

**OFFICE OF AUDITOR OF STATE**  
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE

November 18, 2013

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Auditor of State Mary Mosiman today released an audit report on the Iowa Lottery Authority for the year ended June 30, 2013. The Iowa Lottery Authority oversees the marketing of lottery games and performs the administrative duties necessary to maximize the amount of money deposited to the State General Fund. Total operating revenue for the year ended June 30, 2013 increased 9.07% over the prior year.

Comparative operating data is as follows:

	Year ended June 30, 2013	Year ended June 30, 2012	% Increase (Decrease)
<b>Revenues:</b>			
Instant-scratch ticket	\$202,299,747	\$188,814,325	7.14%
Pick 3	6,804,870	6,743,717	0.91%
Pick 4	3,085,784	2,788,613	10.66%
Powerball	81,385,271	57,934,104	40.48%
Mega Millions	13,317,888	22,293,152	(40.26%)
Hot Lotto	11,664,946	10,525,347	10.83%
\$100,000 Cash Game	4,483,605	4,314,098	3.93%
Pull-tab	16,209,309	17,438,369	(7.05%)
Other	16,831	216,959	(92.24%)
Total operating revenue	339,268,251	311,068,684	9.07%
Prize expense	200,801,768	182,442,447	10.06%
Other expense	52,564,155	48,949,688	7.38%
Proceeds deposited to State General Fund	82,764,005	76,012,455	8.88%
Proceeds deposited to Veteran's Trust Fund	2,126,724	2,719,494	(21.80%)

An analysis of prizes awarded for the year ended June 30, 2013 is as follows:

Scratch ticket prizes	=	63% of Instant-scratch ticket sales
Pick 3 prizes	=	59% of Pick 3 sales
Pick 4 prizes	=	59% of Pick 4 sales
Powerball prizes	=	49% of Powerball sales
Mega Millions prizes	=	49% of Mega Millions sales
Hot Lotto prizes	=	48% of Hot Lotto sales
\$100,000 Cash Game prizes	=	61% of \$100,000 Cash Game sales
Pull-tab prizes	=	63% of Pull-tab sales

The Iowa Lottery Authority spent \$6,600,550 on advertising production and media purchases for the year ended June 30, 2013, representing 1.9% 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/1460-6270-B000.pdf>.

# # #

**IOWA LOTTERY AUTHORITY**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**  
**JUNE 30, 2013**

## Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		5-7
Management's Discussion and Analysis		9-12
Basic Financial Statements:	<u>Exhibit</u>	
Statement of Net Position	A	14
Statement of Revenues, Expenses and Changes in Net Position	B	15
Statement of Cash Flows	C	16
Notes to Financial Statements		17-27
Supplementary Information:	<u>Schedule</u>	
Other Operating Expenses – Year ended June 30, 2013	1	29
Revenues, Expenses and Changes in Net Position – Years ended June 30, 2013 and 2012	2	30
Analysis of Net Position	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 Terry E. Branstad

#### Director, Department of Management

David Roederer

#### Director, Legislative Services Agency

Glen P. Dickinson

#### Iowa Lottery Authority Board of Directors

		Term <u>Expires</u>
Michael Klappholz	Chairperson	April 2014
Mary Junge	Member	April 2014
Deb Burnight	Member	April 2015
Herman Richter	Member	April 2015
Matthew McDermott	Member	April 2016

#### Ex-Officio Member

Honorable Michael L. Fitzgerald                      Treasurer of State

#### Iowa Lottery Authority

Terry Rich	Chief Executive Officer
Brenda Nye	Vice President of Finance and Chief Financial Officer

**Iowa Lottery Authority**



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Independent Auditor's Report

To the Board Members of the  
Iowa Lottery Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Iowa Lottery Authority, a component unit of the State of Iowa, as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, which collectively comprise the Iowa Lottery Authority's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Iowa Lottery Authority as of June 30, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

## Emphasis of Matter

As discussed in Note 1, the financial statements of the Iowa Lottery Authority are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the component units of the State of Iowa that is attributable to the transactions of the Iowa Lottery Authority. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2013, 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.

## Other Matters

### *Required Supplementary Information*

U.S. generally accepted accounting principles require Management's Discussion and Analysis on pages 9 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*


Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Iowa Lottery Authority's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the five years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements.


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



Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 5, 2013 on our consideration of the Iowa Lottery Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Iowa Lottery Authority's internal control over financial reporting and compliance.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

November 5, 2013

**Iowa Lottery Authority**

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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, 2013. 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 2013:

- Lottery sales totaled \$339.3 million in fiscal year 2013, an increase of 9.1% over prior year sales of \$310.9 million. Fiscal year 2013 sales generated the highest revenues from the sale of core lottery products (lotto games, instant-scratch games and pull-tab games) in Lottery history.
- Sales of instant-scratch tickets rose 7.1% to a record \$202.3 million in fiscal year 2013. The Lottery's previous record for instant-scratch ticket sales had been set in fiscal year 2012 when \$188.8 million of instant-scratch tickets were sold.
- The Lottery raised \$84.9 million in proceeds for state programs in fiscal year 2013 compared to \$78.7 million the year before, an increase of 7.8%. This marks the highest proceeds total since the Lottery's start in 1985.
- Since the Lottery's inception in 1985, its players have won more than \$3.1 billion in prizes while the Lottery has raised more than \$1.4 billion 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 Position, the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows (on pages 14 through 16) 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 which explain some of the information in the statements and provide more detail. Supplementary information is in schedule form and begins on page 29.

### **REPORTING THE IOWA LOTTERY AS A WHOLE**

One of the most important questions asked about the Lottery's finances is, "Is the Lottery as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Lottery as a whole and its activities in a way that helps answer this question. These statements include all assets 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 the following statements.

The Statement of Net Position presents all of the Lottery's assets and liabilities, with the difference between the two reported as "net position". Per Section 99G.9A of the Code of Iowa, net proceeds from two instant-scratch and two pull-tab games will be deposited to the Iowa Veterans Trust Fund. In addition, Section 99G.2 of the Code of Iowa requires net proceeds of lottery games be deposited to the State General Fund. Section 99G.40 of the Code of Iowa requires these deposits to occur on a quarterly basis. However, the Lottery may retain an amount sufficient to cover anticipated administrative expenses for a period of 21 (twenty-one) days. Unrestricted net position is calculated as the sum of cash retained for vehicle purchases, ticket inventories and the net investment in capital assets.

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

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

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 17.

The Supplementary Information begins on page 29 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 position. 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 \$47.6 million at the end of fiscal year 2013 compared to \$54.8 million at the end of the previous year, a decrease of \$7.2 million. The decrease in assets was primarily due to a decrease in cash which resulted from \$8 million in state taxes withheld from the June 13, 2012 Powerball jackpot won in Iowa, which was paid in July 2012.

Current liabilities decreased \$3.7 million during fiscal year 2013, primarily due to a decrease of \$8 million in state withholding taxes from the June 13, 2012 Powerball jackpot won in Iowa, which was paid in July 2012, and an increase of \$3.7 million in fourth quarter proceeds to be deposited with the State. Long-term bonds payable decreased \$1.0 million in fiscal year 2013 due to the Lottery's retirement of revenue bonds six years early.

Net investment in capital assets increased \$1.1 million over fiscal year 2012. Unrestricted net position represents assets used to meet the Lottery's ongoing obligations to vendors and creditors. Unrestricted net position decreased approximately \$22,000 compared to the previous fiscal year.

	June 30,	
	2013	2012
<b>Net Position:</b>		
Current assets	\$ 34,000,506	37,822,443
Prize reserve	5,105,041	7,046,116
Investment in prize annuities	4,769,220	6,203,787
Capital assets, net	3,707,609	3,696,952
<b>Total assets</b>	<b>\$ 47,582,376</b>	<b>54,769,298</b>
Current liabilities	\$ 29,811,884	33,498,518
Long-term accounts payable and accruals	291,404	655,489
Prize reserve	5,105,041	7,046,116
Long-term bonds payable	-	1,000,000
Other long-term liabilities	1,320,648	1,169,428
Long-term annuity prizes payable	4,769,220	6,203,787
<b>Total liabilities</b>	<b>\$ 41,298,197</b>	<b>49,573,338</b>
Net position:		
Net investment in capital assets	\$ 3,707,609	2,596,952
Unrestricted	2,576,570	2,599,008
<b>Total net position</b>	<b>\$ 6,284,179</b>	<b>5,195,960</b>

The next schedule helps to highlight the activity for fiscal year 2013 as compared to fiscal year 2012.

	Year ended June 30,	
	2013	2012
<b>Changes in Net Position:</b>		
<b>Operating revenues:</b>		
Ticket sales	\$ 339,251,420	310,851,725
Application fees	5,125	4,075
Other	11,706	212,884
Total operating revenues	339,268,251	311,068,684
<b>Operating expenses:</b>		
Prizes	200,801,768	182,442,447
Other operating expenses	52,564,155	48,949,688
Total operating expenses	253,365,923	231,392,135
<b>Operating income</b>	<b>85,902,328</b>	<b>79,676,549</b>
<b>Non-operating revenues (expenses):</b>		
Proceeds deposited to State General Fund	(82,764,005)	(76,012,455)
Proceeds deposited to Veteran's Trust Fund	(2,126,724)	(2,719,494)
Interest income	110,073	105,755
Interest expense	(33,453)	(39,134)
Net non-operating expenses	(84,814,109)	(78,665,328)
<b>Changes in net position</b>	<b>1,088,219</b>	<b>1,011,221</b>
<b>Net position beginning of year</b>	<b>5,195,960</b>	<b>4,184,739</b>
<b>Net position end of year</b>	<b>\$ 6,284,179</b>	<b>5,195,960</b>

Lottery sales for fiscal year 2013 were up 9.1%, reaching \$339.3 million for traditional lottery products, compared to \$310.9 million for fiscal year 2012. Instant-scratch tickets generated a record-breaking \$202.3 million in sales, beating the previous record from one year ago of \$188.8 million. Lotto games sales increased \$16.1 million while pull-tab sales decreased \$1.2 million from the prior year.

The Lottery's operating expenses were up 9.5% in the current fiscal year. Prize expense is the largest operating expense and accounted for 59.2% of sales. Overall, prize expense increased 10.1% in fiscal year 2013 due to increased sales, which in turn produced more prize payouts. The next largest operating expense is retailer compensation expense, which accounted for 6.5% of all sales. Retailers earned a total of \$22.1 million in commissions on sales of all Lottery products during fiscal year 2013, an increase of 9.9% over the previous year. This total includes incentive compensation paid to retailers who increased their sales from a base level determined by the Lottery, as well as bonus payments to retailers which sell jackpot-winning tickets in Powerball, Mega Millions and Hot Lotto and tickets winning prizes of at least \$100,000 in any of its lotto games.

Overall, the Lottery's proceeds for state programs increased 7.8% in fiscal year 2013, totaling \$84.9 million compared to \$78.7 million a year earlier. Proceeds deposited to the State General Fund for fiscal year 2013 were \$82.8 million compared to the previous year's total of \$76.0 million. Proceeds deposited to the Iowa Veterans Trust Fund totaled \$2.1 million in the current fiscal year, a decrease of \$0.6 million from fiscal year 2012, but within the Lottery's goal of providing between \$2 million and \$3 million to the Iowa Veterans Trust Fund annually.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

The Lottery's investment in capital assets as of June 30, 2013 was \$10.9 million, net of accumulated depreciation of \$7.2 million, leaving a book value of \$3.7 million. Additional information about the Lottery's capital assets is presented in note 5 to the financial statements.

On June 30, 2013, the Lottery had no revenue bonds outstanding. Principal and interest paid on the revenue bonds in the current fiscal year totaled \$1,100,000 and \$36,463, 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 2014 budget. These factors include fuel prices, competition from other sources and concentration of retailers. The fiscal year 2014 budget included \$3.5 million for future building needs. The Lottery is committed to providing budgeted proceeds totaling \$62.3 million to state programs in fiscal year 2014.

### **CONTACTING THE IOWA LOTTERY'S FINANCIAL MANAGEMENT**

This financial report is designed to present users with a general overview of the Lottery's finances and demonstrate the Lottery's accountability for the funds generated. If you have questions about the report or need additional financial information, please contact the Finance Department, Iowa Lottery Headquarters, 2323 Grand Ave., Des Moines, Iowa 50312-5307.

## **Basic Financial Statements**

Iowa Lottery Authority  
Statement of Net Position  
June 30, 2013

<b>Assets</b>	
Current assets:	
Cash	\$ 24,841,521
Restricted assets - cash	339,541
Prepaid expense	60,843
Interest receivable	9,572
Accounts receivable, net	5,057,071
Ticket inventories	2,265,929
Investment in prize annuities	1,426,029
Total current assets	<u>34,000,506</u>
Noncurrent assets:	
Prize reserve	5,105,041
Investment in prize annuities	4,769,220
Capital assets, net	3,707,609
Total noncurrent assets	<u>13,581,870</u>
<b>Total assets</b>	<u>47,582,376</u>
<b>Liabilities</b>	
Current liabilities:	
Lotto prizes payable	3,156,305
Annuity prizes payable	1,426,029
Accounts payable and accruals	23,987,846
Unearned revenue	256,572
Salary and benefits payable	253,017
Compensated absences	732,115
Total current liabilities	<u>29,811,884</u>
Long-term liabilities:	
Accounts payable and accruals	291,404
Prize reserve	5,105,041
Compensated absences and OPEB	1,320,648
Annuity prizes payable	4,769,220
Total long-term liabilities	<u>11,486,313</u>
<b>Total liabilities</b>	<u>41,298,197</u>
<b>Net Position</b>	
Net investment in capital assets	3,707,609
Unrestricted	2,576,570
<b>Total net position</b>	<u>\$ 6,284,179</u>

See notes to financial statements.



## Iowa Lottery Authority

## Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2013

Operating revenues:	
Instant-scratch ticket sales	\$ 202,299,747
Pick 3 sales	6,804,870
Pick 4 sales	3,085,784
Powerball sales	81,385,271
Mega Millions sales	13,317,888
Hot Lotto sales	11,664,946
\$100,000 Cash Game sales	4,483,605
Pull-tab sales	16,209,309
Application fees	5,125
Other	11,706
Total operating revenues	<u>339,268,251</u>
Operating expenses:	
Prizes:	
Instant-scratch tickets	128,096,203
Pick 3	4,009,581
Pick 4	1,812,515
Powerball	39,682,727
Mega Millions	6,538,181
Hot Lotto	5,652,815
\$100,000 Cash Game	2,740,099
Pull-tab	10,140,042
Promotional	179,603
VIP Club prize expense	1,950,002
Total prizes	<u>200,801,768</u>
Retailer compensation	22,116,797
Advertising production and media purchases	6,600,550
Retailer lottery system/terminal communications/online game expense	7,180,866
Instant/pull-tab ticket expense and machine maintenance	4,605,036
Terminal equipment/ticket dispensers	202,330
Courier delivery of tickets	105,353
Other operating expenses	11,753,223
Total operating expenses	<u>253,365,923</u>
Operating income	<u>85,902,328</u>
Non-operating revenues (expenses):	
Proceeds deposited to State General Fund	(82,764,005)
Proceeds deposited to Veteran's Trust Fund	(2,126,724)
Interest income	110,073
Interest expense	(33,453)
Net non-operating expenses	<u>(84,814,109)</u>
Change in net position	1,088,219
Net position beginning of year	5,195,960
Net position end of year	<u>\$ 6,284,179</u>

See notes to financial statements.

**Exhibit C**

Iowa Lottery Authority  
Statement of Cash Flows  
Year ended June 30, 2013

Cash flows from operating activities:	
Cash received from customers	\$ 336,179,389
Cash paid for prizes	(209,732,925)
Cash paid to retailers	(22,116,797)
Cash paid to suppliers for goods and services	(21,232,558)
Cash paid to employees for services	(9,174,452)
Other operating revenues	26,038
Net cash provided by operating activities	<u>73,948,695</u>
Cash flows from non-capital financing activities:	
Proceeds deposited to the State	<u>(81,144,767)</u>
Cash flows from capital and related financing activities:	
Principal paid on capital debt	(1,100,000)
Interest paid on capital debt	(36,463)
Acquisition of capital assets	(280,669)
Proceeds from sale of capital assets	15,000
Net cash used for capital and related financing activities	<u>(1,402,132)</u>
Cash flows from investing activities:	
Interest income	108,408
Annuity payments received	1,500,000
Net cash provided by investing activities	<u>1,608,408</u>
Net decrease in cash	(6,989,796)
Cash beginning of year	<u>32,170,858</u>
Cash end of year	<u><u>\$ 25,181,062</u></u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	<u>\$ 85,902,328</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	245,805
Loss on sale of capital assets	9,207
Allowance for doubtful accounts	19,211
Change in assets and liabilities:	
Increase in prepaid expense	(45,486)
Increase in accounts receivable	(3,177,378)
Decrease in ticket inventories	37,459
Decrease in accounts payable and accruals	(8,265,083)
Increase in prizes payable	443,903
Increase in unearned revenue	77,847
Increase in compensated absences	202,591
Decrease in salary and benefits payable	(1,709)
Decrease in prize annuities	(1,500,000)
Total adjustments	<u>(11,953,633)</u>
Net cash provided by operating activities	<u><u>\$ 73,948,695</u></u>

See notes to financial statements.

Iowa Lottery Authority

Notes to Financial Statements

June 30, 2013

**(1) Summary of Significant Accounting Policies**

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

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

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

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

The Board must promulgate rules regarding the following:

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

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

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

**A. Reporting Entity**

For financial reporting purposes, the Lottery has included all funds. The Lottery has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Lottery are such that exclusion would cause the Lottery's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include

appointing a voting majority of an organization's governing body and (1) the ability of the Lottery to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Lottery. The Lottery has no component units which meet the Governmental Accounting Standards Board criteria.

B. Fund Accounting

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

C. Measurement Focus

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

D. Basis of Accounting

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

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

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

E. Budgets and Budgetary Accounting

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

F. Revenue Recognition

Sales of instant-scratch, pull-tab 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. Unearned revenue represents lotto tickets sold for future prize drawings.

G. Assets, Liabilities and Net Position

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

Cash, Pooled Investments and Cash Equivalents

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

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

Restricted Assets - Cash

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

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.

Prize Reserve

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

Capital Assets

Capital assets, which include buildings, vehicles and equipment, are defined by the Lottery as assets with an initial individual cost of more than \$50,000 for buildings and \$5,000 for vehicles and equipment and an estimated useful life in excess of 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, Mega Millions and Hot Lotto are determined and recognized twice a week after the jackpot drawings are held. Prizes for the Pick 3, Pick 4 and \$100,000 Cash Games may be claimed up to 90 days after the drawings are held. Prizes for Powerball, Mega Millions 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, GASB Statement No. 45 requires employers recognize the implicit rate subsidy in postretirement medical plans provided by governmental employers.

**(2) Deposits and Investments**

The Lottery's deposits with the office of the Treasurer of State throughout the year and at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa.

The Lottery held investments totaling \$6,195,249 for the purpose of paying installment prizes. The Lottery may invest in financial instruments carrying the full faith and credit of the U.S. government or insurance annuities.

The Lottery is responsible for investing in insurance annuities. The Lottery had investments in insurance annuities with a fair value of \$213,162 that are not subject to credit risk categorization.

The Treasurer of State is responsible for investing the Lottery's funds, except for insurance annuities. The Lottery's investments in U.S. government securities with a fair value of \$5,761,918 at June 30, 2013 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 Lottery also had investments of \$220,169 at June 30, 2013 in pooled funds and mutual funds.

At June 30, 2013, the Lottery had the following fixed income investments and quality credit ratings:

<b>Investment Type</b>	<b>Total Market Value</b>	<b>Average Quality Rating</b>	<b>Effective Duration</b>
Fixed income securities:			
U.S. Government Agencies	\$ 3,099,030	AA+	2.35
U.S. Government Treasuries	2,662,888		2.14
Total	<u>\$ 5,761,918</u>		<u>2.17</u>

**(3) Investment in Prize Annuities and Annuity Prizes Payable**

Assets totaling \$6,196,649, which includes \$6,195,249 of investments and \$1,400 of restricted assets, are held by the Lottery for the purpose of paying installment prizes which have already been won but will not be fully paid until 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 \$1,400 to taxing authorities which is classified as accounts payable and accruals. The following is a schedule of future payments:

Year Ending June 30,	Current	Long-term	Total
2014	\$ 1,490,000	-	1,490,000
2015	-	1,486,000	1,486,000
2016	-	1,398,000	1,398,000
2017	-	1,251,000	1,251,000
2018	-	633,000	633,000
Total future value	1,490,000	4,768,000	6,258,000
Less: unamortized premium (discount)	(63,971)	1,220	(62,751)
Present value of payments	<u>\$ 1,426,029</u>	<u>4,769,220</u>	<u>6,195,249</u>

**(4) Accounts Receivable**

The components of accounts receivable at June 30, 2013 are as follows:

Due from agents	\$ 4,329,853
Due from others	1,556,623
Subtotal	5,886,476
Less allowance for doubtful accounts	(829,405)
Accounts receivable, net	<u>\$ 5,057,071</u>

Bad debt expense of \$19,211 was charged against instant-scratch ticket sales for the year ended June 30, 2013.

**(5) Capital Assets**

Capital assets activity for the year ended June 30, 2013 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	7,536,877	109,108	44,682	7,601,303
Vehicles	930,864	171,561	135,786	966,639
Total capital assets being depreciated	10,454,228	280,669	180,468	10,554,429
Less accumulated depreciation for:				
Buildings	363,524	51,659	-	415,183
Equipment	6,372,507	45,810	39,375	6,378,942
Vehicles	413,355	148,336	116,886	444,805
Total accumulated depreciation	7,149,386	245,805	156,261	7,238,930
Total capital assets being depreciated, net	3,304,842	34,864	24,207	3,315,499
Capital assets, net	\$ 3,696,952	34,864	24,207	3,707,609

**(6) Revenue Bonds Payable**

During fiscal year 2005, the Lottery 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 Lottery's headquarters. During the year ended June 30, 2013, the remaining balance of \$1,100,000 of revenue bonds were retired.

**(7) Lease Commitment**

The Lottery leases advertising display signs in Cedar Rapids and Mason City and occupies office and warehouse facilities in Cedar Rapids, Mason City, Storm Lake, Council Bluffs and Ankeny under long-term operating leases which expire by June 30, 2017.

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, 2013:

Year Ending June 30,	Amount
2014	\$ 320,153
2015	309,986
2016	249,525
2017	133,380
Total	<u>\$ 1,013,044</u>

Rental expense for the year ended June 30, 2013 for all operating leases, except those with terms of a month or less that were not renewed, totaled \$369,203.



**(8) Pension and Retirement Benefits**

The Lottery 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 5.78% of their annual covered salary and the Lottery is required to contribute 8.67% of annual covered salary. Contribution requirements are established by state statute. The Lottery's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$582,271, \$521,089 and \$424,311, respectively, equal to the required contributions for each year.

**(9) Compensated Absences, Termination Benefits and Other Postemployment Benefits (OPEB)**

Changes in compensated absences, termination benefits and other postemployment benefit obligations for the year ended June 30, 2013 are summarized as follows:

	Balance			Balance	Due Within
	June 30, 2012	Additions	Deletions	June 30, 2013	One Year
Compensated absences	\$ 1,430,592	834,469	680,744	1,584,317	732,115
Net OPEB liability	419,580	48,866	-	468,446	-
Termination benefits for retirees	987,339	7,815	406,372	588,782	297,378
Total	\$ 2,837,511	891,150	1,087,116	2,641,545	1,029,493

State Employee Retirement Incentive Program (SERIP) – On February 10, 2010, the Governor signed into law a State Employee Retirement Incentive Program for eligible executive branch employees. To be eligible, an employee must have been employed on February 10, 2010, be age 55 or older on July 31, 2010 and have submitted an application by the employee's last day of employment to the Iowa Public Employees' Retirement System to begin monthly retirement benefits by July 2010. In addition, employees must have filed a SERIP application on or before April 15, 2010 and terminated employment no later than June 24, 2010.

Participants in the SERIP will receive the following incentives:

- 1) Unused sick leave – A cash payment of the monetary value of the participant's accrued sick leave balance, not to exceed \$2,000. The payment is calculated by multiplying the number of hours of accrued sick leave by the participant's regular hourly rate of pay at the time of retirement. This payment was made in fiscal year 2010 on the participant's last pay check.
- 2) Health insurance – A minimum of 5 years of state contributions toward the premiums of a state-sponsored health insurance plan, either through the Sick Leave Insurance Program (SLIP), SERIP or a combination of both programs.
- 3) Years of service incentive – Cash payments, including the entire value of the participant's accrued but unused vacation leave and, for participants with at least 10 years of state employment, \$1,000 for each year of state employment, up to 25 years of employment. The total years of service incentive shall be paid in five equal installments beginning in September 2010 and ending in 2014.

In the event a SERIP participant dies within 5 years of termination of employment, the participant's beneficiary will receive any remaining years of service incentive payments. If the participant's surviving spouse is covered on the participant's state retiree health insurance plan, the surviving spouse may elect to continue health insurance coverage and will receive any remaining health insurance contribution benefits under the SERIP. If the surviving spouse was not covered by the participant's insurance plan, or if there is no surviving spouse, any remaining health insurance contribution benefits are forfeited.

Participants in the SERIP are not eligible to accept any further employment with the state, other than as an elected official or a member of a Board or Commission, from the date of termination of employment. Participants may not enter into contracts to provide services to the state as independent contractors or consultants.

The SERIP is financed on a pay-as-you-go basis and amounts due for the program have been reported in the financial statements as accounts payable and accruals. The liability for the expected future health insurance benefits at June 30, 2013 is \$310,814. This was calculated by increasing the insurance premiums in effect at June 30, 2013 for the annual medical trend rates for fiscal years 2014 through 2015. The annual medical trend rates range from 7.60% in 2014 to 7.40% in 2015. The liability for the years of service incentive installment payments at June 30, 2013 is \$258,675.

For the year ended June 30, 2013, SERIP costs for 20 participants totaled \$299,123.

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:

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

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

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

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

All SLIP program benefits are financed on a pay-as-you-go basis. For the year ended June 30, 2013, 3 employees received benefits totaling \$15,845 under the SLIP program.

Other Postemployment Benefits – The Lottery 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 Lottery 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 \$233,209,000 for the State of Iowa as of June 30, 2013. The Lottery'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, 2013. The report may be obtained by writing to the Iowa Department of Administrative Services, Hoover State Office Building, Des Moines, Iowa 50319.

The Lottery recognized a net OPEB liability of \$468,446 for other postemployment benefits, which represents the Lottery's portion of the State's net OPEB obligation. The Lottery's portion of the net OPEB obligation was calculated using the ratio of full time equivalent employees of the Lottery 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 Lottery.

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

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

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

The \$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 and the Hot Ball number are matched.

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, 2013, \$179,603 in prizes were distributed through various promotional activities.

The Lottery pays an outside entity \$37,500 per week to administer the payment of prizes to players for the VIP Club program, which includes the cost of prizes. The Lottery spent \$1,950,002 on VIP Club prize expense for the year ended June 30, 2013.

**(11) Lotto America/Powerball**

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

At June 30, 2013, the MUSL held zero coupon bonds for the Lottery to fund future installment payments aggregating \$1,558,822. The current value of those bonds totaled \$1,666,499.

**(12) Instant-Scratch Ticket Packs**

The Lottery issues instant-scratch ticket packs to retailers on an ongoing basis. The retailer or District Sales Representative must activate the pack on the system before the pack may be sold to the public. The retailer may not be billed for these packs until a pack is activated and settled on the system. A pack may be settled in one of four ways: 1) 70% of the low-tier tickets in the pack have been validated, 2) 45 days have elapsed from the date the pack was activated, 3) the pack has been settled at delivery or settled manually through the terminal or 4) 21 days have elapsed from the date the pack was activated regardless of validations. As of June 30, 2013, the Lottery had 38,647 packs at retailers which have not yet settled. The receivable and the related unearned revenue of \$5,744,421, calculated as shown below, have not been included in the Lottery's financial statements since the sales associated with these packs have not been recognized.

Unsettled packs	\$ 11,594,100
Less:	
Retailer compensation	793,686
Low-tier prize expense	<u>5,025,993</u>
Potential receivable and unearned amount	<u>\$ 5,774,421</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 Lottery has purchased commercial insurance for certain risks.

**Supplementary Information**

## Iowa Lottery Authority

## Other Operating Expenses

Year ended June 30, 2013

Salary and benefits	\$ 9,375,334
Travel	416,086
Supplies	93,045
Printing	13,459
Postage	6,337
Communications	155,755
Rentals	304,452
Utilities	103,386
Professional fees	121,004
Advertising	3,355
Outside services and repair	160,870
Non-capitalized equipment	177,812
Data processing	57,072
Reimbursement to state agencies	415,056
Multi-State administrative expense	37,050
Depreciation	245,805
Other	67,345
Total	<u>\$ 11,753,223</u>

See accompanying independent auditor's report.

**Schedule 2**

## Iowa Lottery Authority

## Revenues, Expenses and Changes in Net Position

Years ended June 30, 2013 and 2012

	2013	2012	Increase (Decrease)
Operating revenues:			
Instant-scratch ticket sales	\$ 202,299,747	188,814,325	13,485,422
Pick 3 sales	6,804,870	6,743,717	61,153
Pick 4 sales	3,085,784	2,788,613	297,171
Powerball sales	81,385,271	57,934,104	23,451,167
Mega Millions sales	13,317,888	22,293,152	(8,975,264)
Hot Lotto sales	11,664,946	10,525,347	1,139,599
\$100,000 Cash Game sales	4,483,605	4,314,098	169,507
Pull-tab sales	16,209,309	17,438,369	(1,229,060)
Application fees	5,125	4,075	1,050
Other	11,706	212,884	(201,178)
Total operating revenues	<u>339,268,251</u>	<u>311,068,684</u>	<u>28,199,567</u>
Operating expenses:			
Prizes:			
Instant-scratch tickets	128,096,203	116,954,213	11,141,990
Pick 3	4,009,581	3,993,780	15,801
Pick 4	1,812,515	1,634,063	178,452
Powerball	39,682,727	28,287,777	11,394,950
Mega Millions	6,538,181	11,307,020	(4,768,839)
Hot Lotto	5,652,815	5,118,123	534,692
\$100,000 Cash Game	2,740,099	2,175,236	564,863
Pull-tab	10,140,042	10,912,790	(772,748)
Promotional	179,603	152,303	27,300
VIP Club prize expense	1,950,002	1,907,142	42,860
Total prizes	<u>200,801,768</u>	<u>182,442,447</u>	<u>18,359,321</u>
Retailer compensation	22,116,797	20,125,497	1,991,300
Advertising production and media purchases	6,600,550	6,603,456	(2,906)
Retailer lottery system/terminal communications/ online game expense	7,180,866	6,213,722	967,144
Instant/pull-tab ticket expense and machine maintenance	4,605,036	3,705,428	899,608
Terminal equipment/ticket dispensers	202,330	213,216	(10,886)
Courier delivery of tickets	105,353	108,581	(3,228)
Other operating expenses	11,753,223	11,979,788	(226,565)
Total operating expenses	<u>253,365,923</u>	<u>231,392,135</u>	<u>21,973,788</u>
Operating income	<u>85,902,328</u>	<u>79,676,549</u>	<u>6,225,779</u>
Non-operating revenues (expenses):			
Proceeds deposited to State General Fund	(82,764,005)	(76,012,455)	(6,751,550)
Proceeds deposited to Veteran's Trust Fund	(2,126,724)	(2,719,494)	592,770
Interest income	110,073	105,755	4,318
Interest expense	(33,453)	(39,134)	5,681
Net non-operating expenses	<u>(84,814,109)</u>	<u>(78,665,328)</u>	<u>(6,148,781)</u>
Changes in net position	1,088,219	1,011,221	76,998
Net position beginning of year	5,195,960	4,184,739	1,011,221
Net position end of year	<u>\$ 6,284,179</u>	<u>5,195,960</u>	<u>1,088,219</u>

See accompanying independent auditor's report.



Iowa Lottery Authority

Analysis of Net Position

June 30, 2013

Cash retained for vehicle purchases	\$ 310,641
Ticket inventories	2,265,929
Net investment in capital assets	<u>3,707,609</u>
Total	<u>\$ 6,284,179</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,					
	2008	2009	2010	2011	2012	2013
Instant-scratch ticket	\$ 137,917,848	136,268,555	143,759,258	165,329,031	188,814,325	202,299,747
Pick 3	6,373,362	6,534,765	6,531,001	6,573,020	6,743,717	6,804,870
Pick 4	2,315,469	2,555,237	2,662,191	2,701,949	2,788,613	3,085,784
Powerball	63,761,024	58,220,203	59,190,012	47,124,656	57,934,104	81,385,271
Mega Millions	-	-	5,544,128	16,051,016	22,293,152	13,317,888
Hot Lotto	11,724,416	14,329,610	13,653,746	11,608,730	10,525,347	11,664,946
Raffle	1,425,460	-	789,200	-	-	-
\$100,000 Cash Game	4,291,933	4,113,307	3,908,785	3,687,370	4,314,098	4,483,605
Pull-tab	21,407,956	21,315,424	20,217,316	18,315,275	17,438,369	16,209,309
Total	\$ 249,217,468	243,337,101	256,255,637	271,391,047	310,851,725	339,251,420

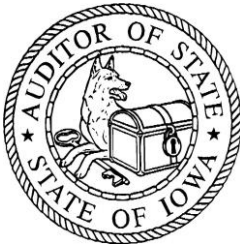
See accompanying independent auditor's report.

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

Games	Year ended June 30,					
	2008	2009	2010	2011	2012	2013
Instant-scratch ticket	62%	60%	64%	63%	62%	63%
Pick 3	59%	59%	61%	59%	59%	59%
Pick 4	58%	58%	58%	59%	59%	59%
Powerball	48%	48%	48%	48%	49%	49%
Mega Millions	-	-	52%	52%	51%	49%
Hot Lotto	48%	49%	48%	48%	49%	48%
Raffle	84%	-	50%	-	-	
\$100,000 Cash Game	59%	55%	51%	47%	50%	61%
Pull-tab	63%	63%	63%	63%	63%	63%

See accompanying independent auditor's report.

**Iowa Lottery Authority**



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

Mary Mosiman, 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 in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the Iowa Lottery Authority, a component unit of the State of Iowa, as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 5, 2013.

Internal Control Over Financial Reporting

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

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

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


### Compliance and Other Matters

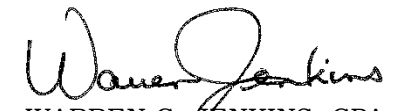
As part of obtaining reasonable assurance about whether the Iowa Lottery Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct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

### Purpose of this Report

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

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

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

November 5, 2013

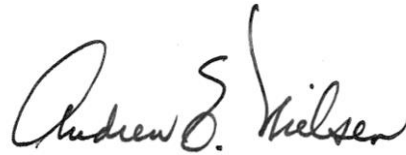
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Iowa Lottery Authority

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager  
Brian P. Schenkelberg, CPA, Senior Auditor II  
Jessica P.V. Green, Senior Auditor  
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Ryan D. Baker, Assistant Auditor  
Megan E. Irvin, Assistant Auditor  
Benjamin P. James, Assistant Auditor  
Trent M. Mussmann, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, prominent initial "A".

Andrew E. Nielsen, CPA  
Deputy Auditor of State