

Building for the Future



**Annual Report
Fiscal Year 2003**



A Message from the Commissioner

During fiscal year 2003 the Iowa Lottery built for the future by introducing new products to continue providing entertainment for our players and at the same time ensure a steady flow of income to the state of Iowa to build its financial strength.

During the last fiscal year, state governments all over the country continued to struggle with budget deficits, and Iowa was no different. Fortunately, the Iowa Lottery was able to send almost \$48 million to the state General Fund to benefit Iowa programs.

The Iowa Lottery's introduction of new products and enhancements to existing products helped us reach our goals of continued support for the state and satisfaction for the player. Consider these exciting changes made to the Iowa Lottery "landscape" in FY 2003:



**Iowa Lottery Commissioner
Dr. Edward Stanek**

- Launched enhancements to the Powerball® game (designed to produce larger jackpots, better Power Play®, Match 5 Bonus feature)
- Began market test of monitor vending machines
- Sold GrandTime pull-tab—first \$1,000 prize on a pull-tab
- Congratulated two Hot Lotto® jackpot winners—as our newest lotto product, Hot Lotto continues to have strong sales
- Welcomed "Powerball Instant Millionaire" game show with new, more exciting games
- Fine-tuned point-of-sale materials in retail locations
- Instituted keyless validation of scratch tickets for our retailers

All of these changes form the building blocks for a secure business future. We're very pleased to offer products that have proven valuable to Iowa and its lottery players. This report details how these products and ideas were successful for the lottery in FY 2003.

We've had an exciting year. The lottery continues to plan for the future with innovative ideas for new products. Stay tuned!



A Message from the Board Chairman



Tim Clausen, Board chairman, is an attorney from Sioux City.

In the past year, the Iowa Lottery Board has set some standards that will help forge a path for the Iowa Lottery's future success.

One very important issue we considered in fiscal year 2003 was the addition of monitor vending machines to the lottery's product mix. The board carefully considered the whole process, from the changes in lottery rules required for implementation of testing to the vendors that would build prototype machines for testing. Members believe the monitor vending machines will enhance the playing experience for lottery players, while also improving the lottery's capability to produce as much revenue as possible for the state's General Fund.

The board also considered a variety of other issues. We approved a \$5,000 bonus for any retailer who sells a Hot Lotto jackpot-winning ticket. We're pleased this game has been received favorably by our players. Also, in order to save money, the board decided the lottery should initiate computerized drawings for the \$100,000 Cash Game and Freeplay Replay. Of course, security is of the utmost importance, and all agreed this drawing method is very secure.

Overall, it was a good year and a lot of important decisions were made. The Iowa Lottery Board is proud to have set in motion plans to build for the lottery's future.

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2003 Iowa Lottery Board Members



Elaine Baxter, the former Iowa Secretary of State, is from Burlington.



Bill Brosnahan, a security consultant and former DCI agent, is from Dubuque.



Mary Junge, an attorney and Certified Public Accountant, is from Cedar Rapids.



Michael McCoy, an insurance executive, is from West Des Moines.

Games and Promotions

Enhanced Powerball Introduced

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Changes to the Powerball game were designed to create larger jackpots and spread big winnings among more players. The new features took effect in the game on Oct. 6, 2002, as Powerball tickets went on sale in South Carolina, the 24th lottery to join the game. Pennsylvania also joined Powerball in 2002, with tickets going on sale there in June.

The traditional design of Powerball, with players choosing numbers from two separate pools of numbers, remained the same. But beginning Oct. 6, four numbers were added to the first pool, which previously had 49 numbers. Players now pick five numbers out of a pool of 53 for the first five numbers in the game and the Powerball from a pool of 42. Plays still cost \$1 and drawings are still held at 9:59 p.m. on Wednesdays and Saturdays.

Powerball Offers Larger Jackpots to Expanding Player Base



This sign was used to alert players of the changes to the Powerball game in October 2002.

As Powerball's player base has expanded, lotteries in the game have needed to ensure it will continue to offer what customers want: large jackpots. And, these changes mean that in some instances the big winnings will spill down, another frequent customer request. A new "Match 5 Bonus" system now takes effect when the Powerball jackpot reaches a new record level. Once in

new territory, the jackpot will grow by no more than \$25 million between drawings until it is won. Prize money beyond that will go into a separate "bonus pool." When the jackpot is won, the bonus pool money will be divided among players who win Powerball's second prize of \$100,000 by matching the first five numbers but not the Powerball. In some cases, the match-five prizes may each end up being \$1 million or more.

Power Play At Least Doubles Prizes Except Jackpot

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Another important change came in the Power Play option that was added to the Powerball game in March 2001. Under the new system, prizes won with Power Play are at least doubled.

Players add the Power Play to their regular Powerball purchase for an extra \$1 per play. A Power Play wheel is spun during the Powerball drawings on Wednesday and Saturday nights. Slots on the wheel list the numbers 2 through 5, indicating by how much prizes (except the jackpot) will be multiplied for those who choose this option. Prizes with the Power Play will at least be doubled.

The final change introduced Oct. 6 adjusted the annuity option for the Powerball jackpot. Jackpot winners formerly could choose to receive the prize as a lump-sum cash payment or in 25 annual payments. The annuity option has now been changed to 30 annual payments.

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The overall chance of winning a cash prize in Powerball changed only slightly, from about 1 in 35 to 1 in 36. The odds of winning the jackpot changed from about 1:80.1 million to 1:120.5 million.



Games and Promotions

Monitor Vending Machines Tested

The Iowa Lottery began testing new ticket dispensing machines in May 2003 that use lights and sound to enhance the play experience for our customers. Thirty machines from three different companies were used for the test in 26 existing age-controlled lottery retailers around the state.

After a player inserts money into the machine, the machine’s monitor displays the results of the ticket as the ticket dispenses. Along with audio tones from the machine, the display indicates whether the player has won a prize. Players do not need the monitor, however, to determine if they have won a prize. They can see the results on the ticket—the monitor simply enhances the play experience.

After six months of testing, the lottery will analyze sales data from these 30 machines. We anticipate the machines will enhance the lottery’s ability to generate revenue for the state.



Monitor vending machines were placed in 26 Iowa Lottery age-controlled retail locations for a test beginning in May 2003.

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Grand Time Pull-tab Offers \$1,000 Prize



The “A Grand Time” pull-tab (shown above) and a sign at retailers reminding players of the large top prize (at right) helped boost pull-tab sales in FY 2003.

The Iowa Lottery’s \$1 pull-tab ticket called “A Grand Time” was the first pull-tab in the product line to offer a \$1,000 prize.

Players asked for larger prizes on pull-tabs and this was the lottery’s chance to deliver that to the customer. Players could still win the traditional smaller prizes usually offered on \$1 pull-tabs, but an added bonus was the chance to win \$1,000.

The lottery advertised the ticket to players at the retailer with large signs placed on the top of pull-tab vending machines across the state.

Sales of pull-tab tickets were up about 2.7 percent during the fiscal year.



Hot Lotto Sizzles With Two New Millionaires from Iowa



Darlene Becker receives a check for \$3.6 million from Commissioner Ed Stanek as the first Hot Lotto jackpot winner in August 2002.

her husband may travel to Arizona to meet friends.

Becker said her son-in-law contacted her when he heard about a winning ticket sold in Dubuque. “After he called, I checked. He insisted I check.

“I had gone to buy my husband some orange sherbet when I bought my ticket,” she said. “I just didn’t believe it. I guess I was what you call ‘stunned.’”

She chose to receive the prize in a lump-sum payment of \$1,370,660.70 after taxes.

Denison Man Enjoys Hearing Speculation About Jackpot Winner—‘I Wonder Who That Guy Is?’

Don Sporrer of Denison won a Hot Lotto jackpot in December—this one worth \$2.7 million.

Before he claimed his prize, Sporrer said he had fun listening to local speculation about the identity of the winner.

“I was driving the truck and I’d hear on the radio, ‘Well, we still haven’t heard from the winner. I wonder who that guy is?’” he said.

Sporrer, 64, worked at IBP in Denison for 37 years and now drives a truck part-time for a Carroll company. He has a daughter, a son and a granddaughter.

Players’ interest in Hot Lotto increased after the game’s first jackpot was won by an Iowan in July 2002, and then another Iowan won it all in December 2002. In fact, two of the first three jackpots in this multi-state game were won by Iowans!

Sales for Iowa’s newest lotto game, Hot Lotto, were almost \$6 million in FY 2003.

Dubuque Woman Buys Orange Sherbet, Wins First Hot Lotto Jackpot

Darlene Becker of Dubuque won a \$3.6 million Hot Lotto jackpot in the July 10 drawing. Becker, 64, who has lived all her life in Dubuque, is the mother of 10 children. Her husband is a retired stone quarry operator. She said she will use her winnings to buy a new vehicle and do some improvements around her house. She also indicated she and



Don Sporrer of Denison claimed a \$2.7 million Hot Lotto jackpot. He’s shown here accepting a check from Commissioner Ed Stanek.



Winners

Players Love Las Vegas and ‘Powerball Instant Millionaire’ Game Show

Iowa Lottery players have said they love Las Vegas. Now they have the chance to be contestants on “Powerball Instant Millionaire,” a Las Vegas television game show offering a top prize of \$1 million. Iowa Lottery contestants won \$452,716 in cash on the game show in fiscal year 2003!

The weekly show, which debuted Oct. 5, 2002, is based on a series of \$3 instant-scratch tickets.

The game show is filmed at a studio in The Venetian, a premier resort, hotel and casino on Las Vegas Boulevard, the street known as the “Las Vegas Strip.” Contestants stay at the luxury all-suite hotel during their trip for the show’s taping.

For the past two years, the Iowa Lottery had been part of “Powerball—The Game Show,” a weekly TV show taped in Hollywood. Though contestants liked their trips to Hollywood for the game show, most indicated if they had their choice, they’d rather go to Las Vegas.

Players Can Win Instantly, On Stage or At Home

To qualify to be drawn to be on the game show, players purchase a game show scratch ticket that has instant prizes ranging from \$3 to \$25,000. Players who win with a “TV Drawing” symbol in the play area can send in their ticket for a biweekly drawing to determine contestants who will appear on the television show or be at-home players. At-home players have a chance to win up to \$10,000 if their state’s contestant advances to the bonus round.

Players who are drawn as on-air contestants win a three-night stay for two at The Venetian, plus airfare and \$750 in spending money for their trip. The show is taped during their stay in Las Vegas.

The new show features card, dice and word games. Only one player advances to the final round and has a chance to play for the top prize of \$1 million. The other on-air contestants win at least \$1,000.

‘Instant Bonus Spin’ Creates More Winners

The lottery used the statewide broadcasts of the game show in February 2003 to feature the four winners of the “\$25,000 Instant Bonus Spin” promotion. This gave Iowa viewers the opportunity to see even more Iowans having a winning experience.

“Powerball Instant Millionaire” is broadcast on Saturday evenings on these stations: KWWL (Waterloo, Cedar Rapids, Dubuque, Iowa City) at 5:00; WOI (Des Moines) at 6:30; KTVO (Ottumwa) at 6:30; KWQC (Quad Cities) at 5:00; KCAU (Sioux City) at 6:30; Cox Cable 2 (Council Bluffs) at 5:30 and KTTC (Mason City/Rochester, Minn.) at 5:00.



‘Powerball Instant Millionaire’ game show host Todd Newton also is the voice of “E!” entertainment television.



Dawn Miller of Nora Springs won \$23,042 on the June 14, 2003, episode of “Powerball Instant Millionaire.”

Retailers' Work Streamlined With Keyless Validation

The Iowa Lottery's retailers are our lifeblood. They are on the front lines helping our players every day. In fact, our retailers also are our customers. The lottery helped make the retailer's job easier when we instituted keyless validation in November 2002.

When the lottery's new lotto terminals were installed in 2001, we promised retailers that in the future they would be able to drop a scratch ticket into the validation device and be able to pay the player without keying in any extra numbers. Before this new technology was activated, retailers would have to enter several numbers from the scratch ticket into their terminal in order to pay the player a prize.

The lottery began loading keyless validation data onto retailers' terminals on Nov. 3. Now retailers can keylessly validate all lottery scratch tickets. Most retailers would agree this saves them a lot of time each day!

The SciScan 1500 can validate a scratch ticket without the retailer having to enter any codes manually.



Attractive Advertising at Point of Purchase Can Improve Sales



A sign on top of the LED readout from the lottery terminal helps promote lottery products at the counter. This one—"Go ahead, make your day"—promotes scratch tickets.

A large sign on top of an instant-ticket vending machine promotes the Slingo scratch ticket.



To boost ticket sales and increase awareness of promotions, the lottery has made an effort this year to fine-tune its point-of-purchase materials. This reminds customers to buy tickets when they get to the cash register at a retailer.

A new addition to the group of items posted in stores is the LED customer display unit-mounted sign. The signs have been installed just above the display showing the amount the customer has won on a ticket. The messages are "Hot enough for ya?" to promote the Hot Lotto game, and "Go ahead, make your day" and "If it feels good, scratch it" to promote scratch tickets.

The lottery has used several sizes of full-color posters to promote its products as well, including signs for the top of the instant-ticket and pull-tab vending machines.



Sales Rise For Second Straight Year

Lottery sales hit \$187.8 million in FY 2003, up about 3.6 percent from FY 2002 sales of \$181.3 million and well ahead of the lottery's budget projection of \$175 million. Lottery sales during FY 2002 had increased about 3.6 percent from the previous year. The lottery raised almost \$48 million in revenues for state programs during FY 2003, nearly unchanged from last year's total of \$48.2 million.

Dr. Ed Stanek, Iowa Lottery Commissioner, said that FY 2002 lottery revenues to the state were helped by nearly \$4 million in one-time income, including money the lottery received from the sale of stock when the Des Moines-based Principal Financial Group went public. Stanek said that while the lottery again received one-time income in FY 2003—about \$1.2 million from a Powerball jackpot that went unclaimed in Indiana—strategic planning allowed the lottery to make up most of the difference and maintain its revenues to the state.

Instant-Scratch Tickets Still Sales Leader

Instant-scratch tickets, the lottery's traditional sales leader, claimed that spot again this year, with sales increasing by more than 5 percent to \$84.9 million. Sales in the lottery's Pick 3 game made the biggest increase, jumping more than 21 percent for the year to \$6 million.

Powerball sales for the year were down about 5.4 percent to \$57.6 million while sales of pull-tab tickets increased about 2.7 percent to \$28.4 million.

As the fiscal year ended, the Powerball jackpot was increasing. It ultimately reached \$261.3 million for the July 9, 2003, drawing. However, about 40 percent of the sales and income to the state from that jackpot run came after the July 1 start of fiscal year 2004 and aren't reflected in this year's results.

	Instant	Lotto	Multi-state (Powerball)	Pull-tabs	Cash Game	Dream Draw	Daily Millions	Cash 4 Life	Pick 3	Freeplay Replay	Rolldown	Hot Lotto	Monitor Vending
FY '86	\$77.6	\$4.1											
FY '87	72.9	21.6											
FY '88	59.8	47.2	\$6.4	\$10.6									
FY '89	72.6	48.8	30.8	20.2									
FY '90	68.3	42.9	38.8	18.3									
FY '91	75.5	34.8	27.5	17.6	\$2.7								
FY '92	85.7	36.6	23.9	21.0	9.0								
FY '93	96.6	24.3	38.1	36.9	11.1								
FY '94	99.2	17.8	44.5	35.5	10.0								
FY '95	103.9	12.6	48.9	32.4	9.7								
FY '96	96.7	14.5	41.0	28.7	9.0								
FY '97	91.2	10.2	32.9	25.8	6.4	\$1.0	\$6.1						
FY '98	90.6	7.8	37.3	26.9	5.0		3.9	\$2.2					
FY '99	91.0		51.8	28.6	4.8			4.2	\$3.8				
FY '00	90.3		48.0	27.2	4.9			3.3	4.1	\$0.4			
FY '01	84.2		52.1	27.0	4.3			0.5	4.0	0.7	\$2.2		
FY '02	80.6		60.9	27.6	4.3				5.0	0.4	1.2	\$1.3	
FY '03	84.9		57.6	28.4	4.4				6.0	0.3		6.0	\$0.2

Sales of Iowa Lottery Games in Millions of Dollars



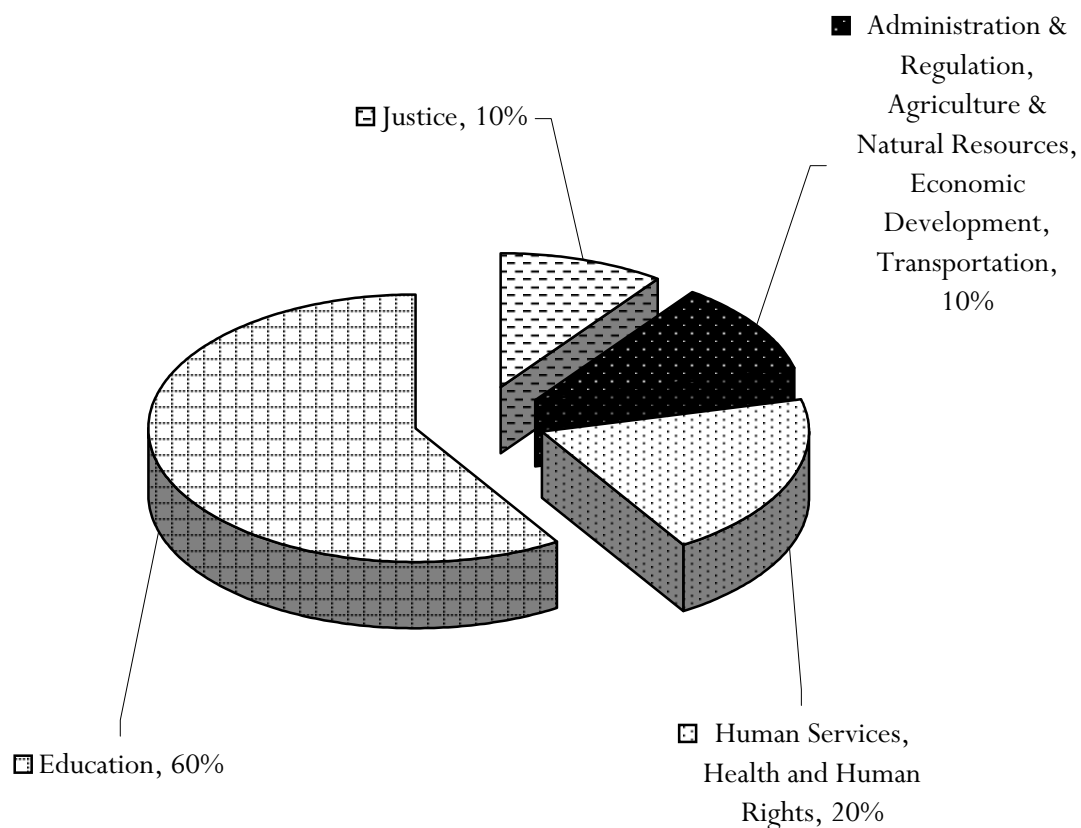
Revenues Benefit State General Fund

Iowa Lottery revenues are deposited in the state general fund, where they are used to pay for a variety of programs. Some of the programs that receive money from the general fund include education, natural resources, health and family services and public safety.

The chart below illustrates the breakdown of how the funds are distributed.

Since the Iowa Lottery's inception in 1985, more than \$1.6 billion has been awarded in prizes and nearly \$828 million has been raised for state programs.

Lottery Profits Sent to General Fund





Statement of Revenues

Statement of Revenues, Expenses and Changes in Net Assets Year ended June 30, 2003

Operating Revenues:

Instant ticket sales	\$ 84,939,904
Pick 3 sales	6,012,624
Powerball sales	57,555,489
Hot Lotto sales	5,970,188
Freeplay Replay sales	340,872
\$100,000 Cash Game sales	4,440,503
Monitor vending sales	195,973
Pull-tab sales	28,374,015
Application fees	16,825
Unclaimed Powerball jackpot	1,155,767
Other	<u>19,504</u>
Total operating revenues	<u>189,021,664</u>

Operating expenses:

Prizes:

Instant ticket	49,816,015
Pick 3	3,566,507
Powerball	27,403,942
Hot Lotto	3,067,550
Freeplay Replay	178,769
\$100,000 Cash Game	2,080,865
Monitor vending sales	147,328
Pull-tab	17,655,043
Promotional	<u>283,140</u>
Total prizes	104,199,159

Retailer compensation	11,763,229
Advertising/publicity	5,739,275
Vendor compensation/network expense	6,781,087
Instant and pull-tab rental and inventory expense	4,803,090
Other operating expenses	<u>8,955,881</u>
Total operating expenses	<u>142,241,721</u>

Operating income 46,779,943

Non-operating revenue:

Interest income 653,429

Income before operating transfers 47,433,372

Transfers to other funds:

State General Fund	38,466,350
Sales Tax (also transferred to the General Fund)	8,962,231
Iowa Department of Public Health-Gambling Treatment Fund	<u>542,130</u>

Change in net assets (537,339)

Net assets, beginning of year 2,313,964

Net assets, end of year \$ 1,776,625



Net Assets

Statement of Net Assets June 30, 2003

Assets

Current Assets:

Cash	\$ 7,256,362
Restricted assets-cash	635,379
Interest receivable	36,083
Prepaid expense	45,846
Accounts receivable, net	3,371,381
Ticket inventories	1,530,904
Investment in prize annuities	<u>9,353,950</u>
Total current assets	<u>22,229,905</u>

Non-current Assets:

Prize reserve	5,355,730
Investment in prize annuities	40,420,493
Capital assets, net	<u>280,497</u>
Total non-current assets	<u>46,056,720</u>

Total assets \$ 68,286,625

Liabilities

Current liabilities:

Online prizes payable	\$ 5,052,211
Instant prizes payable	48,413
Annuity prizes payable	9,484,450
Sales tax payable	407,803
Accounts payable	1,707,606
Due to:	
State General Fund	2,500,666
Other state agencies	162,502
Deferred revenue	432,143
Personal services payable	210,040
Compensated absences	<u>424,790</u>
Total current liabilities	<u>20,430,624</u>

Long-term liabilities:

Prize reserve fund	5,355,730
Personal services payable	27,540
Compensated absences	275,613
Long-term annuity prizes payable	<u>40,420,493</u>
Total long-term liabilities	<u>46,079,376</u>

Total liabilities 66,510,000

Net Assets

Invested in capital assets	280,497
Unrestricted	<u>1,496,128</u>
Total net assets	<u>\$ 1,776,625</u>



Sales by County

(Rounded to nearest \$100,000)

01 ADAIR	\$ 600,000	51 JEFFERSON	\$ 700,000
02 ADAMS	200,000	52 JOHNSON	4,500,000
03 ALLAMAKEE	1,300,000	53 JONES	1,100,000
04 APPANOOSE	1,000,000	54 KEOKUK	400,000
05 AUDUBON	300,000	55 KOSSUTH	1,000,000
06 BENTON	1,300,000	56 LEE	2,300,000
07 BLACKHAWK	12,400,000	57 LINN	14,800,000
08 BOONE	1,500,000	58 LOUISA	800,000
09 BREMER	1,400,000	59 LUCAS	500,000
10 BUCHANAN	1,500,000	60 LYON	300,000
11 BUENA VISTA	1,500,000	61 MADISON	400,000
12 BUTLER	900,000	62 MAHASKA	1,200,000
13 CALHOUN	400,000	63 MARION	1,400,000
14 CARROLL	1,500,000	64 MARSHALL	2,500,000
15 CASS	800,000	65 MILLS	700,000
16 CEDAR	700,000	66 MITCHELL	800,000
17 CERRO GORDO	4,900,000	67 MONONA	600,000
18 CHEROKEE	800,000	68 MONROE	700,000
19 CHICKASAW	800,000	69 MONTGOMERY	600,000
20 CLARKE	500,000	70 MUSCATINE	3,300,000
21 CLAY	1,600,000	71 O'BRIEN	700,000
22 CLAYTON	1,500,000	72 OSCEOLA	200,000
23 CLINTON	4,300,000	73 PAGE	300,000
24 CRAWFORD	1,200,000	74 PALO ALTO	600,000
25 DALLAS	1,600,000	75 PLYMOUTH	1,100,000
26 DAVIS	200,000	76 POCAHONTAS	400,000
27 DECATUR	200,000	77 POLK	25,100,000
28 DELAWARE	1,000,000	78 POTTAWATTAMIE	7,200,000
29 DES MOINES	2,400,000	79 POWESHIEK	1,100,000
30 DICKINSON	1,400,000	80 RINGGOLD	200,000
31 DUBUQUE	5,900,000	81 SAC	800,000
32 EMMET	900,000	82 SCOTT	10,600,000
33 FAYETTE	1,400,000	83 SHELBY	700,000
34 FLOYD	1,400,000	84 SIOUX	600,000
35 FRANKLIN	800,000	85 STORY	2,900,000
36 FREMONT	1,200,000	86 TAMA	800,000
37 GREENE	500,000	87 TAYLOR	300,000
38 GRUNDY	500,000	88 UNION	900,000
39 GUTHRIE	200,000	89 VAN BUREN	200,000
40 HAMILTON	1,400,000	90 WAPELLO	4,100,000
41 HANCOCK	1,100,000	91 WARREN	1,600,000
42 HARDIN	1,100,000	92 WASHINGTON	1,100,000
43 HARRISON	1,000,000	93 WAYNE	200,000
44 HENRY	1,100,000	94 WEBSTER	3,700,000
45 HOWARD	700,000	95 WINNEBAGO	800,000
46 HUMBOLDT	900,000	96 WINNESHIEK	1,200,000
47 IDA	300,000	97 WOODBURY	5,900,000
48 IOWA	800,000	98 WORTH	600,000
49 JACKSON	1,400,000	99 WRIGHT	900,000
50 JASPER	1,700,000		