



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE

December 19, 2018

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Auditor of State Mary Mosiman today released an audit report on the Iowa Lottery Authority for the year ended June 30, 2018. The Iowa Lottery Authority oversees the marketing of lottery games and performs the administrative duties necessary to maximize the amount of money deposited to the State General Fund. Total operating revenues for the year ended June 30, 2018 increased 5% over the prior year.

Comparative operating data is as follows:

	Year ended June 30, 2018	Year ended June 30, 2017	% Increase (Decrease)
Revenues:			
Instant-scratch ticket	\$ 244,260,964	237,617,703	2.80%
Instaplay	9,733,769	5,820,274	67.24%
Pick 3	7,705,163	7,318,686	5.28%
Pick 4	4,341,103	3,946,273	10.01%
Powerball	58,471,047	54,292,902	7.70%
Mega Millions	21,293,740	14,957,109	42.37%
Hot Lotto	3,761,425	8,210,714	(54.19%)
All or Nothing	-	3,186,443	(100.00%)
Lucky for Life	5,600,490	5,599,966	0.01%
Lotto America	4,872,494	-	100.00%
Pull-tab	10,916,692	11,292,740	(3.33%)
Other	11,860	22,441	(47.15%)
Total operating revenues	370,968,747	352,265,251	5.31%
Prize expense	227,491,072	215,620,569	5.51%
Other expense	57,750,323	55,525,861	4.01%
Proceeds deposited to the State's General Fund	84,596,200	78,274,727	8.08%
Proceeds deposited to the Veteran's Trust Fund	2,500,000	2,500,000	0.00%

An analysis of prizes awarded for the year ended June 30, 2018 is as follows:

Scratch ticket prizes	=	66% of Instant-scratch ticket sales
Instaplay prizes	=	65% of Instaplay sales
Pick 3 prizes	=	59% of Pick 3 sales
Pick 4 prizes	=	58% of Pick 4 sales
Powerball prizes	=	49% of Powerball sales
Mega Millions prizes	=	51% of Mega Millions sales
Hot Lotto prizes	=	47% of Hot Lotto sales
Lucky for Life prizes	=	59% of Lucky for Life sales
Lotto America prizes	=	50% of Lotto America sales
Pull-tab prizes	=	63% of Pull-tab sales

The Iowa Lottery Authority spent \$7,162,018 on advertising production and media purchases for the year ended June 30, 2018, representing 1.93% of revenue. Iowa law allows the Iowa Lottery Authority to spend up to 4% of revenue for the marketing of lottery games.

A copy of the audit report is available for review at the Iowa Lottery Authority, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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IOWA LOTTERY AUTHORITY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2018

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Iowa Lottery Authority

Officials

Governor

Honorable Kim Reynolds

Director, Department of Management

David Roederer

Director, Legislative Services Agency

Glen P. Dickinson

Iowa Lottery Authority Board of Directors

		<u>Term Expires</u>
Connor Flynn	Chairperson	April 2019
Mary Rathje	Vice Chairperson	April 2019
Mary Junge	Member	April 2020
Sherrae Hanson	Member	April 2022
John Quinn	Member	April 2022

Ex-Officio Member

Honorable Michael L. Fitzgerald Treasurer of State

Iowa Lottery Authority

Terry Rich Chief Executive Officer
Michael Conroy Vice President of Finance and Chief
 Financial Officer

Iowa Lottery Authority



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Independent Auditor's Report

To the Board Members of the Iowa Lottery Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Iowa Lottery Authority, a component unit of the State of Iowa, as of and for the year ended June 30, 2018, and the related Notes to Financial Statements, which collectively comprise the Iowa Lottery Authority's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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 judgment, 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 Authority'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 Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Iowa Lottery Authority as of June 30, 2018, and the respective changes in its financial position and its cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

As discussed in Note 1, the financial statements of the Iowa Lottery Authority are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the component units of the State of Iowa that is attributable to the transactions of the Iowa Lottery Authority. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2018, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 13 to the financial statements, the Iowa Lottery Authority adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Schedule of the Lottery's Proportionate Share of the Net Pension Liability, the Schedule of the Lottery's Contributions and the Schedule of Changes in the Lottery's Total OPEB Liability, Related Ratios and Notes on pages 8 through 11 and 37 through 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Iowa Lottery Authority's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the five years ended June 30, 2017 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 11, 2018 on our consideration of the Iowa Lottery Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Iowa Lottery Authority's internal control over financial reporting and compliance.



MARY MOSIMAN, CPA
Auditor of State

December 11, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Iowa Lottery Authority (Lottery) provides this Management's Discussion and Analysis of the Lottery's annual financial statements. This narrative overview and analysis of the financial activities of the Lottery is for the fiscal year ended June 30, 2018. We encourage readers to consider this information in conjunction with the Lottery's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Here are some key financial highlights from fiscal year 2018:

- The Lottery raised \$87.1 million in proceeds for state programs in fiscal year 2018, the second highest proceeds amount for the Lottery since its start in 1985.
- Lottery sales totaled a record \$370.9 million in fiscal year 2018, an increase of \$18.7 million from the prior year's sales of \$352.2 million.
- Prizes to players totaled a record \$227.5 million for the Lottery during the fiscal year.
- Sales of instant-scratch tickets totaled \$244.3 million in fiscal year 2018, breaking the previous record of \$237.6 million for instant-scratch ticket sales set in fiscal year 2017.
- Since the Lottery's inception in 1985, its players have won more than \$4.1 billion in prizes while the Lottery has raised more than \$1.8 billion for state programs.
- The Lottery implemented Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, during fiscal year 2018. The beginning net position was restated by \$212,610 to retroactively report the increase in the OPEB liability as of July 1, 2017. OPEB expense for fiscal year 2017 and deferred outflows of resources and deferred inflows of resources at June 30, 2017 were not restated because the information needed to restate those amounts was not available.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the Lottery's basic financial statements and provides an analytical overview of the Lottery's financial activities.

The Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows provide information about the activities of the Lottery as a whole and present an overall view of the Lottery's finances.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Lottery's proportionate share of the net pension liability and related contributions, as well as presenting the Schedule of Changes in the Lottery's Total OPEB Liability, Related Ratios and Notes.

Supplementary Information provides detailed information about the Lottery and includes the following: Schedule 1 provides detailed information about other operating expenses by object; Schedule 2 shows revenues and expenses by individual Lottery game; and Schedule 3 provides an analysis of net position. In addition, other financial data in this section compares revenues and prize payouts over the past six years by game.

REPORTING THE IOWA LOTTERY AS A WHOLE

One of the most important questions asked about the Lottery's finances is, "Is the Lottery as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Lottery as a whole and its activities in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The Lottery's financial statements include the following statements:

The Statement of Net Position presents all of the Lottery's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as "net position". Per Section 99G.39 of the Code of Iowa, two million five hundred thousand dollars in lottery revenues are to be deposited each fiscal year to the Iowa Veteran's Trust Fund, prior to the deposit of lottery revenues in the State General Fund. In addition, Sections 99G.2 and 99G.40 of the Code of Iowa require net proceeds of lottery games be deposited to the State's General Fund on a quarterly basis. However, the Lottery may retain an amount sufficient to cover anticipated administrative expenses for a period of 21 (twenty-one) days. Net position is calculated as the sum of cash retained for vehicle purchases, ticket inventories, net investment in capital assets and deferred outflows of resources, netted against the net pension liability, the other post-employment benefit liability and deferred inflows of resources.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Lottery's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the event or change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal years. Both ticket sales and related proceeds deposited to the State serve as useful indicators of the Lottery's future ability to provide a steady, reliable stream of revenue to the State.

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the fiscal year.

FINANCIAL ANALYSIS

The Lottery's assets totaled \$47.1 million at the end of fiscal year 2018 compared to \$47.7 million at the end of the previous year, a decrease of \$0.6 million. The decrease in assets was primarily due to a decrease of \$0.7 million in investment in prize annuities for payments made to four annuitants and an increase of \$0.1 million in other assets.

Current liabilities increased \$0.04 million during fiscal year 2018, primarily due to (a) a \$1.1 million decrease in the amount of proceeds to be deposited to the State General Fund for the fourth quarter, (b) a \$1.7 million increase in prizes payable, (c) a decrease of \$0.7 million in current annuity prizes payable for payments made to annuitants and (d) an increase of \$0.14 million in other payables.

Net investment in capital assets decreased \$0.3 million from fiscal year 2017. Unrestricted net position represents assets used to meet the Lottery's ongoing obligations to vendors and creditors. Unrestricted net position decreased \$1.1 million compared to the previous fiscal year.

	June 30,	
	2018	2017 (Not Restated)
Net Position:		
Current assets	\$ 33,437,112	33,951,236
Prize reserve	5,395,324	5,058,602
Investment in prize annuities	457,480	487,095
Capital assets, net	<u>7,824,065</u>	<u>8,164,731</u>
Total assets	<u>47,113,981</u>	<u>47,661,664</u>
Deferred outflows of resources	<u>1,966,339</u>	<u>1,682,026</u>
Current liabilities	29,471,574	29,426,704
Long-term accounts payable and accruals	68,685	-
Prize reserve	5,395,324	5,058,602
Other long-term liabilities	8,504,909	7,786,532
Long-term annuity prizes payable	<u>457,480</u>	<u>487,095</u>
Total liabilities	<u>43,897,972</u>	<u>42,758,933</u>
Deferred inflows of resources	<u>232,154</u>	<u>227,227</u>
Net position:		
Net investment in capital assets	7,824,065	8,164,731
Unrestricted	<u>(2,873,871)</u>	<u>(1,807,201)</u>
Total net position	<u>\$ 4,950,194</u>	<u>6,357,530</u>

The next schedule highlights the activity for fiscal year 2018 compared to fiscal year 2017.

	Year ended June 30,	
	2018	2017 (Not Restated)
Changes in Net Position:		
Operating revenues:		
Ticket sales	\$ 370,956,887	352,242,810
Application fees	3,725	3,600
Other	<u>8,135</u>	<u>18,841</u>
Total operating revenues	<u>370,968,747</u>	<u>352,265,251</u>
Operating expenses:		
Prizes	227,491,072	215,620,569
Other operating expenses	<u>57,750,323</u>	<u>55,525,861</u>
Total operating expenses	<u>285,241,395</u>	<u>271,146,430</u>
Operating income	<u>85,727,352</u>	<u>81,118,821</u>
Non-operating revenues (expenses):		
Proceeds deposited to the State's General Fund	(84,596,200)	(78,274,727)
Proceeds deposited to the Veteran's Trust Fund	(2,500,000)	(2,500,000)
Interest income	313,694	182,107
Loss on disposal of capital assets	<u>(139,572)</u>	<u>(722,748)</u>
Net non-operating expenses	<u>(86,922,078)</u>	<u>(81,315,368)</u>
Changes in net position	<u>(1,194,726)</u>	<u>(196,547)</u>
Net position beginning of year, as restated	<u>6,144,920</u>	<u>6,554,077</u>
Net position end of year	<u>\$ 4,950,194</u>	<u>6,357,530</u>

Lottery sales for fiscal year 2018 were up approximately 5.3%, totaling \$370.9 million compared to \$352.2 million for fiscal year 2017. Instant-scratch tickets generated \$244.3 million in sales, an increase of \$6.7 million over the previous year's \$237.6 million in sales. Instaplay sales increased \$3.9 million, Lotto game sales increased \$8.5 million and pull-tab sales decreased \$0.4 million from the prior year.

The Lottery's other operating expenses, excluding prize expense, were up 4% in the current fiscal year. Prize expense is the largest operating expense and accounted for 61.3% of sales. Overall, prize expense increased 5.5% in fiscal year 2018 due to increased sales. The next largest operating expense is retailer compensation expense, which accounted for 6.5% of all sales. Retailers earned a total of \$24.2 million in commissions during fiscal year 2018, an increase of 5.7% from the previous year. This total includes incentive compensation paid to retailers during periods of high jackpot runs as well as bonus payments to retailers that sell jackpot-winning tickets in Powerball, Mega Millions, Lotto America and Lucky for Life and tickets winning prizes of at least \$100,000 in any of its lotto games.

Overall, the Lottery's proceeds for State programs increased 7.8% in fiscal year 2018, totaling \$87.1 million compared to \$80.8 million a year earlier. Proceeds deposited to the State's General Fund for fiscal year 2018 were \$84.6 million compared to the previous year's total of \$78.3 million. Proceeds deposited to the Iowa Veteran's Trust Fund totaled \$2.5 million in the current and prior fiscal year in accordance with Section 99G.39 of the Code of Iowa.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Lottery's investment in capital assets as of June 30, 2018 was \$9.6 million, net of accumulated depreciation of \$1.8 million, leaving a book value of \$7.8 million. Additional information about the Lottery's capital assets is presented in note 5 to the financial statements.

On June 30, 2018, the Lottery had no outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Lottery's management considered many factors when establishing the fiscal year 2019 budget. These factors include fuel prices, competition from other sources and concentration of retailers. The Lottery is committed to providing budgeted proceeds totaling \$71.1 million to State programs in fiscal year 2019.

CONTACTING THE IOWA LOTTERY'S FINANCIAL MANAGEMENT

This financial report is designed to present users with a general overview of the Lottery's finances and demonstrate the Lottery's accountability for the funds generated. If you have questions about the report or need additional financial information, please contact the Finance Department, Iowa Lottery Headquarters, 13001 University Avenue, Clive, Iowa 50325.

Iowa Lottery Authority

Basic Financial Statements

Iowa Lottery Authority
Statement of Net Position
June 30, 2018

Assets	
Current assets:	
Cash	\$ 26,818,542
Restricted assets - cash	641,675
Prepaid expense	60,984
Interest receivable	56,567
Accounts receivable, net	3,438,534
Ticket inventories	2,394,436
Investment in prize annuities	<u>26,374</u>
Total current assets	<u>33,437,112</u>
Noncurrent assets:	
Prize reserve	5,395,324
Investment in prize annuities	457,480
Capital assets, net	<u>7,824,065</u>
Total noncurrent assets	<u>13,676,869</u>
Total assets	<u>47,113,981</u>
Deferred Outflows of Resources	
OPEB related deferred outflows	82,000
Pension related deferred outflows	<u>1,884,339</u>
Total Deferred Outflows of Resources	<u>1,966,339</u>
Liabilities	
Current liabilities:	
Lotto prizes payable	4,638,844
Instaplay prizes payable	58,542
Annuity prizes payable	26,374
Accounts payable and accruals	23,164,862
Unearned revenue	195,999
Salary and benefits payable	497,043
Compensated absences	<u>889,910</u>
Total current liabilities	<u>29,471,574</u>
Long-term liabilities:	
Accounts payable and accruals	68,685
Compensated absences and OPEB	1,958,142
Net pension liability	6,546,767
Prize reserve	5,395,324
Annuity prizes payable	<u>457,480</u>
Total long-term liabilities	<u>14,426,398</u>
Total liabilities	<u>43,897,972</u>
Deferred Inflows of Resources	
OPEB related deferred inflows	6,000
Pension related deferred inflows	<u>226,154</u>
Total Deferred Inflows of Resources	<u>232,154</u>
Net Position	
Net investment in capital assets	7,824,065
Unrestricted	<u>(2,873,871)</u>
Total net position	<u>\$ 4,950,194</u>

See notes to financial statements.

Iowa Lottery Authority
Statement of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2018

Operating revenues:	
Instant-scratch ticket sales	\$ 244,260,964
Instaplay sales	9,733,769
Pick 3 sales	7,705,163
Pick 4 sales	4,341,103
Powerball sales	58,471,047
Mega Millions sales	21,293,740
Hot Lotto sales	3,761,425
Lucky for Life sales	5,600,490
Lotto America	4,872,494
Pull-tab sales	10,916,692
Application fees	3,725
Other	8,135
	<u>370,968,747</u>
Total operating revenues	
Operating expenses:	
Prizes:	
Instant-scratch ticket	160,144,268
Instaplay	6,351,026
Pick 3	4,567,778
Pick 4	2,519,312
Powerball	28,480,980
Mega Millions	10,764,359
Hot Lotto	1,782,452
Lucky for Life	3,305,691
Lotto America	2,436,247
Pull-tab	6,826,208
Promotional	115,750
VIP Club	197,001
	<u>227,491,072</u>
Total prizes	
Retailer compensation	24,213,812
Advertising production and media purchases	7,162,018
Retailer lottery system/terminal communications	8,267,116
Instant/pull-tab ticket expense	3,198,940
Vending machines & maintenance/ticket dispensers	525,394
Courier delivery of tickets	612,120
Other operating expenses	13,770,923
	<u>285,241,395</u>
Total operating expenses	
Operating income	<u>85,727,352</u>
Non-operating revenues (expenses):	
Proceeds deposited to the State's General Fund	(84,596,200)
Proceeds deposited to the Veteran's Trust Fund	(2,500,000)
Interest income	313,694
Loss on disposal of capital assets	(139,572)
	<u>(86,922,078)</u>
Net non-operating expenses	
Change in net position	(1,194,726)
Net position beginning of year, as restated	<u>6,144,920</u>
Net position end of year	<u>\$ 4,950,194</u>

See notes to financial statements.

Iowa Lottery Authority

Iowa Lottery Authority
Statement of Cash Flows
Year ended June 30, 2018

Cash flows from operating activities:	
Cash received from customers	\$ 370,301,114
Cash paid for prizes	(226,720,128)
Cash paid to retailers	(24,216,312)
Cash paid to suppliers for goods and services	(21,585,714)
Cash paid to employees for services	(10,747,794)
Other operating revenues	<u>11,860</u>
Net cash provided by operating activities	<u>87,043,026</u>
Cash flows from non-capital financing activities:	
Proceeds provided to the State	<u>(88,151,566)</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(390,745)
Proceeds from the sale of capital assets	<u>45,578</u>
Net cash used for capital and related financing activities	<u>(345,167)</u>
Cash flows from investing activities:	
Interest income	298,950
Annuity payments received	<u>785,000</u>
Net cash provided by investing activities	<u>1,083,950</u>
Net increase in cash	(369,757)
Cash beginning of year	<u>27,829,974</u>
Cash end of year	<u>\$ 27,460,217</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 85,727,352</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	546,261
Allowance for doubtful accounts	31,831
Change in assets and liabilities:	
Decrease in prepaid expense	(12,775)
Decrease in accounts receivable	(456,800)
Decrease in ticket inventories	(92,823)
Increase in accounts payable and accruals	439,904
Increase in prizes payable	1,655,231
Decrease in unearned revenue	(198,973)
Decrease in compensated absences	(37,102)
Decrease in salary and benefits payable	(30,236)
Increase in net pension liability	186,156
Increase in OPEB liability	70,000
Decrease in prize annuities	<u>(785,000)</u>
Total adjustments	<u>1,315,674</u>
Net cash provided by operating activities	<u>\$ 87,043,026</u>

See notes to financial statements.

Iowa Lottery Authority

Notes to Financial Statements

June 30, 2018

(1) Summary of Significant Accounting Policies

The Iowa Lottery Authority was created by the 2003 Iowa Legislature as the successor to the Lottery Division of the Iowa Department of Revenue and Finance.

The Iowa Lottery Authority (Lottery), a component unit of the State of Iowa, is a public instrumentality of the State of Iowa with comprehensive and extensive powers to operate a state lottery. The Lottery has the responsibility to operate and manage lottery games in a manner to provide continuing entertainment to the public, maximize revenues and deposit the net proceeds to the General Fund of the State of Iowa and ensure the Lottery is operated with integrity and dignity and free from political influence. The Lottery oversees the marketing of lottery games and performs the administrative procedures necessary to ensure the most efficient and effective operation possible.

The head of the Lottery is a Chief Executive Officer appointed by the Governor. The Governor also appoints the Iowa Lottery Authority Board, consisting of five members.

The Board and Chief Executive Officer have joint responsibility for entering into major contracts, procuring the printing of instant-scratch and pull-tab tickets and for the purchase or lease of equipment or services essential to the operation of a lottery game.

The Board must promulgate rules regarding the following:

- (a) Types, prize structure and price of lottery games.
- (b) Retailer licensing requirements, fees, incentives, locations and compensation.
- (c) Method of selecting winning tickets or shares, manner of prize payment, method of ticket validation, preliminary drawings and jackpot events, ticket printing and purchasing.

The organizational structure of the Lottery consists of six sections: Security, Finance, Systems, Marketing, Sales and External Relations.

The financial statements of the Lottery have been prepared in conformity with U.S. generally accepted accounting principles as applied to governmental units. The more significant of the Lottery's accounting policies are described below.

A. Reporting Entity

For financial reporting purposes, the Lottery has included all funds. The Lottery has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Lottery are such that exclusion would cause the Lottery's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Lottery to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Lottery. The Lottery has no component units which meet the Governmental Accounting Standards Board criteria.

B. Fund Accounting

The Lottery is reported for accounting purposes as an Enterprise Fund. The operations of the fund are accounted for with self-balancing accounts which comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues and expenses. Enterprise Funds are used to report activities for which fees are charged to external users for goods or services.

C. Measurement Focus

Enterprise Funds are accounted for on a cost of services or “capital maintenance” measurement focus. This means all assets, deferred outflows of resources, liabilities and deferred inflows of resources, whether current or non-current, associated with their activity are included in the Statement of Net Position, with the difference reported as net position. Enterprise Fund operating statements present increases (revenues) and decreases (expenses) in total net position.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Enterprise Fund is accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

The Lottery distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an Enterprise Fund’s principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

E. Budgets and Budgetary Accounting

Budgetary control is exercised over the Lottery by the Board and Chief Executive Officer through the budgetary process prescribed in Chapter 99G of the Code of Iowa.

F. Revenue Recognition

Sales of instant-scratch, pull-tab, instaplay and lotto tickets are made to the public through licensed retail sales agents. Instant-scratch ticket sales are recognized when the retailer settles a pack of tickets. Revenues for pull-tab games are recognized upon the sale of tickets to the retail sales agents. Instaplay ticket sales are recognized when the retailer sells the ticket to the player. Revenues for lotto games are recognized as the drawings are held. Unearned revenue represents lotto tickets sold for future prize drawings.

G. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

The following accounting policies are followed in preparing the basic financial statements:

Cash, Pooled Investments and Cash Equivalents

Generally, all cash is held on deposit with the Treasurer of State and is invested by that office. Interest on funds held by the State Treasurer is credited to the Lottery as received.

The Lottery also earned interest on the prize reserve maintained by the Multi-State Lottery Association (MUSL).

Restricted Assets - Cash

The Lottery retains cash for the purpose of purchasing replacement vehicles. Also included are annuity payments received by the Lottery during the fiscal year which are not owed to jackpot winners until the next fiscal year and cash deposits required from certain retailers.

Investments

Investments are reported at fair value. Insurance annuities are valued on the basis of future installment payments and are discounted using established annuity contract interest rates.

Ticket Inventories

Inventories consist of instant-scratch tickets held by retailers which have not settled, instant-scratch and pull-tab tickets held by the Lottery's sales representatives and instant-scratch and pull-tab tickets stored in the main or regional warehouses for games in progress or new games. Inventories are carried at cost using the specific identification method. Tickets are charged to instant/pull-tab ticket expense when sold or voided. Unsold tickets are expensed upon the end or cancellation of a lottery game.

Prize Reserve

The Lottery makes weekly payments to the Multi-State Lottery Association. Such payments are for the purpose of funding the jackpot prize and funding an errors and omissions reserve.

Capital Assets

Capital assets, which include buildings, vehicles and equipment, are defined by the Lottery as assets with an initial individual cost of more than \$50,000 for buildings and \$5,000 for vehicles and equipment and an estimated useful life in excess of three years and assets purchased through special financing arrangements. Such assets are recorded at historical cost.

The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Equipment	5 - 25
Vehicles	3 - 4

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position applicable to a future year(s) which will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension and OPEB expense and contributions from the Lottery after the measurement date but before the end of the Lottery's reporting period.

Prize Liabilities

The prize liabilities for the Pick 3 Game and the Pick 4 Game are determined and recognized daily after the drawings are held. The prize liabilities for Powerball, Mega Millions, Hot Lotto, Lotto America and Lucky for Life are determined and recognized twice a week after the jackpot drawings are held. The prize liabilities for Instaplay games are recognized daily when the tickets are sold. Prizes for the Pick 3 and Pick 4 games may be claimed up to 90 days after the drawings are held. Prizes for Powerball, Mega Millions, Hot Lotto, Lotto America and Lucky for Life may be claimed up to 365 days after the drawings are held. Prizes for InstaPlay must be claimed within 90 days from date of purchase.

Compensated Absences and Other Postemployment Benefits (OPEB)

Employees accumulate a limited amount of earned but unused vacation and sick leave for subsequent use, for payment of the employer portion of insurance premiums upon retirement or for payment upon termination, death or retirement. The liabilities recorded for compensated absences are based on current rates of pay and current insurance rates.

The State of Iowa provides access to postretirement medical benefits to all retirees as required by Chapter 509A.13 of the Code of Iowa. Although the retirees generally must pay 100% of the premium, GASB Statement No. 75 requires employers recognize the implicit rate subsidy in postretirement medical plans provided by governmental employers.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Total OPEB Liability – For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information has been determined based on the Lottery’s proportionate share of the State of Iowa’s actuarial information. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

Deferred Inflows of Resources

Deferred inflows of resources represents an acquisition of net position applicable to a future year(s) which will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of unrecognized items not yet credited to pension and OPEB expense and the unamortized portion of the net difference between projected and actual earnings on pension plan assets.

(2) Deposits and Investments

The Lottery’s deposits with the Office of the Treasurer of State throughout the period and at June 30, 2018 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa.

The Lottery held investments totaling \$483,134 for the purpose of paying installment prizes. The Lottery may invest in financial instruments carrying the full faith and credit of the U.S. government or insurance annuities.

The Lottery is responsible for investing in insurance annuities. The Lottery had investments in insurance annuities totaling \$483,134 which are not subject to credit risk categorization.

The Treasurer of State is responsible for investing the Lottery’s funds, except for insurance annuities. The Lottery had investments of \$720 at June 30, 2018 in pooled funds and mutual funds.

The Lottery uses the fair value hierarchy established by generally accepted accounting principles based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

The fair value measurements, categorized by level of the fair value hierarchy, for the investments at June 30, 2018 are as follows:

Investment Type	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)	Total
Fixed:			
Other fixed income	\$ -	483,134	483,134
Equity:			
Pooled and mutual funds	720	-	720
Total	\$ 720	483,134	483,854

(3) Investment in Prize Annuities and Annuity Prizes Payable

Assets totaling \$484,534, which includes \$483,134 of investments and \$1,400 of restricted assets, are held by the Lottery for the purpose of paying installment prizes which have already been won but will not be fully paid until 2036. Annuity liabilities to fund jackpot winners are valued at an amount equal to the carrying values of the respective assets held to fund the annuity obligations. Annuity prizes payable do not include an additional liability of \$1,400 to taxing authorities which is classified as accounts payable and accruals. The following is a schedule of future payments:

Year ending June 30,	Current	Long-term	Total
2019	\$ 25,000	-	25,000
2020	-	25,000	25,000
2021	-	25,000	25,000
2022	-	25,000	25,000
2023	-	25,000	25,000
2024-2028	-	125,000	125,000
2029-2033	-	125,000	125,000
2034-2036	-	75,000	75,000
Total future value	25,000	425,000	450,000
Less: unamortized premium	654	32,480	33,134
Present value of payments	<u>\$ 25,654</u>	<u>457,480</u>	<u>483,134</u>

(4) Accounts Receivable

The components of accounts receivable at June 30, 2018 are as follows:

Due from agents	\$ 3,461,865
Less allowance for doubtful accounts	<u>(23,331)</u>
Accounts receivable, net	<u>\$ 3,438,534</u>

Bad debt expense of \$31,831 was charged against instant-scratch ticket sales for the year ended June 30, 2018.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2018 was as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 1,592,000	-	-	1,592,000
Capital assets being depreciated:				
Buildings	4,278,454	-	-	4,278,454
Equipment	5,280,119	261,363	2,803,596	2,737,886
Vehicles	1,029,655	129,382	152,379	1,006,658
Total capital assets being depreciated	10,588,228	390,745	2,955,975	8,022,998
Less accumulated depreciation for:				
Buildings	221,053	85,570	-	306,623
Equipment	3,303,702	275,200	2,652,796	926,106
Vehicles	490,742	185,491	118,029	558,204
Total accumulated depreciation	4,015,497	546,261	2,770,825	1,790,933
Total capital assets being depreciated, net	6,572,731	(155,516)	185,150	6,232,065
Capital assets, net	\$ 8,164,731	(155,516)	185,150	7,824,065

(6) Lease Commitment

The Lottery leases advertising display signs in Cedar Rapids and Mason City and occupies office and warehouse facilities in Cedar Rapids, Mason City, Storm Lake, Council Bluffs and Ankeny under long-term operating leases which expire by June 30, 2022.

The following is a schedule, by year, of the future minimum rental payments required under operating leases which have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2018:

Year ending June 30,	Amount
2019	\$ 244,877
2020	136,244
2021	121,554
2022	22,611
Total	\$ 525,286

Rental expense for the year ended June 30, 2018 for all operating leases, except those with terms of a month or less that were not renewed, totaled \$324,280.

(7) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2018 are summarized as follows:

	Balance June 30, 2017 (As Restated)	Additions	Deletions	Balance June 30, 2018	Due Within One Year
Compensated absences	\$ 1,804,154	860,135	897,237	1,767,052	889,910
Total OPEB liability	935,000	146,000	-	1,081,000	-
Termination benefits for retirees	13,708	98,307	17,050	94,965	26,280
Net pension liability	6,157,225	389,542	-	6,546,767	-
Total	\$ 8,910,087	1,493,984	914,287	9,489,784	916,190

Sick Leave Insurance Program (SLIP) – The Sick Leave Insurance Program is a voluntary termination benefit program. The program is an opportunity for employees who are retirement-eligible to use the value of their unused sick leave to pay the employer share of the monthly premium of the state’s group health insurance plan after retirement. A SLIP liability is reported for both current, active Lottery employees and retirees. The SLIP liability for current, active employees is included in compensated absences and the liability for retirees is included in accounts payable and accruals.

Upon retirement, employees shall first receive a cash payment for accumulated, unused sick leave converted at the employee’s current regular hourly rate of pay, up to \$2,000, payable with the final payroll warrant which includes the employee’s retirement date. The value of the remaining balance of the accrued sick leave was converted based upon the original balance (before the cash payment). The remainder of the sick leave value was calculated as follows, based on the number of sick leave hours the employee had before the cash payment:

<u>If the sick leave balance is:</u>	<u>The conversion rate is:</u>
Zero to 750 hours	60% of the value
Over 750 hours to 1,500 hours	80% of the value
Over 1,500 hours	100% of the value

The final calculated dollar value was credited to the employee’s SLIP account. Each month, the Lottery pays 100% of the employer’s share of the selected state group health insurance premium from the retiree’s SLIP account. The retiree is responsible for any additional premiums associated with the employee/retiree share.

The Lottery will continue to pay the employer’s share of the health insurance premium each month until the converted value of the employee’s sick leave balance is exhausted, until the employee is eligible for Medicare, the employee waives the benefit or the employee dies, whichever comes first. The retired employees may stay with the same health insurance program as when employed or switch down at any time without underwriting.

The converted value of the sick leave can only be applied to the employer’s share of health insurance premium payments. It has no cash value and is not transferable to another use or to an heir. If a retired employee who has utilized this benefit returns to permanent state employment, all remaining balances in the SLIP program will be forfeited.

All SLIP program benefits are financed on a pay-as-you-go basis. For the year ended June 30, 2018, 3 employees received benefits totaling \$17,050 under the SLIP program.

Other Postemployment Benefits (OPEB)

Plan Description – The Lottery’s employees are provided with OPEB through the State of Iowa OPEB Plan – a cost-sharing, multiple-employer defined benefit OPEB plan administered by the State of Iowa (State OPEB Plan). The State of Iowa provides access to postretirement medical benefits to all retirees as required by Chapter 509A.13 of the Code of Iowa. Although the retirees generally must pay 100% of the premium rate, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployments Benefits Other Than Pensions* (GASB 75), requires that employers recognize the Implicit Rate Subsidy that exists in postretirement medical plans provided by governmental employers.

Implicit Rate Subsidy refers to the concept that retirees under the age of 65 (i.e. not eligible for Medicare) generate higher claims on average than active participants. When a medical plan is self-insured or fully insured through a third-party administrator, a premium is usually determined by analyzing the claims of the entire population in the plan and adjusting for administrative costs. The resulting premium is called a blended premium because it blends the claims of active and retired participants. Since individuals generally have more and higher claims as they get older, the blended premium paid for retirees is lower than their expected claims. Another way of considering this is that if the retirees were removed from the plan, the premium for the active group would be lower; therefore, the retirees’ premiums are being subsidized by the active group. Since the employer generally pays a large portion or all of the premiums for the active group, this subsidy creates a liability for the employer. The difference between the expected claims for the retiree group and the blended premium is called the Implicit Rate Subsidy.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

Plan Membership – There are 169 active and 2 retired participants in the plan.

Plan Benefits – The State OPEB Plan currently offers 3 plans which are available to participants: the Iowa Choice Plan, the National Choice Plan and the SPOC (State Police Officer’s Council) Plan.

The contribution requirements of the plan participants are established and may be amended by the State Legislature. The State currently finances the retiree benefit plan on a pay-as-you-go basis.

OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – At June 30, 2018, the Lottery reported a liability of \$1,081,000 for its proportionate share of the total OPEB liability. The total OPEB liability was measured as of June 30, 2018, and was determined by an actuarial valuation performed as of January 1, 2018 and rolled forward to June 30, 2018 using generally accepted actuarial principles. The Lottery’s proportion of the total OPEB liability was based on the ratio of Lottery’s active employees in relation to all active employees of the State OPEB plan. At June 30, 2018, the Lottery’s proportion was 0.58%.

For the year ended June 30, 2018, the Lottery recognized OPEB expense of \$70,000. At June 30, 2018, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	6,000
Changes in proportion and differences in the Authority's contributions and the Authority's proportionate share of contributions	68,000	-
Changes in assumptions	14,000	-
Total	<u>\$ 82,000</u>	<u>6,000</u>

Amounts reported as deferred inflows of resources related to OPEB will be recognized in pension expense as follows:

Year ending June 30,	Amount
2019	\$ 10,000
2020	10,000
2021	10,000
2022	10,000
2023	10,000
Thereafter	<u>26,000</u>
	<u>\$ 76,000</u>

Actuarial Assumptions – The total OPEB liability in the June 30, 2018 measurement was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement:

Rate of inflation	2.60%
Discount rate	3.87%
Healthcare cost trend rates	6.4% - 6.6% initial, decreasing to 4.1% ultimate.

The discount rate was based on the 20-year Bond Buyer GO Index as of the end of June 2018.

The majority of State of Iowa employees are participants in the Iowa Public Employees' Retirement Systems. For this reason, the individual salary increase, mortality withdrawal, retirement, and age of spouse assumptions are based on the assumptions used for the Iowa Public Employees' Retirement System (IPERS) actuarial valuation report as of June 30, 2017. The plan participation and coverage election at retirement assumptions are based upon the recent experience of the State of Iowa Postretirement Medical Plan.

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Total OPEB liability beginning of year, as restated	\$ 935,000
Changes for the year:	
Service cost	76,000
Interest	38,000
Differences between expected and actual experiences	70,000
Changes in assumptions	16,000
Benefit payments	<u>(54,000)</u>
Net changes	<u>146,000</u>
Total OPEB liability end of year	<u>\$ 1,081,000</u>

Sensitivity of the Lottery's Total OPEB Liability to Changes in the Discount Rate – The proportionate share of the total OPEB liability was calculated using a discount rate of 3.87%, as well as a discount rate that is 1 percentage point lower (2.87%) or 1 percentage higher (4.87%) than the current discount rate. The sensitivity of the proportionate share of the total OPEB liability to changes in the discount rate is presented below:

	1% Decrease (2.87%)	Discount Rate (3.87%)	1% Increase (4.87%)
Total OPEB liability	\$ 1,154,000	1,081,000	1,011,000

Sensitivity of the Lottery's Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – The proportionate share of the total OPEB liability was calculated using a healthcare cost trend rate of 6.4% to 6.6% as well as a healthcare cost trend rate that is 1 percentage point lower (5.4%-5.6%) or 1 percentage higher (7.4%-7.6%) than the current healthcare cost trend rate. The sensitivity of the proportionate share of the total OPEB liability to changes in the healthcare cost trend rate is presented below:

	1% Decrease (5.4% - 5.6%)	Healthcare Cost Trend Rate (6.4% - 6.6%)	1% Increase (7.4% - 7.6%)
Total OPEB liability	\$ 967,000	1,081,000	1,215,000

Payables to the OPEB Plan – There were no amounts due to the defined benefit State OPEB plan at June 30, 2018.

(8) Pension Plan

Plan Description – IPERS membership is mandatory for employees of the Lottery, except for those covered by another retirement system. Employees of the Lottery are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2018, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the Lottery contributed 8.93% of covered payroll, for a total rate of 14.88%.

The Lottery's contributions to IPERS for the year ended June 30, 2018 totaled \$667,488.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2018, the Lottery reported a liability of \$6,546,767 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Lottery’s proportion of the net pension liability was based on the Lottery’s share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2017, the Lottery’s proportion was 0.098281%, which was an increase of 0.000443% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Lottery recognized pension expense of \$852,309. At June 30, 2018, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 60,106	56,723
Changes of assumptions	1,137,526	-
Net difference between projected and actual earnings on IPERS' investments	-	68,379
Changes in proportion and differences between Lottery contributions and its proportionate share of contributions	19,219	101,052
Lottery contributions subsequent to the measurement date	667,488	-
Total	<u>\$ 1,884,339</u>	<u>226,154</u>

\$667,488 reported as deferred outflows of resources related to pensions resulting from the Lottery’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30,	Amount
2019	\$ 110,452
2020	478,915
2021	288,044
2022	34,516
2023	78,770
Total	<u>\$ 990,697</u>

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement as follows:

Rate of inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study dated March 24, 2017.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	24.0%	6.25%
International equity	16.0	6.71
Core plus fixed income	27.0	2.25
Public credit	3.5	3.46
Public real assets	7.0	3.27
Cash	1.0	(0.31)
Private equity	11.0	11.15
Private real assets	7.5	4.18
Private credit	3.0	4.25
Total	<u>100.0%</u>	

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Lottery will be made at contractually required rates, actuarially determined. Based on those assumptions, the IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Lottery's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Lottery's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Lottery's proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Lottery's proportionate share of the net pension liability	\$ 10,786,445	6,546,767	2,984,622

IPERS' Fiduciary Net Position – Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to IPERS – At June 30, 2018, the Lottery reported payables to IPERS of \$26,531 for legally required employer contributions and \$17,678 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

(9) Payment of Prizes

Instant-scratch ticket prize expense is comprised of actual winning tickets validated for payment by any retailer or by the Lottery.

Instaplay ticket prize expense is comprised of actual winning tickets validated for payment by any retailer or by the Lottery.

The Powerball prize expense is comprised of two different prize structures. One prize structure is winners who match 3, 4 or 5 of 5 numbers or none, 1, 2, 3 or 4 of 5 numbers plus the Powerball number. The second prize structure involves a jackpot which increases from drawing to drawing until the jackpot is won. The jackpot is won when 5 of 5 numbers, plus the Powerball number, are matched.

The Mega Millions prize expense is comprised of two different prize structures. One prize structure is winners who match 3, 4 or 5 of 5 numbers or none, 1, 2, 3 or 4 of 5 numbers plus the Megaball number. The second prize structure involves a jackpot which increases from drawing to drawing until the jackpot is won. The jackpot is won when 5 of 5 numbers, plus the Megaball number, are matched.

Pull-tab prize expense is comprised of actual winning tickets, up to and including \$600, included in packs delivered to retailers and actual winning tickets over \$600 paid by the Lottery.

The Hot Lotto prize expense is comprised of two different prize structures. One prize structure is winners who match 3, 4 or 5 of 5 numbers or none, 1, 2, 3 or 4 of 5 numbers plus the Hot Ball number. The second prize structure involves a jackpot which increases from drawing to drawing until the jackpot is won. The jackpot is won when 5 of 5 numbers, plus the Hot Ball number, are matched. This game was discontinued on October 28, 2017.

The Pick 3 prize expense is comprised of winners who match either 2 or 3 of 3 numbers. A player may win from \$30 to \$3,000 depending on the play type selected and the play amount. Play types are Straight, Box, Straight/Box, Front Pair or Back Pair and require the player to match all numbers in the exact order drawn, match all three numbers in any order, match either exact and/or any order, first two numbers or last two numbers in exact order, respectively.

The Pick 4 prize expense is comprised of winners who match either 2 or 4 of 4 numbers. A player may win from \$30 to \$30,000 depending on the play type selected and the play amount. Play types are Straight, Box, Straight/Box, Front Pair or Back Pair and require the player to match all numbers in the exact order drawn, match all four numbers in any order, match either exact and/or any order, first two numbers or last two numbers in exact order, respectively.

The Lotto America prize expense is comprised of two different prize structures. One prize structure is winners who match 3, 4 or 5 of 5 numbers or none, 1, 2, 3 or 4 of 5 numbers plus the Star Ball. The second prize structure involves a jackpot which increases from drawing to drawing until the jackpot is won. The jackpot is won when 5 of 5 numbers plus the Star Ball are matched.

The Lucky for Life prize expense is comprised of three different prize structures. One prize structure is winners who match 2, 3 or 4 of 5 numbers or none, 1, 2, 3 or 4 of 5 numbers plus the Lucky Ball number. The game's second prize structure of \$25,000 a year for life is won by matching 5 of 5 numbers without the Lucky Ball. The third prize structure involves a top prize of \$1,000 per day for life and is won by matching 5 of 5 numbers plus the Lucky Ball.

The VIP Club prize expense is comprised of players who enter eligible lotto and non-winning scratch tickets into "Play it Again" promotions for a chance to win cash and/or merchandise prizes. The Lottery spent \$197,001 on VIP Club prizes during the year ended June 30, 2018.

During the year ended June 30, 2018, \$115,750 of prizes were distributed through various promotional activities.

(10) Instant-Scratch Ticket Packs

The Lottery issues instant-scratch ticket packs to retailers on an ongoing basis. The retailer or District Sales Representative must activate the pack on the system before the pack may be sold to the public. The retailer may not be billed for these packs until a pack is activated and settled on the system. A pack may be settled in one of four ways: 1) 70% of the low-tier tickets in the pack have been validated, 2) 45 days have elapsed from the date the pack was activated, 3) the pack has been settled at delivery or settled manually through the terminal or 4) 21 days have elapsed from the date the pack was activated regardless of validations. As of June 30, 2018, the Lottery had 45,848 packs at retailers which have not yet settled. The receivable and the related unearned revenue of \$5,917,437 calculated as shown below, have not been included in the Lottery's financial statements since the sales associated with these packs have not been recognized.

Unsettled packs	\$ 13,754,400
Less:	
Retailer compensation	951,720
Low-tier prize expense	<u>6,885,243</u>
Potential receivable and unearned amount	<u>\$ 5,917,437</u>

(11) Lotto America/Powerball

U.S. Treasury zero coupon bonds are purchased by the Multi-State Lottery Association (MUSL) to provide payments corresponding to the Lottery's obligation to Lotto America/Powerball prize winners. The MUSL holds these bonds and will cash the bonds when due and wire the money to the Lottery's account on or before the anniversary date of the jackpot.

At June 30, 2018, the MUSL held zero coupon bonds for the Lottery to fund future installment payments aggregating \$1,194,381. The current value of those bonds totaled \$1,223,280.

(12) Risk Management

State employee benefits for health, dental, long-term disability and life insurance coverage are insured through commercial insurers. There were no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage for the past three fiscal years.

The State of Iowa self-insures on behalf of its agencies for losses related to workers' compensation, its motor vehicle fleet, property damage and torts. A contingent fund exists under Section 29C.20 of the Code of Iowa to provide compensation for loss or damage to state property (casualty losses).

Upon advice of legal counsel, the Lottery has purchased commercial insurance for certain risks.

(13) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployments Benefits Other Than Pensions (OPEB), was implemented during fiscal year 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with OPEB benefits, including additional note disclosure and required supplementary information. In addition, GASB Statement No. 75 requires a state or local government employer to use the entry age normal actuarial cost method, and requires deferred outflows of resources and deferred inflows of resources which arise from other types of events related to OPEB to be recognized. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources are not reported. Beginning net position was restated to retroactively report the change in valuation of the beginning total OPEB liability, as follows:

Net position June 30, 2017, as previously reported	\$ 6,357,530
Net OPEB obligation measured under previous standards	722,390
Total OPEB liability at June 30, 2017	<u>(935,000)</u>
Net position July 1, 2017, as restated	<u>\$ 6,144,920</u>

Required Supplementary Information

Iowa Lottery Authority

Iowa Lottery Authority

Schedule of the Lottery's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
For the Last Four Years*
(In Thousands)

Required Supplementary Information

	2018	2017	2016	2015
Lottery's proportion of the net pension liability	0.098281%	0.097838%	0.100528%	0.102815%
Lottery's proportionate share of the net pension liability	\$ 6,547	6,157	4,967	4,078
Lottery's covered payroll	\$ 7,346	6,809	6,932	6,753
Lottery's proportionate share of the net pension liability as a percentage of its covered payroll	89.12%	90.42%	71.65%	60.39%
IPERS' net position as a percentage of the total pension liability	82.21%	81.82%	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

Iowa Lottery Authority
 Schedule of Lottery Contributions
 Iowa Public Employees' Retirement System
 For the Last Ten Years
 (In Thousands)

Required Supplementary Information

	2018	2017	2016	2015
Statutorily required contribution	\$ 667	656	608	619
Contributions in relation to the statutorily required contribution	(667)	(656)	(608)	(619)
Contribution deficiency (excess)	\$ -	-	-	-
Lottery's covered payroll	\$ 7,469	7,346	6,809	6,932
Contributions as a percentage of covered payroll	8.93%	8.93%	8.93%	8.93%

See accompanying independent auditor's report.

2014	2013	2012	2011	2010	2009
603	582	521	424	415	404
(603)	(582)	(521)	(424)	(415)	(404)
-	-	-	-	-	-
6,753	6,713	6,456	6,101	6,241	6,362
8.93%	8.67%	8.07%	6.95%	6.65%	6.35%

Iowa Lottery Authority

Notes to Required Supplementary Information – Pension Liability

Year ended June 30, 2018

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Changes of assumptions:

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

Iowa Lottery Authority

Schedule of Changes in the Iowa Lottery Authority's
Total OPEB Liability, Related Ratios and Notes

For the Current Year
Required Supplementary Information

	<u>2018</u>
Service cost	\$ 76,000
Interest cost	38,000
Difference between expected and actual experiences	70,000
Changes in assumptions	16,000
Benefit payments	<u>(54,000)</u>
Net change in total OPEB liability	<u>146,000</u>
Total OPEB liability beginning of year, as restated	<u>935,000</u>
Total OPEB liability end of year	<u>\$ 1,081,000</u>
Covered-employee payroll	\$ 7,584,000
Total OPEB liability as a percentage of covered-employee payroll	14.3%

See accompanying independent auditor's report.

Notes to Schedule of Changes in the Iowa Lottery Authority's Total OPEB Liability and Related Ratios

Changes in benefit terms:

Effective January 1, 2018, university employees are no longer covered by the State Plan.

Changes in assumptions:

Changes in assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:

Year ended June 30, 2018:	3.87%
Year ended June 30, 2017:	3.58%

There are no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to the pay related benefits.

GASB Statement No. 75 requires ten years of information to be presented in this schedule. However, until a full 10-year trend is compiled, the Lottery Authority will present information for those years for which information is available. The amounts presented for each fiscal year were determined as of June 30.

Iowa Lottery Authority

Supplementary Information

Schedule 1

Iowa Lottery Authority

Other Operating Expenses

Year ended June 30, 2018

Salary and benefits	10,936,612
Travel	252,945
Supplies	122,963
Printing	5,288
Postage	5,561
Communications	170,146
Rentals	305,225
Utilities	95,757
Professional fees	150,373
Outside services and repair	224,823
Non-capitalized equipment	364,117
Data processing	94,977
Reimbursement to state agencies	440,449
Depreciation	546,261
Other	55,426
Total	<u>\$ 13,770,923</u>

See accompanying independent auditor's report.

Iowa Lottery Authority
Revenues, Expenses and Changes in Net Position
Years ended June 30, 2018 and 2017

	2018	2017 (Not Restated)	Increase (Decrease)
Operating revenues:			
Instant-scratch ticket sales	\$ 244,260,964	237,617,703	6,643,261
Instaplay sales	9,733,769	5,820,274	3,913,495
Pick 3 sales	7,705,163	7,318,686	386,477
Pick 4 sales	4,341,103	3,946,273	394,830
Powerball sales	58,471,047	54,292,902	4,178,145
Mega Millions sales	21,293,740	14,957,109	6,336,631
Hot Lotto sales	3,761,425	8,210,714	(4,449,289)
All or Nothing sales	-	3,186,443	(3,186,443)
Lucky for Life sales	5,600,490	5,599,966	524
Lotto America sales	4,872,494	-	4,872,494
Pull-tab sales	10,916,692	11,292,740	(376,048)
Application fees	3,725	3,600	125
Other	8,135	18,841	(10,706)
Total operating revenues	<u>370,968,747</u>	<u>352,265,251</u>	<u>18,703,496</u>
Operating expenses:			
Prizes:			
Instant-scratch ticket	160,144,268	155,043,947	5,100,321
Instaplay	6,351,026	3,781,706	2,569,320
Pick 3	4,567,778	4,261,970	305,808
Pick 4	2,519,312	2,367,036	152,276
Powerball	28,480,980	25,876,220	2,604,760
Mega Millions	10,764,359	7,351,575	3,412,784
Hot Lotto	1,782,452	4,000,053	(2,217,601)
All or Nothing	-	1,882,220	(1,882,220)
Lucky for Life	3,305,691	3,521,940	(216,249)
Lotto America	2,436,247	-	2,436,247
Pull-tab	6,826,208	7,056,494	(230,286)
Promotional	115,750	224,943	(109,193)
VIP Club	197,001	252,465	(55,464)
Total prizes	<u>227,491,072</u>	<u>215,620,569</u>	<u>11,870,503</u>
Retailer compensation	24,213,812	22,915,600	1,298,212
Advertising production and media purchases	7,162,018	6,591,777	570,241
Retailer lottery system/terminal communications	8,267,116	7,408,978	858,138
Instant/pull-tab ticket expense	3,198,940	3,272,386	(73,446)
Vending machines & maintenance/ticket dispensers	525,394	1,384,719	(859,325)
Courier delivery of tickets	612,120	594,508	17,612
Other operating expenses	13,770,923	13,357,893	413,030
Total operating expenses	<u>285,241,395</u>	<u>271,146,430</u>	<u>14,094,965</u>
Operating income	<u>85,727,352</u>	<u>81,118,821</u>	<u>4,608,531</u>
Non-operating revenues (expenses):			
Proceeds deposited to the State's General Fund	(84,596,200)	(78,274,727)	6,321,473
Proceeds deposited to the Veteran's Trust Fund	(2,500,000)	(2,500,000)	-
Interest income	313,694	182,107	(131,587)
Loss on disposal of capital assets	(139,572)	(722,748)	(583,176)
Net non-operating expenses	<u>(86,922,078)</u>	<u>(81,315,368)</u>	<u>5,606,710</u>
Changes in net position	(1,194,726)	(196,547)	(998,179)
Net position beginning of year, as restated	<u>6,144,920</u>	<u>6,554,077</u>	<u>(409,157)</u>
Net position end of year	<u>\$ 4,950,194</u>	<u>6,357,530</u>	<u>(1,407,336)</u>

See accompanying independent auditor's report.

Iowa Lottery Authority

Iowa Lottery Authority

Analysis of Net Position

June 30, 2018

Cash retained for vehicle purchases	\$	625,275
Ticket inventories		2,394,436
Capital assets		7,824,065
OPEB liability		(1,081,000)
Net pension liability		(6,546,767)
Deferred outflows pension		1,884,339
Deferred outflows OPEB		82,000
Deferred inflows pension		(226,154)
Deferred inflows OPEB		<u>(6,000)</u>
Total	\$	<u>4,950,194</u>

See accompanying independent auditor's report.

Iowa Lottery Authority

Revenue by Game

For the Last Six Years

Games	Year ended June 30,		
	2013	2014	2015
Instant-scratch ticket	\$ 202,299,747	188,754,111	211,986,968
Instaplay	-	-	-
Pick 3	6,804,870	6,948,165	7,046,335
Pick 4	3,085,784	3,224,892	3,231,397
Powerball	81,385,271	61,153,876	52,231,108
Mega Millions	13,317,888	21,835,102	17,980,367
Hot Lotto	11,664,946	10,434,227	11,111,717
All or Nothing	-	3,196,195	4,542,846
Monopoly Millionaires' Club	-	-	591,605
Lucky for Life	-	-	-
Lotto America	-	-	-
\$100,000 Cash Game	4,483,605	2,530,984	-
Raffle	-	242,960	-
Pull-tab	16,209,309	15,734,917	16,045,073
Total	<u>\$ 339,251,420</u>	<u>314,055,429</u>	<u>324,767,416</u>

See accompanying independent auditor's report.

2016	2017	2018
233,681,883	237,617,703	244,260,964
-	5,820,274	9,733,769
7,376,766	7,318,686	7,705,163
3,554,719	3,946,273	4,341,103
74,851,133	54,292,902	58,471,047
16,401,018	14,957,109	21,293,740
8,827,600	8,210,714	3,761,425
3,989,479	3,186,443	-
-	-	-
3,154,994	5,599,966	5,600,490
-	-	4,872,494
-	-	-
-	-	-
15,073,332	11,292,740	10,916,692
<u>366,910,924</u>	<u>352,242,810</u>	<u>370,956,887</u>

Iowa Lottery Authority

Iowa Lottery Authority
 Analysis of Prize Payout
 Lotto, Instant-Scratch, Instaplay and Pull-tab Games
 For the Last Six Years

Games	Year ended June 30,					
	2013	2014	2015	2016	2017	2018
Instant-scratch ticket	63%	65%	65%	65%	65%	66%
Instaplay	-	-	-	-	65%	65%
Pick 3	59%	59%	59%	59%	58%	59%
Pick 4	59%	59%	62%	59%	60%	58%
Powerball	49%	48%	49%	49%	48%	49%
Mega Millions	49%	50%	48%	49%	49%	51%
Hot Lotto	48%	48%	48%	48%	49%	47%
All or Nothing	-	67%	59%	59%	59%	-
Monopoly Millionaires' Club	-	-	106%	-	-	-
Lucky for Life	-	-	-	80%	63%	59%
Lotto America	-	-	-	-	-	50%
\$100,000 Cash Game	61%	24%	-	-	-	-
Raffle	-	42%	-	-	-	-
Pull-tab	63%	63%	63%	63%	62%	63%

See accompanying independent auditor's report.

Iowa Lottery Authority



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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board Members of the Iowa Lottery Authority:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the Iowa Lottery Authority, a component unit of the State of Iowa, as of and for the year ended June 30, 2018, and the related Notes to Financial Statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 11, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Iowa Lottery Authority's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Iowa Lottery Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Iowa Lottery Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Authority's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Iowa Lottery Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters which are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Iowa Lottery Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Iowa Lottery Authority during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


MARY MOSIMAN, CPA
Auditor of State

December 11, 2018

Iowa Lottery Authority

Staff

This audit was performed by:

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