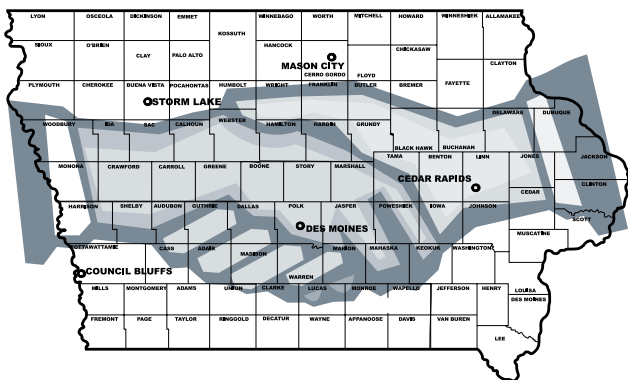


Doing Our Part



Fiscal Year 2002 Annual Report



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A Message from the Commissioner

At the Iowa Lottery, we've responded to tough times in Iowa by doing our part to send as much revenue to the state as possible while working to streamline our business operation. Hard work and quality products have helped the Iowa Lottery achieve another great year in sales and profits for the state of Iowa.



\$48 Million to the State

This year the Iowa Lottery was able to send more than \$48 million to the state General Fund to benefit Iowa programs. We're proud of the fact that we can contribute to state programs and entertain our players in the process.

Iowa Lottery Commissioner
Dr. Edward Stanek

Big Powerball Jackpot

We began the fiscal year with a \$295 million Powerball jackpot in August of 2001. That helped us contribute monthly proceeds of \$8.4 million to the General Fund during August alone. Powerball continued its tradition of generating large jackpots and strong sales in fiscal year 2002.

New Lotto Game Hits Iowa

Also on the lotto front, Iowa joined five other states in introducing the Hot Lotto game in April 2002. Players liked the fact that the new game plays just like Powerball, but offers better odds of winning a prize. Hot Lotto generated \$1.3 million in sales in Iowa through the end of the fiscal year on June 30, 2002. We look forward to its continued success in the years to come.

\$2 Pull-tab Successful

Another product that has helped the lottery generate revenue is the first of its kind in the United States. After receiving positive feedback from our retailers on projected popularity with players, the Iowa Lottery introduced the first \$2 pull-tab in the nation in February 2002. As our retailers and we predicted, "Triple Hit" has been a success and has been reordered.

Lottery Teams With Retailers

Of course, retailers are the backbone of our business. They are on the front lines and helping them helps us achieve better sales. In the last fiscal year, we've teamed up with our retailers in several ways to stimulate both sales of their products and ours. In January 2002, we brought back the popular "It's A Gas" promotion that offered prizes of free ethanol fuel to players.



In the summer of 2002 we partnered with the Iowa Department of Economic Development and our retailers to launch the "Taste of Iowa" promotion. Players' \$5 lotto purchase earned them a coupon for \$1 off several Iowa-produced food products over a three-week period: Cookies Premium Salsa, Aunt Vi's Pasta and Roberts Dairy milk.

It's been another busy year, and we've kept our focus on doing our part to help the state while offering new and exciting choices to our players.

Did you know?
Commissioner Stanek is the inventor of the Powerball® game and currently serves as the Senior Vice President of the World Lottery Association.



A Message from the Board Chairwoman

The past year on the Iowa Lottery Board was a memorable one that had several notable accomplishments.

Contract negotiations with several vendors were particularly intense and I was proud of the Board's response to the task. As board members, our No. 1 priority is to protect the interests of the Lottery and the Iowa taxpayers, and we accomplished this. The staff at the Lottery should be commended for spending long hours hammering out details with vendors.

I was pleased that the Lottery could substantially increase the amount of profit it generated for the state this fiscal year. This year especially, when revenues from other areas were down, it was important for us to contribute as much as possible. Creative innovations in new and improved games contributed to a favorable response from the public.

I enjoyed working through the challenges of the past year and look forward to the Iowa Lottery's continued success.



Mary Junge, CPA, Cedar Rapids Iowa Lottery Board Chairwoman

Did you know? According to the Iowa Code, the Iowa Lottery Board must be composed of one person with experience in law enforcement, one who is currently practicing law and one with an accounting background.



Iowa Lottery Board Members



Elaine Baxter, former Iowa Secretary of State, Burlington



Bill Brosnahan, security consultant and former DCI agent, Dubuque



Timothy Clausen, attorney, Sioux City



Michael McCoy, insurance executive, West Des Moines

Hughes Retires



Gary Hughes, Iowa City

Gary Hughes, an original member of the Iowa Lottery Board, retired from the board on April 30, 2002. Hughes was part of the long planning sessions that it took to get the Iowa Lottery off the ground. He was appointed by then-Gov. Terry Branstad in 1985 soon after Branstad signed the lottery into law. Hughes was sheriff of Johnson County for 16 years and served in law enforcement for 22 years. He lives in Iowa City and now works in real estate development and handles rental properties.

	Instant	Lotto	Multi-state (Powerball)	Pull-tabs	\$100,000 Cash Game	Dream Draw	Daily Millions	Cash 4 Life	Pick 3	Freeplay Replay	Rolldown	Hot Lotto
FY86	\$77.6	\$4.1										
FY87	72.9	21.6										
FY88	59.8	47.2	\$6.4	\$10.6								
FY89	72.6	48.8	30.8	20.2								
FY90	68.3	42.9	38.8	18.3								
FY91	75.5	34.8	27.5	17.6	\$2.7							
FY92	85.7	36.6	23.9	21.0	9.0							
FY93	96.6	24.3	38.1	36.9	11.1							
FY94	99.2	17.8	44.5	35.5	10.0							
FY95	103.9	12.6	48.9	32.4	9.7							
FY96	96.7	14.5	41.0	28.7	9.0							
FY97	91.2	10.2	32.9	25.8	6.4	\$1.0	\$6.1					
FY98	90.6	7.8	37.3	26.9	5.0		3.9	\$2.2				
FY99	91.0		51.8	28.6	4.8			4.2	\$3.8			
FY00	90.3		48.0	27.2	4.9			3.3	4.1	\$0.4		
FY01	84.2		52.1	27.0	4.3			0.5	4.0	0.7	\$2.2	
FY02	80.6		60.9	27.6	4.3				5.0	0.4	1.2	\$1.3

Sales By Product (in millions)

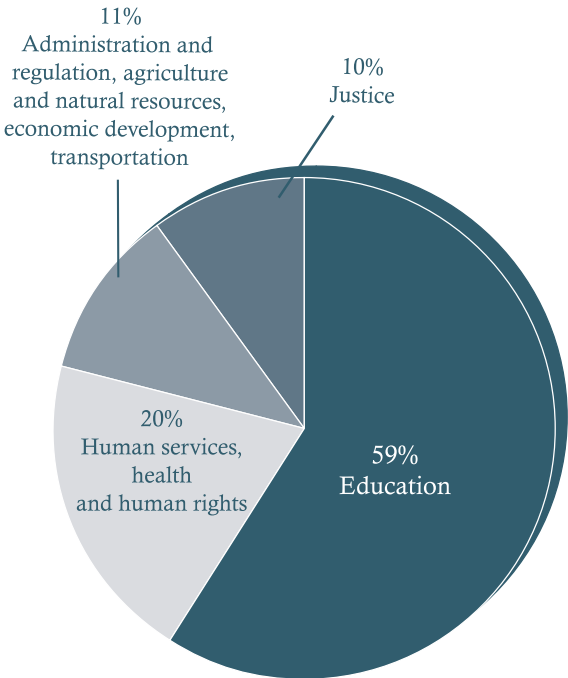




General Fund Transfer Up Almost 9 Percent

The Iowa Lottery raised \$48.1 million in revenues for state programs during fiscal year 2002. That was up nearly 9 percent from FY 2001 profits of \$44.2 million and well ahead of the lottery's budget projections of \$42.2 million for the year.

Iowa Lottery revenues are deposited into the state general fund, where they are used to pay for a variety of programs. The chart below illustrates how the money in the general fund is allocated.





Players Enjoy Another Big Powerball Jackpot

On Aug. 25, 2001, the Powerball jackpot climbed to \$295 million, causing a flurry of jackpot excitement across Iowa and the country.

The jackpot grew for a record-setting 19 drawings before it was won. Players from Delaware, Kentucky, Minnesota and New Hampshire split the jackpot when it was finally won.

Players in Iowa helped contribute \$8.4 million toward the state general fund in August 2001 thanks in part to the large jackpot.

Yearly Powerball Sales Increase

Iowa sales for America's Game increased nearly 17 percent from FY 2001 to \$60.9 million.

The largest Powerball jackpot in history was \$295.7 million in July 1998. Iowa's last Powerball jackpot winners were the Hasken family from Sabula. They won a \$31.8 million jackpot on Jan. 8, 2000.



Did you know? Powerball celebrated its 10th birthday on April 19, 2002! Through March 2002, Iowa Lottery players had won more than 12.6 million Powerball prizes for all-time winnings of about \$212.2 million!



Hot Lotto Burns True For Iowa Lottery Players

Iowa Lottery players welcomed a new lotto game to the mix this fiscal year!

Iowa, Minnesota, Montana, New Hampshire, South Dakota and West Virginia began selling Hot Lotto tickets on April 7, 2002.

Hot Lotto Plays Like Powerball



The game lets players pick five numbers out of a pool of 39 and one number—the Hot Ball—out of a pool of 19. Hot Lotto appeals to players because it

plays just like Powerball, but the odds are better to win the jackpot.

The jackpot begins at \$1 million and grows until it is won, just like the Powerball game. The game has nine ways to win prizes and the overall odds of winning a prize are 1 in 16.

Sales Over \$1 Million in FY 2002

Hot Lotto had \$1.3 million in sales from its launch in April until the end of the fiscal year on June 30.





\$2 Pull-tab First in Nation

In February 2002, the Iowa Lottery introduced “Triple Hit,” the first \$2 pull-tab in the nation.

Triple Hit offered players the chance to win three top prizes of \$100 per pack of tickets, and the concept proved popular.

Sales Encouraging

Sales for “Triple Hit” were encouraging right away.

While convenience stores contribute the largest share of pull-tab sales, pull-tabs also are popular in taverns, restaurants and grocery stores. Players often play in groups, competing amongst themselves for who will win the top prize first. “Triple Hit” can extend the fun of this type of play.

“Triple Hit” was one of eight new pull-tab games the Iowa Lottery introduced in FY 2002.

Iowans Play on Game Show



This year “Powerball—The Game Show” welcomed more lucky contestants from Iowa to Hollywood for a chance to win up to \$1 million. The game show is based on the Powerball scratch ticket, which offers players a chance to win up to \$25,000 instantly or a chance to enter a drawing to be a contestant on the game show.

Verdell Schmale of Fayette

A couple of the luckiest Iowans on FY 2002 shows included Verdell Schmale of Fayette, who won a \$50,000 prize, and Eloise Rhoades of State Center, whose winnings totalled \$102,500.

Lottery Promotions Help Retailers and Players

More than 2,500 strong across the state, Iowa Lottery retailers are valuable to us because they communicate one-on-one with players on a regular basis. In FY 2002, the lottery helped its retailers strengthen their relationships with players by running several cooperative promotions.

“It’s A Gas” Pleases Players, Retailers

In January and February 2002, the lottery again offered its players a chance to win free ethanol fuel for a year in the “It’s A Gas” promotion. With a \$5 lotto purchase, players received a raffle ticket. At the end of the promotion, the lottery drew 30 raffle numbers for prizes including free ethanol fuel for a year.

Since many of the lottery’s retailers sell ethanol fuel products, this promotion appealed to them as well for the chance to increase their fuel sales. And, of course, our players appreciated the chance to win free fuel!

Lottery Players Get a “Taste of Iowa”

Thanks to new lotto terminal technology, in June 2002, the lottery launched the Taste of Iowa promotion with the Department of Economic Development. Players automatically received a lotto terminal-generated \$1-off coupon for Iowa-produced food products when they purchased \$5 worth of lotto products. The state’s Taste of Iowa® program helps promote Iowa-based companies’ food products. Roberts Dairy milk products, Cookies Premium Salsa and Flavor Enhancer and Aunt Vi’s Frozen Pasta products all worked with the lottery to offer the \$1-off coupon for their product. Many of our retailers also stock the items in their stores and the promotion helped them sell the product.

Also thanks to its new terminals, the lottery was able to introduce its first holiday gift certificate. Available in \$5 increments in December 2001, the gift certificates offered players lottery as a gift-giving alternative.



Statement of Revenues

Expenses and Changes in Net Assets
for Year Ended June 30, 2002

Operating Revenues:	
Instant ticket sales	\$ 80,592,345
Pick 3 sales	4,953,590
Powerball sales	60,866,437
Hot Lotto sales	1,342,121
Rolldown sales	1,196,591
Freeplay Replay sales	367,646
\$100,000 Cash Game sales	4,346,617
Pull-tab sales	27,640,458
Application fees	21,350
Contract settlement	2,750,000
Other	<u>44,227</u>
Total operating revenues	<u>184,121,382</u>
Operating expenses:	
Prizes:	
Instant ticket	46,985,002
Pick 3	2,873,174
Powerball	29,365,955
Hot Lotto	671,364
Rolldown	516,502
Freeplay Replay	192,433
\$100,000 Cash Game	2,043,731
Pull-tab	17,198,504
Promotional	<u>149,568</u>
Total prizes	99,996,233
Retailer compensation	11,679,659
Advertising/publicity	6,082,488
Vendor compensation/network expense	6,578,945
Instant/Pull-tab rental, inventory expense	4,856,817
Other operating expenses	<u>8,660,916</u>
Total operating expenses	<u>137,855,058</u>
Operating income	46,266,324
Non-operating revenue:	
Interest income	926,194
Principal de-mutualization proceeds	<u>1,182,169</u>
Total non-operating revenue	2,108,363
Income before transfers	48,374,687
Transfers to other funds:	
State General Fund	38,995,651
Sales Tax (also transferred to General Fund)	8,636,761
Iowa Department of Public Health— Gambling Treatment Fund	<u>532,774</u>
Change in net assets	209,501
Net assets, beginning of year, as restated	<u>2,104,463</u>
Net assets, end of year	<u>\$ 2,313,964</u>



Statement of Net Assets

June 30, 2002

Assets	
Current Assets:	
Cash	\$ 7,733,162
Restricted assets-cash	483,329
Interest receivable	47,548
Prepaid expense	25,384
Accounts receivable, net	1,659,160
Ticket inventories	1,533,223
Investment in prize annuities	<u>9,353,950</u>
Total current assets	<u>20,835,756</u>
Noncurrent Assets:	
Prize reserve	5,570,033
Investment in prize annuities	45,015,622
Capital assets, net	<u>483,307</u>
Total non-current assets	<u>51,068,962</u>
Total assets	<u>71,904,718</u>
Liabilities	
Current liabilities:	
On-line prizes payable	3,410,935
Instant prizes payable	149,693
Annuity prizes payable	9,524,450
Sales tax payable	301,481
Accounts payable	1,658,560
Due to:	
State General Fund	2,905,589
Other state agencies	153,010
Deferred revenue	140,433
Personal services payable	163,196
Compensated absences	<u>413,086</u>
Total current liabilities	<u>18,820,433</u>
Long-term liabilities:	
Prize reserve fund	5,570,033
Personal services payable	38,556
Compensated absences	146,110
Long-term annuity prizes payable	<u>45,015,622</u>
Total long-term liabilities	<u>50,770,321</u>
Total liabilities	<u>69,590,754</u>
Net Assets	
Invested in capital assets	483,307
Unrestricted	<u>1,830,657</u>
Total net assets	<u>\$ 2,313,964</u>



FY 2002 Iowa Lottery Total Sales by County

(rounded to the nearest 100,000)

01 ADAIR	\$ 600,000
02 ADAMS	200,000
03 ALLAMAKEE	1,200,000
04 APPANOOSE	1,000,000
05 AUDUBON	300,000
06 BENTON	1,200,000
07 BLACKHAWK	11,800,000
08 BOONE	1,300,000
09 BREMER	1,400,000
10 BUCHANAN	1,500,000
11 BUENA VISTA	1,300,000
12 BUTLER	800,000
13 CALHOUN	400,000
14 CARROLL	1,400,000
15 CASS	800,000
16 CEDAR	600,000
17 CERRO GORDO	4,600,000
18 CHEROKEE	800,000
19 CHICKASAW	700,000
20 CLARKE	500,000
21 CLAY	1,600,000
22 CLAYTON	1,400,000
23 CLINTON	4,100,000
24 CRAWFORD	1,100,000
25 DALLAS	1,700,000
26 DAVIS	200,000
27 DECATUR	200,000
28 DELAWARE	1,100,000
29 DES MOINES	2,400,000
30 DICKINSON	1,500,000
31 DUBUQUE	5,800,000
32 EMMET	900,000
33 FAYETTE	1,300,000
34 FLOYD	1,300,000
35 FRANKLIN	900,000
36 FREMONT	1,100,000
37 GREENE	500,000
38 GRUNDY	500,000
39 GUTHRIE	200,000
40 HAMILTON	1,400,000
41 HANCOCK	1,100,000
42 HARDIN	1,200,000
43 HARRISON	900,000
44 HENRY	1,100,000
45 HOWARD	700,000
46 HUMBOLDT	800,000
47 IDA	300,000
48 IOWA	800,000



FY 2002 Iowa Lottery Total Sales by County (cont.)

49 JACKSON	\$ 1,400,000
50 JASPER	1,700,000
51 JEFFERSON	800,000
52 JOHNSON	4,500,000
53 JONES	1,200,000
54 KEOKUK	400,000
55 KOSSUTH	1,000,000
56 LEE	2,200,000
57 LINN	14,300,000
58 LOUISA	800,000
59 LUCAS	400,000
60 LYON	200,000
61 MADISON	400,000
62 MAHASKA	1,000,000
63 MARION	1,300,000
64 MARSHALL	2,400,000
65 MILLS	700,000
66 MITCHELL	700,000
67 MONONA	600,000
68 MONROE	800,000
69 MONTGOMERY	600,000
70 MUSCATINE	3,000,000
71 O'BRIEN	700,000
72 OSCEOLA	200,000
73 PAGE	300,000
74 PALO ALTO	600,000
75 PLYMOUTH	1,100,000
76 POCAHONTAS	500,000
77 POLK	24,200,000
78 POTTAWATTAMIE	6,800,000
79 POWESHIEK	1,100,000
80 RINGGOLD	200,000
81 SAC	800,000
82 SCOTT	10,600,000
83 SHELBY	600,000
84 SIOUX	600,000
85 STORY	2,800,000
86 TAMA	800,000
87 TAYLOR	300,000
88 UNION	900,000
89 VAN BUREN	200,000
90 WAPELLO	4,000,000
91 WARREN	1,500,000
92 WASHINGTON	1,200,000
93 WAYNE	200,000
94 WEBSTER	3,300,000
95 WINNEBAGO	800,000
96 WINNESHIEK	1,200,000
97 WOODBURY	5,600,000
98 WORTH	600,000
99 WRIGHT	900,000



Iowa Lottery

Regional Offices

Headquarters

2015 Grand Ave.
Des Moines, IA 50312-4999
515-281-7900

Des Moines Region

2015 Grand Ave.
Des Moines, IA 50312-4999
515-281-7884

Cedar Rapids Region

2345 Blairs Ferry Road N.E.
Cedar Rapids, IA 52402-1918
319-395-9313

Mason City Region

2900 Fourth St. S.W.
Mason City, IA 50401-1531
641-424-6011

Storm Lake Region

822 Flindt Drive
Storm Lake, IA 50588-3205
712-732-6662

Council Bluffs Region

Omni Centre, Suite 8
300 W. Broadway
Council Bluffs, IA 51503-9030
712-242-2161