



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE January 11, 2016

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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, 2015. The Iowa Lottery Authority oversees the marketing of lottery games and performs the administrative duties necessary to maximize the amount of money deposited to the State General Fund. Total operating revenues for the year ended June 30, 2015 increased 3.38% from the prior year.

Comparative operating data is as follows:

	Year ended June 30, 2015	Year ended June 30, 2014	% Increase (Decrease)
Revenues:			
Instant-scratch ticket	\$ 211,986,968	\$ 188,754,111	12.31%
Pick 3	7,046,335	6,948,165	1.41%
Pick 4	3,231,397	3,224,892	0.20%
Powerball	52,231,108	61,153,876	(14.59%)
Mega Millions	17,980,367	21,835,102	(17.65%)
Hot Lotto	11,111,717	10,434,227	6.49%
All or Nothing	4,542,846	3,196,195	42.13%
Monopoly Millionaires' Club	591,605	-	100.00%
\$100,000 Cash Game	-	2,530,984	(100.00%)
Raffle	-	242,960	(100.00%)
Pull-tab	16,045,073	15,734,917	1.97%
Other	10,020	104,307	(90.39%)
Total operating revenues	324,777,436	314,159,736	3.38%
Prize expense	196,882,288	186,948,985	5.31%
Other expense	51,525,948	50,055,106	2.94%
Proceeds deposited to the State's General Fund	72,365,900	72,167,680	0.27%
Proceeds deposited to the Veteran's Trust Fund	2,151,167	1,804,434	19.22%

An analysis of prizes awarded for the year ended June 30, 2015 is as follows:

Scratch ticket prizes	=	65% of Instant-scratch ticket sales
Pick 3 prizes	=	59% of Pick 3 sales
Pick 4 prizes	=	62% of Pick 4 sales
Powerball prizes	=	49% of Powerball sales
Mega Millions prizes	=	48% of Mega Millions sales
Hot Lotto prizes	=	48% of Hot Lotto sales
All or Nothing prizes	=	59% of All or Nothing sales
Monopoly Millionaires' Club prizes	=	106% of Monopoly Millionaires' Club sales
Pull-tab prizes	=	63% of Pull-tab sales

The Iowa Lottery Authority spent \$6,766,994 on advertising production and media purchases for the year ended June 30, 2015, representing 2.08% 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/1660-6270-B000.pdf>.

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

JUNE 30, 2015

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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>
Matthew McDermott	Chairperson	April 2016
Michael Klappholz	Vice Chairperson	April 2018
Ying Sa	Member	April 2018
Connor Flynn	Member	April 2019
Mary Rathje	Member	April 2019

Ex-Officio Member

Honorable Michael L. Fitzgerald	Treasurer of State
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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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Auditor of State

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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, 2015, 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, 2015, 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 Matters

As discussed in Note 1, the financial statements of the Iowa Lottery Authority are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the component units of the State of Iowa that is attributable to the transactions of the Iowa Lottery Authority. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2015, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 14 to the financial statements, the Iowa Lottery Authority adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Schedule of the Lottery's Proportionate Share of the Net Pension Liability and the Schedule of Lottery Contributions on pages 9 through 12 and 35 through 39 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, 2014 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 14, 2015 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

December 14, 2015

Iowa Lottery Authority

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, 2015. 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 2015:

- The Lottery raised \$74.5 million in proceeds for state programs in fiscal year 2015, the fourth highest amount for the Lottery since its start in 1985.
- Sales of instant-scratch tickets rose 12.3% to a record \$212 million in fiscal year 2015. The Lottery's previous record for instant-scratch ticket sales had been set in fiscal year 2013 when \$202.3 million of instant-scratch tickets were sold.
- Lottery sales totaled \$324.8 million in fiscal year 2015, an increase of \$10.7 million over the prior year's sales of \$314.1 million. Fiscal year 2015 sales generated the second highest revenue amount from the sale of core lottery products (lotto, instant-scratch and pull-tab games) in Lottery history.
- Since the Lottery's inception in 1985, its players have won more than \$3.5 billion in prizes while the Lottery has raised more than \$1.6 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 42.

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, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as "net position". Per Section 99G.9A of the Code of Iowa, net proceeds from two instant-scratch and two pull-tab games are 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's 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. Net position is calculated as the sum of cash retained for vehicle purchases, ticket inventories, net investment in capital assets and deferred outflows of resources, netted against the net pension liability and deferred inflows of resources.

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

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

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.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Lottery's proportionate share of the net pension liability and related contributions.

The Supplementary Information begins on page 42. Schedule 1 provides detailed information about other operating expenses by object. Schedule 2 shows revenues and expenses by individual Lottery game. 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 \$44.5 million at the end of fiscal year 2015 compared to \$45.6 million at the end of the previous year, a decrease of \$1.1 million. The decrease in assets was primarily due to a decrease of \$1.4 million in investment in prize annuities for payments made to 18 annuitants.

Current liabilities decreased \$1 million during fiscal year 2015, primarily due to the payment of the short-term loan for the Lottery's headquarters property in Clive, which was purchased in fiscal year 2014.

Net investment in capital assets increased \$1.3 million from fiscal year 2014. Unrestricted net position represents assets used to meet the Lottery's ongoing obligations to vendors and creditors. Unrestricted net position decreased approximately \$5 million compared to the previous fiscal year.

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27, was implemented during fiscal year 2015. The beginning net position was restated \$5,271,391 to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. The financial statement amounts for the fiscal year 2014 net pension liability, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

	June 30,	
	2015	2014 (Not Restated)
Net Position:		
Current assets	\$ 28,920,699	28,594,970
Prize reserve	5,448,064	5,460,061
Investment in prize annuities	1,969,981	3,345,614
Capital assets, net	8,159,092	8,245,233
Total assets	44,497,836	45,645,878
Deferred outflows of resources	842,828	-
Current liabilities	24,936,430	25,959,952
Long-term accounts payable and accruals	39,693	21,295
Prize reserve	5,448,064	5,460,061
Other long-term liabilities	5,456,697	1,345,100
Long-term annuity prizes payable	1,969,981	3,345,614
Total liabilities	37,850,865	36,132,022
Deferred inflows of resources	1,691,461	-
Net position:		
Invested in capital assets, net of related debt	8,159,092	6,876,980
Unrestricted	(2,360,754)	2,636,876
Total net position	\$ 5,798,338	9,513,856

The next schedule highlights the activity for fiscal year 2015 compared to fiscal year 2014.

	Year ended June 30,	
	2015	2014 (Not Restated)
Changes in Net Position:		
Operating revenues:		
Ticket sales	\$ 324,767,416	314,055,429
Application fees	3,800	4,375
Other	6,220	99,932
Total operating revenues	324,777,436	314,159,736
Operating expenses:		
Prizes	196,882,288	186,948,985
Other operating expenses	51,525,948	50,055,106
Total operating expenses	248,408,236	237,004,091
Operating income	76,369,200	77,155,645
Non-operating revenues (expenses):		
Proceeds deposited to the State's General Fund	(72,365,900)	(72,167,680)
Proceeds deposited to the Veteran's Trust Fund	(2,151,167)	(1,804,434)
Interest income	76,038	58,768
Interest expense	(8,046)	(12,622)
Loss on disposal of capital assets	(364,252)	-
Net non-operating expenses	(74,813,327)	(73,925,968)
Changes in net position	1,555,873	3,229,677
Net position beginning of year, as restated	4,242,465	6,284,179
Net position end of year	\$ 5,798,338	9,513,856

Lottery sales for fiscal year 2015 were up 3.4%, totaling \$324.8 million for traditional lottery products, compared to \$314.1 million for fiscal year 2014. Instant-scratch tickets generated \$212 million in sales, an increase of \$23.2 million over the previous year's \$188.8 million in sales. Lotto game sales decreased \$12.8 million while pull-tab sales increased \$0.3 million over the prior year.

The Lottery's other operating expenses were up 2.9% in the current fiscal year. Prize expense is the largest operating expense and accounted for 60.6% of sales. Overall, prize expense increased 5.3% in fiscal year 2015 due to increased sales. The next largest operating expense is retailer compensation expense, which accounted for 6.5% of all sales. Retailers earned a total of \$21 million in commissions on sales of all Lottery products during fiscal year 2015, an increase of 4.2% over the previous year. This total includes incentive compensation paid to retailers which 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 0.7% in fiscal year 2015, totaling \$74.5 million compared to \$74 million a year earlier. Proceeds deposited to the State's General Fund for fiscal year 2015 were \$72.4 million compared to the previous year's total of \$72.2 million. Proceeds deposited to the Iowa Veteran's Trust Fund totaled \$2.2 million in the current fiscal year, an increase of \$0.4 million over fiscal year 2014, and within the Lottery's goal of providing between \$2 million and \$3 million to the Iowa Veteran's Trust Fund annually.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Lottery's investment in capital assets as of June 30, 2015 was \$15.1 million, net of accumulated depreciation of \$6.9 million, leaving a book value of \$8.2 million. Additional information about the Lottery's capital assets is presented in note 5 to the financial statements.

During the year ended June 30, 2015, the Lottery retired a \$1.2 million short-term loan. Principal and interest paid on the short-term loan in the current fiscal year totaled \$1,238,176 and \$4,172, respectively. More detailed information about the Lottery's short-term loan 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 2016 budget. These factors include fuel prices, competition from other sources and concentration of retailers. The Lottery is committed to providing budgeted proceeds totaling \$69.2 million to State programs in fiscal year 2016.

CONTACTING THE IOWA LOTTERY'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

Exhibit A

Iowa Lottery Authority
Statement of Net Position
June 30, 2015

Assets

Current assets:

Cash	\$ 21,111,736
Restricted assets - cash	618,196
Prepaid expense	129,579
Interest receivable	21,119
Accounts receivable, net	3,723,410
Ticket inventories	1,968,114
Investment in prize annuities	1,348,545
Total current assets	<u>28,920,699</u>

Noncurrent assets:

Prize reserve	5,448,064
Investment in prize annuities	1,969,981
Capital assets, net	8,159,092
Total noncurrent assets	<u>15,577,137</u>

Total assets44,497,836**Deferred Outflows of Resources**

Pension related deferred outflows	<u>842,828</u>
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Liabilities

Current liabilities:

Lotto prizes payable	2,373,115
Annuity prizes payable	1,348,545
Accounts payable and accruals	19,641,197
Unearned revenue	387,950
Salary and benefits payable	398,660
Compensated absences	786,963
Total current liabilities	<u>24,936,430</u>

Long-term liabilities:

Accounts payable and accruals	39,693
Compensated absences and OPEB	1,379,166
Net pension liability	4,077,531
Prize reserve	5,448,064
Annuity prizes payable	1,969,981
Total long-term liabilities	<u>12,914,435</u>

Total liabilities37,850,865**Deferred Inflows of Resources**

Pension related deferred inflows	<u>1,691,461</u>
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Net Position

Net investment in capital assets	8,159,092
Unrestricted	(2,360,754)

Total net position\$ 5,798,338

See notes to financial statements.

Iowa Lottery Authority

Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2015

Operating revenues:	
Instant-scratch ticket sales	\$ 211,986,968
Pick 3 sales	7,046,335
Pick 4 sales	3,231,397
Powerball sales	52,231,108
Mega Millions sales	17,980,367
Hot Lotto sales	11,111,717
All or Nothing sales	4,542,846
Monopoly Millionaires' Club sales	591,605
Pull-tab sales	16,045,073
Application fees	3,800
Other	6,220
Total operating revenues	324,777,436
Operating expenses:	
Prizes:	
Instant-scratch ticket	137,660,011
Pick 3	4,164,551
Pick 4	1,993,339
Powerball	25,386,810
Mega Millions	8,593,263
Hot Lotto	5,351,407
All or Nothing	2,684,292
Monopoly Millionaires' Club	626,847
Pull-tab	10,028,418
Promotional	128,699
VIP Club prize expense	264,651
Total prizes	196,882,288
Retailer compensation	20,977,399
Advertising production and media purchases	6,766,994
Retailer lottery system/online game expense	6,753,929
Instant/pull-tab ticket expense and machine maintenance	3,890,273
Terminal equipment/ticket dispensers	179,352
Courier delivery of tickets	572,194
Other operating expenses	12,385,807
Total operating expenses	248,408,236
Operating income	76,369,200
Non-operating revenues (expenses):	
Proceeds deposited to the State's General Fund	(72,365,900)
Proceeds deposited to the Veteran's Trust Fund	(2,151,167)
Interest income	76,038
Interest expense	(8,046)
Loss on disposal of capital assets	(364,252)
Net non-operating expenses	(74,813,327)
Change in net position	1,555,873
Net position beginning of year, as restated	4,242,465
Net position end of year	\$ 5,798,338

See notes to financial statements.

Exhibit C

Iowa Lottery Authority
Statement of Cash Flows
Year ended June 30, 2015

Cash flows from operating activities:	
Cash received from customers	\$ 324,716,397
Cash paid for prizes	(198,680,957)
Cash paid to retailers	(20,982,399)
Cash paid to suppliers for goods and services	(21,583,470)
Cash paid to employees for services	(9,702,068)
Other operating revenues	10,020
Net cash provided by operating activities	<u>73,777,523</u>
Cash flows from non-capital financing activities:	
Proceeds provided to the State	<u>(73,199,643)</u>
Cash flows from capital and related financing activities:	
Principal paid on capital debt	(1,527,086)
Interest paid on capital debt	(8,046)
Acquisition of capital assets	(1,883,055)
Proceeds from the sale of capital assets	1,615,850
Net cash used for capital and related financing activities	<u>(1,802,337)</u>
Cash flows from investing activities:	
Interest income	65,662
Annuity payments received	1,615,000
Net cash provided by investing activities	<u>1,680,662</u>
Net increase in cash	456,205
Cash beginning of year	<u>21,273,727</u>
Cash end of year	<u><u>\$ 21,729,932</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 76,369,200</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	278,004
Allowance for doubtful accounts	21,174
Change in assets and liabilities:	
Increase in prepaid expense	(11,335)
Increase in accounts receivable	(103,794)
Decrease in ticket inventories	157,323
Decrease in accounts payable and accruals	(1,055,038)
Decrease in prizes payable	(178,840)
Increase in unearned revenue	52,775
Increase in compensated absences	93,487
Increase in salary and benefits payable	114,794
Decrease in net pension liability	(345,227)
Decrease in prize annuities	(1,615,000)
Total adjustments	<u>(2,591,677)</u>
Net cash provided by operating activities	<u><u>\$ 73,777,523</u></u>

Non-cash capital and related financing activities:

During the year ended June 30, 2015, capital assets of \$288,910 were acquired through installment purchase agreements.

See notes to financial statements.

Iowa Lottery Authority

Notes to Financial Statements

June 30, 2015

(1) Summary of Significant Accounting Policies

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

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

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

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

The Board must promulgate rules regarding the following:

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

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

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

A. Reporting Entity

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

B. Fund Accounting

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

C. Measurement Focus

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

D. Basis of Accounting

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

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

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

E. Budgets and Budgetary Accounting

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

F. Revenue Recognition

Sales of instant-scratch, pull-tab 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, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

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

Cash, Pooled Investments and Cash Equivalents

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

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

Restricted Assets - Cash

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

Investments

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

Ticket Inventories

Inventories consist of instant-scratch tickets held by retailers which have not settled, instant-scratch and pull-tab tickets held by the Lottery's sales representatives and instant-scratch and pull-tab tickets stored in the main or regional warehouses for games in progress or new games. Inventories are carried at cost using the specific identification method. Tickets are charged to instant/pull-tab ticket expense 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 three years and assets purchased through special financing arrangements. Such assets are recorded at historical cost.

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

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

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

Deferred Outflows of Resources

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

Prize Liabilities

The prize liabilities for the Pick 3 Game, the Pick 4 Game and the All or Nothing Game are determined and 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. The prize liability for the Monopoly Millionaires' Club is determined and recognized after the weekly drawing is held. Prizes for the Pick 3 and Pick 4 games may be claimed up to 90 days after the drawings are held. Prizes for Powerball, Mega Millions, Hot Lotto, All or Nothing and Monopoly Millionaires' Club may be claimed up to 365 days after the drawings are held. The Monopoly Millionaires' Club game was discontinued during fiscal year 2015.

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.

Pensions

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

Deferred Inflows of Resources

Deferred inflows of resources represents an acquisition of net position applicable to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of the unamortized portion of the net difference between projected and actual earnings on IPERS' plan investments.

(2) Deposits and Investments

The Lottery's deposits with the Office of the Treasurer of State throughout the period and at June 30, 2015 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 \$3,318,526 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 \$20,716 which are not subject to credit risk categorization.

The Treasurer of State is responsible for investing the Lottery's funds, except for insurance annuities. The Lottery's investments in U.S. government securities with a fair value of \$3,100,114 at June 30, 2015 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 \$197,696 at June 30, 2015 in pooled funds and mutual funds.

At June 30, 2015, the Lottery had the following fixed income investments and quality credit ratings:

Investment Type	Total Market Value	Average Quality Rating	Effective Duration
Fixed income securities:			
U.S. Government Agencies	\$ 1,781,795	AA+	1.38
U.S. Government Treasuries	1,318,319		1.24
Total	<u>\$ 3,100,114</u>		<u>1.25</u>

(3) Investment in Prize Annuities and Annuity Prizes Payable

Assets totaling \$3,326,926, which includes \$3,318,526 of investments and \$8,400 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 \$8,400 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
2016	\$ 1,398,000	-	1,398,000
2017	-	1,251,000	1,251,000
2018	-	633,000	633,000
Total future value	1,398,000	1,884,000	3,282,000
Less: unamortized premium (discount)	(49,455)	85,981	36,526
Present value of payments	<u>\$ 1,348,545</u>	<u>1,969,981</u>	<u>3,318,526</u>

(4) Accounts Receivable

The components of accounts receivable at June 30, 2015 are as follows:

Due from agents	\$ 3,739,821
Less allowance for doubtful accounts	<u>(16,411)</u>
Accounts receivable, net	<u>\$ 3,723,410</u>

Bad debt expense of \$21,174 was charged against instant-scratch ticket sales for the year ended June 30, 2015.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2015 was as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 1,984,110	-	392,110	1,592,000
Capital assets being depreciated:				
Buildings	5,189,125	1,075,815	1,986,486	4,278,454
Equipment	7,529,462	906,260	127,370	8,308,352
Vehicles	899,690	189,890	145,208	944,372
Total capital assets being depreciated	<u>13,618,277</u>	<u>2,171,965</u>	<u>2,259,064</u>	<u>13,531,178</u>
Less accumulated depreciation for:				
Buildings	466,842	58,527	475,454	49,915
Equipment	6,348,470	91,641	88,210	6,351,901
Vehicles	541,842	127,836	107,408	562,270
Total accumulated depreciation	<u>7,357,154</u>	<u>278,004</u>	<u>671,072</u>	<u>6,964,086</u>
Total capital assets being depreciated, net	<u>6,261,123</u>	<u>1,893,961</u>	<u>1,587,992</u>	<u>6,567,092</u>
Capital assets, net	<u>\$ 8,245,233</u>	<u>1,893,961</u>	<u>1,980,102</u>	<u>8,159,092</u>

(6) Short-Term Liabilities

A summary of changes in short-term liabilities for the year ended June 30, 2015 is as follows:

	Short-Term Loan Payable	Installment Purchase - Generator	Installment Purchase - WiFi System	Total
Balance beginning of year	\$ 1,238,176	-	-	1,238,176
Increases	-	241,940	46,970	288,910
Decreases	1,238,176	241,940	46,970	1,527,086
Balance end of year	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

Short-Term Loan Payable

In fiscal year 2014, the Lottery entered into a short-term loan agreement in the amount of \$2,225,554 with an interest rate of 3% per annum for the purchase of property for the new Lottery headquarters. During the year ended June 30, 2015, the Lottery paid off the loan agreement, paying principal and interest of \$1,238,176 and \$4,172, respectively.

Installment Purchase Agreements

During fiscal year 2015, the Lottery entered into two installment purchase agreements for a back-up generator and a WiFi system. Both agreements were paid in full during fiscal year 2015. The generator agreement had an interest rate of 3.2% per annum and the Lottery paid principal and interest of \$241,940 and \$3,568, respectively. The WiFi agreement had an interest rate of 1.75% per annum and the Lottery paid principal and interest of \$46,970 and \$306, respectively.

(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 November 30, 2018.

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, 2015:

Year Ending June 30,	Amount
2016	\$ 241,993
2017	214,931
2018	86,356
2019	25,575
Total	<u>\$ 568,855</u>

Rental expense for the year ended June 30, 2015 for all operating leases, except those with terms of a month or less that were not renewed, totaled \$354,943.

(8) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2015 are summarized as follows:

	Balance June 30, 2014, as restated	Additions	Deletions	Balance June 30, 2015	Due Within One Year
Compensated absences	\$ 1,557,932	733,553	727,542	1,563,943	786,963
Net OPEB liability	514,710	87,476	-	602,186	-
Termination benefits for retirees	336,924	72,076	327,847	81,153	41,460
Net pension liability	5,872,179	-	1,794,648	4,077,531	-
Total	<u>\$ 8,281,745</u>	<u>893,105</u>	<u>2,850,037</u>	<u>6,324,813</u>	<u>828,423</u>

State Employees 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 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 was 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 receive any remaining health insurance contribution benefits under 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 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.

Fiscal year 2015 was the final year for the SERIP. There is no remaining liability to SERIP participants at June 30, 2015.

For the year ended June 30, 2015, SERIP costs for 20 participants totaled \$292,088.

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

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

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

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

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

All SLIP program benefits are financed on a pay-as-you-go basis. For the year ended June 30, 2015, 4 employees received benefits totaling \$35,759 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 \$217,948,000 for the State of Iowa as of June 30, 2015. 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, 2015. 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 \$602,186 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.

(9) Pension Plan

Plan Description - IPERS membership is mandatory for employees of the Lottery, except for those covered by another retirement system. Employees of the Lottery are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

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

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

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

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

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

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

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Lottery contributed 8.93 percent for a total rate of 14.88 percent.

The Lottery's contributions to IPERS for the year ended June 30, 2015 were \$618,562.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the Lottery reported a liability of \$4,077,531 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Lottery's proportion of the net pension liability was based on the Lottery's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2014, the Lottery's collective proportion was .102815 percent, which was an increase of .000542 percent from its collective proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Lottery recognized pension expense of \$273,335. At June 30, 2015, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 44,315	-
Changes of assumptions	179,951	-
Net difference between projected and actual earnings on IPERS' investments	-	1,555,053
Changes in proportion and differences between Lottery contributions and its proportionate share of contributions	-	136,408
Lottery contributions subsequent to the measurement date	618,562	-
Total	<u>\$ 842,828</u>	<u>1,691,461</u>

\$618,562 reported as deferred outflows of resources related to pensions resulting from the Lottery's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Amount
2016	\$ (368,236)
2017	(368,236)
2018	(368,236)
2019	(368,236)
2020	5,749
Total	<u>\$ (1,467,195)</u>

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

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

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

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31%
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Lottery will be made at contractually required rates, actuarially determined. Based on those assumptions, the IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Lottery's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Lottery's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Lottery's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Lottery's proportionate share of the net pension liability:	\$ 7,704,380	\$4,077,531	\$1,016,094

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

Payables to the Pension Plan - At June 30, 2015, the Lottery reported payables to IPERS of \$19,338 for legally required employer contributions and \$12,884 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

(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, plus the Megaball number, are matched.

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

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

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

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

The All or Nothing prize expense is comprised of winners who match 0, 1, 2, 3, 4, 8, 9, 10, 11 or 12 of 12 numbers.

The Monopoly Millionaires' Club prize expense is comprised of several different prize structures. One prize structure is winners who match 2, 3, 4 or 5 of 5 numbers or none, 1, 2, 3 or 4 of 5 numbers plus a property number representing a property on the Monopoly game board. The second prize structure involves a top prize which increases from drawing to drawing until capped at \$25 million. The top prize is won when 5 of 5 numbers plus the property number are matched. When the top prize is won, a second drawing occurs to award the Millionaires' Club prizes. If winners match the Millionaires' Club number on their ticket in the exact order drawn, they win \$1 million. The third way to win is to enter the TV Game Show entry code into the Lottery's microsite portal to register the property. Every time a player collects a Property Set, they get at least one entry into a drawing to potentially be on the show. Better Property Sets result in more entries. This game was discontinued in fiscal year 2015.

The VIP Club prize expense is comprised of players who enter eligible lotto and non-winning scratch tickets into "Play it Again" promotions for a chance to win cash and/or merchandise prizes. The Lottery spent \$264,651 on VIP Club prizes during the year ended June 30, 2015.

During the year ended June 30, 2015, \$128,699 of prizes were distributed through various promotional activities.

(11) 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, 2015, the Lottery had 39,730 packs at retailers which have not yet settled. The receivable and the related unearned revenue of \$5,665,342, 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	\$ 11,919,000
Less:	
Retailer compensation	819,188
Low-tier prize expense	5,434,470
Potential receivable and unearned amount	<u>\$ 5,665,342</u>

(12) 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, 2015, the MUSL held zero coupon bonds for the Lottery to fund future installment payments aggregating \$1,424,944. The current value of those bonds totaled \$1,519,762.

(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.

(14) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27, was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB Statement No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions.

During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources are not reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

Net position June 30, 2014, as previously reported	\$ 9,513,856
Net pension liability at June 30, 2014	(5,872,179)
Deferred outflows of resources related to prior year contributions made after the June 30, 2013 measurement date	<u>600,788</u>
Net position July 1, 2014, as restated	<u>\$ 4,242,465</u>

Iowa Lottery Authority

Required Supplementary Information

Iowa Lottery Authority

Iowa Lottery Authority

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

Iowa Public Employees' Retirement System
Last Fiscal Year*
(In Thousands)

Required Supplementary Information

	<u>2015</u>
Lottery's collective proportion of the net pension liability (asset)	0.102815%
Lottery's collective proportionate share of the net pension liability (asset)	\$ 4,078
Lottery's covered-employee payroll	\$ 6,753
Lottery's collective proportionate share of the net pension liability as a percentage of its covered-employee payroll	60.39%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

* The amounts presented for each fiscal year were determined as of June 30.

See accompanying independent auditor's report.

Iowa Lottery Authority
Schedule of Lottery Contributions
Iowa Public Employees' Retirement System
Last 10 Fiscal Years
(In Thousands)

Required Supplementary Information

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily required contribution	\$ 619	603	582	521
Contributions in relation to the statutorily required contribution	<u>(619)</u>	<u>(603)</u>	<u>(582)</u>	<u>(521)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
Lottery's covered-employee payroll	\$ 6,932	6,753	6,713	6,456
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%	8.07%

See accompanying independent auditor's report.

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
424	415	404	390	377	351
<u>(424)</u>	<u>(415)</u>	<u>(404)</u>	<u>(390)</u>	<u>(377)</u>	<u>(351)</u>
-	-	-	-	-	-
6,101	6,241	6,362	6,446	6,557	6,104
6.95%	6.65%	6.35%	6.05%	5.75%	5.75%

Iowa Lottery Authority

Notes to Required Supplementary Information – Pension Liability

Year ended June 30, 2015

Changes of benefit terms:

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

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

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

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

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

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

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

Iowa Lottery Authority

Supplementary Information

Schedule 1

Iowa Lottery Authority

Other Operating Expenses

Year ended June 30, 2015

Salary and benefits	\$ 9,565,122
Travel	412,291
Supplies	99,454
Printing	6,291
Postage	6,118
Communications	227,509
Rentals	308,922
Utilities	126,902
Professional fees	137,357
Outside services and repair	289,302
Non-capitalized equipment	326,664
Data processing	105,400
Reimbursement to state agencies	418,625
Depreciation	278,004
Other	77,846
Total	<u>\$ 12,385,807</u>

See accompanying independent auditor's report.

Iowa Lottery Authority

Revenues, Expenses and Changes in Net Position

Years ended June 30, 2015 and 2014

	2015	2014 (Not Restated)	Increase (Decrease)
Operating revenues:			
Instant-scratch ticket sales	\$ 211,986,968	188,754,111	23,232,857
Pick 3 sales	7,046,335	6,948,165	98,170
Pick 4 sales	3,231,397	3,224,892	6,505
Powerball sales	52,231,108	61,153,876	(8,922,768)
Mega Millions sales	17,980,367	21,835,102	(3,854,735)
Hot Lotto sales	11,111,717	10,434,227	677,490
All or Nothing sales	4,542,846	3,196,195	1,346,651
Monopoly Millionaires' Club sales	591,605	-	591,605
\$100,000 Cash Game sales	-	2,530,984	(2,530,984)
Raffle Sales	-	242,960	(242,960)
Pull-tab sales	16,045,073	15,734,917	310,156
Application fees	3,800	4,375	(575)
Other	6,220	99,932	(93,712)
Total operating revenues	<u>324,777,436</u>	<u>314,159,736</u>	<u>10,617,700</u>
Operating expenses:			
Prizes:			
Instant-scratch ticket	137,660,011	121,968,549	15,691,462
Pick 3	4,164,551	4,101,291	63,260
Pick 4	1,993,339	1,905,110	88,229
Powerball	25,386,810	29,583,455	(4,196,645)
Mega Millions	8,593,263	10,946,296	(2,353,033)
Hot Lotto	5,351,407	5,042,963	308,444
All or Nothing	2,684,292	2,134,024	550,268
Monopoly Millionaires' Club	626,847	-	626,847
\$100,000 Cash Game	-	610,955	(610,955)
Raffle	-	101,536	(101,536)
Pull-tab	10,028,418	9,851,090	177,328
Promotional	128,699	184,615	(55,916)
VIP Club prize expense	264,651	519,101	(254,450)
Total prizes	<u>196,882,288</u>	<u>186,948,985</u>	<u>9,933,303</u>
Retailer compensation	20,977,399	20,131,336	846,063
Advertising production and media purchases	6,766,994	6,936,735	(169,741)
Retailer lottery system/terminal communications/ online game expense	6,753,929	6,460,431	293,498
Instant/pull-tab ticket expense and machine maintenance	3,890,273	4,079,074	(188,801)
Terminal equipment/ticket dispensers	179,352	86,137	93,215
Courier delivery of tickets	572,194	322,729	249,465
Other operating expenses	12,385,807	12,038,664	347,143
Total operating expenses	<u>248,408,236</u>	<u>237,004,091</u>	<u>11,404,145</u>
Operating income	<u>76,369,200</u>	<u>77,155,645</u>	<u>(786,445)</u>
Non-operating revenues (expenses):			
Proceeds deposited to the State's General Fund	(72,365,900)	(72,167,680)	198,220
Proceeds deposited to the Veteran's Trust Fund	(2,151,167)	(1,804,434)	346,733
Interest income	76,038	58,768	(17,270)
Interest expense	(8,046)	(12,622)	(4,576)
Loss on disposal of capital assets	(364,252)	-	364,252
Net non-operating expenses	<u>(74,813,327)</u>	<u>(73,925,968)</u>	<u>887,359</u>
Changes in net position	1,555,873	3,229,677	(1,673,804)
Net position beginning of year, as restated	4,242,465	6,284,179	(2,041,714)
Net position end of year	<u>\$ 5,798,338</u>	<u>9,513,856</u>	<u>(3,715,518)</u>

See accompanying independent auditor's report.

Schedule 3

Iowa Lottery Authority
Analysis of Net Position
June 30, 2015

Cash retained for vehicle purchases	\$ 597,296
Ticket inventories	1,968,114
Capital assets	8,159,092
Net pension liability	(4,077,531)
Deferred outflows of resources	842,828
Deferred inflows of resources	<u>(1,691,461)</u>
Total	<u>\$ 5,798,338</u>

See accompanying independent auditor's report.

Iowa Lottery Authority

Revenue by Game

For the Last Six Years

Games	Year ended June 30,					
	2010	2011	2012	2013	2014	2015
Instant-scratch ticket	\$ 143,759,258	165,329,031	188,814,325	202,299,747	188,754,111	211,986,968
Pick 3	6,531,001	6,573,020	6,743,717	6,804,870	6,948,165	7,046,335
Pick 4	2,662,191	2,701,949	2,788,613	3,085,784	3,224,892	3,231,397
Powerball	59,190,012	47,124,656	57,934,104	81,385,271	61,153,876	52,231,108
Mega Millions	5,544,128	16,051,016	22,293,152	13,317,888	21,835,102	17,980,367
Hot Lotto	13,653,746	11,608,730	10,525,347	11,664,946	10,434,227	11,111,717
All or Nothing	-	-	-	-	3,196,195	4,542,846
Monopoly Millionaires' Club	-	-	-	-	-	591,605
\$100,000 Cash Game	3,908,785	3,687,370	4,314,098	4,483,605	2,530,984	-
Raffle	789,200	-	-	-	242,960	-
Pull-tab	20,217,316	18,315,275	17,438,369	16,209,309	15,734,917	16,045,073
Total	\$ 256,255,637	271,391,047	310,851,725	339,251,420	314,055,429	324,767,416

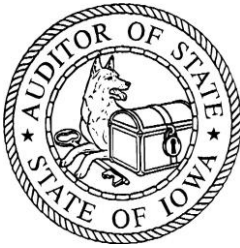
See accompanying independent auditor's report.

Schedule 5

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

Games	Year ended June 30,					
	2010	2011	2012	2013	2014	2015
Instant-scratch ticket	64%	63%	62%	63%	65%	65%
Pick 3	61%	59%	59%	59%	59%	59%
Pick 4	58%	59%	59%	59%	59%	62%
Powerball	48%	48%	49%	49%	48%	49%
Mega Millions	52%	52%	51%	49%	50%	48%
Hot Lotto	48%	48%	49%	48%	48%	48%
All or Nothing	-	-	-	-	67%	59%
Monopoly Millionaires' Club	-	-	-	-	-	106%
\$100,000 Cash Game	51%	47%	50%	61%	24%	-
Raffle	50%	-	-	-	42%	-
Pull-tab	63%	63%	63%	63%	63%	63%

See accompanying independent auditor's report.



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

To the Board Members of the
Iowa Lottery Authority:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the Iowa Lottery Authority, a component unit of the State of Iowa, as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 14, 2015.

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

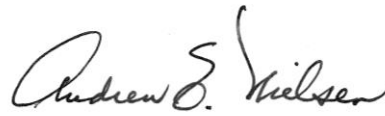
December 14, 2015

Iowa Lottery Authority

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Jenny M. Podrebarac, Senior Auditor II
Daniel J. Mikels, Senior Auditor
Melissa A. Hastert, CPA, Staff Auditor
Megan E. Irvin, Staff Auditor
Marcus B. Johnson, Staff Auditor
Dan S. Nilsen, Staff Auditor
Erin J. Sietstra, Staff Auditor
Ryan P. Swanson, CPA, Staff Auditor
Jon M. Mader, Assistant Auditor
Elizabeth P. Dawson, Auditor Intern

A handwritten signature in cursive script that reads "Andrew E. Nielsen". The signature is written in black ink and is positioned above the printed name and title.

Andrew E. Nielsen, CPA
Deputy Auditor of State