



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

February 10, 2010

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Auditor of State David A. Vaudt today released an audit report on the Iowa Lottery Authority for the year ended June 30, 2009. The Iowa Lottery Authority oversees the marketing of lottery games and performs the administrative duties necessary to maximize the amount of money available for transfer to the State General Fund. Total operating revenue for the year ended June 30, 2009 decreased 2.35% from the same period one year ago.

Comparative operating data is as follows:

	Year Ended June 30, 2009	Year Ended June 30, 2008	% Increase (Decrease)
Revenues:			
Instant-scratch ticket	\$136,268,555	\$137,917,848	(1.20%)
Pick 3	6,534,765	6,373,362	2.53%
Pick 4	2,555,237	2,315,469	10.36%
Powerball	58,220,203	63,761,024	(8.69%)
Hot Lotto	14,329,610	11,724,416	22.22%
Raffle	-	1,425,460	(100.00%)
\$100,000 Cash Game	4,113,307	4,291,933	(4.16%)
Pull-tab	21,315,424	21,407,956	(0.43%)
Other	69,129	53,112	30.16%
Total operating revenue	243,406,230	249,270,580	(2.35%)
Prize expense	138,425,341	144,669,575	(4.32%)
Other expense	46,053,825	47,331,940	(2.70%)
Transfers to other funds	60,553,306	56,546,118	7.09%

An analysis of prizes awarded for the year ended June 30, 2009 is as follows:

Scratch ticket prizes	=	60% of Instant-scratch ticket sales
Pick 3 prizes	=	59% of Pick 3 sales
Pick 4 prizes	=	58% of Pick 4 sales
Powerball prizes	=	48% of Powerball sales
Hot Lotto prizes	=	49% of Hot Lotto sales
\$100,000 Cash Game prizes	=	55% of \$100,000 Cash Game sales
Pull-tab prizes	=	63% of Pull-tab sales

The Iowa Lottery Authority spent \$6,995,166 on advertising production and media purchases for the year ended June 30, 2009, representing 2.9% 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 <http://auditor.iowa.gov/reports/index.html>.

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

JUNE 30, 2009

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		5-6
Management's Discussion and Analysis		7-10
Basic Financial Statements:	<u>Exhibit</u>	
Statement of Net Assets	A	12
Statement of Revenues, Expenses and Changes in Net Assets	B	13
Statement of Cash Flows	C	14
Notes to Financial Statements		15-25
Supplementary Information:	<u>Schedule</u>	
Other Operating Expenses – For the Year ended June 30, 2009	1	28
Revenues, Expenses and Changes in Net Assets –		
Years ended June 30, 2009 and 2008	2	29
Analysis of Net Assets	3	31
Revenue by Game - For the Last Six Years	4	32
Analysis of Prize Payout – For the Last Six Years	5	33
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 <u>Government Auditing Standards</u>		35-36
Staff		37

Iowa Lottery Authority

Officials

Governor

Honorable Chester J. Culver
Richard C. Oshlo
Glen Dickinson

Governor
Interim Director, Department of Management
Director, Legislative Services Agency

Iowa Lottery Authority Board of Directors

Mary Junge
Michael Klappholz
Elaine Baxter
Thomas M. Rial
Brad P. Schroeder

Chairperson
Vice Chairperson
Member
Member
Member

Ex-Officio Member

Honorable Michael L. Fitzgerald

Treasurer of State

Iowa Lottery Authority

Terry Rich
Brenda Loy

Chief Executive Officer
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:

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, 2009, which collectively comprise the Iowa Lottery Authority's basic financial statements listed in the table of contents. These financial statements are the responsibility of the Iowa Lottery Authority's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

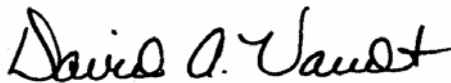
As discussed in Note 1, the financial statements of the Iowa Lottery Authority are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the financial reporting entity of the State of Iowa attributable to the transactions of the Iowa Lottery Authority. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2009, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Iowa Lottery Authority at June 30, 2009, 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.

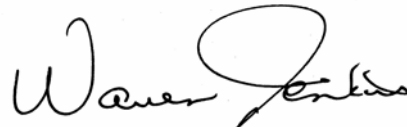
In accordance with Government Auditing Standards, we have also issued our report dated January 26, 2010 on our consideration of the Iowa Lottery Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 7 through 10 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

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 second paragraph of this report, the financial statements for the five years ended June 30, 2008 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other 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. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 26, 2010

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, 2009. 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 2009:

- The Lottery raised \$60.6 million in proceeds for state programs in fiscal year 2009 compared to \$56.5 million the year before, an increase of 7.1 percent. This marks the highest proceeds total for lotto, instant-scratch and pull-tab games since the Lottery's start in 1985.
- Beginning in fiscal year 2009, specific proceeds were dedicated to veterans' causes through the sale of two instant-scratch and two pull-tab games. Net proceeds totaling \$2.8 million were transferred to the Veterans Trust Fund in the current fiscal year.
- Hot Lotto sales continued at a strong rate in the current fiscal year, totaling \$14.3 million, a 22.2 percent increase from the prior year. The jackpot for Hot Lotto started growing in March 2009 and by the end of the fiscal year had reached \$10.6 million.
- Lottery sales totaled \$243.3 million in fiscal year 2009, which ended June 30. Even though sales decreased 2.4 percent from fiscal year 2008's total sales of \$249.2 million, the Lottery still raised \$60.6 million in proceeds for state programs.
- The annual principal payment on lottery revenue bonds decreased from \$2 million in fiscal year 2008 to \$100,000 in the current fiscal year. The bonds were issued in 2004 to pay for the Lottery's headquarters building in Des Moines and the vending machines it currently uses to sell instant-scratch and pull-tab tickets.
- Since the Lottery's inception in 1985, more than \$2.4 billion has been awarded in prizes and over \$1.2 billion has been raised for state programs.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the Lottery's basic financial statements. The Lottery's basic financial statements consist of a series of financial statements. The Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows (on pages 12 through 14) provide information about the activities of the Lottery as a whole and present a longer-term view of the Lottery's finances. These basic financial statements also include the Notes to Financial Statements that explain some of the information in the statements and provide more detail. Supplementary information is in schedule form and begins on page 28.

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 Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Lottery as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities 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 these statements:

The Statement of Net Assets presents all of the Lottery's assets and liabilities, with the difference between the two reported as "net assets". Per Section 99G.9A of the Code of Iowa, net proceeds from two instant-scratch and two pull-tab games will be transferred on a quarterly basis to the Veterans Trust Fund. In addition, Section 99G.2 of the Code of Iowa requires all Lottery revenue remaining after expenses be transferred on a quarterly basis to the State General Fund. However, the Lottery may retain an amount sufficient to cover anticipated administrative expenses for a period of twenty-one days. Unrestricted net assets are calculated as the sum of cash on deposit with the state vehicle dispatcher, ticket inventories and the net book value of capital assets, less related bonds payable.

The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Lottery's net assets changed during the most recent fiscal year. All changes in net assets 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 periods. Both ticket sales and related proceeds transfers 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.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements. The Notes to Financial Statements begin on page 15.

The Supplementary Information begins on page 28 and provides detailed information about other operating expenses by object. Schedule 2 shows revenues and expenses by individual Lottery games. Schedule 3 provides an analysis of net assets. In addition, other financial data in this section compares revenues and prize payouts over the past six years by game.

FINANCIAL ANALYSIS

The Lottery's assets totaled \$44.7 million at the end of 2009 compared to \$45.1 million at the end of the previous year, a decrease of \$0.4 million. The overall decrease of \$0.4 million in assets is the result of: (a) a \$2 million decrease in investment in prize annuities for final annuity payments made to ten annuitants in FY 2009; (b) a decrease of \$1.2 million in capital assets, primarily due to the rise in the accumulated depreciation for the instant-scratch and pull-tab ticket vending machines originally purchased during fiscal year 2005; and (c) a \$3.9 million increase in cash which was subsequently transferred to the state during the closeout period of fiscal year 2009.

Current liabilities increased \$2.5 million during fiscal year 2009, primarily due to an increase in the amount to be transferred to the state for the 4th quarter.

Net assets invested in capital assets decreased \$1.1 million from fiscal year 2008. Unrestricted net assets represent assets used to meet the Lottery's ongoing obligations to vendors and creditors. Unrestricted net assets decreased \$0.2 million from the previous fiscal year.

	June 30,	
	2009	2008
Net Assets:		
Current assets	\$ 26,606,548	24,203,314
Prize reserve	4,421,853	4,022,356
Investment in prize annuities	9,434,092	11,466,178
Capital assets, net	4,286,169	5,453,019
Total assets	\$ 44,748,662	45,144,867
Current liabilities	\$ 24,217,039	21,685,746
Prize reserve	4,421,853	4,022,356
Long-term accounts payable and accruals	52,980	-
Long-term annuity prizes payable	9,434,092	11,466,178
Long-term bonds payable	1,300,000	1,400,000
Other long-term liabilities	909,055	902,806
Total liabilities	\$ 40,335,019	39,477,086
Net assets:		
Invested in capital assets, net of related debt	\$ 2,886,169	3,953,019
Unrestricted	1,527,474	1,714,762
Total net assets	\$ 4,413,643	5,667,781

The next schedule helps to highlight the activity for fiscal year 2009 as compared to fiscal year 2008.

	Year ended June 30,	
	2009	2008
Changes in Net Assets:		
Operating revenues:		
Ticket sales	\$ 243,337,101	249,217,468
Application fees	3,680	5,150
Other	65,449	47,962
Total operating revenues	243,406,230	249,270,580
Operating expenses:		
Prizes	138,425,341	144,669,575
Other operating expenses	46,053,825	47,331,940
Total operating expenses	184,479,166	192,001,515
Operating income	58,927,064	57,269,065
Non-operating revenues (expenses):		
Interest income	421,090	699,922
Interest expense	(48,986)	(109,467)
Net non-operating revenues	372,104	590,455
Income before transfers	59,299,168	57,859,520
Transfers to other funds:		
State General Fund	56,550,792	55,296,265
Veterans Trust Fund	2,783,377	-
Iowa Department of Public Health- Gambling Treatment Fund	1,219,137	1,249,853
Total transfers to other funds	60,553,306	56,546,118
Changes in net assets	(1,254,138)	1,313,402
Net assets beginning of year	5,667,781	4,354,379
Net assets end of year	\$ 4,413,643	5,667,781

Lottery sales for fiscal year 2009 were down 2.4 percent, reaching \$243.3 million for traditional lottery products, compared to \$249.2 million for fiscal year 2008. Powerball sales had the most significant decline in the current fiscal year, down \$5.5 million, or 8.7 percent, primarily due to fewer large jackpots. Fiscal year 2008 Powerball jackpots exceeded \$150 million on 5 occasions, 2 of which had jackpots in excess of \$275 million. In fiscal year 2009, Powerball jackpots exceeding \$150 million occurred on 4 occasions, none of which exceeded \$275 million. In addition, the Lottery's first cash-raffle game introduced during fiscal year 2008 was not continued in fiscal year 2009. However, sales were strong for the Lottery's Hot-Lotto, Pick 3 and Pick 4 games during the current fiscal year, with increases ranging from 2.5 percent for Pick 3 to 22.2 percent for Hot Lotto.

The Lottery's operating expenses were down 3.9 percent in the current fiscal year due, in part, to the decrease in sales. The largest operating expense is prize expense, which accounts for 56.9 percent of sales. The next largest operating expense is retailer compensation expense, which accounts for 6.3 percent of all sales. Retailers earned commissions on sales of all Lottery products during fiscal year 2009. In addition, the Lottery awards incentive compensation to retailers who increase their sales from a base level determined by the Lottery and bonus payments to retailers who sell jackpot-winning tickets in Powerball and Hot Lotto and tickets winning at least \$100,000 in all its lotto games.

Overall, the Lottery increased proceeds for state programs to \$60.6 million in fiscal year 2009, compared to \$56.5 million a year earlier. Transfers to the State General Fund for fiscal year 2009 were \$56.6 million, an increase from the previous year's \$55.3 million. Veterans Trust Fund transfers totaled \$2.8 million in the current fiscal year. Transfers to the Gambling Treatment Fund were down slightly for fiscal year 2009, totaling \$1.22 million from \$1.25 million in fiscal year 2008 due to the overall decrease in Lottery sales.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Lottery's investment in capital assets as of June 30, 2009 was \$10.7 million, net of accumulated depreciation of \$6.4 million, leaving a book value of \$4.3 million. Additional information about the Lottery's capital assets is presented in note 5 to the financial statements.

At June 30, 2009, the Lottery had \$1.4 million in revenue bonds outstanding. Principal and interest paid on the revenue bonds in the current fiscal year totaled \$100,000 and \$49,260, respectively. More detailed information about the Lottery's revenue bonds is presented in note 6 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Lottery's management considered many factors when establishing the fiscal year 2010 budget. Overall, the Lottery expects sales to remain flat due to a weakened U.S. economy but is committed to meeting our budgeted proceeds transfers for state programs.

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 to 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, 2323 Grand Avenue, Des Moines, Iowa 50312-4999.

Basic Financial Statements

Iowa Lottery Authority
Statement of Net Assets
June 30, 2009

Assets	
Current assets:	
Cash	\$ 18,810,486
Restricted assets - cash	404,148
Prepaid expense	72,917
Interest receivable	33,797
Accounts receivable, net	3,293,552
Ticket inventories	1,195,091
Investment in prize annuities	2,796,557
Total current assets	<u>26,606,548</u>
Noncurrent assets:	
Prize reserve	4,421,853
Investment in prize annuities	9,434,092
Capital assets, net	4,286,169
Total noncurrent assets	<u>18,142,114</u>
Total assets	<u>44,748,662</u>
Liabilities	
Current liabilities:	
Lotto prizes payable	2,297,882
Annuity prizes payable	2,836,557
Accounts payable and accruals	1,414,603
Due to:	
State General Fund	15,440,315
Other state agencies	890,165
Interest payable	3,831
Bonds payable	100,000
Deferred revenue	408,234
Salary and benefits payable	88,383
Compensated absences and OPEB	737,069
Total current liabilities	<u>24,217,039</u>
Long-term liabilities:	
Accounts payable and accruals	52,980
Prize reserve	4,421,853
Bonds payable	1,300,000
Compensated absences and OPEB	909,055
Annuity prizes payable	9,434,092
Total long-term liabilities	<u>16,117,980</u>
Total liabilities	<u>40,335,019</u>
Net Assets	
Invested in capital assets, net of related debt	2,886,169
Unrestricted	1,527,474
Total net assets	<u>\$ 4,413,643</u>

See notes to financial statements.

Iowa Lottery Authority
Statement of Revenues, Expenses and Changes in Net Assets
Year ended June 30, 2009

Operating revenues:	
Instant-scratch ticket sales	\$ 136,268,555
Pick 3 sales	6,534,765
Pick 4 sales	2,555,237
Powerball sales	58,220,203
Hot Lotto sales	14,329,610
\$100,000 Cash Game sales	4,113,307
Pull-tab sales	21,315,424
Application fees	3,680
Other	65,449
Total operating revenues	<u>243,406,230</u>
Operating expenses:	
Prizes:	
Scratch ticket	81,846,620
Pick 3	3,834,735
Pick 4	1,473,587
Powerball	28,118,140
Hot Lotto	7,015,713
\$100,000 Cash Game	2,271,476
Pull-tab	13,389,649
Promotional	475,421
Total prizes	<u>138,425,341</u>
Retailer compensation	15,298,982
Advertising production and media purchases	6,995,166
Retailer lottery system/terminal communications	8,248,110
Instant/pull-tab ticket expense and machine maintenance	3,194,530
Terminal equipment/ticket dispensers	81,250
Other operating expenses	12,235,787
Total operating expenses	<u>184,479,166</u>
Operating income	<u>58,927,064</u>
Non-operating revenue (expense):	
Interest income	421,090
Interest expense	(48,986)
Net non-operating revenues	<u>372,104</u>
Income before transfers	<u>59,299,168</u>
Transfers to other funds:	
State General Fund	56,550,792
Veterans Trust Fund	2,783,377
Iowa Department of Public Health – Gambling Treatment Fund	1,219,137
Total transfers to other funds	<u>60,553,306</u>
Change in net assets	(1,254,138)
Net assets beginning of year	<u>5,667,781</u>
Net assets end of year	<u>\$ 4,413,643</u>

See notes to financial statements.

Iowa Lottery Authority
Statement of Cash Flows
Year ended June 30, 2009

Cash flows from operating activities:	
Cash received from customers	\$ 243,233,474
Cash paid for prizes	(143,138,547)
Cash paid to retailers	(15,298,982)
Cash paid to suppliers for goods and services	(20,453,888)
Cash paid to employees for services	(8,630,184)
Other operating revenues	79,621
Net cash provided by operating activities	<u>55,791,494</u>
Cash flows from non-capital financing activities:	
Operating transfers	<u>(56,434,050)</u>
Cash flows from capital and related financing activities:	
Principal paid on capital debt	(100,000)
Interest paid on capital debt	(49,260)
Acquisition of capital assets	(281,274)
Proceeds from sale of capital assets	34,581
Net cash used for capital and related financing activities	<u>(395,953)</u>
Cash flows from investing activities:	
Interest income	511,355
Annuity payments received from insurance companies	4,317,000
Net cash provided by investing activities	<u>4,828,355</u>
Net increase in cash	3,789,846
Cash beginning of year	<u>15,424,788</u>
Cash end of year	<u>\$ 19,214,634</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 58,927,064</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	\$ 1,403,051
Loss on sale of capital assets	10,492
Change in assets and liabilities:	
Decrease in prepaid expense	45,271
Increase in accounts receivable	(193,110)
Decrease in ticket inventories	138,573
Increase in accounts payable and accruals	217,380
Decrease in prizes payable	(356,731)
Decrease in due to other state agencies	(66,663)
Increase in deferred revenue	108,171
Decrease in compensated absences	(94,351)
Decrease in salary and benefits payable	29,347
Decrease in prize annuities	(4,377,000)
Total adjustments	<u>(3,135,570)</u>
Net cash provided by operating activities	<u>\$ 55,791,494</u>

See notes to financial statements.

Iowa Lottery Authority

Notes to Financial Statements

June 30, 2009

(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, 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 Iowa Lottery Authority has the responsibility to operate and manage lottery games in a manner to provide continuing entertainment to the public, maximize revenues and transfer 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 Iowa Lottery Authority 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 Iowa Lottery Authority 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 Iowa Lottery Authority consists of five sections: Security, Finance, Operations, Marketing and Sales.

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

A. Reporting Entity

For financial reporting purposes, the Iowa Lottery Authority has included all funds. The Iowa Lottery Authority 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 Iowa Lottery Authority are such that exclusion would cause the Iowa Lottery Authority'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

Iowa Lottery Authority 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 Iowa Lottery Authority. The Iowa Lottery Authority has no component units which meet the Governmental Accounting Standards Board criteria.

B. Fund Accounting

The Iowa Lottery Authority 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, liabilities, net assets, 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 and liabilities, whether current or non-current, associated with their activity are included on the statement of net assets, with the difference reported as net assets. Enterprise Fund operating statements present increases (revenues) and decreases (expenses) in net total assets.

In reporting the financial activity of its Enterprise Fund, the Iowa Lottery Authority applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

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 Iowa Lottery Authority 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 Iowa Lottery Authority by the Board and Chief Executive Officer through the budgetary process prescribed in Chapter 99G of the Iowa Code.

F. Revenue Recognition

Sales of instant-scratch, pull-tab 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.

Revenues for lotto games are recognized as the drawings are held. Deferred revenue represents lotto tickets sold for future prize drawings.

G. Assets, Liabilities and Net Assets

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 Iowa Lottery Authority as received.

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

Restricted Assets - Cash

The Iowa Lottery Authority makes monthly contributions to the State Vehicle Dispatcher. Such contributions are restricted for the purpose of purchasing replacement vehicles. Also included are annuity payments received by the Iowa Lottery Authority during the fiscal year which are not owed to jackpot winners until the next fiscal year.

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 and machine maintenance when sold or voided. Unsold tickets are expensed upon the end or cancellation of a lottery game.

Certain instant-scratch games use the shared risk approach and carry no inventory on the financial statements. For these games, the tickets are not billed by the supplier until the tickets are sold, at which time the Iowa Lottery Authority records the related ticket expense.

Prize Reserve

The Iowa Lottery Authority 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 Iowa Lottery Authority as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two 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>Asset</u>	<u>Years</u>
Buildings	39
Equipment	5-10
Vehicles	2-4

Prize Liabilities

The prize liabilities for the \$100,000 Cash Game, the Pick 3 Game and the Pick 4 Game are determined by actual matches and are recognized daily after the drawings are held. The prize liabilities for Powerball and Hot Lotto are determined and recognized twice a week after the jackpot drawings are held. Prizes for Pick 3, Pick 4 and the \$100,000 Cash Game may be claimed up to 90 days after the drawings are held. Prizes for Powerball and Hot Lotto may be claimed up to one year after the drawings are held.

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 rate, GASB Statement No. 45 requires employers recognize the implicit rate subsidy in postretirement medical plans provided by governmental employers.

(2) Deposits and Investments

The Iowa Lottery Authority's deposits with the office of the Treasurer of State throughout the period and at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa.

The Iowa Lottery Authority held investments totaling \$12,230,649 for the purpose of paying installment prizes. The Iowa Lottery Authority may invest in financial instruments carrying the full faith and credit of the U.S. government or insurance annuities purchased from companies with an A.M. Best A+ rating and a stated surplus of at least \$100,000,000 in accordance with Section 99G.9 of the Code of Iowa.

The Iowa Lottery Authority is responsible for investing in insurance annuities. The Iowa Lottery Authority had investments in insurance annuities with a fair value of \$163,265 that are not subject to credit risk categorization.

The Treasurer of State is responsible for investing the Iowa Lottery Authority's funds, except for insurance annuities. The Iowa Lottery Authority's investments in U.S. government securities with a fair value of \$10,947,190 at June 30, 2009 are all insured and registered investments held by the State of Iowa or held by the State of Iowa's agent in the name of the State. The Iowa Lottery Authority also had investments of \$1,120,194 at June 30, 2009 in pooled funds and mutual funds.

At June 30, 2009, the Iowa Lottery Authority had the following fixed income investments:

Investment Type	Fair Value
U.S. Government Treasuries, Notes and Bonds	\$ 5,584,105
U.S. Government Agencies	5,363,085
Total	<u>\$ 10,947,190</u>

Credit Risk. The credit risk ratings of the fixed income investments at June 30, 2009 were as follows:

	Treasury	Agencies	AAA	Total
Fixed Income	\$ 47,105	4,651,085	6,249,000	\$ 10,947,190

Interest Rate Risk. At June 30, 2009, the effective duration and composition of the fixed income investments were as follows:

Investment Type	Fair Value	Effective Duration (Years)
U.S. Government Treasuries, Notes and Bonds	\$ 5,584,105	3.51
U.S. Government Agencies	5,363,085	3.87
Total	<u>\$ 10,947,190</u>	<u>3.69</u>

(3) Investment in Prize Annuities and Annuity Prizes Payable

Assets totaling \$12,290,249, which includes \$12,230,649 of investments and \$59,600 of restricted assets, are held by the Iowa Lottery Authority for the purpose of paying installment prizes which have already been won but will not be fully paid until 2018. 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 \$19,600 to taxing authorities, of which \$12,600 is classified as due to other state agencies and \$7,000 is classified as accounts payable. The following is a schedule of future payments:

Year Ending June 30,	Current	Long-term	Total Payments
2010	\$ 2,935,000	-	2,935,000
2011	-	2,167,000	2,167,000
2012	-	1,488,000	1,488,000
2013	-	1,488,000	1,488,000
2014	-	1,490,000	1,490,000
2015-2018	-	4,768,000	4,768,000
Total future value	2,935,000	11,401,000	14,336,000
Less: unamortized discount	(98,443)	(1,966,908)	(2,065,351)
Present value of payments	<u>\$ 2,836,557</u>	<u>9,434,092</u>	<u>12,270,649</u>

(4) Accounts Receivable

The components of accounts receivable at June 30, 2009 are as follows:

Due from agents	\$ 4,098,834
Due from others	<u>118,973</u>
Subtotal	4,217,807
Less allowance for doubtful accounts	<u>(924,255)</u>
Accounts receivable, net	<u>\$ 3,293,552</u>

Bad debt expense of \$39,566 was charged against instant-scratch ticket sales for the year ended June 30, 2009.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2009 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 392,110	-	-	392,110
Capital assets being depreciated:				
Buildings	1,986,487	-	-	1,986,487
Equipment	7,353,335	104,394	64,095	7,393,634
Vehicles	889,165	176,880	130,572	935,473
Total capital assets being depreciated	<u>10,228,987</u>	<u>281,274</u>	<u>194,667</u>	<u>10,315,594</u>
Less accumulated depreciation for:				
Buildings	156,887	51,659	-	208,546
Equipment	4,492,724	1,197,725	56,689	5,633,760
Vehicles	518,467	153,667	92,905	579,229
Total accumulated depreciation	<u>5,168,078</u>	<u>1,403,051</u>	<u>149,594</u>	<u>6,421,535</u>
Total capital assets being depreciated, net	<u>5,060,909</u>	<u>(1,121,777)</u>	<u>45,073</u>	<u>3,894,059</u>
Capital assets, net	<u>\$ 5,453,019</u>	<u>(1,121,777)</u>	<u>45,073</u>	<u>4,286,169</u>

(6) Revenue Bonds Payable

During fiscal year 2005, the Iowa Lottery Authority issued \$8,800,000 of revenue bonds with an interest rate of 3.284% per annum. The proceeds were used for the purchase, financing and installation of instant-scratch ticket and pull-tab vending machines and for the purchase and renovation of a building for the Iowa Lottery Authority's headquarters. The bonds mature over the next ten years. The remaining principal balance at June 30, 2009 was \$1,400,000.

The following is a schedule by year of the future payments required:

Year Ending June 30,	Principal	Interest	Total
2010	\$ 100,000	45,976	145,976
2011	100,000	42,692	142,692
2012	100,000	39,408	139,408
2013	100,000	36,124	136,124
2014	100,000	32,840	132,840
2015-2019	900,000	95,236	995,236
Total	<u>\$ 1,400,000</u>	<u>292,276</u>	<u>1,692,276</u>

During the year ended June 30, 2009, \$100,000 of revenue bonds were retired.

(7) Lease Commitment

The Iowa Lottery Authority 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, 2012.

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, 2009:

Year ending June 30,	Amount
2010	\$ 242,941
2011	109,716
2012	<u>10,936</u>
Total	<u>\$ 363,593</u>

Rental expense for all operating leases totaled \$290,254 for the year ended June 30, 2009.

(8) Pension and Retirement Benefits

The Iowa Lottery Authority contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.10% of their annual salary and the Iowa Lottery Authority is required to contribute 6.35% of annual covered payroll for the years ended June 30, 2009, 2008 and 2007. Contribution requirements are established by state statute. The Iowa Lottery Authority's contributions to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$403,942, \$390,212 and \$376,951, respectively, equal to the required contributions for each year.

(9) Compensated Absences and Other Postemployment Benefits (OPEB)

Changes in compensated absences and other postemployment retirement benefit obligations for the year ended June 30, 2009 are summarized as follows:

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009	Due Within One Year
Compensated absences	\$ 1,536,767	664,934	696,623	1,505,078	737,069
Net OPEB liability	62,662	78,384	-	141,046	-
Termination benefits for retirees	66,643	66,839	39,669	93,813	40,833
Total	<u>\$ 1,666,072</u>	<u>810,157</u>	<u>736,292</u>	<u>1,739,937</u>	<u>777,902</u>

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 will be converted based upon the original balance (before the cash payment). The remainder of the sick leave value is calculated as follows, based on the number of sick leave hours the employee had before the cash payment:

If the sick leave balance is:	The conversion rate is:
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 will be credited to the employee's SLIP account. Each month, the Iowa Lottery Authority will pay 100 percent 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 Iowa Lottery Authority 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 until 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 sick leave insurance program will be forfeited.

All SLIP program benefits are financed on a pay-as-you-go basis. For the year ended June 30, 2009, 7 employees have retired and received benefits of \$39,669 under the SLIP program.

Other Postemployment Benefits. The Iowa Lottery Authority implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during the year ended June 30, 2008. This Statement establishes when other postemployment benefit liabilities are recorded under the accrual basis of accounting.

As a part of the State of Iowa, the Iowa Lottery Authority participates in the State of Iowa postretirement medical plan (OPEB). The OPEB Plan recognizes the implicit rate subsidy as required by GASB Statement No. 45.

The annual valuation of liabilities under the OPEB Plan is calculated using the entry age normal cost method. This method requires the calculation of an unfunded actuarial accrued liability, which was approximately \$293,000,000 for the State of Iowa as of June 30, 2009. The Iowa Lottery Authority's portion of the unfunded actuarial accrued liability is not separately determinable.

Details of the OPEB Plan are provided on a state-wide basis and are available in the State of Iowa's Comprehensive Annual Financial Report for the year ended June 30, 2009. The report may be obtained by writing to the Iowa Department of Administrative Services, Hoover State Office Building, Des Moines, Iowa 50319.

The Iowa Lottery Authority recognized a net OPEB liability of \$141,046 for other postemployment benefits, which represents the Iowa Lottery Authority's portion of the State's net OPEB obligation. The Iowa Lottery Authority's portion of the net OPEB obligation was calculated using the ratio of full time equivalent employees of the Iowa Lottery Authority compared to full time equivalent employees of the State of Iowa.

(10) Payment of Prizes

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

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 are matched, plus the Powerball number.

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 \$100,000 Cash Game prize expense is comprised of winners who match 2, 3, 4 or 5 of 5 numbers.

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 are matched, plus the Hot Ball number.

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.

During the year ended June 30, 2009, \$475,421 in prizes were distributed through various promotional activities.

(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 Iowa Lottery Authority'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 Iowa Lottery Authority's account on or before the anniversary date of the jackpot.

At June 30, 2009, the MUSL held zero coupon bonds for the Iowa Lottery Authority to fund future installment payments aggregating \$2,540,771. The current value of those bonds totaled \$2,486,766.

(12) Instant-Scratch Ticket Packs

The Iowa Lottery Authority issues instant-scratch ticket packs to retailers on an ongoing basis. The 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, 2009, the Iowa Lottery Authority had 27,507 packs at retailers which have not yet settled. The receivable and the related deferred revenue of \$3,795,338, calculated as shown below, have not been included in the Iowa Lottery Authority's financial statements since the sales associated with these packs have not been recognized.

Unsettled packs	\$8,252,100
Less:	
Retailer compensation	561,555
Low-tier prize expense	<u>3,895,207</u>
Potential receivable and deferred amount	<u>\$3,795,338</u>

(13) 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 Iowa Lottery Authority has purchased commercial insurance for certain risks.

(14) Litigation

There are currently two lawsuits pending against, or involving, the Iowa Lottery Authority and/or the State seeking monetary damages arising out of the Legislature's 2006 ban of the Lottery's TouchPlay Monitor Vending Machine product. There were approximately 7,000 TouchPlay monitor vending machines operating in the State at the time of the ban. Lawsuits related to this litigation are currently pending in Floyd and Webster counties. The lawsuits involve five individual and corporate plaintiffs. The pending litigation asserts claims for money damages based on various constitutional, legal and equitable theories. The Webster County lawsuit was dismissed on summary judgment. A notice of appeal has been filed by the Plaintiff in that case. A Motion for Summary Judgment is pending in the Floyd County lawsuit. If unsuccessful, the trial is set to begin February 23, 2010. At this time, the Lottery is unable to determine what, if any, potential monetary liabilities may be incurred by the Iowa Lottery Authority or the State as a result of these lawsuits. The Iowa Lottery Authority believes it has meritorious defenses to all of the claims asserted by the plaintiffs and intends to vigorously defend the cases. Except as outlined above, all other TouchPlay cases and claims previously disclosed have been settled.

A lawsuit was filed in Polk County District Court against the State and various state agencies, including the Iowa Lottery Authority, alleging race discrimination in the State's hiring, retention and promotion practices. This lawsuit includes 23 named plaintiffs and also seeks class certification. The State believes it has meritorious defenses to the plaintiff's underlying claims as well as their request for class certification. The case is in preliminary discovery and there is currently no date set for a determination of class certification. Any estimate of potential monetary exposure to the State would be purely speculative at this time. As with the other litigation outlined above, it is the State's intention to vigorously defend the cases and settle only those cases where the evidence and the law indicate potential liability on behalf of the State.

Iowa Lottery Authority

Supplementary Information

Schedule 1

Iowa Lottery Authority

Other Operating Expenses

Year ended June 30, 2009

Salary and benefits	\$ 8,759,206
Travel	404,876
Supplies	110,739
Printing	9,582
Postage	4,717
Communications	116,920
Rentals	290,254
Utilities	103,240
Professional fees	121,965
Advertising	12,451
Outside services and repair	166,732
Non-capitalized equipment	123,348
Data processing	40,929
Reimbursement to state agencies	435,976
Depreciation	1,403,051
Other	<u>131,799</u>
Total	<u>\$ 12,235,787</u>

See accompanying independent auditor's report.

Iowa Lottery Authority
Revenues, Expenses and Changes in Net Assets
Years ended June 30, 2009 and 2008

	2009	2008	Increase (Decrease)
Operating revenues:			
Instant-scratch ticket sales	\$ 136,268,555	137,917,848	(1,649,293)
Pick 3 sales	6,534,765	6,373,362	161,403
Pick 4 sales	2,555,237	2,315,469	239,768
Powerball sales	58,220,203	63,761,024	(5,540,821)
Raffle sales	-	1,425,460	(1,425,460)
Hot Lotto sales	14,329,610	11,724,416	2,605,194
\$100,000 Cash Game sales	4,113,307	4,291,933	(178,626)
Pull-tab sales	21,315,424	21,407,956	(92,532)
Application fees	3,680	5,150	(1,470)
Other	65,449	47,962	17,487
Total operating revenues	<u>243,406,230</u>	<u>249,270,580</u>	<u>(5,864,350)</u>
Operating expenses:			
Prizes:			
Scratch ticket	81,846,620	85,907,684	(4,061,064)
Pick 3	3,834,735	3,763,710	71,025
Pick 4	1,473,587	1,352,661	120,926
Powerball	28,118,140	30,749,779	(2,631,639)
Raffle	-	1,200,000	(1,200,000)
Hot Lotto	7,015,713	5,668,710	1,347,003
\$100,000 Cash Game	2,271,476	2,525,366	(253,890)
Pull-tab	13,389,649	13,397,429	(7,780)
Promotional	475,421	104,236	371,185
Total prizes	<u>138,425,341</u>	<u>144,669,575</u>	<u>(6,244,234)</u>
Retailer compensation	15,298,982	15,650,431	(351,449)
Advertising production and media purchases	6,995,166	7,307,529	(312,363)
Retailer lottery system/terminal communications	8,248,110	8,271,422	(23,312)
Instant/pull-tab ticket expense and machine maintenance	3,194,530	2,982,131	212,399
Terminal equipment/ticket dispensers	81,250	-	81,250
Other operating expenses	12,235,787	13,120,427	(884,640)
Total operating expenses	<u>184,479,166</u>	<u>192,001,515</u>	<u>(7,522,349)</u>
Operating income	<u>58,927,064</u>	<u>57,269,065</u>	<u>1,657,999</u>
Non-operating revenues (expenses):			
Interest income	421,090	699,922	(278,832)
Interest expense	(48,986)	(109,467)	60,481
Net non-operating revenues	<u>372,104</u>	<u>590,455</u>	<u>(218,351)</u>
Income before transfers	59,299,168	57,859,520	1,439,648
Transfers to other funds	60,553,306	56,546,118	4,007,188
Changes in net assets	(1,254,138)	1,313,402	(2,567,540)
Net assets beginning of year	5,667,781	4,354,379	1,313,402
Net assets end of year	<u>\$ 4,413,643</u>	<u>5,667,781</u>	<u>(1,254,138)</u>

See accompanying independent auditor's report.

Iowa Lottery Authority

Iowa Lottery Authority

Analysis of Net Assets

June 30, 2009

Cash on deposit with Vehicle Dispatcher	\$ 332,383
Ticket inventories	1,195,091
Capital assets, net of related debt	<u>2,886,169</u>
Total	<u>\$ 4,413,643</u>

See accompanying independent auditor's report.

Schedule 4

Iowa Lottery Authority

Revenue by Game -
For the Last Six Years

Games	Year ended June 30,					
	2004	2005	2006	2007	2008	2009
Instant-scratch ticket	\$ 95,258,080	103,259,272	106,562,536	125,147,976	137,917,848	136,268,555
Pick 3	6,333,801	6,200,109	6,056,037	6,282,529	6,373,362	6,534,765
Pick 4	1,662,015	2,042,499	2,066,769	2,224,092	2,315,469	2,555,237
Powerball	65,967,337	54,244,379	71,110,985	61,548,520	63,761,024	58,220,203
Raffle	-	-	-	-	1,425,460	-
Hot Lotto	7,717,962	10,443,903	9,634,818	14,453,908	11,724,416	14,329,610
Pull-tab	25,528,391	23,624,094	18,314,338	21,058,969	21,407,956	21,315,424
\$100,000 Cash Game	4,430,118	4,426,833	4,323,511	4,362,916	4,291,933	4,113,307
Freeplay Replay	77,330	-	-	-	-	-
Monitor vending	1,257,087	-	-	-	-	-
TouchPlay (net)	303,079	6,428,123	121,450,529	-	-	-
Total	\$ 208,535,200	210,669,212	339,519,523	235,078,910	249,217,468	243,337,101

See accompanying independent auditor's report.

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

Games	Year ended June 30,					
	2004	2005	2006	2007	2008	2009
Instant-scratch ticket	58%	59%	61%	61%	62%	60%
Pick 3	59%	58%	58%	59%	59%	59%
Pick 4	54%	58%	50%	54%	58%	58%
Powerball	48%	48%	49%	48%	48%	48%
Raffle	-	-	-	-	84%	-
Hot Lotto	49%	49%	49%	49%	48%	49%
Pull-tab	62%	62%	62%	62%	63%	63%
\$100,000 Cash Game	43%	43%	47%	51%	59%	55%
Freeplay Replay	46%	-	-	-	-	-
Monitor vending	75%	-	-	-	-	-

See accompanying independent auditor's report.

Iowa Lottery Authority



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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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 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, 2009, and have issued our report thereon dated January 26, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Iowa Lottery Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Iowa Lottery Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Iowa Lottery Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Iowa Lottery Authority's ability to initiate, authorize, record, process or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the Iowa Lottery Authority's statements that is more than inconsequential will not be prevented or detected by the Iowa Lottery Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Iowa Lottery Authority's internal control.

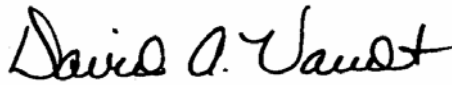
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

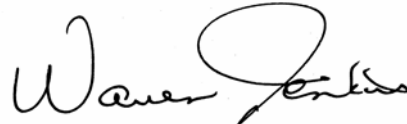
As part of obtaining reasonable assurance about whether the Iowa Lottery Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect 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 that are required to be reported under Government Auditing Standards.

This report, a public record by law, is intended solely for the information and use of the Board Members, other officials and employees of the Iowa Lottery Authority, citizens of the State of Iowa and other parties to whom the Iowa Lottery Authority may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State


January 26, 2010

Iowa Lottery Authority

Staff

This audit was performed by:

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