

Free State Gambling and Racing Board established in terms of Section 2 submitted to the Minister for Environmental, Economic Affairs and Tourism in terms of Section 14(3) of the Free State Gambling and Racing Act, 1996 (Act 6 of 1996) and Section 55(1) of the Public Finance Management Act, 1999 (Act 1 of 1999)



Mission Statement

To develop and regulate the gambling industry to ensure Economic and social benefits in the Free State province

Vision

To be a leading professional, sustainable and prosperous organisation in the regulation of the gambling industry

	PAGE
Mission Statement, Vision and Contents	1
MEC's Statement	2
Report of the Acting Chief Executive Officer	3 -12
Administrative Information	13
Staff Complement	13-15
Statement of Responsibility	16
Corporate Governance Report	16 -17
Report of the Audit Committee	18
Auditor General's Report	19 - 20
Income Statement	21
Balance Sheet	21
Statement of Changes in Equity	22
Cash Flow Statement	22
Accounting Policies	23 - 25
Notes to the Financial Statements	25 - 32





The past year has indeed been a difficult but significant one for the Free State Gambling and Racing Board.

My predecessor terminated the term of office of three of the Board members during the previous financial year, without filling these vacancies.

The term of office of three of the remaining four Board members expired on 20 June 2004 and to date, no new members have been appointed.

In terms of Section 4 of the Free State Gambling and Racing Act, 1996 (Act 6 of 1996), the power to appoint the Board vests with the MEC, in consultation with the Executive Council.

I am hopeful that the process of the appointment of new members can be concluded very soon to enable the proper continuation of the activities of the Free State Gambling and Racing Board.

In the final instance, I would like to express my gratitude to the Acting CEO and staff of the Board, who diligently continued with their responsibilities under these difficult circumstances.

The Acting CEO reported fully on all activities in his report.

Section 6 of the same Act provides for the procedures to be followed by the MEC when appointing Board members.

Nomination of candidates was called for on 11 June 2004. The nomination process did not render a sufficient number of nominations to satisfy all the relevant requirements.

A second invitation for nominations was published on 17 December 2004. Again, insufficient qualifying nominations in response to the second invitation for nominations were received.

A third round of nominations was called for on 10 March 2005. The process has not yet been concluded.

The absence of the Board impacted negatively on operations as strategic decisions such as the adjudication of the Vaal River Casino licence and consideration of the Inciticorp licensee's application for removal of its licence to alternative premises and acquisition of interest could not be finalized. Officials at the offices of the Board are under tremendous pressure from such licensees and applicants, who insist on decisions in processes before the Board.

Dr. B. Malakoane

MEC for Tourism, Environmental and Economic Affairs

31 March 2005





INTRODUCTION

What follows herein under is a brief overview of the activities and achievements of the Free State Gambling and Racing Board during the year under review.

BOARD MEMBERS

As indicated in the statement of the MEC, the term of office of three Board members expired on 20 June 2004 and to date, no new members have been appointed. The two remaining Board members, of which one is the acting CEO, do not constitute a quorum, and no Board meetings could take place since the said date.

The actions taken towards the appointment of new members have been reported on by the MEC in his statement. Without a doubt, the fact that the organization had to function without a properly constituted Board for the bigger part of the year under review had a negative impact on the performance of the organization and placed immense pressure on the administration of the Board.

SUSPENSION OF THE CEO

The CEO of the Board, Mr. CJ Moeko, has subsequent to a forensic audit been suspended by the MEC on 6 January 2003 and the disciplinary proceedings against him have not yet been concluded. Final evidence in the matter has been presented on 17 March 2005 and the hearing was postponed until 12 April 2005 for final argument. The outcome of the hearing is expected to be known in June 2005.

Mr. ME Ratsomo, the Manager: Horseracing and Betting, has been acting as CEO since March 2003.

CASINO LICENCING PROCESS

Zone 1 – Application for transfer and removal of the Thaba Nchu Sun casino licence to Bloemfontein (Mangaung Sun)

During the previous financial year, Sun International (SA) (SISA) lodged an application with the Board for the transfer of its casino licence from Thaba Nchu Sun to Mangaung Sun and the removal thereof from Thaba Nchu to Bloemfontein.

The application was approved on 9 June 2004, after extensive investigations and deliberations by the Board and subsequent to intensive negotiations with SISA and Mangaung Sun on conditions for the transfer and removal of the licence.

It is anticipated that Mangaung Sun will open its doors for public by September 2005. It is envisaged that this move will result in an increase in revenue accruing to the province as well as augmenting to the strategy of the Department of Tourism, Environmental and Economic Affairs to attract tourist to Bloemfontein and the Province.

Zone 2 – Goldfields Casino

The casino, which opened its doors on 4 December 2003, is performing beyond expectations and has fulfilled all the conditions in terms of its temporary licence.

The casino has established a community trust for purposes of community development and the acting CEO of the Board serves as an observer trustee of the said trust. The casino should, through the community trust, spend at least R1 million on community facility development during the initial two years of operations.

The casino should provide the Board with a business plan relating to the permanency of its operations before 30 April 2005, where after a decision will be taken as to whether the temporary casino will be converted into a permanent casino or whether the licensee should embark on constructing a bigger permanent venue.



CASINO LICENCING PROCESS (CONTINUED)

Zone 3 – Inciticorp (Pty) (Ltd) (Bethlehem Casino licence)

Inciticorp was granted a temporary casino licence during the previous financial year, but did not commence with construction due to problems with *inter alia* financing. Before the term of office of the Board expired, the Board extended the expiry date of the licence to 31 December 2005, subject to certain conditions.

On 30 September 2004, the licensee lodged an application for the removal of its licence to alternative premises in Bethlehem and for the acquisition of interest in the licence by Peermont Global.

This application has not yet been adjudicated upon, due to the delay in the appointment of Board members.

Zone 4 – Vaal river Casino licence application (Sasolburg)

The public hearing of the Vaal River Casino licence application commenced on the 22nd of April 2004, after an urgent application by Emerald Safari Resort (a casino on the Gauteng side of the Vaal River) to interdict the Board from proceeding with the hearing. On the said date, the Vaal River Casino Licence applicant made a presentation and members of the public raised questions, which were answered by the Applicant. The hearing resumed again on the 31st of May 2004, during which proceedings Emerald was afforded the opportunity to raise its objections against the application. The Board could not finalize the adjudication process prior to the expiry of its term of office.

GAMBLING LEVIES

Audits

On average the Board audited 75% of all gambling related income due to the Province, for completeness, correctness and timeous payment. In addition, regular Compliance Audits were conducted on licensees to ensure compliance with the Act.

Casino and horseracing

Levies for casinos collected for the period under review amounted to R 7.9 million, compared to R 4.8 million for the previous year. The collected levies were from the three existing casinos, i.e. Naledi Sun, Thaba Nchu Sun and Goldfields Casino.

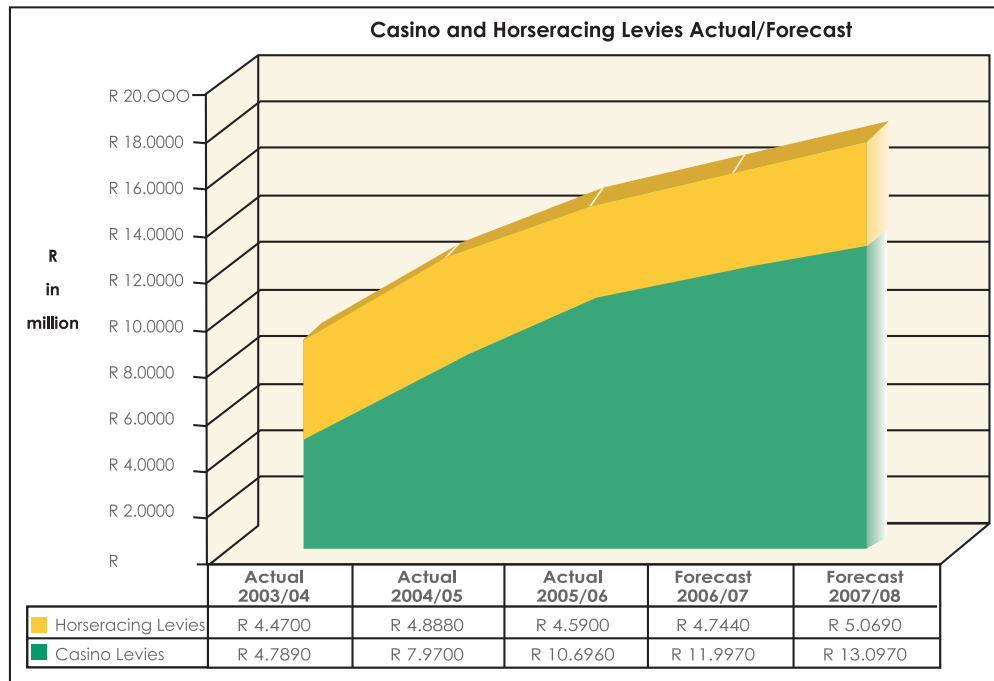
CASINO	NUMBER OF GAMBLING MACHINES	NUMBER OF TABLES
Goldfields Casino	226	7
Naledi Sun	112	0
Thaba Nchu Sun	193	10

During the period under review, two race-course licences, seven bookmaker licences and 25 Totalizator outlets were operational in the province.

Taxes and levies collected during the year under review, amounted to R 4.8 million, compared to R 4.4 million for the previous year.



It is also important to highlight the revenue contribution between casino and horseracing levies. As the graph below illustrate, since 2003/2004, the ratio between casino and horseracing levies was approximately 50:50. This has since change to 63:37. It is envisaged that for the financial year 2005/2006 a total levy income of R 10.7 million and R 4.6 million for casino and horseracing levies respectively will be collected.



LIMITED PAYOUT MACHINES AND BINGO'S

Policies for the introduction of Limited Payout Machines and Bingos in the Province have been submitted to the MEC for approval. Feedback in this regard is currently awaited from the MEC.

ILLEGAL GAMBLING

The Board continued its close relationship with the South African Police Services and the Directorate of Public Prosecutions in order to ensure the effective enforcement of gambling legislation in the province. During the year, 158 illegal gambling machines were confiscated and 25 people were convicted of gambling related offences.

A total number of 572 illegal gambling machines forfeited to the Board were destroyed during the year.

Punitive gambling levies in the amount of R 11 032 were collected from a convicted operator of illegal gambling machines.

CERTIFICATES OF APPROVAL

Seventy nine (79) certificates of approvals were issued by the Board to employees of licensees during the year under review.

CERTIFICATES OF SUITABILITY

Six (6) Certificates of Suitability were issued during the period under review to entities supplying high-risk services to licensees of the Board.

LITIGATION

London clubs international investments v Free State Gambling and Racing Board and others

The said application was filed against the Board during May 2002 and was aimed at seeking an order in terms whereof the extension granted by the CEO of the Board (authorized by the MEC), extending the closing date for the submission of detailed proposals and notices of application for the award of casino licences, be declared *ultra vires* and accordingly null and void.



The Board opposed the application, with intermediation of the State Attorney. The application was heard on the 20th of February 2003 and was dismissed with costs.

The Applicant, London Clubs, brought an Application for Leave to Appeal, which was granted.

The Appeal was heard on the 3rd of March 2005, by a full bench of 5 Appeal Court Judges. Judgment in the matter was delivered on 31 March 2005. The Supreme Court of Appeal stated that the proper meaning of section 94(4) of the Free State Gambling and Racing Act, 1996 (Act 6 of 1996) is that the MEC assumes the functions of the Board – meaning the administration of the regime that ended when the Act commenced – only until the Board is first constituted in practice by appointments being made to its membership. The Supreme Court of Appeal ruled that the MEC's decision to extend the closing date for the submission of detailed proposals and notices of application for the award of casino licences in the Free State Casino Development Project until 11 May 2001 was not a valid decision of the Board and thus has no legal consequence.

The implication of the decision is that the MEC does not have any powers to assume the functions of the Board under circumstances when the term of office of Board members expires and new Board members are not appointed immediately. Consequently, no decisions that do not fall within the delegations of authority of the CEO can be taken until the Board is operational again.

LEGISLATION

The National Gambling Act, 2004 (Act 7 of 2004) came into operation on the 1st of November 2004, followed by the National Gambling Regulations becoming operative on the 12th of November 2004. Amendments to the Free State Gambling and Racing Act, 1996 (Act 6 of 1996) to align it with the National Act have been drafted. The draft Free State Gambling and Racing Act Amendment Bill has been submitted to the State Law Advisors for finalization and, thereafter, presentation to the MEC and approval by the Provincial Legislature.

RESPONSIBLE GAMBLING

The Board requires from all licensees to adhere to the requirements for advertisements as contained in the National Gambling Act, 2004 (Act 7 of 2004) and the National Regulations.

The promotion of responsible gambling is also addressed in the licence conditions of all licensees of the Board.

During the year under review, 212 requests for exclusions have been approved. This includes residents in other provinces, who are excluded in terms of reciprocity agreements between the provinces.

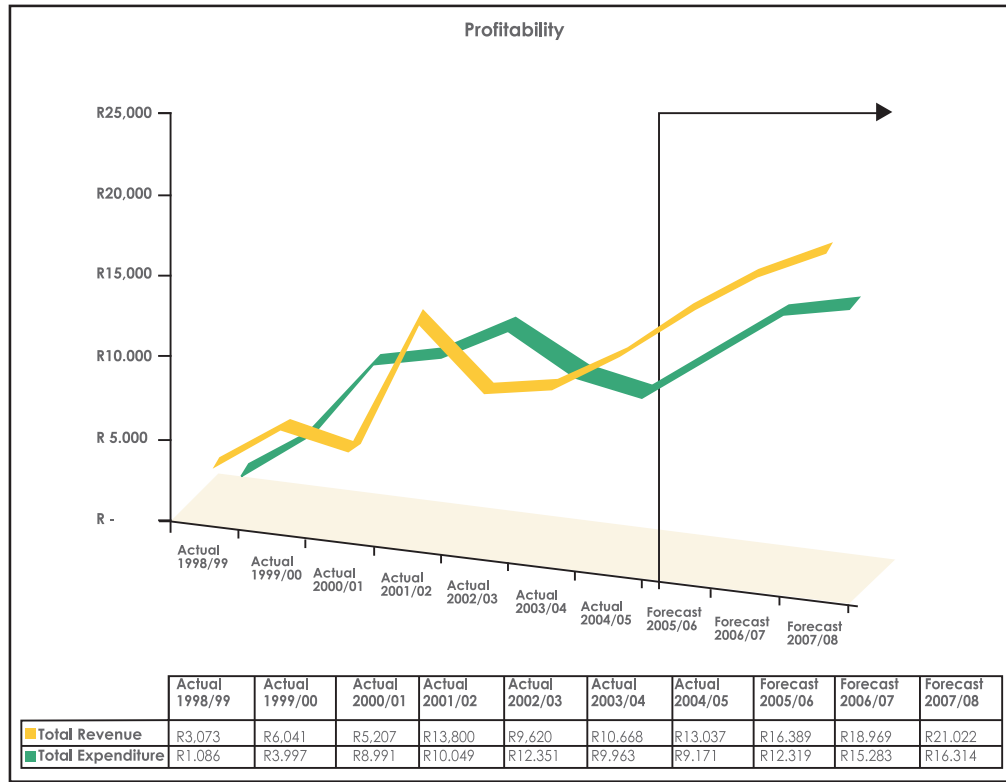
BLACK ECONOMIC EMPOWERMENT

The Board remains committed to the expansion of Black participation in the Gambling industry. This objective is addressed extensively in the conditions of licence for the transfer and removal of the Thaba Nchu Sun Casino licence to Mangaung Sun, in a similar manner as with other licenses awarded in the Province. The current licence conditions require an average of 30% BEE participation.

The Acting CEO is participating in forums with other provincial Boards and the National Gambling Board in an attempt to agree on a uniform approach by all provincial Boards when dealing with issues relating to BEE. The process is currently continuing.



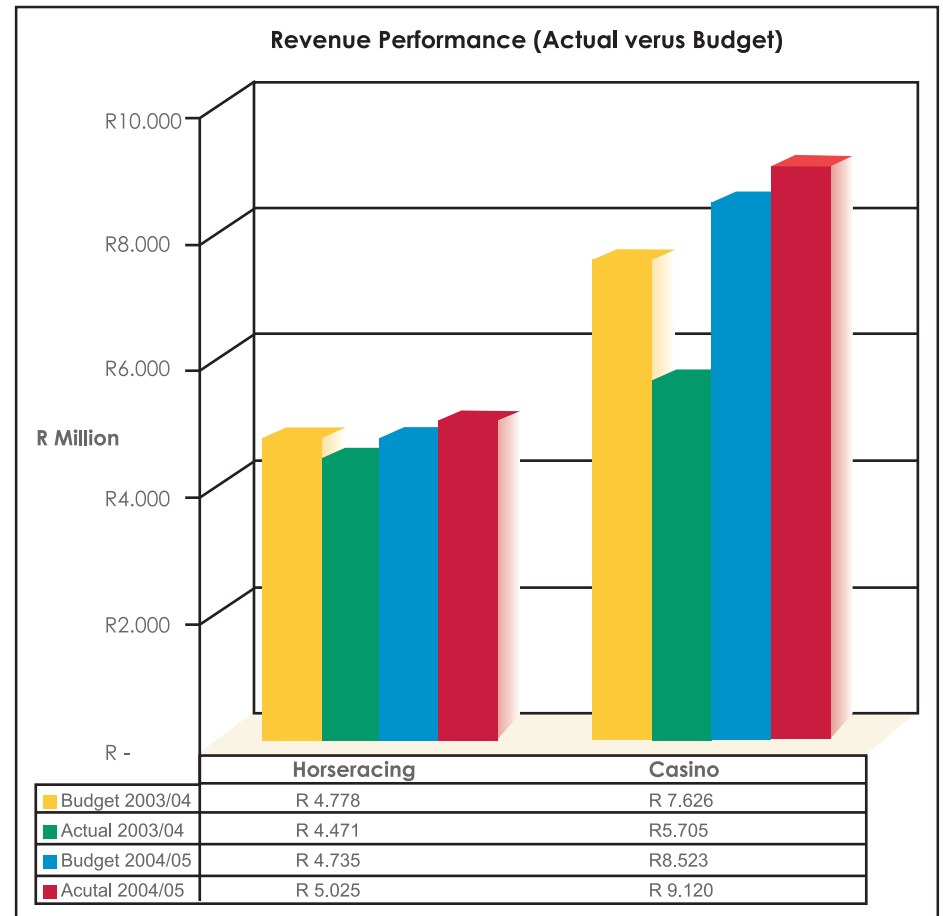
FINANCIAL RESULTS



A calculated effort was initiated during 2003/2004 to investigate and address the sustainability of the Board in terms of revenue collection and expenditure reduction. The graph above indicates the achievements made as well as the forecasted figures for the next three years. It is envisaged that a total revenue collection of R 21 million per annum can be achieved when all casinos are operating as well as the implementation of other gambling activities such as LPMs.

The financial results of the Board are reflected in the annual financial statements.

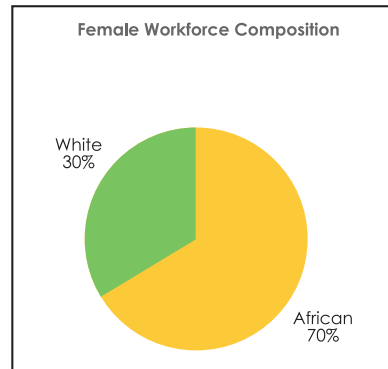
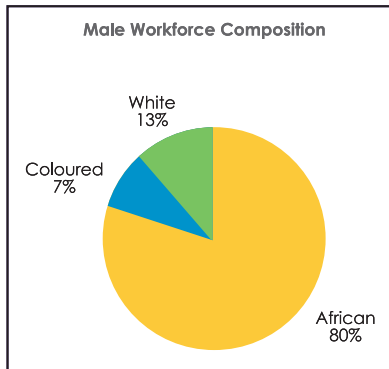
The Board's performance in terms of revenue collection surpassed all expectations. For the financial year 2004/2005 income from casino's exceeded the budgeted by R 597,000 and horseracing by R 290,000. This is despite a poor performance during financial year 2003/2004.



HUMAN RESOURCE STATISTICS

Workforce Composition

In the graphs and tables below, the workforce composition as at 31 March 2005 are illustrated. The Board has currently 25 permanent staff members of which 15 are male and 10 female.



Personnel cost per department

PERSONNEL COST BY DEPARTMENT	TOTAL EXPENDITURE	PERSONNEL EXPENDITURE	COST AS A PERCENTAGE OF TOTAL EXPENDITURE	AVERAGE PERSONNEL COST PER EMPLOYEE
	R	R	%	
Board and Sub-committees	279,461	190,800	68%	31,800
CEO	1,397,942	433,921	31%	216,961
Finance and Administration	3,024,515	1,290,890	43%	161,361
Legal Services and Secretariat	1,074,183	790,208	74%	263,403
Law Enforcement	996,093	887,163	89%	221,791
Horsereading and Betting	745,018	701,662	94%	350,831
Compliance and Investigation	1,595,705	1,441,836	90%	288,367
Information Technology	127,266	51,137	40%	51,137
Total	9,240,183	5,787,617		

	Male				Total Male	Female				Total Female	Total
	African	Asian	Coloured	White		African	Asian	Coloured	White		
Chief Executive Officer	1	0	0	0	1	0	0	0	0	0	1
Departmental Managers	2	0	0	2	4	0	0	0	1	1	5
Auditors	2	0	0	0	2	2	0	0	0	2	4
Inspectors	2	0	0	0	2	0	0	0	1	1	3
Betting Officer	1	0	0	0	1	0	0	0	0	0	1
Finance officers	2	0	0	0	2	0	0	0	1	1	3
Legal assistant	1	0	0	0	1	0	0	0	0	0	1
Human Resource Officer	0	0	1	0	1	0	0	0	0	0	1
Personal Assistant	0	0	0	0	0	2	0	0	0	2	2
IT officer	0	0	0	0	0	1	0	0	0	1	1
Support staff	1	0	0	0	1	2	0	0	0	2	3
Total	12	0	1	2	15	7	0	0	3	10	25

REPORT OF THE ACTING CHIEF EXECUTIVE OFFICER FOR THE YEAR ENDED 31 MARCH 2005 (continued)

Leave utilization

Annual leave

2003/2004			2004/2005		
TOTAL DAYS NORMAL TAKEN	NUMBER OF EMPLOYEES	AVERAGE DAYS TAKEN MONTHLY PER EMPLOYEE	TOTAL DAYS NORMAL TAKEN	NUMBER OF EMPLOYEES	AVERAGE DAYS TAKEN MONTHLY PER EMPLOYEE
327.25	24	1.14	457.75	27	1.41

Sick leave

2003/2004				
TOTAL SICK LEAVE DAYS	% WITHOUT MEDICAL CERTIFICATION	% WITH MEDICAL CERTIFICATION	AVERAGE DAYS PER MONTH PER EMPLOYEE	ESTIMATED COST ANNUALLY
107.25	19.58%	80.42%	0.37	R 95,088.56

2004/2005				
TOTAL SICK LEAVE DAYS	% WITHOUT MEDICAL CERTIFICATION	% WITH MEDICAL CERTIFICATION	AVERAGE DAYS PER MONTH PER EMPLOYEE	ESTIMATED COST ANNUALLY
111.63	14.8%	85.2%	0.34	R 99,587.16

Family Responsibility Leave

2003/2004			2004/2005		
TOTAL DAYS FAMILY RESPONSIBILITY LEAVE TAKEN	NUMBER OF EMPLOYEES	AVERAGE DAYS TAKEN MONTHLY PER EMPLOYEE	TOTAL DAYS FAMILY RESPONSIBILITY LEAVE TAKEN	NUMBER OF EMPLOYEES	AVERAGE DAYS TAKEN MONTHLY PER EMPLOYEE
0	24	0	14.5	27	0.04

Vacancy rate

Most of the departments within the Board have positions which have not yet been filled. This is mainly due to the fact that not all casinos and betting activities are operational. It is envisaged that the filling of vacant positions will commensurate with the increasing activities of the Board.

DEPARTMENT	APPROVED POSTS	POSTS FILLED	VACANCY RATE
CEO	2	2	0%
Finance and Administration	12	8	33%
Legal Services and Secretariat	3	3	0%
Law Enforcement	6	4	33%
Horseracing and Betting	5	2	60%
Compliance and Investigation	8	5	38%
Information Technology	3	1	67%
Total	39	25	33%

Employment changes

During the financial year six (6) appointments were made of which three (3) were to replace resignations and terminations. A total of three (3) new positions were filled during the year.

DEPARTMENT	EMPLOYEES at 1 APRIL		TERMINATIONS		NET CHANGE	NET % CHANGE
	2004	APPOINTMENTS	RESIGNATION	TRANSFERS		
BLACK	15	6	-2	0	4	27%
Male	9	4	-1	0	3	33%
Female	6	2	-1	0	1	17%
WHITE	6	0	-1	0	-1	-17%
Male	2	0	0	0	0	0%
Female	4	0	-1	0	-1	-25%
COLOURED	1	0	0	0	0	0%
Male	1	0	0	0	0	0%
Female	0	0	0	0	0	0%
ASIAN	0	0	0	0	0	0%
Male	0	0	0	0	0	0%
Female	0	0	0	0	0	0%
Total	22	6	-3	0	3	14%

REPORT OF THE ACTING CHIEF EXECUTIVE OFFICER FOR THE YEAR ENDED 31 MARCH 2005 (continued)

Job evaluation

The Board is in the process of evaluating all the positions on the organizational structure. The final report is due to be presented to management and the Board during June 2005.

Progress made in terms of affirmative action

	ACTUAL 31 MARCH 2004	ACTUAL 31 MARCH 2005	VARIANCE
BLACK	15	19	4
Male	9	12	3
Female	6	7	1
WHITE	6	5	-1
Male	2	2	0
Female	4	3	-1
COLOURED	1	1	0
Male	1	1	0
Female	0	0	0
ASIAN	0	0	0
Male	0	0	0
Female	0	0	0
Employees with disabilities	0	0	0
Total	22	25	3

Total number employees per occupational categories

	ACTUAL 31 MARCH 2004	ACTUAL 31 MARCH 2005
Legislators, senior officials and managers	6	6
Professionals	4	5
Technicians and associates professionals	7	9
Clerks	4	4
Service and sales workers	1	1
Total	22	25

Total number of employees per occupational bands

	ACTUAL 31 MARCH 2004	RECRUITMENT	PROMOTIONS	TERMINATIONS	TRANSFERS	ACTUAL 31 MARCH 2005
TOP MANAGEMENT	1	0	0	0	0	1
Male	1	0	0	0	0	1
Female	0	0	0	0	0	0
SENIOR MANAGEMENT	5	0	0	0	0	5
Male	4	0	0	0	0	4
Female	1	0	0	0	0	1
PROFESSIONALLY QUALIFIED AND EXPERIENCED SPECIALISTS/MID-MANAGEMENT	4	0	1	0	0	5
Male	4	0	0	0	0	4
Female	0	0	1	0	0	1
SKILLED TECHNICAL AND ACADEMICALLY QUALIFIED WORKERS, JUNIOR MANAGEMENT, SUPERVISORS, FOREMEN AND SUPERINTENDENTS	7	5	0	2	1	9
Male	2	3	0	0	0	5
Female	5	2	0	2	1	4
SEMI-SKILLED AND DISCRETIONARY DECISION MAKING	4	1	0	1	0	4
Male	1	1	0	1	0	1
Female	3	0	0	0	0	3
UNSKILLED AND DEFINED DECISION MAKING	1	0	0	0	0	1
Male	0	0	0	0	0	0
Female	1	0	0	0	0	1
Total	22	6	1	3	1	25

PERFORMANCE REPORT

OBJECTIVES	KPA	KPI	ACHIEVEMENTS/ CONSTRAINTS
MAXIMISATION OF REVENUE	Operators Audits	At least 75% of Casino levies audited. 100% of manufactures, suppliers and maintenance licensees audited 100% Annual fees audited 100% of certificate of suitability audited At least 50% of all revenue received from Bookmakers audited	75% of casino levies audited 100% manufacturers, suppliers and maintenance Licensees audited. 100% Annual fees audited 100% Certificate of suitability audited 50% of all revenue from Book makers audited
ESTABLISHING OF OPTIMAL GAMBLING OPPORTUNITY MIX	Issuing of casino licences.	Issue the remaining licence. Approval of Transfer and Removal Applications	Adjudication of the Vaal River Casino Application (Sasolburg) not yet finalized due to non-appointment of Board members. Approval of the Transfer and Removal of Thaba 'Nchu Sun casino licence. Adjudication of the application by Inciticorp (Bethlehem licence) for removal of licence not yet finalized due to non-appointment of Board members.
ENSURE PARTICIPATION BY PREVIOUSLY DISADVANTAGE PEOPLE IN THE GAMBLING INDUSTRY	Black Economic Empowerment (BEE) and small micro and medium Enterprises (SMME's) Participation	Participation of BEE Shareholders in the Gambling Industry Allocation of not less than 30% of work to SMME's	All licensees has participation of BEE in shareholding for new gambling licenses issued. All new licensees complied to the minimum of 30% work allocation of SMME's.

OBJECTIVES	KPA	KPI	ACHIEVEMENTS/ CONSTRAINTS
MONITOR PROGRESS BY LICENSEES, AS PER BIDS, TOWARDS PROJECT	The promotion of investment by licensees and potential licensees in the community projects	Participation by licensees in Community Projects.	As a condition of licence operators are encouraged to invest in community projects. All casino licensees have established Trusts with the participation of Local Communities to invest in community projects as per communities' priorities.
EXERCISE THE DUTY OF UTMOST CARE TO ENSURE REASONABLE PROTECTION OF THE ASSETS AND RECORDS, OF THE BOARD	Compliance with King II Report Compliance with PFMA and other applicable legislation Risk Management	Adherence to all applicable legislations and good Corporate Governance practices.	Compliance grid developed on legislation and principles that the Board must comply with. This is a working document for management and the Board to direct their actions towards the desired objectives. All identified deviations were addressed during the financial year. Risk management strategy implemented.
	Development and Implementation of policies and procedures	Updated Policies and procedures	Staff Policies revised Finance and Administration Policy and Procedure Manual revised. Supply Chain Management Policy and Procedures developed and implemented.
	Streamlining Organisational Structure	Structure that addresses the Board's strategic objectives.	Staff Structure revised to fit the Board's strategic objectives.

REPORT OF THE ACTING CHIEF EXECUTIVE OFFICER FOR THE YEAR ENDED 31 MARCH 2005 (continued)

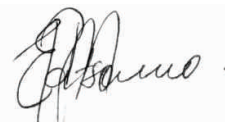
OBJECTIVES	KPA	KPI	ACHIEVEMENTS/ CONSTRAINTS
	Implementation of performance management system Internal and External Training Support staff to further their formal education	HR Audit and skills assessment	HR Audit and skills completed Assistance towards further studies granted to 14 staff members. This will contribute towards improved performance.
TO ADHERE AND ACT ACCORDING TO PRINCIPLES AS PRESCRIBED BY THE PFMA, TREASURY REGULATIONS, CORPORATE GOVERNANCE AND OTHER APPLICABLE LAWS	Regulation of the Industry	Compliance by licensees with licence conditions, the Act and other relevant statutory requirements	Ongoing
	Combating of Illegal Gambling	Confiscate Gambling Machines used in illegal operations and initiate legal proceedings.	27 Premises raided 158 illegal machines confiscated R29 507.49 forfeited to the Board
	Customer Protection	Investigate and resolve referred Punter disputes within 30 days.	5 Punter dispute successfully resolved within 30 days. 1 Punter dispute was resolved within 60 days due to complexity of the dispute.
	Promotes Responsible Gambling	Monitor that all adverts by operators comply with the requirements of the National Act and Regulations.	All adverts by operators meet legislative requirements and include messages that promote responsible gaming.

OBJECTIVES	KPA	KPI	ACHIEVEMENTS/ CONSTRAINTS
		Ensure Operators contribution to National Responsible Gambling Program	All Operators contribute to Organizations that promote responsible gambling.
	Probity	All applicants should be probed to ensure integrity in the industry.	Probity is done with regard to all applications before approval by the Board on: Applicants (Sec. 23 licences) - Companies involved - All key personnel - All Casino employees - Certificates of Suitability - Bookmakers - Bookmakers' managers, etc

NOTE OF APPRECIATION

The management of the FSGRB wishes to express its appreciation to all parties who participated in its activities and assisted it in the year under review, and particularly the following:

- The Free State Provincial Government, and in particular the Executive Council, the MEC and the Department for Tourism, Environmental and Economic Affairs;
- All applicants for licences and licensees;
- The staff of the Board for their dedication and commitment;
- The South African Police Services and
- Service providers to the Board



ME RATSOEMO
ACTING CHIEF EXECUTIVE OFFICER

ADMINISTRATIVE INFORMATION

STAFF COMPLEMENT

BOARD MEMBERS

Mr. SJ Mokoka (Chairperson)
Mr. MR Hlangu
Mr. DF Strauss
Mr. J Ntsane

Term of office expired

20 June 2004
20 June 2004
20 June 2004

AUDIT COMMITTEE

Dr. MC Koorts (Chairperson)
Mr. S Fouchee
Ms. VF Ramela
Mr. MR Hlangu
Mr. DF Strauss

20 June 2004
20 June 2004

ACTING CHIEF EXECUTIVE OFFICER

Mr. ME Ratsomo

CHIEF FINANCIAL OFFICER

Mr. J Kirsten CA(SA)

POSTAL ADDRESS

P.O. Box 9229
Bloemfontein
South Africa
9300

PHYSICAL ADDRESS

190 Nelson Mandela Drive
Bloemfontein
South Africa
9301

TELEPHONE

+27 51 404 0300

FAX

+27 51 404 0322
+27 51 404 0323

PRINCIPAL BANKERS

Nedbank

OFFICE OF THE CHIEF EXECUTIVE OFFICER, INFORMATION TECHNOLOGY, RACING AND BETTING



From left to right : Tshepo Mabilo (Racing and Betting Officer) , Jennifer Makhubela (Personal Assistant : CEO), Motshidisi Tlhabang (IT Officer), Mac Ratsomo (Acting Chief Executive Officer)

STAFF COMPLEMENT (continued)

FINANCE AND ADMINISTRATION



Front row from left : Patrick Matshaba (Accountant), Tsholohelo Mogapi (Receptionist), Sophie Nzule (Office Assistant), Sheldon Coetzee (Human Resource Officer)
 Back row from left : Abel Leoatle (Messenger), Tania van Eck (Administration Officer), Johan Kirsten (Manager: Finance and Administration), Dickson Chomane (Revenue Officer)

COMPLIANCE AND INVESTIGATION



Left to right: Thamsanqa Motsoasele (Manager: Compliance and Investigations), Felicia Ndhlovu (Investigator/Compliance Auditor), James Mogopodi (Auditor Compliance), Dineo Dlulane (Auditor Compliance), Michael Sebeela (Auditor Compliance)

LEGAL SERVICES AND SECRETARIAT



Left to right : Jacob Montshioa (Legal Assistant), Elzanne Rautenbach (Manager: Legal Services and Secretariat), Relebogile Malefane (Personal Assistant)

LAW ENFORCEMENT



Left to right: Robert Wiggett (Manager: Law Enforcement), Marlise van Wyk (Inspector), Banzi Tollie (Inspector)

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice. In terms of section 49(2)(b) of the Public Finance Management Act, 1999 (Act no 1 of 1999) as amended (PFMA), the Acting Chief Executive Officer is responsible for the preparation of all information included in this report, its accuracy and its consistency with the financial statements. It is the opinion of the Acting Chief Executive Officer that the responsibility assumed by the Acting Chief Executive Officer in terms of section 49(2)(b) of the PFMA, does not conflict with provisions of section 93(4) of the Act.

The financial statements have been prepared on the going concern basis, as the Acting Chief Executive Officer has every reason to believe that the Board has adequate resources in place to continue operations for the foreseeable future.

The financial statements have been audited by the Auditor General, who has unrestricted access to all financial records and related data, including minutes of all meetings of the Board and its committees. The Acting Chief Executive Officer believes that all representations made to the Auditor General during this audit were valid and appropriate.

The Acting Chief Executive Officer was appointed in terms of section 49 as the Accounting Authority as approved by the Treasury on 30 May 2005. The financial statements as set out on pages 21 to 32 was approved and signed by the Acting Chief Executive Officer on 27 May 2005, and are hereby signed on the Board's behalf by:



ME RATSOMO

ACTING CHIEF EXECUTIVE OFFICER

The Free State Gambling and Racing Board and management recognize the need to conduct the business of the Board with integrity and in accordance with sound corporate governance practices and are therefore committed to the principles of openness, fairness, integrity and accountability. Processes and practices are reviewed on an ongoing basis to ensure compliance with good corporate governance, which are continually benchmarked against best practice.

THE BOARD

The composition of the Board is made up of a non-executive chairperson, non-executive members and the Chief Executive Officer (ex officio) being the only executive member.

It should be mentioned that the term of office of all but one non-executive Board member expired on 20 June 2004. To date, no new members have been appointed by the MEC. As the existing two Board members (of which one is the acting CEO) do not constitute a quorum, only those powers and functions of the Board that had been delegated by the Board to the CEO, could be performed during the period after 20 June 2004.

Before the expiry of the term of office of the Board members, the Board participated in 8 board meetings and one Public Hearing during the year under review.

BOARD COMMITTEES

The Board has put in place the following Committees to assist in the discharge of its responsibilities:

AUDIT COMMITTEE

The Audit Committee is constituted in accordance with the requirements of the Public Finance Management Act. The Chairperson is an independent non-executive and the Committee consists of a majority of independent members. Both the external and internal auditors have unrestricted access to the Committee and attend meetings.

The Audit Committee has adopted appropriate formal Terms of Reference, which have been approved by the Board and are encapsulated in the Audit Committee Charter.

The responsibilities of the Audit Committee include:

- Evaluating the risks associated with the operations of the Board;
- Evaluating the effectiveness of risk management systems of the Board;
- Reviewing the effectiveness of internal control systems;
- Reviewing the effectiveness of the internal control function and evaluating the findings of internal audit;
- Reviewing the annual financial statements; and
- Reviewing the findings of and recommendations made by the external auditors.

The report by the Audit Committee is on page 18.

MONITORING COMMITTEE

The Board constituted a Monitoring Committee to evaluate the monitoring of compliance with licence conditions by licensees and to make recommendations to the Board. The Committee meets on a monthly basis and is chaired by the acting CEO.

RISK MANAGEMENT

The Board through management has established an internal control system to manage significant risk. The risk management system is reviewed annually.

INTERNAL AUDIT FUNCTION

The internal audit function operates in terms of written terms of reference and is under the control and direction of the Audit Committee to which it reports at all meetings.

The internal audit function provides an independent and objective evaluation of the Board's risk management processes, internal controls and governance processes. Audit plans are risk based and updated on an annual basis bearing in mind the outcome of risk assessment reviews to ensure that areas of high risk are covered.

MATERIALITY AND SIGNIFICANT FRAMEWORK

The Treasury Regulations, Section 28.1.5, requires that, for purposes of material [section 55(2) of the PFMA] and significant [Section 54(2) of the PFMA], the accounting authority should develop and agree a framework of acceptable levels of materiality and significance with the relevant executive authority in consultation with the external auditors.

The Board, for the period under review, has set the materiality amount at R350 000, after taking into consideration the business and inherent risk of its operations as well as legislative requirements.

Material facts of a *quantitative* nature must be disclosed if any fact discovered exceeds the materiality figure of R350 000. All losses of a quantitative nature in respect of criminal conduct or that arose through irregular, fruitless and wasteful expenditure need to be disclosed in the annual report and financial statements.

EVENTS AFTER THE REPORTING DATE

The Premier on the 7th of April 2005 announced that the MEC for Tourism, Environmental and Economic Affairs, Dr. B. Malakoane, would terminate office on the 18th of April 2005. Mr. NH Masithela was appointed as MEC for Tourism, Environmental and Economic Affairs from 19 May 2005. The appointment of Board members, are well under way. It is anticipated that a full board will be in place by the end of June 2005.

REPORT OF THE AUDIT COMMITTEE FOR THE YEAR ENDED 31 MARCH 2005

We are pleased to present our report for the year ended 31 March 2005.

AUDIT COMMITTEE MEMBERS AND ATTENDANCE

The Audit Committee consists of the members listed hereunder and meets at least 4 times per annum in accordance with its approved Terms of Reference. Four (4) meetings were held for the year under review.

NAME OF MEMBER	NUMBER OF MEETINGS ATTENDED
Dr. MC Koorts (Chairperson)	4
Mr. S Fouchee	4
Ms. VF Ramela	4
Mr. MR Hlangu (term of office expired 20 June 2004)	2
Mr. DF Strauss (term of office expired 20 June 2004)	0

AUDIT COMMITTEE RESPONSIBILITY

The Audit Committee 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 Audit Committee has complied with its responsibilities arising from Section 51(1) of the Public Finance Management Act (Act 1 of 1999) and Treasury Regulation 27.1.10.

THE EFFECTIVENESS OF INTERNAL CONTROLS

The Internal Audit through its reports provided the Audit Committee and management with assurance that the internal controls are appropriate and effective. This has been achieved by means of the risk management process as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the Annual Financial Statements, the matters of emphasis and management letter of the Auditor-General, it was noted that no significant or material non-compliance with prescribed policies and procedures have been reported. Accordingly, the Committee can report that the systems of internal control for the period under review have been effective and efficient.

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;
- Reviewed the Auditor-General's management letter and management response;
- Reviewed changes in accounting policies and practices;
- Reviewed significant adjustments resulting from the audit.

The Audit Committee concurs with and accepts the Auditor-General's conclusions on the annual financial statements and is of the opinion that the audited financial statements be accepted and read together with the report of the Auditor-General.



MC KOORTS
CHAIRPERSON OF THE AUDIT COMMITTEE



AUDITOR-GENERAL

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 21 to 32, for the year ended 31 March 2005, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 14(2) of the Free State Gambling and Racing Act, 1996 (Act No. 6 of 1996). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

2. NATURE AND SCOPE

The audit was conducted in accordance with Statements of South African Auditing Standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to my attention and are applicable to financial matters.

The audit was completed in accordance with Auditor-General Directive No. 1 of 2005.

I believe that the audit provides a reasonable basis for my opinion.

3. AUDIT OPINION

In my opinion, the financial statements fairly present, in all material respects, the financial position of the Free State Gambling and Racing Board at 31 March 2005 and the results of its operations and cash flows for the year then ended, in accordance with prescribed accounting practice and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA).

4. EMPHASIS OF MATTER

Without qualifying the audit opinion above, attention is drawn to the following matters:

4.1 Non-compliance with laws and regulations

Contrary to Treasury regulations 31.3, surplus funds were not invested with the Corporation for Public Deposits.

4.2 Fruitless and wasteful expenditure

The chief executive officer was suspended from service with full salary during January 2003, pending the finalisation of a disciplinary investigation. At the completion of the audit at the end of July 2005, the chief executive officer was still suspended due to the Department of Tourism, Environmental and Economic Affairs failing to finalise the disciplinary investigation.

4.2 Fruitless and wasteful expenditure (continued)

The salaries and allowances paid to the chief executive officer during the financial year amounted to R815 828. The total salaries and allowances paid to the accounting officer since he was suspended now amounts to R1 804 534 which is considered to be fruitless and wasteful expenditure.

4.3 Loss of income


The terms of office of the board members expired on 20 June 2004 and no new members were appointed during 2004-05 financial year. In the absence of a properly constituted board, the MEC in terms of section 93(4) of the Free State Gambling and Racing Act, 1996 - performed the powers and duties of the board. On 31 March 2005, judgment in respect of the extension by the MEC for submission of applications for casino licenses was delivered to the supreme court of appeal against the Board. According to the supreme court, the decision of the MEC to extend the closing date of licenses has no legal consequences. Prior to the supreme court ruling, however, the board decided to look afresh at its decision to award the casino licence in zone four. As the Free State Gambling and Racing Act, 1996 was not properly administered and a board was not timeously appointed, the awarding of a casino licence in zone four could not be finalised, resulting in a loss of gambling income.

4.4 Provincial public accounts committee resolution

As indicated in paragraph 4.2 of this report, the disciplinary action against the chief executive officer has not been finalised, as required in terms of resolution 26/2004 of the provincial public accounts committee.

5. APPRECIATION

The assistance rendered by the staff of the board during the audit is sincerely appreciated.



BJK van Niekerk for Auditor-General
Bloemfontein
31 July 2005

INCOME STATEMENT

for the year ended 31 March 2005

BALANCE SHEET

as at 31 March 2005

	Notes	2004/05 R'000	2003/04 R'000
Continuing operations			
Grants and transfers	1.	12,915	10,814
Other income	2.	18	18
		<u>12,933</u>	<u>10,832</u>
Administrative expenses	3.	4,377	4,634
Staff costs	4.	3,414	3,331
Financial transaction in asset and liabilities	5.	34	-
Other operational expenses	6.	1,676	2,143
Depreciation	7.	570	628
Profit from operations		<u>2,862</u>	<u>96</u>
Finance cost	8.	-	27
Income from investments	9.	397	531
Net profit for the year		<u><u>3,259</u></u>	<u><u>600</u></u>

	Notes	2004/05 R'000	2003/04 R'000
ASSETS			
Non-current assets			
Property, plant and equipment	15.	<u>921</u>	<u>963</u>
		<u><u>921</u></u>	<u><u>963</u></u>
Current Assets			
Current portion of Loans	11.	139	104
Inventories	12.	5	1
Trade and other receivables	13.	390	598
Cash and cash equivalents	14.	11,336	7,605
		<u>11,870</u>	<u>8,308</u>
Total assets		<u><u>12,791</u></u>	<u><u>9,271</u></u>
EQUITY AND LIABILITIES			
Capital and reserves			
Accumulated profit/(loss)	16.	<u>9,692</u>	<u>6,433</u>
		<u><u>9,692</u></u>	<u><u>6,433</u></u>
Current liabilities			
Trade and other payables	18.	2,210	1,723
Income received in advance		538	734
Provisions	19.	351	381
		<u>3,099</u>	<u>2,838</u>
Total equity and liabilities		<u><u>12,791</u></u>	<u><u>9,271</u></u>

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 March 2005

CASH FLOW STATEMENT
for the year ended 31 March 2005

	Notes	Accumulated profit/(loss) R'000	Total R'000		Notes	2004/05 R'000	2003/04 R'000
Balance at 1 April 2003		1,084	1,084	Operating activities			
Fundamental error	20.	4,749	4,749	Cash generated from/(utilized in) operations	21.	3,862	(2,456)
Net profit/(loss) for the year		600	600	Interest paid		-	(27)
Balance at 1 April 2004		<u>6,433</u>	<u>6,433</u>	Net cash from/(used in) operating activities		<u>3,862</u>	<u>(2,483)</u>
Net profit/(loss) for the year		3,259	3,259	Investing activities		(131)	395
Balance at 31 March 2005		<u><u>9,692</u></u>	<u><u>9,692</u></u>	Net cash from/(used in) investing activities	22.	<u>(131)</u>	<u>395</u>
				Financing activities		-	-
				Net cash from/(used in) financing activities		<u>-</u>	<u>-</u>
				Net increase/(decrease) in cash and cash equivalents		3,731	(2,088)
				Cash and cash equivalents at the beginning of the year		7,605	9,693
				Cash and cash equivalents at end of the year		<u>11,336</u>	<u>7,605</u>

ACCOUNTING POLICIES

for the year ended 31 March 2005

The Annual Financial Statements have been prepared in accordance with Statements of Generally Accepted Accounting Practice and the Public Finance Management Act, Act 1 of 1999 as amended.

The following are the principle accounting policies of the entity which are, in all material respects, consistent with those applied in the previous year, except as otherwise indicated:

1. **Basis of preparation**
The financial statements have been prepared on the historical cost basis, except as modified for the revaluation of land and buildings, plant and equipment, investment properties and marketable securities.
2. **Currency**
These financial statements are presented in South African Rand since that is the currency in which the entity's transactions are denominated.
3. **Revenue recognition**
Revenue is recognized when it is probable that future economic benefits will flow to the enterprise and these benefits can be measured reliably.

Revenue arising from license fees is recognized on an accrual basis in accordance with the substance of the relevant agreements.

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.
4. **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 provincial legislation providing for procurement procedures in that provincial government.
 Fruitless and wasteful expenditure means expenditure that was made in vain and would have been avoided had reasonable care been exercised.

All irregular and fruitless and wasteful expenditure is charged against income, under the relevant expenditure the irregular, fruitless and wasteful expenditure, in the period in which they are incurred. The nature, cause and financial amount are disclosed in the notes to the financial statement.
5. **Retirement benefit costs**
The entity operates a defined contribution plans, the assets of which are held in separate trustee-administered funds. The plan is funded by payments from the entity and employees.

Payments to defined contribution retirement benefit plans are charged to the income statement in the year to which they relate.

6. **Property, plant and equipment**
Other items of property, plant and equipment are stated at cost less accumulated depreciation.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following bases:

Plant and equipment	20% - 25%
Vehicles	20%
Computer Equipment and Other	33%
Furniture and Fittings	10%

7. **Inventories**
Inventories are stated at the lower of cost and net realizable value. Net realizable value represents the estimated price in the ordinary course of business.
Cost is determined on the following bases:
 - Stationery are valued at average cost.
8. **Trade receivables**
Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.
9. **Investments**
All investments are initially recognized at cost, transaction costs included.
At subsequent reporting dates the following categories of investments are measured at amortised cost by using the effective interest rate method if they have a fixed maturity, or at cost if there is no fixed maturity:
 - Loans and receivables originated by the entity/group and not held for trading
 - Held to maturity investments
10. **Trade payables**
Trade and other payables are stated at their nominal value.
11. **Provisions**
Provisions are recognized when the entity has a present obligation as a result of a past event and it is probable that this will result in an outflow of economic benefits that can be estimated reliably.
12. **Government grants**
Government grants are recognized when it is probable that future economic benefits will flow to the public entity and these benefits can be measured reliably. The grant is recognized to the extent that there are no further obligations arising from the receipt of the grant.

ACCOUNTING POLICIES

for the year ended 31 March 2005 (continued)

13. **Comparative figures**
Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.
14. **Cash and cash equivalent**
Investment must include a selection of counter-parties through credit risk analyses, an establishment of investment limits per institution and investment instrument and the monitoring of investments against limits. The policy should contain the reassessment of investment policies on a regular basis, counter-party credit risk based on credit ratings and the assessment of investment instruments based on liquidity requirements.
15. **Changes in accounting estimates and errors**
When an entity has not applied a new Standard or Interpretation that has been issued but is not yet effective, the entity shall disclose:
- this fact; and
 - known or reasonably estimable information relevant to assessing the possible impact that application of the new Standard or Interpretation will have on the entity's financial statements in the period of initial application.
16. **Financial instruments**
- Recognition
Financial assets and financial liabilities are recognised on the entity's balance sheet when the entity 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 entity's principle financial assets are loans, accounts receivable and cash and cash equivalents.
- Trade receivables and short term loans
Trade receivables and short term loans are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Cost and amortised cost are inclusive of any impairment loss recognised to reflect irrecoverable amounts. The financial assets are subject to review for impairment at each balance sheet date.

Equity instruments

Equity instruments are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

The entity's principle financial liabilities are accounts payable.

All financial liabilities are measured at amortised cost, comprising original debt less principle payments and amortisations, except for financial liabilities held-for-trading and derivative liabilities, which are subsequently measured at fair value.

- **Borrowings**

In terms of section 66(3)(c) of the Public Finance Management Act, 1999, Public Entity may only through the Minister of Finance borrow money or, in the case of the issue of a guarantee, indemnity or security, only through the Minister of Labour, acting with the concurrence of the Minister of Finance. In terms of section 32.1.1 of the Treasury Regulations Public Entity may borrow money for bridging purposes with the approval of the Minister of Finance, subject to certain conditions. Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

- **Trade payables**

Trade and other payables are stated at their nominal value.



	Notes	2004/05 R'000	2003/04 R'000	
1.	Grants and transfers Provincial Departments	30.1	12,915	10,814
	Total		<u>12,915</u>	<u>10,814</u>
2.	Other income Profit on disposal of fixed assets Other	30.2	2 16	5 13
	Total		<u>18</u>	<u>18</u>
3.	Administrative expenses General and administrative expenses Director's emoluments Auditor's remuneration - Audit fees Travel and subsistence	31.1 31.2 30.3 31.3	490 3,175 361 351	554 3,207 564 309
	Total		<u>4,377</u>	<u>4,634</u>
4.	Staff costs Wages and salaries Basic salaries Performances awards Temporary staff Leave payments Defined Pension contribution plan expense Social contributions (employer's contributions) Medical aid Unemployment insurance fund		2,797 161 5 (15) 301 148 17	2,643 156 1 84 271 161 15
	Total		<u>3,414</u>	<u>3,331</u>
5.	Financial transaction in assets and liabilities Provision for bad debts		34	-
	Total		<u>34</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2005 (continued)

	2004/05 R'000	2003/04 R'000		Notes	2004/05 R'000	2003/04 R'000
6.			11.	Loans		
Staff training and development	114	129	Current loans		23	73
Consultants, contractors and special services	219	512	Staff loans		116	31
Legal fees	223	79	Study loans			
Maintenance, repairs and running costs	58	44			<u>139</u>	<u>104</u>
- Property and building	11	-	12.	Inventories		
- Machinery and equipment	19	15	Stationery, promotional items and cartridges		5	1
- Other maintenance, repairs and running costs	28	29	Inventory are valued at the lowest of cost or net value.		<u>5</u>	<u>1</u>
Entertainment expense	23	25	13.	Trade and other receivables		
Penalties paid	-	5	Trade receivables		312	744
Other	1,039	1,349	Less: Provision for impairment of trade receivables		(34)	-
Total	<u>1,676</u>	<u>2,143</u>			<u>278</u>	<u>744</u>
7.			Other receivables		6	123
Depreciation			Value added tax		106	-
Plant and equipment	45	79	Fundamental error	20.1 & 20.2	-	(269)
Vehicles	69	69			<u>390</u>	<u>598</u>
Computer equipment	398	422				
Office furniture and fittings	58	58				
Total	<u>570</u>	<u>628</u>				
8.				The Board consider that the carrying amount of trade and other receivables approximate to their fair value.		
Finance costs			14.	Bank balances and cash		
Interest expense	-	27	Cash on hand and balances with banks		11,336	7,605
9.			As required in section 7(2) and 7(3) of the Public Finance Management Act, the National Treasury has approve local banks where the bank accounts are held.		<u>11,336</u>	<u>7,605</u>
Income from investments						
Interest income						
Bank deposits	397	531				
Total	<u>397</u>	<u>531</u>				
10.						
Taxation						
The Board is exempt from taxation in terms of Section 10(1)(cA) of the Income Tax Act.						

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2005 (continued)

15. Property, plant and equipment

	Plant and equipment R'000	Vehicles R'000	Computer Equipment R'000	Furniture and Fittings R'000	Other R'000	Total R'000
Year ended 31 March 2004						
Opening net carrying amount	213	176	487	405	-	1,281
Gross carrying amount	393	354	1,476	595	-	2,818
Accumulated depreciation	(180)	(178)	(989)	(190)	-	(1,537)
Additions	21	1	120	-	-	142
Change in accounting estimates	(101)	24	243	-	-	166
Disposals	(1)	-	-	-	-	(1)
Depreciation	(79)	(69)	(422)	(58)	-	(628)
Closing net carrying amount	55	133	427	348	-	963
Gross carrying amount	414	355	1,596	595	-	2,960
Accumulated depreciation	(359)	(222)	(1,169)	(247)	-	(1,997)

Year ended 31 March 2005

Opening net carrying amount	55	133	427	348	-	963
Gross carrying amount	414	355	1,596	595	-	2,960
Accumulated depreciation	(359)	(222)	(1,169)	(247)	-	(1,997)
Additions	114	16	340	56	2	528
Disposals	-	-	-	-	-	-
Depreciation	(45)	(69)	(398)	(58)	-	(570)
Closing net carrying amount	124	80	369	346	2	921
Gross carrying amount	528	371	1,936	651	2	3,488
Accumulated depreciation	(404)	(291)	(1,567)	(305)	-	(2,567)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2005 (continued)

16.	Capital and reserves	Notes	Accumulated profit/(loss) R'000	Total R'000	20.	Fundamental error 2004/2005	Gross R'000	Taxation Effect R'000	Nett R'000
	Balance at 1 April 2003		1,084	1,084					
	Fundamental error	20.	4,749	4,749	20.1	VAT on Casino Levies paid to FSGRB			
	Net profit for the year		600	600					
	Balance at 1 April 2004		6,433	6,433					
	Net profit for the year		3,259	3,259					
	Balance as at 31 March 2005		9,692	9,692					
17.	Retirement benefit obligations				20.2	Invoice raised for deposit received			
	The entity operates a defined contribution retirement plan for all employees of all its divisions. The assets are held in funds under the control of trustees, separately from those of the entity and administered by Sanlam. The cost of short term employee benefits is expensed in the income statement in the reporting period that the payment is made.								
			2004/05 R'000	2003/04 R'000					
18.	Trade and other payables								
	Trade creditors		825	505					
	Control accounts		-	6					
	Revenue funds to be surrendered	29.	1,385	1,038					
	Value added tax		-	5					
	Fundamental error	20.1 & 20.2	-	169					
			2,210	1,723					
	The Board consider that the carrying amount of trade and other payables approximate to their fair value.				20.3	Grant to be refunded			
							4,749	-	4,749
19.	Provisions		Leave provision R'000	Total R'000					
	2003/2004								
	Opening balance		405	405					
	Utilisation of provisions during the year		(109)	(109)					
	Provisions made during the year		85	85					
	Closing balance		381	381					
	2004/2005								
	Opening balance		381	381					
	Utilisation of provisions during the year		(15)	(15)					
	Provisions made during the year		(15)	(15)					
	Closing balance		351	351					

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2005 (continued)

	2004/05 R'000	2003/04 R'000
21. Reconciliation of profit/(loss) to cash generated from/(utilized in) operations		
Profit/(loss)	3,259	600
Fundamental error	-	4,749
Adjusted for:		
Adjustments against accumulated profit/(loss)	-	(555)
Depreciation on property, plant and equipment	570	628
(Gain)/loss disposal of property, plant and equipment	-	(5)
Investment income	(397)	(531)
Interest expense	-	27
Increase/(decrease) in provisions	(30)	(25)
Operating cash flow before working capital changes	3,402	4,888
Working capital changes	460	(7,344)
Decrease/(increase) in inventories	(4)	(1)
Decrease/(increase) in receivables	173	1,354
Increase/(decrease) in payables	291	(8,697)
Cash generated from operations	<u>3,862</u>	<u>(2,456)</u>
22. Net cash from/(used) in investing activities		
Interest received	397	531
Proceeds from disposal of property, plant and equipment	-	6
Purchases of property, plant and equipment	(528)	(142)
Cash from/(used) in investing activities	<u>(131)</u>	<u>395</u>

23. Contingent liabilities

London Clubs International (Pty) Ltd sought an order in terms whereof the extension granted by the CEO in conjunction with the Responsible Member, extending the closing date for the submission of detailed proposals of the casino licenses and notices of application for the award of casino licenses, be declared ultra vires and accordingly null and void. Judgment was handed down on 31 March 2005 where the Supreme Court of Appeal ruled in favour of the applicant. The legal cost in this regard must be carried by three respondents, of which the Board is also a party. The exact cost could not be determined at the time of publication of this report.

24. Subsequent events

Due to the amendments in the VAT Act and introduction of the Revenue Laws Amendments Acts, No 45 of 2003 and 32 of 2004, schedule 3C entities such as the Free State Gambling and Racing Board has been instructed to deregister for VAT purposes. No output VAT is required to be paid over to the South African Revenue Services.

	2004/05 R'000	2003/04 R'000
25. Related party transactions		
The following related party transactions occurred during the financial year:		
25.1 Grants received		
Department of Tourism, Economic and Environmental Affairs	<u>12,915</u>	<u>10,814</u>
25.2 Revenue collected in terms of the Free State Gambling and Racing Act, Act nr. 6 of 1996		
Acquisition of financial interest	12	5
Annual license fees	801	227
Casino levies	7,970	4,615
Certification process for opening of casino	-	162
Employee registration	71	119
Forfeits	178	69
Horsereading levies	4,888	4,471
Penalties	2	6
Probity fees	61	142
Request of proposals	4	15
Transfer of license	200	400
	<u>14,187</u>	<u>10,231</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2005 (continued)

	2004/05 R'000	2003/04 R'000
26. Director's emoluments		
26.1 Non-Executive Directors (Board Members)		
JS Mokoka (Chairperson)		
- Fees for services	63	187
DF Strauss		
- Fees for services	45	178
MR Hlangu		
- Fees for services	62	210
MH Scholtz		
- Fees for services	-	13
MLJ Molotsi		
- Fees for services	-	27
	<u>170</u>	<u>615</u>
26.2 Audit Committee		
MC Koorts (Chairperson)		
- Fees for services	11	30
VF Ramela		
- Fees for services	5	18
S Fouchee		
- Fees for services	5	13
	<u>21</u>	<u>61</u>
26.3 Executive Managers		
Chief Executive Officer	816	800
- Salary	687	676
- Bonuses and performance payments	-	-
- Pension contributions	85	83
- Other benefits	44	41
Manager: Finance & Administration	378	171
- Salary	306	148
- Bonuses and performance payments	22	-
- Pension contributions	37	17
- Other benefits	13	6
Manager: Legal Services and Secretariat	409	376
- Salary	340	299
- Bonuses and performance payments	28	33
- Pension contributions	40	36
- Other benefits	1	8

	2004/05 R'000	2003/04 R'000
26.3 Executive Managers (continued)		
Manager: Compliance & Investigations	531	494
- Salary	421	387
- Bonuses and performance payments	36	35
- Pension contributions	52	48
- Other benefits	22	24
Manager: Horseracing & Betting	516	499
- Salary	429	398
- Bonuses and performance payments	36	54
- Pension contributions	50	46
- Other benefits	1	1
Manager: Law Enforcement	334	191
- Salary	259	147
- Bonuses and performance payments	17	30
- Pension contributions	33	8
- Other benefits	25	6
	<u>2,984</u>	<u>2,531</u>

An amount of R 291,264 (2004: R 279,129) was paid to the Manager: Horseracing and Betting as CEO acting allowance for the financial years 2004/2005 and 2003/2004 not included in the above.

27. Unauthorised, fruitless wasteful and irregular expenditure		
27.1 Irregular expenditure		
Opening balance	123	328
Transferred to receivables and/or collected	(123)	(205)
	<u>-</u>	<u>123</u>
27.2 Fruitless and wasteful expenditure	<u>816</u>	<u>800</u>

During the financial year the Board incurred the expense of salary for the suspended CEO to the amount of R 815,828 (2004: R 799,870). This expenditure was incurred due to the delay by the Department of Tourism, Environmental and Economic Affairs to finalize the disciplinary hearing against the CEO. In terms of the Free State Gambling and Racing Act, Act nr 6 of 1996, section 10(1)a, the Responsible Member of the Executive Council appoints the Chief Executive Officer and therefore disciplinary action against the CEO is handled by his office. The Board's attempt to speed-up the process has been in vain.

The above amounts were funded from grants received and charged against administration expenditure.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2005 (continued)

28. Financial Instruments

28.1 Credit risk

Credit risk with respect to trade receivables are general low as licensees must paid within 30 days. Non-payment are prescribed by the Free State Gambling and Racing Act and penalties are levied against the customer.

Accordingly, the entity does not consider there to be any significant concentration of credit risk, which had not been adequately provided for. Trade receivables are presented net of allowance for impairment.

28.2 Liquidity risk

The entity's manages liquidity risk through proper management of working capital, capital expenditure and actual versus forecasted budget/cash flows. The board has adequate reserves to operate effectively.

28.3 Fair values

The entity's financial instruments consist mainly of cash and cash equivalents, trade receivables, trade payables, short term loans and derivative instrument.

No financial asset was carried at an amount in excess of its fair value and fair value could be reliably measured for all financial assets that are available-for-sale or held-for-trading.

The following methods and assumptions are used to determine the fair value of each class of financial instruments:

- Cash and cash equivalents

The carrying amount of cash and cash equivalents approximate fair value due to the relatively short maturity of these financial assets and financial liabilities.

- Trade receivables and short term loans

The carrying amount of trade receivables and short term loans, net of provision for impairment, approximates fair value due to the relatively short-term maturity of this financial asset.

- Trade payables

The carrying amount of trade payables approximates fair value due the relatively short-term maturity of this financial liability.

The fair values of financial assets and liabilities at balance sheet date are as follows:

	Fair value R'000	Carrying amount R'000
Year ended 31/03/2005		
Assets		
Cash	11,336	11,336
Short term loans	139	139
Trade receivables	390	390
Total financial assets	<u>11,865</u>	<u>11,865</u>
Liabilities		
Trade payables	2,210	2,210
Total financial liabilities	<u>2,210</u>	<u>2,210</u>
	<u>9,655</u>	<u>9,655</u>
Year ended 31/03/2004		
Assets		
Cash	7,605	7,605
Short term loans	104	104
Trade receivables	598	598
Total financial assets	<u>8,307</u>	<u>8,307</u>
Liabilities		
Trade payables	1,723	1,723
Total financial liabilities	<u>1,723</u>	<u>1,723</u>
	<u>6,584</u>	<u>6,584</u>
1 year or less R'000		
28.4 Maturity profile		
Year ended 31/03/2005		
Assets		
Cash	11,336	11,336
Short term loans	139	139
Trade receivables	390	390
Total financial assets	<u>11,865</u>	<u>11,865</u>
Liabilities		
Trade payables	2,210	2,210
Total financial liabilities	<u>2,210</u>	<u>2,210</u>
	<u>9,655</u>	<u>9,655</u>
Percentage (%)	<u>100.00%</u>	<u>100.00%</u>
Year ended 31/03/2004		
Assets		
Cash	7,605	7,605
Short term loans	104	104
Trade receivables	598	598
Total financial assets	<u>8,307</u>	<u>8,307</u>
Liabilities		
Trade payables	1,723	1,723
Total financial liabilities	<u>1,723</u>	<u>1,723</u>
	<u>6,584</u>	<u>6,584</u>
Percentage (%)	<u>100.00%</u>	<u>100.00%</u>



NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2005 (continued)

	Notes	2004/05 R'000	2003/04 R'000		Notes	2004/05 R'000	2003/04 R'000
29.	Revenue to be surrendered						
	Provincial Paymaster General Account Phumelela	29.1 29.2	1,378 7				1,014 24
			<u>1,385</u>				<u>1,038</u>
29.1	Provincial Paymaster General Account						
	Opening balance on 1 April		1,014				9,645
	Revenue collected for the financial year	25.2	14,114				10,584
	Fundamental error	20.1 & 20.2	-				(438)
	Paid during the year		(13,750)				(18,777)
	Closing balance on 31 March		<u>1,378</u>				<u>1,014</u>
29.2	Phumelela						
	Opening balance on 1 April		24				17
	Revenue collected for the financial year	25.2	73				85
	Paid during the year		(90)				(78)
	Closing balance on 31 March		<u>7</u>				<u>24</u>
30.	Detailed revenue						
30.1	Grants, receipts and transfers						
	Department of Tourism, Economic and Environmental Affairs		12,915				10,814
30.2	Other income		18				18
	Administration levy raised		12				12
	Profit on disposal of moveable assets		2				5
	Sundry		4				2
			<u>12,933</u>				<u>10,832</u>
31.	Detailed administrative expense						
31.1	General and administrative expenses		490				554
	Rental of office premises and storage		444				554
	Rental of office equipment		46				-
31.2	Director's emoluments		3,175				3,207
	Board Members		170				615
	Audit Committee		21				61
	Executive Managers		2,984				2,531
	Auditor's remuneration		361				564
	External auditors		189				366
	Internal auditors		172				198
31.3	Travel and subsistence		351				309
	Local travel and subsistence		274				309
	Foreign travel and subsistence		77				-
			<u>4,377</u>				<u>4,634</u>
32.	Other operating expenditure						
32.1	Staff training and development					114	129
	Conference fees					13	-
	Study bursaries					22	39
	Training					79	90
32.2	Consultants, contractors and special services					<u>219</u>	<u>512</u>
32.3	Legal fees					<u>223</u>	<u>79</u>
32.4	Maintenance, repairs and running costs					58	44
	Property and building					11	-
	Machinery and equipment					19	15
	Other Maintenance, repairs and running cost					28	29
32.5	Entertainment expenses					23	25
	Corporate gifts					-	5
	Entertainment					23	20
32.6	Penalties paid					<u>-</u>	<u>5</u>
32.7	Other					1,039	1,349
	Advertising					28	87
	Affiliation fees					-	3
	Bank fees					21	19
	Casino adjudication					-	148
	Cellular phones					97	84
	Cleaning materials & office refreshments					15	7
	Compensation Commissioner					66	-
	Computers software and IT infrastructure					80	165
	Destruction of illegal machines					7	2
	Insurance					92	67
	Internet facility					86	76
	Investigation fees					2	19
	Legal resources					24	1
	Membership fees					8	8
	Postage					6	7
	Printing and stationery					102	70
	Probity fees written off					73	186
	Recruitment					-	30
	Reference books					-	6
	Regional Service Council levies					18	64
	Relocation cost					60	-
	Security					114	68
	Subscriptions					6	-
	Telephone and facsimile					54	91
	Water and Electricity					80	41
						<u>1,676</u>	<u>2,143</u>