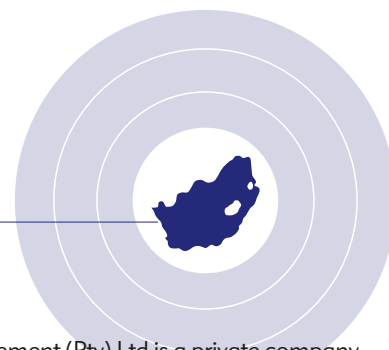
### Interest rate risk

Investments are made at fixed interest rates. The rates are agreed upon at the inception of the investment. The Fund may therefore be exposed to interest rate price risk in respect of investments. The risk is minimal due to the investments being made with financial institutions approved by the Minister of Finance. The maturity of these investments is not greater than one year and the interest receivable at the maturity date is agreed upon at the start of the investment.

## 18 Taxation

The National Lottery Distribution Trust Fund is exempt from income tax in terms of Section 10(1)(cA) of the Income Tax Act, 1962.





## 19 Related party transactions

The National Lotteries Board is the regulator of the National Lottery. Uthingo Management (Pty) Ltd is a private company that operates the National Lottery under licence from the Government. The Operator pays monies into the National Lottery Distribution Trust Fund in terms of the licence agreement. These proceeds are destined for good causes as specified in the Lotteries Act, and allocated to deserving applicants by Distributing Agencies appointed by the Minister of Trade and Industry. The National Lotteries Board manages the National Lottery Distribution Trust Fund and accounts for all running costs. The Board withdraws the necessary funds required from the Trust Fund, based on overall annual approval by the Minister of Trade and Industry. All National departments of Government are regarded to be related parties in accordance with Circular 4 of 2005: Guidance on the term "state-controlled entities" in the context of IAS24 (AC126) - Related Parties, issued by the South African Institute of Chartered Accountants. No transaction is implicated simply by the nature or existence of the relationships between these entities. However, the following transactions and balances were recorded relating to transactions with related parties as defined above:

	Notes	2007 R'000	2006 R'000
Proceeds from Uthingo Management (Pty) Ltd			
- Share of game sale and unclaimed prizes	1	1 283 687	1 229 931
- Penalties received	2	-	25 897
- Other income	3	19 409	7 247
Financial assistance to NLB	5	25 194	11 735
Trade and other receivables	10		
- Uthingo Management (Pty) Ltd		90 289	16 263
- Uthingo Participants Trust		6 487	4 981
- NLB		-	2 718
Trade and other payables - NLB	13	10 376	-

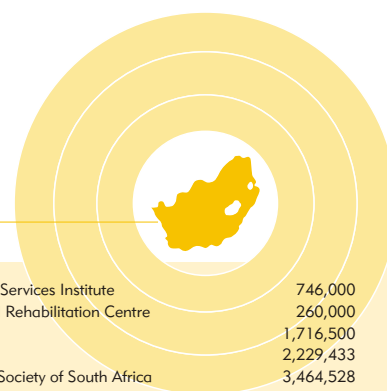


## NLDTF BENEFICIARIES



# BENEFICIARIES

## for the year ended 31 March 2007



### ARTS, CULTURE & NATIONAL HERITAGE

#### National Bodies

1	African Cultural Heritage Trust	3,800,000
2	Botanical Society of South Africa	1,500,000
3	Girl Guides Association of South Africa	874,000
4	The South African National Circus School Trust	310,640
5	Zakheni South Africa Music Trust	2,400,000
	<b>8,884,640</b>	

#### Eastern Cape

1	Mopo Cultural Trust (Umzi Afrika Theatre Company)	611,960
2	SAHRA	1,000,000
3	Sakhangoma Music Productions	753,108
4	The Early Learning Centre (Challenge Environmental Centre)	5,568,000
5	The Restoration of Human Abilities Association	475,825
	<b>8,408,893</b>	

#### Free State

1	Cape Town Orchestra (FS Symphony Orchestra)	605,000
2	Northern Free State Community Development	1,084,455
	<b>1,689,455</b>	

#### Gauteng

1	ACUMDA	1,162,270
2	African Flag Pantsula Dance / Music Group	1,025,200
3	Association for People with Disabilities, Gauteng	252,510
4	Ballet Theatre Afrikan	2,000,000
5	Birdlife South Africa	300,000
6	Black Tie Ensemble	1,500,000
7	Cluny Farm	346,938
8	Curriculum Development Project (Joubert Park)	863,195
9	Delta Environmental Centre	1,218,360
10	Environmental Justice Networking Forum	2,318,000
11	Freedom Park Trust	30,247,000
12	Gauteng Dance Manyano	791,500
13	Institute for Democracy of South Africa (IDASA)	795,500
14	Inzalo Dance & Theatre Company	1,007,090
15	Jazz Foundation of South Africa	15,000,000
16	Johannesburg Children's Home	689,581
17	Johannesburg Dance Foundation	73,120
18	Johannesburg Music Initiative	2,426,450
19	Johannesburg Philharmonic Orchestra	6,907,040
20	Karos & Kambro	2,000,000
21	Library & Information Association of South Africa	642,500
22	Love Life	702,543
23	Market Theatre Foundation	12,113,000
24	Masakhane Arts & Culture Youth Development	1,655,000
25	Mintek	7,650,000
26	Moving into Dance Mophatong Trust	1,000,000
27	Newtown Film & TV School	1,974,750
28	Opera Africa	6,000,000
29	Pretoria Community Ministries	242,625
30	Roodepoort City Theatre t/a Pro Musica Theatre	2,800,000
31	Sexual Harassment Education Project	335,500
32	Sibahle Educational Puppetry Programme	2,073,600
33	Sign Language Education Trust	5,203,925
34	South African Theatre Initiative	1,988,200
35	Southern Africa Communications for Development	440,000
36	Thabisong Youth Club	3,000,000
37	The South African Ballet Theatre	3,000,000
38	The South African Scriptwriters Association	3,200,000
39	Tshwane Dance Theatre	550,395
40	Visual Arts & Craft Academy	1,882,328
	<b>127,378,120</b>	

#### KwaZulu Natal

1	Arley's Workshop	1,202,080
2	Domestic Violence Helpline	177,500
3	English Language Education Trust	759,600
4	Field Band Foundation	1,265,700
5	Friends of Music Association	1,075,300
6	Green Network	1,408,400
7	Indian Academy of South Africa	57,200
8	KwaZulu Natal Youth Orchestra	273,000
9	KZN Performing Arts Company t/a Playhouse Co.	1,000,000
10	Lwandle Migrant Labour Museum	1,569,000
11	Mdbane Arts Company	2,000,000
12	Msunduzi Music Centre	400,000
13	Natal Arts Trust	238,900
14	NICRO KZN	251,000

15	Phezukomkhono Social Services Institute	746,000
16	SANCA Durban Alcohol Rehabilitation Centre	260,000
17	Sangeet Vidya Institute	1,716,500
18	The Hiltonian Society	2,229,433
19	Wildlife & Environment Society of South Africa	3,464,528
20	Zakhele Training Trust	957,990
21	Zululand Centre for Sustainable Development	5,200,000
	<b>26,252,131</b>	

#### Limpopo

1	Hanertzburg Development Foundation	6,483,626
2	Thohoyandou Victim Empowerment Trust	488,037
3	Xixhlamariso Early Learning Centre	356,700
	<b>7,328,363</b>	

#### Mpumalanga

1	Kubonakele Human Rights Democracy & Justice	642,000
2	My Acre of Africa Trust	5,000,000
3	The Valley Trust	840,787
4	Witbank Civic Theatre	500,000
	<b>6,982,787</b>	

#### Northern Cape

1	Gariep Arts Festival	1,000,000
2	Jazzart Dance Theatre on Behalf of NAMJIVE	570,000
3	Sol Plaatjie Educational Trust	793,100
	<b>2,363,100</b>	

#### North West

1	Aardklop National Arts Festival	6,540,000
2	Ithababole Waste Management	199,420
	<b>6,739,420</b>	

#### Western Cape

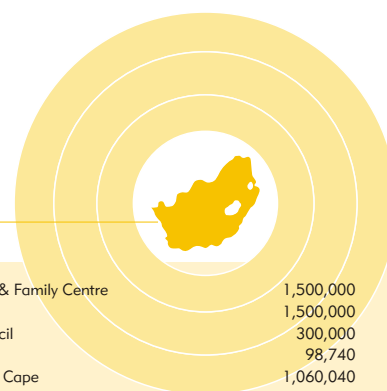
1	Arts & Media Access Centre	804,000
2	Artscape	4,010,000
3	Bishopscourt Village Residents Association	81,000
4	Bruegel Teatergroep	288,700
5	Campbell Village	570,212
6	Cape Heart Community Education Theatre	553,190
7	Cape Town Opera	2,600,000
8	Castle Military Museum	1,625,275
9	Cederbergfees	1,660,000
10	City of Cape Town	500,000
11	Dance for All	1,000,000
12	Elgin Foundation	103,787
13	FAMSA Western Cape	507,437
14	Flower Valley Conservation Trust	1,700,000
15	Footprints Educational Trust	221,000
16	Heritage South Africa (Simon van der Stel Found.)	2,811,460
17	Music for Life Trust	444,000
18	New Africa Theatre Association	717,802
19	Oasis Association	222,656
20	Overberg Crane Group	444,250
21	Phuthaditjhaba Care of the Aged (Alex Youth Choir)	100,000
22	Siyasanga Cape Town Theatre Company	3,500,000
23	South African Scout Association	1,440,200
24	Spier Arts Trust	2,420,190
25	St. Joseph Adult Education Programme	106,250
26	The Cape Africa Platform	2,850,000
27	The Granary Project	853,000
28	The Open Africa Initiative	632,000
29	Whale Festival	500,000
30	Workers World Media Productions	305,250
31	Worldwide Fund for Nature South Africa	5,276,000
32	Maria Ratschitz-Ladysmith Rotary Club	80,000
	<b>38,927,659</b>	
	<b>234,954,568</b>	

### CHARITIES

#### National Bodies

1	Action on Elder Abuse South Africa	500,000
2	ACVV General Management	400,000
3	Autism South Africa	279,500
4	BADISA	25,989,314
5	Cheshire Homes South Africa	197,000
6	Childline South Africa	754,880
7	Down Syndrome Association, Gauteng	289,380
8	Food & Trees for Africa	200,000
9	Food Gardens Foundation	500,000

# BENEFICIARIES for the year ended 31 March 2007



10	National Association of Child Care Workers	500,000	60	Port Elizabeth Childline & Family Centre	1,500,000
11	Parkinson Association South Africa	500,000	61	Rape Crisis Centre	1,500,000
12	President's Award for Youth Empowerment	300,000	62	Regional Educare Council	300,000
13	Project Literacy	500,000	63	Retina South Africa	98,740
14	Residentia Stigting	692,654	64	SANCA Central Eastern Cape	1,060,040
15	SA Blind Workers Organisation	1,000,000	65	SAVF Martha Hofmeyer Tehuis	500,000
16	SOS Children's Villages Association of South Africa	15,858,784	66	Somerset East Child & Family Welfare Society	892,912
17	South African Veterinary Association	50,000	67	SPCA Port Alfred	100,000
18	TB Alliance DOTS Support Association	600,000	68	St. Francis Hospice Association	200,000
19	The Arthritis Foundation of South Africa	1,061,000	69	Stutterheim Education Trust	376,507
20	The Black Sash Trust	500,000	70	Summerstrand Cheshire Home	493,317
21	The Cancer Association of South Africa	26,465,480	71	The House of Resurrection Haven	782,645
22	The Compassionate Friends	150,000	72	The Restoration of Human Abilities Association	186,129
23	The Girl Guides Association	919,000	73	Ubuntu Community Care Based Centre	350,000
24	The Volunteer Centre	500,000	74	Uitenhage & District SPCA	50,000
25	Toughlove SA	250,000	75	Uitenhage Mental Health	173,610
26	Youth for Christ South Africa	1,500,000	76	Union of Jewish Women	200,000
27	National Children's Rights Committee	1,450,000	77	Winterberg School Trust	235,500
28	Age in Action Cape Town	5,993,074	78	Zanokhanyo Educare	247,936
		<b>87,900,066</b>			<b>37,178,307</b>

## Eastern Cape

1	ACVV Aberdeen	150,000
2	ACVV Algoapark	637,500
3	ACVV Cradock	400,000
4	ACVV Grahamstown	75,631
5	ACVV Newton Park	1,025,340
6	ACVV PE Central	345,784
7	ACVV PE North	500,000
8	ACVV Somerset East	400,000
9	Algoa Bay Council for the Aged	840,000
10	Aliwal North Legal & Community Advice Centre	580,880
11	Amatola Haven Old Age Home	435,000
12	Animal Welfare Society, Port Elizabeth	150,000
13	Association for the Physically Disabled Port Elizabeth	300,000
14	AURORA Special Care Centre	245,000
15	Bathurst Advice Office	80,000
16	BKSB Centenary Memorial Company	100,000
17	Border Hospice Association	1,075,731
18	Butterworth Tembaletu Child & Family Welfare Society	278,420
19	Camama Cheshire Home	273,594
20	Cape Recife High School	336,978
21	Cerebral Palsy Association, Eastern Cape	300,000
22	Christian Social Services, Humansdorp	856,927
23	CMR Van die Ring van Sondagrivier	151,871
24	CMR vir die Ring van Graaff Reinet	51,580
25	Cradock Child & Family Welfare Society	778,605
26	Cradock SPCA	100,000
27	Dimbaza Society for the Aged	972,950
28	East London Child & Family Welfare Society	1,500,000
29	East London Senior Citizen Association	513,042
30	Eastern Province Child & Youth Care Centre	925,944
31	Eastern Province Child & Youth Centre	884,472
32	Echo Foundation	1,942,299
33	Eluxolweni Charitable Trust	520,000
34	FAMSA Border	300,000
35	FAMSA Grahamstown	400,000
36	Gadra Advice & Community Work	500,000
37	Graaff-Reinet Child & Family Welfare Society	250,000
38	Grahamstown Hospice	132,000
39	Grahamstown SPCA	100,000
40	Huis John Vorster	315,316
41	Huis Tarkastad Home	200,000
42	Humansdorp SPCA	100,000
43	Ikhwezi Women's Centre	100,000
44	Jeffreysrus Aftree-Oord	621,212
45	Kenton Bushman's Child & Family Welfare	390,000
46	King Williams Town & District SPCA	113,599
47	Kirkwood SPCA	50,000
48	Kruisfontein Humansdorp Child & Family Welfare	744,850
49	Lake Farm Centre AID Association	100,000
50	Langa-KwaNobuhle Self Help Resource Exchange	1,747,574
51	Lifeline East London	226,585
52	Lifeline Eastern Cape, Port Elizabeth	500,000
53	Madeira Home Hosing Utility Company	470,995
54	Masimanyane Women's Support Group	743,500
55	McKaizer Old Age Home	696,474
56	Moravian Day Care	100,000
57	Mzomtsa's Children's Home	510,658
58	Nerinahof ACVV Home for the Aged	383,160
59	Port Alfred Child Welfare	407,500

## Free State

1	AIDS Mission Outreach Trust: Lebone Care Centre	461,590
2	Alliance Against HIV/AIDS	537,600
3	APD Free State	1,500,000
4	Epilepsy South Africa-Free State & North West	161,538
5	FAMSA Bloemfontein	500,000
6	Foundation for African Community Development	415,833
7	Goldfields Hospice Association	524,936
8	Huis Silwerjare Petrus Steyn	160,049
9	Itekeng Self Help Project for the Disabled	106,400
10	Kroon Day Care	330,362
11	Kroonstad SPCA	200,000
12	Lechabile Lehae Labana	868,938
13	Lechabile Lehae Labana (NG Phomolong Crèche)	200,000
14	Lechabile Lehae Labana (Relebohile Crèche)	200,000
15	NG Social Services	1,240,000
16	Noorderbloem Behuissingskema en Dienssentrum	279,202
17	Ntsoanatsatsi Educare Trust	150,000
18	Oranje Vroue Vereeniging, Ficksburg	200,000
19	OVV Bloemfontein	770,196
20	OVV Edenberg	76,568
21	OVV Excelsior	302,255
22	OVV Frankfurt	596,000
23	OVV Harrismitth	100,000
24	OVV Henneman	400,000
25	OVV Parys	181,293
26	OVV Ventersdorp	914,063
27	OVV Vrede	500,000
28	OVV Vredefort	142,175
29	OVV Wesselbron	500,000
30	OVV Zastron	675,410
31	SANRA Sasolburg Alcohol & Drug Centre	178,187
32	SPCA Bloemfontein	200,000
33	Tumahole Self Help Association of the Disabled	150,000
34	Viljoenskroon Hospice Association	300,000
35	Vrystaat Provincial Executive Board	786,004
36	Welkom SPCA	79,509

**14,888,108**

## Gauteng

1	Active Learning & Leisure Libraries SA	202,000
2	AGS Home for the Aged	40,000
3	Alex Outreach Centre	590,212
4	Alma School	419,184
5	Asha Training & Development Trust	1,738,534
6	Avalon Association	652,456
7	Bella Maria Haven for Abused Women & Children	94,233
8	Berg en Dal Pregnancy Crisis Centre	170,498
9	Bethany House	500,000
10	Boksburg Society for the Aged	755,000
11	Bophelo Impilo Community Association	355,000
12	Botshabelo	1,044,528
13	Carel du Toit Centre	200,000
14	Carry You Ministry	350,000
15	Casa Caritas	420,000
16	Central Gauteng Mental Health Society	920,000
17	Centurion Care Services	431,280
18	Centurion Hospice Association	1,018,843
19	Chosen Nation Day Care Centre	35,000
20	Christian Social Council of Daspoort	200,000

Layer	Count
Frail Care Centre	300,000
Society, Alpha & Omega Development Scheme	1,164,420
Adult Education	381,235
Adult Education	300,000



Source Centre 200,000

Resource Centre 200,000

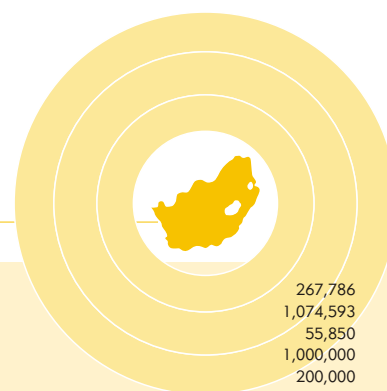
Service Association 930,600

Service 150,000

40,000



# BENEFICIARIES for the year ended 31 March 2007



33	SAVF Hoevelhof	200,000	10	ACVV Mooresburg	267,786
34	SAVF Middelburg	300,000	11	ACVV Mossel Bay	1,074,593
35	SAVF Nelspruit	239,401	12	ACVV Onse Tuiste	55,850
36	SAVF Old Age Home	212,000	13	ACVV Oudtshoorn	1,000,000
37	SAVF Standerton	578,652	14	ACVV Paarl	200,000
38	SAVF Witbank	300,000	15	ACVV Riebeeck Kasteel	300,000
39	Silverdays Organisation for the Care of the Aged	644,194	16	ACVV Riversdale	300,000
40	St. Joseph's Home for the Aged	480,000	17	ACVV Robertson	684,622
41	Standertonse Vereniging vir Bejaardes	406,034	18	ACVV Strand	1,510,212
42	Sun of Joy Foundation	300,000	19	ACVV Wellington	935,000
43	Thandanani Mhluzi Old Age Home	4,400,000	20	ACVV Worcester	111,008
44	Thuthukani Stimulation Centre	200,000	21	ACVV Worcester	32,545
45	Training Institute for Primary Health Care and Aids Task	500,000	22	Andries Olivier Durbanville Quadriplegic Centre	475,065
46	Volksrust Russoord Old Age Home	955,050	23	Association for Educational Transformation	200,000
47	Wenakker	364,319	24	Association for the Sensory Disabled	524,404
48	White River Child Welfare Society	500,000	25	Astra Centre	100,000
	<b>27,151,930</b>		26	Beaufort West Association for the Physically Disabled	248,500
<b>Northern Cape</b>			27	Beauty for Ashes Ministries	100,000
1	ACVV Calvinia	742,781	28	Bel Porto School for Specialised Foundation	300,000
2	ACVV Hanover	347,243	29	Bellville Night Shelter	267,509
3	ACVV Kimberley	832,752	30	Bellville Senior Service Centre	500,000
4	ACVV Olifantshoek	400,000	31	Benevolent Society	308,462
5	ACVV Springbok	404,000	32	Bethesda	131,000
6	ACVV Upington	60,000	33	Blouville School	735,100
7	ACVV Victoria West	527,640	34	Bram Care Centre	220,000
8	ACVV Williston	438,000	35	Breede River Hospice	500,000
9	Association for Community & Rural Advancement	1,319,000	36	Build a Better Society (BABS)	300,000
10	Custoda Trust	500,000	37	Campbell Farm	487,271
11	Diakonale Dienste Springbok	345,004	38	Campbell School	500,000
12	FAMSA Upington	6,000,000	39	Cape Education Trust	1,716,000
13	Helen Bishop Orthopaedic After Care Home	540,000	40	Cape Kidney Association	307,595
14	Hospice Association of Kimberley	903,400	41	Cape of Good Hope SPCA	50,000
15	NG Kerk Kinderhuis	1,017,183	42	Cape Town Association for the Physically Disabled	350,000
16	Thabiso NGO	300,000	43	Cape Town Child Welfare	1,500,000
17	Thabiso NGO (LEGATUS & SAFHIRO)	679,419	44	Cape Town Drug Counselling Centre	713,806
18	Thusano Early Childhood Development Trust	500,000	45	Centre for Creative Education	1,295,000
19	VGK Kinder Herberg Trust	674,956	46	Dietesda Oikonia Community Development	100,000
	<b>16,531,378</b>		47	Diepkloof Voorskool	82,000
<b>North West</b>			48	Down Syndrome	566,000
1	Bergzicht Training Centre	88,400	49	Elsies River Community Advice Office	88,823
2	Bram Home Based Care Project	250,000	50	Emmaus Protective Workcentre for the Disabled	754,843
3	Childline North West	300,000	51	Epilepsy South Africa	600,000
4	CSC Rustenburg	514,464	52	Epilepsy South Africa	500,000
5	Floc Pre-School	100,000	53	Etafeni Day Care Centre	217,000
6	Helping Hand Hospice	565,000	54	FAMSA Boland Overberg	579,066
7	Hospice North West/Matlosana	2,569,625	55	FAMSA Karoo	300,000
8	Khutsanang Pre-School	390,000	56	FAMSA Outeniqua	400,000
9	Kingdom Life Children's Centre	374,000	57	Friends of the Children's Hospital Association	500,800
10	Klerksdorp SPCA	250,000	58	Garden Route SPCA	119,201
11	Lifeline Klerksdorp	380,000	59	George Association for the Physically Disabled	600,000
12	Mafikeng SPCA	150,716	60	Grabouw & District Family Welfare Society	769,957
13	Philani Health Care Centre	438,600	61	Great Brak River Child & Family Welfare Society	300,000
14	Rustenburg Child & Family Welfare Society	300,000	62	Health & Welfare Organisation	419,148
15	SAVF Coligny	126,283	63	Helderberg Society for the Aged	550,000
16	SAVF Family Care Klerksdorp	930,631	64	Hexvallei Gemeenskapsdienste	300,374
17	SAVF Kosmos Service Centre	46,800	65	Hurdy Gurdy House Trust	180,000
18	SAVF Lichthuis Home for the Care of Frail Aged & Physically Disabled	200,000	66	Ikamva Labantu Trust	1,500,000
19	SAVF Rodeonhof Ouetehuis	760,000	67	Jagersbosch Community Care Centre	324,643
20	SAVF Sannieshof	282,901	68	Jireh Community Projects	250,000
21	SAVF Siembamba Kleuterskool	561,164	69	Karoo Animal Protection Society	175,000
22	SPCA Rustenburg	100,000	70	Keril Step by Step Pre-School	200,000
23	SPCA Stilfontein	50,000	71	Khanyisa School for Supportive Education	100,000
24	Thuso Social Service Foundation	353,400	72	Klawer Advice & Development Centre	448,500
25	Tlhabologang Legal Education Centre	184,500	73	Klein Karoo Resource Centre	500,000
26	Triest Training Centre	500,000	74	Kleinmond Child & Family Care Society	214,759
27	Wolmaranstad Adra Hospice	309,000	75	Knysna Aids Council	801,021
	<b>11,075,484</b>		76	Knysna Child & Family Welfare Society	879,295
<b>Western Cape</b>			77	Koononia Welfare & Development Program	187,273
1	ACVV Bambi Bewaarskool	265,000	78	Kommagads Advice Services	198,040
2	ACVV Caledon	400,000	79	Laingsburg Child & Family Welfare Society	136,350
3	ACVV Calitzdorp	225,975	80	Langa Cheshire Home	590,000
4	ACVV Dysseisdorp	657,446	81	Life Community Services	200,000
5	ACVV Elizabeth Roos Tehuis	400,000	82	Lifeline Western Cape	804,377
6	ACVV George	483,912	83	Lingelihle Old Age Home	400,000
7	ACVV Hoofbestuur	289,619	84	Macassar Multi-Purpose Community Centre	150,000
8	ACVV Koeberg Tak	200,000	85	Mitchell's Plain Crisis Centre	200,000
9	ACVV Malmesbury	400,000	86	Monwabisi School	44,239
			87	Newton Dienssentrum	63,600
			88	Nosisa Educare Centre for Disabled Children	30,000
			89	Nosiseko Educare Centre	60,000
			90	Nosizwe Educare	121,710



on

tion

3,092,430

1,512,225

1,377,200

741,455

1,181,510

