

# Annual Report 2013



**\$48.2**

Million given back to Idaho Public Schools and the Permanent Building Fund in FY13.

**\$1.5**

Billion in prizes has been paid to players since the Lottery's inception in 1989.

Over  
**\$600**

Million given back to Idaho Public Schools and the Permanent Building Fund since 1989.



## Table of Contents

Lottery Mission 1

Governor's Message 2

Director's Message 4

Roger Jones Memoriam 5

Commissioner's Message 6

Where the Money Goes 7-8

Scratch For Schools 9

Charitable Gaming 10

Scratch Games™ 11-12

Draw Games™ 13-14

PullTabs™ & TouchTabs™ 15

Lottery Retailers & Vendor Partners 16

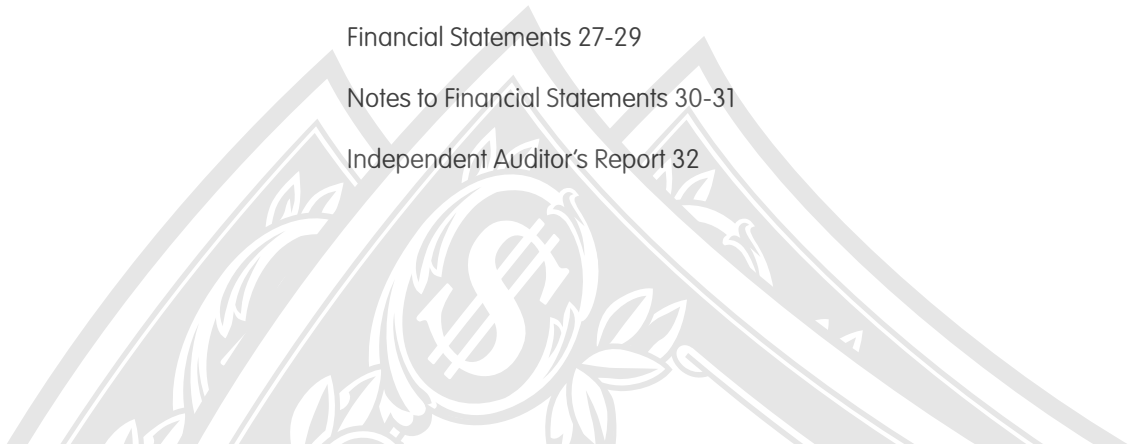
Auditor's Letter 18

Management's Discussion & Analysis 19-26

Financial Statements 27-29

Notes to Financial Statements 30-31

Independent Auditor's Report 32



## Lottery Mission

The mission of the Idaho Lottery is to responsibly provide entertaining games with a high degree of integrity to maximize the dividend for public schools and the permanent building fund.

## Lottery Vision

To become the highest performing jurisdiction in North America.

## Operations

The Idaho Lottery is self-funding and self-governing, comprised of a five-member appointed Lottery Commission and the Idaho Lottery staff. Idaho Lottery Director, Jeffrey R. Anderson, serves at the pleasure of the Governor. As the Director, he is responsible for overseeing day-to-day lottery operations, including security, marketing, sales, media relations, warehousing and inventory control, information technology, and fiscal management. Currently, the Idaho Lottery employs 46 staff members.

## Overview

It was an extraordinary year, unique in the 24-year history of the Idaho Lottery. Players claimed more in prizes than any previous year, retailers earned a record amount in commissions, and the Idaho Lottery's beneficiaries, Public Schools and the State of Idaho's Permanent Building Fund each realized the single largest dividends since inception in 1989. It was legendary.



## C.L. "Butch" Otter

Governor of Idaho

Dear Friends,

When we started the Lottery in Idaho, we did so based on the belief that we would bring continued value to our public schools in the State of Idaho's permanent buildings. With that decision, the Lottery became a partner and constant supporter of education at every level in Idaho. That was 24 years ago.

Today, the Idaho Lottery is part of everyday life for our citizens – as well as many eager contributors from neighboring Utah! They have returned over \$600 million in dividends to education facilities in every community and supported the capital and structural needs of Idaho's state facilities. Local businesses have succeeded from offering Idaho Lottery products too, earning over \$148 million in commissions.

One of the most important goals when the Idaho Lottery began was to maintain the honesty, the security, and the fairness of the games. The citizens gave their trust to the State of Idaho to operate their Lottery with the highest degree of integrity. That standing has been maintained assiduously by the Idaho Lottery's responsible leadership.

Each year, the Idaho Lottery continues to exceed my expectations in all respects for the value it delivers for Idahoans. Director Anderson and his team are leaders in their industry and an example of the positive results government can provide to its citizens.

Team Lottery has nearly the same number of employees as when it began 24 years ago. They have my confidence and commitment to continue providing meaningful contributions that ensure a quality education and improved infrastructure for all Idahoans.

Please join me in congratulating the Idaho Lottery on its 10th consecutive year of record success, and share the proud merits earned by the Lottery Commission and Lottery employees from a grateful Idaho.

As Always – Idaho, "Esto Perpetua"

A handwritten signature in black ink that reads "C.L. Butch Otter". The signature is stylized and fluid.

C.L. "Butch" Otter  
Governor of Idaho

## Idaho Lottery Management Team:



Becky Schroeder  
Chief Operating Officer



Amber French  
Deputy Director of Security



Jeff Anderson  
Director



Sherie Moody-St.Clair  
Deputy Director of Marketing



Shannon Newhouse  
Deputy Director of Sales





## Jeffrey R. Anderson

Idaho Lottery Director

In 2007, when I joined Team Lottery, we made a commitment to not only work in our business but to work *on* our business. During the process, our vision became clear: to become the highest performing Lottery jurisdiction in North America. This focused work has landed the Idaho Lottery nationwide recognition.

Team Lottery was recognized by the North American Association of State and Provincial Lotteries (NASPL) for the record \$48.2 million dividend for Fiscal Year 2013. This 16.14% dividend increase returned to the citizens of the Gem State was the highest dividend increase among the forty-five United States Lotteries.

Your Idaho Lottery's reputation for security, integrity, and responsible play remains unblemished. Fiscal Year 2013 ended with a record \$197.4 million in total sales; an increase of \$22 million that resulted in nearly \$7 million more in dividends.

This is the 10th consecutive year your Idaho Lottery has returned a record dividend to the people of Idaho. During the last decade, we've delivered responsible sales growth of nearly 75% and, more importantly, a 93% increase in the annual dividend for the benefit of Idaho Public Schools in the State of Idaho's Permanent Building Fund.

During the course of the year, your Idaho Lottery also reached four important, cumulative milestones since our inception in 1989. First, the citizens of the Gem State have received \$600,500,000 in total dividends. Second, our retail partners, the private sector corner markets and stores in your community, have earned commissions grossing nearly \$148.2 million. Third, more than \$1.5 billion has been paid to players in prizes. And, we have surpassed the \$2.5 billion mark in overall sales.

Our accomplishments would not be possible without continued support from everyone who willingly participates in the Idaho Lottery. Congratulations Idaho and thank you.

A stylized, handwritten signature in black ink, appearing to read 'J. Anderson'.

Jeffrey R. Anderson  
Director, Idaho Lottery

## Roger Jones in Memoriam

The Idaho Lottery lost its longest tenured Commissioner in late August 2013 when Roger Jones passed away at his home in the vineyards of Carmela Winery in Glens Ferry, Idaho. He was 75. Roger served on the Idaho Lottery Commission since March 1995 and had been Chairman since November 2003.

Roger Jones was a true innovator in Idaho and one of the State's original potato barons, as he advanced the technology for dried potato-flake processing. Eventually he worked with Proctor & Gamble to create Pringles Potato Chips. In recent years, Roger was the proprietor of Carmela Vineyard and Winery in Glens Ferry. A graduate of the University of Idaho, Roger was one of the school's most dedicated Vandal supporters.

Where innovation and passion meet, the road to great success begins. Roger lived that credo with everything he did, which brought not only leadership and encouragement to the Lottery, but valuable experience and commitment to foster great achievements. On behalf of the Idaho Lottery Commission, Idaho Lottery Director Jeff Anderson and all employees, vendors, and partners, Roger will be deeply missed.



## Idaho Lottery Commissioners:



Chairman, Mel Fisher



David Keyes



Jim Rehder



Craig Corbett



Gary Michael





## Mel Fisher

Chairman of the Idaho Lottery Commission

As we reflect on the many successes of Fiscal Year 2013, perhaps the most remarkable achievement accomplished by the Idaho Lottery was surpassing the \$600 million mark in total dividends returned to the citizens of Idaho since 1989. Personally I am proud to have been a part of the most successful year in Idaho Lottery history. During a ceremony in the Governor's Office on July 16, 2013, I, along with my fellow Commissioners, including our late Chairman Roger Jones, had the distinct privilege of presenting Governor Otter with our 10th consecutive record dividend check for \$48.2 million.

To build a better Idaho means providing safe and productive learning centers for students of all ages. As a meaningful partner for education, and the State of Idaho's permanent facilities including our college campuses, the Idaho Lottery takes great pride in its annual contributions that make our commitments a reality for everyone.

It has been my honor and good fortune to serve the people of the Gem State on the Idaho Lottery Commission for the past 10 years. During this time, I have witnessed firsthand the diligent attention the Lottery has invested in reasonably growing dividends each year for the improvement of our classrooms and Idaho's state facilities.

The Idaho State Lottery Commission congratulates Director Jeff Anderson and Team Lottery for achieving success in Fiscal Year 2013. It is a strong testament to Director Anderson's leadership and the dedication of his team to continually strive for excellence in their industry. As a Commission, we are confident this dedication will continue to translate into positive financial resources to invest into Idaho's future.

Sincerely,

A handwritten signature in black ink, reading "Melville W. Fisher II", with a stylized flourish at the end.

Melville W. Fisher II, Chairman  
Idaho Lottery Commission



## Where The Money Goes

Pioneer Elementary School in Preston installed a new roof. The University of Idaho's Education Building's interior and exterior were completely renovated. These are only two of the hundreds of building projects completed statewide each year using the dividend dollars provided by the Idaho Lottery as they fulfilled their mission to benefit public education and the State of Idaho's permanent buildings.

The Idaho Lottery completed its most successful year in its 24-year history yielding its most prosperous dividend of \$48.2 million. This was the 10th consecutive year for a record dividend. Since 1989, the Idaho Lottery has been a committed partner of public education and the permanent building fund, returning more than \$600.5 million since inception.

The Idaho Lottery sends dividend dollars to three different funds: the Department of Education's Public School Building Fund, the Department of Education's Bond Levy Equalization Fund, and the Department of Administration's Permanent Building Fund.

This year, each account received a record dividend. As prescribed in statute, the two building fund accounts each received \$18,075,000 while the Bond Levy Equalization Fund received \$12,050,000. The Department of Education uses a formula of total enrollment divided by average daily attendance to determine annual disbursements to the districts.

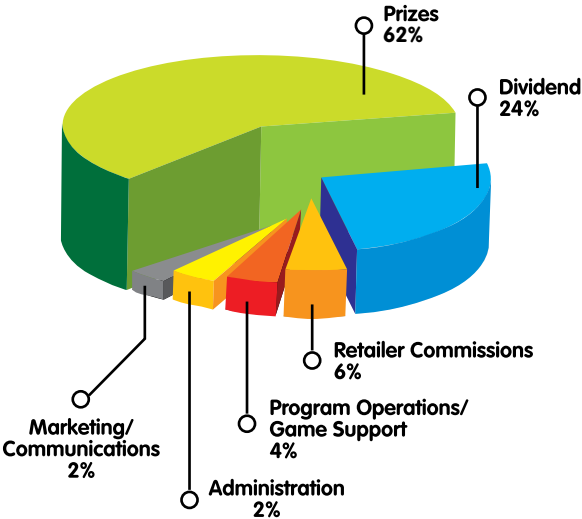
Someone in Idaho is always winning any time you participate in the Lottery. By playing, you help your community. The businesses where you purchase your tickets earn commissions for each sale and every winner cashed in their store. Your local schools benefit with building projects funded through Lottery dividends. Winning prize experiences, large and small, eventually find their way back into your community where the winners live. Every play pays.

Players claimed a record \$122.8 million, about 62% of all revenues. That averages \$336,680 per day, every day, for the entire year. After prizes, the second largest amount of revenue is returned to the people of Idaho through the annual dividend, roughly 24% of total revenue. With this year's dividend, over the past five years the Idaho Lottery has returned nearly \$200 million.



Also a record amount, nearly \$11.5 million in commissions, was earned by our network of 1,187 retailers in 179 communities across the Gem State, roughly 6% of sales, for providing Idaho Lottery products to their customers.

Rigorous fiscal management of Idaho Lottery’s operating costs is paramount to its overall success. Administrative costs represent only about 2% of the total cost to operate the Idaho Lottery. Our vendor partners, who provide our operational systems, terminals, vending machines, and print our Scratch Games™, collectively earn about 4%. The smallest portion of revenue is used for marketing and communications to support products and sales.





# Jim Bruce SCRATCH FOR SCHOOLS

The 12th year of Scratch for Schools in Idaho was its most historic. More schools participated in Scratch for Schools this year than in any previous year in the benefits program's history. Over 58% of every public school in Idaho attended one of nine events in eight cities across the Gem State. This year's program saw 434 schools compete to win extra dollars for their classroom needs.

Scratch for Schools was created to further help the Idaho Lottery's mission to benefit each and every Idaho public school who participates. Every participating school received an entire pack of scratch tickets and five minutes to scratch as many tickets as they could. Top schools advanced to the finals where teams received another pack of tickets and another five minutes to scratch. The top scratching schools received a third pack, or 900 tickets, for their efforts. Every school kept all the prize money they found in all of their ticket packs.



This year, the Idaho Lottery hosted the single largest scratch event in the history of Idaho when 103 schools attended the Boise venue at Century Link Arena. The 310 participants scratched their tickets under the stadium lights. Statewide, over \$97,000 was shared between all participating schools. This year, 157,800 "Bookworm Bucks" scratch tickets were used for the events. Since the first year, Scratch for Schools has returned over \$665,000 to public schools. Here are the overall results from each venue:



Date:	Event Location:	Number of Schools:	Dollars to Schools:
October 1, 2012	Idaho Falls, ISU Extension	24	\$ 5,690
October 2, 2012	Idaho Falls, ISU Extension	31	\$ 6,615
October 3, 2012	Pocatello, ISU Student Union	48	\$10,992
October 11, 2012	Caldwell, College of Idaho	65	\$13,690
October 17, 2012	Twin Falls, CSI Gymnasium	67	\$15,393
October 18, 2012	Boise, Century Link Arena	103	\$22,503
October 23, 2012	Lewiston, LCSC Activity Center	38	\$ 8,571
October 24, 2012	Sandpoint, Holiday Inn Express	18	\$ 4,635
October 25, 2012	Post Falls, Greyhound Park	40	\$ 9,232
<b>Total attendance and prizes claimed from events:</b>		<b>434</b>	<b>\$97,321</b>

## Charitable Gaming in Idaho

Charitable gaming, community bingo games and non-profit raffles, were a primary discussion point when Idaho's citizens voted to approve the creation of the Idaho Lottery in 1988. In 1992, the Lottery received oversight responsibility for charitable bingo and raffle games in Idaho. Licensed charitable gaming organizations increased in the past year by 8.2%, with 248 charitable and non-profit organizations obtaining a charitable gaming license from the Idaho Lottery.

The Idaho Lottery is charged with protecting the public from fraudulently conducted operations and to assure that charitable groups and institutions realize the profits from these games. When a non-profit organization or a charity wishes to conduct a bingo game or a raffle in Idaho, they are required by law to obtain a license from the State through the Idaho Lottery. Licenses for bingo and raffle operations are necessary when the annual gross revenue (bingo) or prize value (raffle) exceeds statutory benchmarks.

Conducting bingo games is a great way for non-profits in Idaho to raise money. State law directs that a minimum of 20% of an organization's gross bingo revenue must be used for charity. In the past year there were 33 organizations conducting bingo operations, a decrease of 21.5%, with gross revenues totaling just over \$3.8 million and just over \$1 million returned to charities.

Raffles are another great source of income and 226 organizations held a raffle license last year. St. Jude alone raised \$777,700 for their organization with one raffle. State law directs that 80% of an organization's net raffle proceeds must be used for charitable purposes and allows for up to 12 raffles per year, per license. In the past year, net proceeds were just over \$2.9 million with 95% being donated to charity, totaling just over \$2.8 million.

The funds raised by licensed organizations conducting bingo and raffles benefit people and communities throughout Idaho in numerous and varied ways including the support of local fire departments, community playground improvements, and providing student scholarships among a long list of other valuable contributions to improve the Gem State.

For more information on charitable bingo and raffles in Idaho, visit [www.idaholottery.com/charitablegaming](http://www.idaholottery.com/charitablegaming).

## Scratch Games™

The Idaho Lottery boldly went where it had never ventured before, breaking the \$100 million threshold for Scratch Games sales in a single fiscal year. At an annual increase of 8.8% over the previous year's record, the Idaho Lottery ranked fourth nationally in Scratch Games sales increase with a total of \$108.6 million for the year. Leading the way, as with every year, was the family of Cashword tickets which accounted for 42.6% of all scratch game sales, and 23.2% of all Idaho Lottery sales during the fiscal year. And while it seemed the Lottery surpassed this mark at WARP speed, the achievement was well planned with consistent game portfolio management, blockbuster games, and an award-winning, player-based interactive contest to name games.

### NAME THAT SCRATCH GAME

One of the more frequently asked questions of the Idaho Lottery is how and where we come up with those great game names for our Scratch Games. In July 2012, we took that question to the streets for our players, VIP members, and retailers to offer their suggestions and ideas. Over a four-week period, the Idaho Lottery received 4,604 entries from across the Gem State and seven other states.

The winning ticket submission was **Buck, Buck, Moose**, submitted by Kathy Lancaster of Sandpoint, Idaho who won \$1,000 in Idaho Lottery scratch tickets and the opportunity to work directly with the Idaho Lottery Marketing Department to create the ticket artwork. The game launched on April 1, 2013.

Coming in second place was Gary Brower of Hailey, Idaho with his submission of Taters of the Moon. Brower won \$300 in Idaho Lottery scratch tickets and had his ticket created, printed and introduced into the market place on May 28, 2013.

The third-place winner was Keith Foster of Pocatello, Idaho for his entry of **Hunt for Cashesquatch**. Eastern Idaho is known for their Bigfoot science conferences and research at Idaho State University. **Hunt for Cashesquatch** is slated to begin sales in Fiscal Year 2014.

The success of the **Name That Scratch Game** contest as an interactive public relations, social media, and marketing tool earned the program a Gold Rockie for public relations from the Boise Advertising Federation in the spring of 2013.

### STAR TREK

Captains Log, Stardate 11304.17. The Idaho Lottery boldly went where we had never gone before - space the final frontier. The Idaho Lottery teamed up with CBS Studios and Paramount Pictures and released the \$2 Star Trek Scratch Game in conjunction with the spring blockbuster **Star Trek Into Darkness**. The game art featured a nod to long-time Trekie fans, showcasing the original series Enterprise, and brought a top prize of \$10,000. The game featured a second chance draw component where players could win a PlayStation3 and the new Star Trek video game, or a \$500 Visa gift card. In some stores, players even had the opportunity to buy the game and get "beamed" out of the retail location. All phasers were set to "Scratch" when the game debuted in April, selling one third of all its tickets ahead of the motion picture release date. Star Trek from the Idaho Lottery gave true meaning to the phrase, "Live long and prosper."

NAME THAT  
SCRATCH  
GAME!





### FOR THE LOVE OF BACON

As a major trend in American pop culture, bacon and bacon flavored consumable goods was it. There's bacon flavored vodka, bacon flavored lollipops, bacon flavored envelopes, gummies and mayonnaise; there are even bacon wrapped maple bars available at some convenient stores and bakeries. The Idaho Lottery provided its own bacon love just in time for Valentine's Day by offering **For the Love of Bacon** scratch tickets. This sizzling lover's treat only cost \$2 for a chance to win a savory \$8,000 top prize. The game name was submitted during the **Name that Scratch Game** contest, but was not one of the top three winners. Still, the concept for a Valentine's Day game was clever, and bacon became the new chocolate in Idaho in early January 2013. The game did astoundingly well, fulfilling its popularity as a cultural icon by selling 99.4% through ticket quantity in just five months.



### THE GREAT IDAHO CASHWORD

The Great Idaho Cashword Scratch Game was created by the Idaho Lottery to commemorate Idaho's territorial sesquicentennial on March 4, 2013. The Great Idaho Cashword ticket grid was set inside the shape of the State of Idaho adorned with the State's iconic symbols - the mountain bluebird and the State's flower, the syringa. Idaho's heritage as an outdoor state is also represented with a rainbow trout and Rocky Mountain elk. One hundred and fifty years in the making, the game played like a regular Cashword ticket and was loaded with \$150 prizes in honor of the 150th anniversary. The Great Idaho Cashword game carried a top prize of \$50,000.

Each individual ticket had one of 129 different fun facts of Idaho history, like Idaho's namesake which is a made-up word by George M. Willing that means Gem of the Mountains or that Noah Kellogg discovered silver in Shoshone County while searching for his lost burro.

In total, the Idaho Lottery printed 861,600 of these \$5 tickets. This game quickly became the top selling \$5 scratch game in the Lottery's history. In less than five months on the market after the game's release to the public, the Great Idaho Cashword had sold 83.6% of all its tickets.

By the game's end, it generated nearly \$900,000 in direct benefits to Idahoans: more than \$700,000 in benefits to public education and the permanent buildings of Idaho and another \$200,000 in retail commissions for Idaho's businesses.



## Draw Games™

Everyone loves big jackpots and even bigger winners, and in Fiscal Year 2013, the Idaho Lottery had plenty of both that translated into the strongest Draw Game sales year in history for the Gem State. Players spent \$66.9 million on games, an increase of 10.8%. Draw Games accounted for 33.7% of all Idaho Lottery sales. There were two record-breaking jackpot runs on Powerball, ten jackpot winners, and seven new millionaires from Draw Games in Idaho during the fiscal year. Plus, two of the games saw significant game changes that boosted their overall performance.

### POWERBALL

Powerball. The name alone is almost synonymous with Lottery itself. It is easily the most recognizable brand name in the Idaho Lottery game lineup and responsible for 67.7% of total Draw Game sales, and 22.8% of total sales. Fiscal Year 2013 saw Powerball have its most successful year ever with \$45.3 million in sales fueled by two record jackpot runs. The first came on November 28, 2012 when Powerball set a new record at \$587.5 million and then broke its own record on May 18, 2013 with a \$590.5 million jackpot run. During the year, there were a total of 15 winning jackpots on Powerball nationwide with an average Jackpot win of \$186.3 million. The average announced daily jackpot was \$121.6 million. Both of these figures are the highest in Powerball's long history. Idaho had six \$1 million or higher winners during the year from Powerball and 25 players claimed \$10,000 from the game.

### MEGA MILLIONS

Mega Millions experienced its second best sales year since debuting in January 2010 without the benefit of a single \$200 million or higher jackpot run. Total sales for Mega Millions for the year were \$9.25 million and represented the second highest amount of draw game sales in Idaho. The average announced jackpot for Mega Millions in Fiscal Year 2013 was \$42.9 million, the lowest daily average announced jackpot for Mega Millions in a decade. Nationwide, Mega Millions recorded fourteen jackpot winners, with an average jackpot win of \$60.9 million. Still, the game continued to gain a consistent following, raising annual sales by 3.2% over a baseline year of Fiscal Year 2011 and seeing seven winners claim a \$10,000 prize.

### WEEKLY GRAND

It's the game that gives players \$1,000 a week after withholding taxes, every week for a year when they hit the jackpot. Now in its second year, Weekly Grand has developed a steady, strong following among players who enjoy Idaho-only jackpot games. Throughout the course of the year, the game had seven jackpot winners and a dozen players claim \$100 a week every week for a year through the game's built-in second chance draw. Overall sales on the game remained roughly equal to Fiscal Year 2012, coming in at \$2.7 million.

### PICK 3

Idaho Pick 3 continues to provide steady, stable sales from its core group of players. At \$1.88 million in annual sales, the classic game realized a 6.4% increase over the previous year. This is the third consecutive year with sales increases for the game. Idaho Pick 3 continues to offer both day and night draws with 52% of all sales coming for the night draws.



### HOT LOTTO

In May 2013, Hot Lotto underwent some game improvements. The two biggest changes came with discontinuing the annuity prize payout and making the jackpot payable in one cash lump sum to winners. The second monumental change was a new game twist. Player withholding taxes are paid separately from the all-cash jackpots on behalf of the jackpot winner. What this means is that Hot Lotto now pays what it says. If the jackpot is won at \$2 million, the player will receive all \$2 million. The second level prize for Hot Lotto also increased to \$30,000 for matching the first five numbers, but not the Hot Ball; \$90,000 with the \$1 Sizzler option. Hot Lotto's \$3 million in sales increased over the previous year by 12.9%.

### WILD CARD

Bigger starting jackpots, bigger prize payouts, and the same great price of two plays for \$1 characterized the big upgrades to Wild Card on January 13, 2013. Wild Card has been a regular game for Idaho Lottery players since May 1999. The changes included the new starting jackpot which is now \$200,000 instead of the previous amount of \$100,000. Two additional game numbers were put into play, so players now select five numbers between 1 and 33. The number of Wild Cards, a face card and aces from a standard deck of cards, remained the same at sixteen.

Next, the prize payouts are bigger. Matching five numbers, but not the Wild Card, is now a \$6,000 win for players. Matching four numbers but not the Wild Card is now a \$30 winner, three numbers and the Wild Card is now \$6 winner, and two numbers plus the Wild Card is a \$2 win.

During the course of the year, the Idaho Lottery had two jackpot winners on Wild Card, one in August 2012 for \$501,194 in Chubbuck at Toad's Store and Alehouse, the second in April 2013 for \$245,000 in Nampa at the Greenhurst Chevron. Wild Card sales were \$2.17 million, an increase of 3.4% over the previous year.

### IDAHO \$1,000,000 RAFFLE

The Idaho \$1,000,000 Raffle returned to the Idaho Lottery draw game lineup for its sixth annual edition during the holiday season. This is an Idaho-only, limited time, limited ticket draw game with a guaranteed top prize of \$1 million. This year's game also featured the most prizes ever offered by the Idaho Lottery in the raffle game with 4,455 total winners. For the fifth time in six offerings, the Idaho \$1,000,000 Raffle sold out, this time in only 60 days.

The game kicked-off on Halloween, October 31, 2012, with a few little features that left players seeing Orange. For the first 22 days tickets were on sale, the Idaho Lottery offered a voucher driven second chance draw where players could win \$100 each day they entered. The Friday after Thanksgiving became known as "Orange Friday" where players received a free \$2 Powerball ticket for every Raffle ticket they purchased from noon until 3 PM. For six hours on Christmas Eve day, the Idaho Lottery offered players a special holiday gift, where with every Raffle ticket purchased, players received a free \$2 Powerball ticket. Combined, the "Orange Friday" and Christmas Eve specials accounted for 21,174 of the 250,000 tickets sold. Combined with the \$100 daily draw, these three game features accounted for 39.1% of the overall game sales.



## PullTabs and TouchTabs

With a full year of operations for the electronic TouchTabs in FY 2013, the entire PullTab game line-up saw the largest increase in overall sales of any product category during the year. In total, PullTabs and TouchTab products sold a combined \$21.8 million, up 38.8% over the previous year. TouchTab products are only offered for sale in age controlled environments in 157 locations.

TouchTabs play exactly like the classic, break-open PullTabs, only they are paperless. Traditional PullTabs are still available for sale in all the locations where TouchTabs were introduced. The tickets on TouchTabs offer a similar style of game product with pre-determined winners and non-winners like the paper version. The primary difference between the traditional, break-open style of PullTabs and TouchTabs is how they are played. The TouchTabs are dispensed via a touchscreen monitor for players to open windows electronically to reveal winning and non-winning combinations.

In addition to a reduction in cost to deliver the TouchTab product to the retailer, the paperless version of PullTabs also provides additional security of the games, reduces instances of loss or theft and is ADA compliant.

## Idaho Lottery Retailers

The Idaho Lottery offers congratulations and gratitude for the 1,187 members of statewide retailers who sell lottery products in their establishments. Their commitment and dedication to our business has helped the Idaho Lottery responsibly grow the dividend for our beneficiaries and the commissions they have so justly earned.

In Fiscal Year 2013, our retailers were the front lines for both historic Powerball jackpot runs, both coming with excited lines of players visiting their stores, many for the first time, to have a chance at history. For their hard work, they earned a record \$11.5 million in commissions.

An additional 170 retailers joined the Idaho Lottery retail network in Fiscal Year 2013, with 1,044 offering traditional lottery products. An additional 143 offer PullTab products only, locations with age controlled environments that are able to offer the traditional break-open paper and new TouchTab products. Idaho Lottery products are available in 179 towns across the Gem State.

The business landscape for lottery products in Fiscal Year 2013 shows approximately 49% of Idaho Lottery retailers were convenient store-type operations and accounted for 74.1% of all sales. Another 15.9% were grocery store accounts who generated 17.6% of total sales. The remaining retail locations were a combination of variety stores, smoke shops, bowling centers, and restaurants and lounges. Of the entire composition 61% were corporate chain stores who accounted for 60% of the Idaho Lottery's total sales in Fiscal Year 2013.

Since the Idaho Lottery began operations in 1989, Idaho Lottery retailers have earned \$148.2 million in commissions from the sale of lottery products.

## Vendor Partners of Record

The success of the Idaho Lottery also benefits from the continued commitment of its vendor partners:

- INTRALOT, USA - Terminal and Gaming Systems development and operations.  
Headquarters: Marietta, Georgia
- Scientific Games, Corp. - Scratch Games™ Printer: July 1, 2012 through March 18, 2013  
Headquarters: Alpharetta, Georgia
- GTECH Printing, Corp. - Scratch Games™ Printer: March 19, 2013 to present  
Headquarters: Lakeland, Florida
- Pollard Banknote, Inc. - Scratch Games™ Printer: May 7, 2013 to present  
Headquarters: Ypsilanti, Michigan
- International Gamco, Inc. - PullTab/TouchTab Provider  
Headquarters: Omaha, Nebraska
- DaviesMoore - Full Service Marketing Agency: July 1, 2012 through December 31, 2012  
Headquarters: Boise, Idaho
- Drake Cooper - Creative and Strategic Marketing Service Partner: January 1, 2013 to present  
Headquarters: Boise, Idaho
- CLM - Media Services Marketing Partner: January 1, 2013 to present  
Headquarters: Boise, Idaho





**To the Board of Commissioners**

Idaho Lottery  
Boise, Idaho

We have audited the accompanying financial statements of Idaho Lottery (the Lottery), an agency of the State of Idaho, which comprise the Statements of Net Position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and statements of cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 entity'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 entity'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 that 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 Lottery as of June 30, 2013 and 2012, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Matters****Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 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 who 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 auditing standards generally accepted in the United States of America, 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.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued a report dated September 19, 2013 on our consideration of the Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Lottery's internal control over financial reporting and compliance.



Boise, Idaho  
September 19, 2013



CPAs & BUSINESS ADVISORS

## Management's Discussion and Analysis

The following Management Discussion and Analysis (MD&A) allows Idaho Lottery (Lottery) management to provide users of the financial statements with an analysis of the agency's financial activities based upon currently known facts, decisions and conditions. Please read it in conjunction with the Idaho Lottery Financial Statements that follow this section.

A key focus of the MD&A is the discussion of the current-year results in comparison with the prior year. While the accompanying financial statements present the financial position of the Idaho Lottery as of June 30, 2013 and 2012, and financial activity for the years then ended, the MD&A also includes this information for the year ended June 30, 2011, in order to allow for a broader comparison.

### OVERVIEW OF THE ACCOMPANYING FINANCIAL STATEMENTS

These required statements offer short and long-term financial information about the Idaho Lottery.

- The Statements of Net Position provides information about the nature and amounts of investments in resources (assets) and obligations (liabilities) at the close of fiscal year 2013 and 2012.
- The Statements of Revenues, Expenses and Changes in Net Position, measures the success of the Lottery's operations for fiscal year 2013 and 2012 and the resulting increase or decrease in net position.
- The Statements of Cash Flows - The primary purpose of this statement is to provide information about the Lottery's cash receipts and cash payments during the fiscal year 2013 and 2012. The statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing and financial activities and provides answers to such questions as where cash originated from and where it went during the fiscal years.

The Idaho Lottery is structured as a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when paid. Capital assets are capitalized and depreciated over their useful lives. The notes to the financial statement contain, among other information, a description of the Idaho Lottery's significant accounting policies. The accompanying notes are an integral part of the financial statements.

The reader should refer to the financial statements and the accompanying notes for information on the individual components of the Statements of Net Position. The following analysis is intended to highlight selective changes between 2013 and 2012 and 2012 and 2011.

	<u>2013</u>	<u>2012</u>	<u>Change 2013 to 2012</u>	<u>2011</u>	<u>Change 2012 to 2011</u>
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 48,416,156	\$ 40,067,309	\$ 8,348,847	\$ 36,285,130	\$ 3,782,179
Receivables	1,549,478	1,425,176	124,302	1,022,466	402,710
Due From MUSL	-	3,235,898	(3,235,898)	-	3,235,898
Other	119,153	174,850	(55,697)	313,625	(138,775)
Total current assets	<u>50,084,787</u>	<u>44,903,233</u>	<u>5,181,554</u>	<u>37,621,221</u>	<u>7,282,012</u>
Reserves with MUSL	2,730,558	2,774,340	(43,782)	2,779,816	(5,476)
Plant and Equipment, Net	<u>214,243</u>	<u>295,527</u>	<u>(81,284)</u>	<u>268,277</u>	<u>27,250</u>
	<u>\$ 53,029,588</u>	<u>\$ 47,973,100</u>	<u>\$ 5,056,488</u>	<u>\$ 40,669,314</u>	<u>\$ 7,303,786</u>
<b>LIABILITIES AND NET POSITION</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable and accrued expenses	\$ 1,431,284	\$ 1,373,925	\$ 57,359	\$ 1,271,500	\$ 102,425
Dividend payable	48,200,000	41,500,000	6,700,000	37,000,000	4,500,000
Due to MUSL	331,152	121,941	209,211	437,778	(315,837)
Prizes payable	2,515,164	3,756,923	(1,241,759)	1,772,122	1,984,801
Current portion of notes payable	<u>40,146</u>	<u>37,854</u>	<u>2,292</u>	<u>33,541</u>	<u>4,313</u>
Total current liabilities	<u>52,517,746</u>	<u>46,790,643</u>	<u>5,727,103</u>	<u>40,514,941</u>	<u>6,275,702</u>
<b>OTHER POST EMPLOYMENT BENEFITS</b>	-	-	-	69,989	(69,989)
<b>LONG-TERM NOTES PAYABLE</b>	<u>66,838</u>	<u>106,987</u>	<u>(40,149)</u>	<u>-</u>	<u>106,987</u>
<b>TOTAL LIABILITIES</b>	<u>52,584,584</u>	<u>46,897,630</u>	<u>5,686,954</u>	<u>40,584,930</u>	<u>6,312,700</u>
<b>NET POSITION</b>					
Invested in capital assets	107,259	150,686	(43,427)	234,736	(84,050)
Unrestricted	<u>337,745</u>	<u>924,784</u>	<u>(587,039)</u>	<u>(150,352)</u>	<u>1,075,136</u>
Total net position	<u>445,004</u>	<u>1,075,470</u>	<u>(630,466)</u>	<u>84,384</u>	<u>991,086</u>
	<u>\$ 53,029,588</u>	<u>\$ 47,973,100</u>	<u>\$ 5,056,488</u>	<u>\$ 40,669,314</u>	<u>\$ 7,303,786</u>

**Receivables**

The Lottery's billing week is from Sunday through Saturday. The amount due from retailer transactions (i.e., sales, less commissions and prizes paid by the retailer) are transferred from the retailer's bank account to the Lottery's account the following Thursday. Similarly, any amounts due to the retailer from the Lottery are transferred to the retailer's account on Thursday. The Lottery refers to this transfer as a "sweep", and this mandatory process between the Lottery and its retailer customers simplifies collections.

The Receivables balances for 2013, 2012 and 2011 consist of the following:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Week ended June 30 sales	\$ 1,534,120	\$ 1,406,269	\$ 985,985
Accounts to Attorney General for collection	15,358	18,907	36,481
Total	<u>\$ 1,549,478</u>	<u>\$ 1,425,176</u>	<u>\$ 1,022,466</u>

**Ticket Inventory (Other Assets subcategory)**

For the first three quarters of fiscal year 2013, under the contractual agreement with scratch ticket supplier Scientific Games International (SGI), the Lottery pays set-up and certain other fixed costs for each game printed. SGI, however, retains ownership of the tickets and the Lottery pays SGI 1.5479 percent of scratch ticket sales. Other production costs are amortized over the sales life of the game. Shared Scratch ticket printing contracts were awarded in March 2013 to primary vendor, GTECH Printing and secondary to Pollard Banknote in May 2013. PullTab tickets are expensed when the tickets are sold to the retailers. Consequently, the Ticket Inventory balances on June 30, 2013, 2012, and 2011, consist of any unamortized production costs of scratch tickets and the cost of unsold PullTab ticket stock.

**Plant, Property, and Equipment, net**

The balances shown were derived as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Beginning balance	\$ 295,527	\$ 268,277	\$ 439,529
Add: acquisitions	<u>40,857</u>	<u>189,131</u>	<u>4,600</u>
Deduct: depreciation	(122,141)	(161,881)	(175,852)
Ending balance	<u>\$ 214,243</u>	<u>\$ 295,527</u>	<u>\$ 268,277</u>

**LIABILITIES AND NET POSITION****Dividend Payable**

The dividends declared by the Idaho Lottery Commission for 2013, 2012 and 2011 were \$48,200,000, \$41,500,000 and \$37,000,000, respectively. The dividend is declared on or before June 30th and paid on July 1 or shortly thereafter.

**Prizes Payable**

The \$1,984,801 increase in prizes payable from 2011 and 2012 and subsequent decrease of \$1,241,759 from 2012 and 2013 is primarily due to an outstanding \$1,000,000 Powerball Prize Winner in 2012. The prize was claimed in July 2012.

### **Total Net Position**

Net position represents the difference between the Lottery's total assets and its total liabilities. Net position is allocated between the portion which represents the investment in capital assets (i.e., plant equipment and other fixed assets) and the total.

### **REVENUES EXPENSES AND CHANGES IN NET FIXED ASSETS**

#### **Operating Revenues**

Comparative operating revenues for the four major product sales classifications; Draw tickets, Scratch tickets, Raffle, PullTab/TouchTab tickets and other for revenue are as follows:

	<u>2013</u>	<u>2012</u>	Change 2012 to <u>2013</u>	<u>2011</u>	Change 2011 to <u>2012</u>
Draw game sales					
Powerball	\$ 45,350,144	\$ 34,757,979	\$ 10,592,165	\$ 29,682,810	\$ 5,075,169
Wild Card	2,177,861	2,105,335	72,526	2,363,022	(257,687)
Pick 3	1,888,639	1,774,518	114,121	1,653,267	121,251
Hot Lotto Sizzler	3,050,816	2,700,652	350,164	3,132,109	(431,457)
Double Play Daily	-	148,760	(148,760)	1,251,100	(1,102,340)
Mega Millions	9,253,222	14,064,660	(4,811,438)	8,962,895	5,101,765
Weekly Grand	2,723,962	2,713,342	10,620	-	2,713,342
Raffle	2,500,000	2,152,270	347,730	2,909,120	(756,850)
Total Draw Game Sales	<u>66,944,644</u>	<u>60,417,516</u>	<u>6,527,128</u>	<u>49,954,323</u>	<u>10,463,193</u>
Scratch ticket sales	108,683,305	99,834,885	8,848,420	90,627,115	9,207,770
PullTab ticket sales	2,479,690	2,733,759	(254,069)	3,079,170	(345,411)
TouchTab ticket sales	19,341,600	12,841,600	6,500,000	3,491,000	9,350,600
Total sales	<u>197,449,239</u>	<u>175,827,760</u>	<u>21,621,479</u>	<u>147,151,608</u>	<u>28,676,152</u>
Online charges	673,500	675,563	(2,063)	642,113	33,450
Other revenues	45,630	40,150	5,480	52,868	(12,718)
Total operating revenues	<u>\$ 198,168,369</u>	<u>\$ 176,543,473</u>	<u>\$ 21,624,896</u>	<u>\$ 147,846,589</u>	<u>\$ 28,696,884</u>

#### **Draw Game Ticket Sales**

The Powerball game is sold in forty five U.S. lottery jurisdictions (forty-three states, the District of Columbia and the U.S. Virgin Islands). These lotteries contribute a fixed percentage of their Powerball sales revenue to a consolidated Jackpot prize. There are two Powerball drawings a week with a minimum-starting jackpot of \$40 million. Each time the jackpot is not won it rolls into the next draw and thus the jackpot grows until it is won.

Current odds of winning the jackpot are 1:175,223,510. Over time, additional lottery jurisdictions have joined the game, thereby increasing the player base.

Big game sales are jackpot driven; the higher the announced jackpot, the higher the sales. While this has generally tended to make big game sales trend up, it is important to be aware of the relationship of the jackpot and sales as illustrated in the following chart.

	Average Announced Jackpot per Draw	Average Sales per Draw	Annual Sales
2013	\$ 121,403,846	\$ 436,059	\$ 45,350,144
2012	85,857,143	331,028	34,757,979
2011	63,019,231	285,412	29,682,810
2010	83,361,905	352,521	36,662,205
2009	68,605,769	353,725	36,787,378
2008	71,146,154	379,533	39,471,389
2007	69,694,286	365,226	38,348,748
2006	82,345,192	430,385	44,760,077
2005	49,202,885	289,351	30,092,519
2004	62,099,048	339,498	35,647,385
2003	49,337,500	302,959	31,577,648

In 2010, the Idaho Lottery launched sales of Mega Millions with Megaplier. The Mega Millions game is similar to Powerball but holds drawings on Tuesday and Friday, instead of Wednesday and Saturday. Mega Millions was originally launched and sold by states NOT selling Powerball. In 2010 all states came together to agree on a cross selling initiative which allowed all states to sell both of the “big games” across borders. While sales have been slower than hoped in Idaho (and in other jurisdictions) we continue to be optimistic that players will eventually embrace both games and actively play big jackpot games four times a week.

Similar to Powerball, Mega Millions is sold in forty five localities: forty three states plus the District of Columbia and the U.S. Virgin Islands, with odds of winning the jackpot 1:175,711,536. As with Powerball, it is important to be aware of the relationship of the jackpot and sales as illustrated in the chart below.

	Average Announced Jackpot per Draw	Average Sales per Draw	Annual Sales
2013	\$ 42,865,385	\$ 88,973	\$ 9,253,222
2012	68,780,952	133,949	14,064,660
2011	64,615,385	86,182	8,962,895
2010	62,720,930	61,002	2,623,081

Neither Wild Card, nor Pick 3 is as sensitive to jackpots as Powerball and Mega Millions. Both games have a consistent player base, although players will shift their buying habits from both games to Powerball and Mega Millions when jackpots are unusually large. The Lottery continues to offer a Fall Raffle game to the mix, giving the six current draw games a punch in the fall. The Draw games, with higher profit margins than Scratch, increase profits in the Draw category.

### **Scratch™ Ticket Sales**

Sales are up in all categories of Scratch games. Increased profitability continues to be the focus, with efforts to shift sales from the lower price points (one to four dollar tickets) to higher price point tickets, especially those tickets selling from five to seven dollars. The more expensive games generally offer more interesting and longer play features than a simple “match three” format of many one and two-dollar games. As a result, some players feel the higher priced tickets offer more entertainment value. Scratch ticket sales by price point for the fiscal years 2013, 2012 and 2011 are as follows:

	2013		2012		2011	
One-dollar games	\$ 8,435,978	7.8%	\$ 8,379,786	8.4%	\$ 9,098,309	10.0%
Two-dollar games	8,183,584	7.5%	8,261,000	8.3%	8,136,506	9.0%
Three-dollar games	20,724,678	19.1%	21,892,734	21.9%	19,551,435	21.6%
Five-dollar games	37,914,565	34.9%	31,794,995	31.8%	29,792,155	32.9%
Ten-dollar games	14,544,960	13.4%	14,379,970	14.4%	9,619,920	10.6%
Twenty-dollar games	<u>18,879,540</u>	<u>17.4%</u>	<u>15,126,400</u>	<u>15.2%</u>	<u>14,428,790</u>	<u>15.9%</u>
Total sales	<u>\$ 108,683,305</u>	100.0%	<u>\$ 99,834,885</u>	100.0%	<u>\$ 90,627,115</u>	100.0%



### **PullTab Ticket Sales**

PullTab tickets, which are sold mainly in restaurants and bars, have historically less than 2% of the Lottery's total annual sales. Fighting competition from illegal gaming machines, annual sales reached \$2,479,690 in fiscal year 2013 and we are hopeful that they continue an upward trend. Concentrated efforts between the Lottery and our PullTab vendor, International Gamco continues and while the paper PullTab product continues to hold its own, we are hopeful for additional selling locations and increased sales in the coming fiscal year. We continue our focus on new delivery options for our PullTab product this fiscal year, with increased installations of Gamco's paper ticket vending machines (TabBOXX) around the state.

### **TouchTab PullTab Ticket Sales**

Together with our vendor partner International Gamco, the Idaho Lottery launched a pilot project from 11/2010 to 6/2011 to introduce a new TouchTab dispensing device to retailers around Idaho. The TouchTab dispensing device is co-located with our paper ticket vending machines (TabBOXX), and only in age controlled environments (bars and taverns). TouchTab games are nearly identical to paper PullTabs; each game is played just like the paper version; each game has a predetermined number of tickets; odds are finite with winning tickets randomly seeded throughout the number of tickets in the game; and prizes must be claimed by the selling retailer.

Subsequent phases, after the successful pilot, which launched in July 2011, added additional age controlled locations that have passed our criminal and financial background checks. While the Idaho Lottery expects to deliver enhanced dividends from this product going forward, the payout to the player for this product is higher than other offerings, so the resulting profit margin is lower.

At \$19,341,600 in fiscal year 2013, TouchTab sales have garnered a hearty 9.8% of the product mix and continue to trend up.

### **Interest income on funds held at the State**

All idle cash with the State Treasurer is invested in a variety of securities. The Lottery is an involuntary member of this pool. Estimated interest accrued is reflected in the Lottery's financial statements. The interest earned is offset by a transfer to the State of Idaho General Fund.

Interest income earned on the funds held at the state by the Lottery for 2013, 2012 and 2011 were \$79,452, \$95,166, and \$111,140.

### **Operating expenses**

2013, 2012 and 2011 operating expenses are as follows:

	<u>2013</u>	<u>2012</u>	<u>Change 2012 to 2013</u>	<u>2011</u>	<u>Change 2011 to 2012</u>
Prizes, net of unclaimed prizes	\$ 122,888,172	\$ 108,862,168	\$ 14,026,004	\$ 90,229,948	\$ 18,632,220
Retailer commissions	11,493,474	10,412,783	1,080,691	8,983,146	1,429,637
Gaming system services	4,443,031	4,019,929	423,102	3,484,683	535,246
Scratch tickets	1,978,151	1,736,331	241,820	1,641,817	94,514
PullTab/TouchTab tickets	1,749,776	1,344,779	404,997	660,524	684,255
Advertising	3,607,520	3,727,557	(120,037)	3,065,535	662,022
Salaries and benefits	2,702,666	2,277,965	424,701	2,395,595	(117,630)
Depreciation and amortization	122,141	161,881	(39,740)	175,852	(13,971)
Telephone and data line costs	39,007	45,963	(6,956)	47,024	(1,061)
Professional services	168,075	123,558	44,517	91,080	32,478
Office and equipment	479,599	426,746	52,853	458,629	(31,883)
Shipping costs	407,439	369,549	37,890	348,714	20,835
Supplies	81,550	68,873	12,677	66,841	2,032
Tribe compact	139,488	128,207	11,281	95,554	32,653
Other costs	292,537	345,617	(53,080)	257,329	88,288
Total operating expenses	<u>\$ 150,592,626</u>	<u>\$ 134,051,906</u>	<u>\$ 16,540,720</u>	<u>\$ 112,002,271</u>	<u>\$ 22,049,635</u>

Generally, the changes in expenses during the three fiscal years reflect the change in the level of sales as well as a shift in the product sales mix, i.e., the relative percentage that each product group (Draw, Scratch, PullTab, and TouchTab) represents of total sales. Sales levels and mix for each of the years is represented below:

	<u>2013</u>			<u>2012</u>			<u>2011</u>		
Draw Game sales	\$ 66,944,644	33.9%		\$ 60,417,516	34.4%		\$ 49,954,323	33.9%	
Scratch Game sales	108,683,305	55.0%		99,834,885	56.7%		90,627,115	61.6%	
PullTab sales	2,479,690	1.3%		2,733,759	1.6%		3,079,170	2.1%	
TouchTab sales	<u>19,341,600</u>	9.8%		<u>12,841,600</u>	7.3%		<u>3,491,000</u>	2.4%	
Total sales	<u>\$ 197,449,239</u>	100.0%		<u>\$ 175,827,760</u>	100.0%		<u>\$ 147,151,608</u>	100.0%	
Increase (decrease) from prior year	\$ 21,621,479			\$ 28,676,152			\$ (82,468)		

Certain cost categories, namely advertising, salaries and benefits, depreciation and amortization, telephone and data line costs, professional services, office and equipment, supplies and other costs are only minimally affected by sales increases or shifts in the sales mix. However, the change in sales level or mix impacts prizes, retailer commissions, Draw game commissions, Scratch and PullTab ticket costs, as well as shipping, detailed in the following information which outlines prize expense percentages.

#### **Prizes, net of unclaimed prizes**

Each of the three product types, Draw games, Scratch, and PullTabs (including TouchTabs) have differing average prize expense percentages associated with that product. The average prize percentage for each category depends upon the prize percentage of the individual games within that product type. For example, Powerball has a prize percentage of 50% (i.e. 50% of the sales go to the prize fund for Powerball); Pick 3 also has a 50% prize percentage while Mega Millions has a prize percentage of 51% and Wild Card has a prize percentage of 57%. The overall average prize percentage for the suite of Draw game products depends upon the sales mix for the three games. Similarly, most Scratch and PullTab games have different prize percentages, although they average in the range of 67-70%, with higher price point tickets generally offering a higher prize payout percentage. TouchTab games have a prize percentage of between 78-80%.

Two other factors are considered in computing prize expense. The first factor is the prize expense associated with second chance draws. Second chance draws are held in conjunction with Draw or Scratch games, where the drawing entry is normally a non-winning ticket. The second factor is unclaimed prizes. The value of all prizes not claimed within the statutory 180-day claiming period is off-set against and reduces that year's total prize expense.

The product mix and resulting sales can significantly skew the overall prize payout.

<b>2013</b>	<u>Sales</u>	<u>Prize %</u>	<u>Prizes</u>
Draw ticket sales	\$ 64,444,644	50.89%	\$ 32,793,206
Scratch ticket sales	108,683,305	69.37%	75,392,168
Raffle sales	2,500,000	52.00%	1,300,000
PullTab ticket sales	2,479,690	69.99%	1,735,458
TouchTab ticket sales	19,341,600	80.04%	15,480,120
Second chance draws			142,323
Unclaimed prizes			<u>(3,955,103)</u>
			<u>\$ 122,888,172</u>

**2012**

	<u>Sales</u>	<u>Prize %</u>	<u>Prizes</u>
Draw ticket sales	\$ 58,265,246	50.47%	\$ 29,405,019
Scratch ticket sales	99,834,885	69.06%	68,944,539
Raffle sales	2,152,270	60.40%	1,300,000
PullTab ticket sales	2,733,759	70.15%	1,917,809
TouchTab ticket sales	12,841,600	79.59%	10,220,204
Second chance draws			104,652
Unclaimed prizes			(3,030,055)
			<u>\$ 108,862,168</u>

**2011**

	<u>Sales</u>	<u>Prize %</u>	<u>Prizes</u>
Draw ticket sales	\$ 47,045,203	50.12%	\$ 23,578,831
Scratch ticket sales	90,627,115	68.74%	62,294,657
Raffle sales	2,909,120	51.26%	1,491,100
PullTab ticket sales	3,079,170	70.49%	2,170,616
TouchTab ticket sales	3,491,000	79.71%	2,782,600
Second chance draws			179,893
Unclaimed prizes			(2,267,749)
			<u>\$ 90,229,948</u>

**Retailer commissions, Scratch™ and PullTab ticket costs**

Changes in these cost categories generally reflect and are related to the corresponding change in sales.

**Draw Game Contractor Fee**

The Lottery contracts with INTRALOT as the draw game vendor. INTRALOT provides the Lottery with critical hardware and software, network communications, and support personnel.

**Outlook for the Fiscal Year ended June 30, 2013**

During the course of Fiscal Year 2013, the Idaho Lottery successfully transitioned game changes to both Hot Lotto Sizzler and Wild Card. In addition, Powerball set two new game records for jackpots, the first at \$587.5 million in November and the second, a \$590.5 jackpot in May. Powerball also had two \$300 million jackpots during the year. Subsequently, Idaho's longest running and most popular jackpot game had its most successful year in the Idaho Lottery's history, with an average announced jackpot of \$121.4 million and record annual sales of \$45.4 million. Mega Millions experienced its second best sales year without the benefit of a single \$200 million or higher jackpot run.

Scratch Games™ saw an 8.9% lift in sales with an increase of over \$8.8 million for the second straight year and reached the \$100 million mark in total sales for the first time in Idaho Lottery history. This success is attributed to the careful management of the scratch game portfolio that kept popular tickets on the market with the correct price point and facings at all times. The PullTab product line was buoyed by sales generated from the TouchTab dispensing devices, although as previously mentioned, the profitability of this product has a lower margin than our other games.

With 2013 as reasonable base, the Lottery believes that FY2014 sales, in all categories, will trend up. Winner awareness continues to fuel Idaho's claim as a lucky place to play the Lottery. During FY2013, Idaho had a Wild Card jackpot winner and seven \$1 million or higher winners on Powerball. The Idaho \$1,000,000 Raffle sold out and Weekly Grand had seven jackpot winners in its second year. Brand awareness for all draw games remains very high. Per capita, Idaho remains one of the top lottery jurisdictions in the United States to win a \$500,000 or higher prize on a multi-state draw game. Focus on scratch promotions, the continued installation of additional player activated vending machines, and player migration toward higher Scratch Game price points also make 2014 sales estimates look favorable.

**Contacting the Idaho Lottery**

This financial reporting is designed to provide a general overview of the Idaho Lottery's finances and to demonstrate accountability for money earned by the Idaho Lottery. If you have questions about this report or need additional financial information, contact Becky Schroeder, Chief Operating Officer, Idaho Lottery, P.O. Box 6537, Boise, ID 83707-6537, or call (208) 334-2600.

## Statements of Net Position

### **ASSETS**

#### **CURRENT ASSETS**

	2013	2012
Cash and cash equivalents	\$ 48,416,156	\$ 40,067,309
Due from MUSL	-	3,235,898
Receivables	1,549,478	1,425,176
Other	119,153	174,850
Total current assets	50,084,787	44,903,233

#### **DEPOSITS WITH MUSL**

	2,730,558	2,774,340
--	-----------	-----------

#### **PROPERTY AND EQUIPMENT, NET**

	214,243	295,527
	\$ 53,029,588	\$ 47,973,100

### **LIABILITIES AND NET POSITION**

#### **CURRENT LIABILITIES**

Accounts payable and accrued expenses	\$ 1,431,284	\$ 1,373,925
Dividend payable	48,200,000	41,500,000
Due to MUSL	331,152	121,941
Prizes payable	2,515,164	3,756,923
Current portion of notes payable	40,146	37,854
Total current liabilities	52,517,746	46,790,643

#### **OTHER POST EMPLOYMENT BENEFITS**

	-	-
--	---	---

#### **LONG-TERM NOTES PAYABLE**

	66,838	106,987
--	--------	---------

#### **TOTAL LIABILITIES**

	52,584,584	46,897,630
--	------------	------------

#### **NET ASSETS**

Invested in capital assets	107,259	150,686
Unrestricted	337,745	924,784
Total net assets	445,004	1,075,470

#### **TOTAL LIABILITIES AND NET ASSETS**

	\$ 53,029,588	\$ 47,973,100
--	---------------	---------------

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

	2013	2012
<b>OPERATING REVENUES</b>		
Scratch ticket sales	\$ 108,683,305	\$ 99,834,885
Draw ticket sales	64,444,644	58,265,246
PullTab ticket sales	2,479,690	2,733,759
TouchTab ticket sales	19,341,600	12,841,600
Raffle sales	2,500,000	2,152,270
Data line charges	673,500	675,563
Other	45,630	40,150
Total operating revenues	<u>198,168,369</u>	<u>176,543,473</u>
<b>OPERATING EXPENSES</b>		
Prizes, net of unclaimed prizes	\$ 122,888,172	\$ 108,862,168
Retailer commissions	11,493,474	10,412,783
Gaming system services	4,443,031	4,019,929
Scratch tickets	1,978,151	1,736,331
PullTab/TouchTab tickets	1,749,776	1,344,779
Advertising	3,607,520	3,727,557
Salaries and benefits	2,702,666	2,277,965
Depreciation and amortization	122,141	161,881
Telephone and data line costs	39,007	45,963
Professional services	168,075	123,558
Office and equipment	479,599	426,746
Shipping costs	407,439	369,549
Supplies	81,550	68,873
Tribe compact	139,488	128,207
Other	292,537	345,617
Total operating expenses	<u>150,592,626</u>	<u>134,051,906</u>
<b>OPERATING INCOME</b>	<u>47,575,743</u>	<u>42,491,567</u>
<b>NONOPERATING REVENUES</b>		
Interest income	1,272	2,554
Interest income on funds held at the State	79,452	95,166
Interest expense	(7,481)	(3,035)
Total non operating revenue	<u>73,243</u>	<u>94,685</u>
<b>INCOME BEFORE TRANSFERS</b>	<u>47,648,986</u>	<u>42,586,252</u>
<b>TRANSFERS</b>		
State Permanent Building Fund	(18,075,000)	(17,000,000)
State Public Schools Building Fund	(18,075,000)	(17,000,000)
State Bond Equalization Fund	(12,050,000)	(7,500,000)
State general fund-interest earnings	(79,452)	(95,166)
Total transfers	<u>(48,279,452)</u>	<u>(41,595,166)</u>
<b>CHANGE IN NET POSITION</b>	(630,466)	991,086
<b>TOTAL NET POSITION, BEGINNING OF YEAR</b>	1,075,470	84,384
<b>TOTAL NET POSITION, ENDING OF YEAR</b>	<u>\$ 445,004</u>	<u>\$ 1,075,470</u>

# Statements of Cash Flows

## OPERATING ACTIVITIES

Ticket sales	2013 \$ 198,044,067	2012 \$ 176,140,763
Prizes paid to winners	(120,843,222)	(110,429,102)
Commissions and payment to retailers	(11,493,474)	(10,412,783)
Paid to vendors for goods and services	(9,670,679)	(8,384,008)
Paid to vendors for promotions	(3,449,121)	(3,727,557)
Paid to employees for service	(2,697,583)	(2,332,299)

## NET CASH FROM OPERATING ACTIVITIES

49,889,988 40,855,014

## NON CAPITAL FINANCING ACTIVITIES

Transfers to State Permanent Building Fund	(17,000,000)	(17,000,000)
Transfers to State Public Schools Building Fund	(17,000,000)	(17,000,000)
Transfer to Bond Equalization Fund	(7,500,000)	(3,000,000)
Transfer to State general fund - interest earnings	(79,452)	(95,166)

## NET CASH USED FOR NON CAPITAL FINANCING ACTIVITIES

(41,579,452) (37,095,166)

## CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of equipment and software	(40,857)	(102,630)
Borrowings of long term debt	-	69,544
Principal paid on notes payable	(37,857)	(44,744)
Interest paid on notes payable	(7,481)	(3,035)

## NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES

(86,195) (80,865)

## INVESTING ACTIVITIES

Interest income	80,724	97,720
Change in deposit with MUSL	43,782	5,476

## NET CASH FROM (USED FOR) INVESTING ACTIVITIES

124,506 103,196

## NET CHANGE IN CASH AND CASH EQUIVALENTS

8,348,847 3,782,179

## CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

40,067,309 36,285,130

## CASH AND CASH EQUIVALENTS, END OF YEAR

\$ 48,416,156 \$ 40,067,309

## RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES

Operating income	\$ 47,575,743	\$ 42,491,567
Adjustment to reconcile operating income to net cash from operating activities		
Depreciation and amortization	122,141	161,881
Changes in assets and liabilities		
Receivables	(124,302)	(402,710)
Due from MUSL	3,235,898	(3,235,898)
Other assets	55,697	138,775
Accounts payable and accrued expenses	57,359	102,425
Other post employment benefits	-	(69,990)
Due to MUSL	209,211	(315,837)
Prizes payable	(1,241,759)	1,984,801

## NET CASH FROM OPERATING ACTIVITIES

\$ 49,889,988 \$ 40,855,014

## SUPPLEMENTAL DISCLOSURE FOR CASH FLOW INFORMATION NONCASH INVESTING, CAPITAL AND FINANCING TRANSACTIONS COPIER PURCHASED BY CAPITAL LEASE

\$ - \$ 86,500



# Notes to the Financial Statements

## NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Authorizing Legislation

The Idaho Lottery (the Lottery), an agency of the State of Idaho (the State), was established in November 1988 with the enactment of Title 67, Chapter 74 of the Idaho Code (the Act). The purpose of the Act is to establish a lottery to generate revenue for the State. Revenues generated by the Lottery, after allowances for prizes and expenses, are distributed to the State Permanent Building, Public School Building, and Bond Equalization Funds.

### Basis of Presentation

The Lottery is accounted for and reported as a proprietary-type enterprise fund of the State.

### Impact of Recently Issued Accounting Principles

Recently Issued and Adopted Accounting Pronouncements

In December 2010, the GASB issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. GASBS No. 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure. This Statement is effective for periods beginning after December 15, 2011 and was implemented in fiscal year 2013. The adoption of GASBS No. 62 did not have any impact on the entity's financial statements.

In June 2011, the GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. GASBS No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes the following elements: assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. The entity implemented this statement in fiscal year 2013.

### Basis of Accounting

The financial statements are prepared on the accrual basis of accounting.

### Multi-State Lottery Association

State statutes authorize the Lottery to participate in the Multi-State Lottery Association (MUSL). MUSL is a non-profit, government benefit association that administers low odds draw games with other participant state lotteries. The Lottery contributes to the related prize pools based on weekly draw ticket sales. MUSL holds semi-weekly drawings for prize amounts determined by ticket sales.

### Revenue Recognition

Lottery tickets are sold to the public by contract retailers. Revenue from the sale of draw tickets is recognized at the time of the draw. Revenue from the sale of scratch tickets is recognized when retailers "settle" instant ticket packs. "Settling" occurs either after the retailer sells the scratch tickets to players, or upon delivery of the pack. The timing is determined by retailer policy.

### Accounts Receivable

The Lottery provides credit in the normal course of business to its customers and performs ongoing credit evaluations of those customers. The Lottery sweeps accounts receivables directly from its customers' accounts weekly, and will place customers' accounts on hold if there are insufficient funds after two weeks. Since the Lottery identifies bad accounts quickly, the credit losses, when realized, have been within the range of the Lottery's expectations and, historically, have not been significant. Consequently, no allowance for doubtful accounts has been established.

### Commissions

Retailers receive a commission of 5% on ticket sales. Additional discretionary commissions of up to 1% may be awarded to retailers and, as a result, commission expense may be slightly higher than five percent of revenue. In addition, retailers selling a winning draw or scratch ticket with a prize amount of \$500 or greater receive a selling bonus of 10% of the prize amount, up to a predetermined limit.

### Prizes

In accordance with the Act, at least 45% of Lottery revenues must be returned to players in the form of prizes.

**Scratch™ Games** - Prize expense for scratch games is recognized as ticket packs are settled by retailers based on a predetermined prize structure for each game.

### Multi-State Draw Games:

**Idaho Powerball** – The Powerball game is sold in forty-five U.S. lottery jurisdictions (forty-three states, the District of Columbia and the U.S. Virgin Islands). Prize expense represents 50% of revenues recognized for the game. Prizes are paid out over a twenty-nine year annuity (thirty payments) or as a single cash payment.

**Mega Millions** – The Mega Millions game is sold in forty-five localities (forty-three states, and the District of Columbia and the U.S. Virgin Islands). Sales began in Idaho on January 31, 2011 and prize expense represents 51% of revenues recognized for the game. Prizes are paid out over a twenty-five year annuity (twenty-six payments) or as a single cash payment.

**Wild Card** – Idaho, in association with Montana, North Dakota and South Dakota, acting as a sub-organization of MUSL, participates in the Wild Card game. Prize expense represents 57% of revenues recognized for the game. Jackpot prizes are paid out as single cash payments.

**Hot Lotto** – In association with the following jurisdictions: District of Columbia, Delaware, Idaho, Iowa, Kansas, Maine, Minnesota, Montana, New Hampshire, New Mexico, North Dakota, Oklahoma, South Dakota, Vermont and West Virginia, and as a sub organization of MUSL, Idaho participates in Hot Lotto. Prize expense represents 50% of revenues recognized for the game. Jackpot prizes are paid out over a

twenty-four year annuity (twenty-five payments) or as a single cash payment.

### Idaho Draw Games:

**Raffle** – Idaho's Million Dollar Raffle is a game developed by the Idaho Lottery and played only in Idaho. Million Dollar Raffle first launched on November 11, 2007 and sales end when all available tickets are sold out or when an established draw date commences. There is only one draw annually. Prize expense represents 52% of revenues recognized for the game. The one jackpot prize is paid out as a single cash payment.

**Idaho Pick 3** – Sales of Idaho Pick 3 began in June 2000. Prize expense is budgeted at 50% of game revenues, but adjusted in the financial statements to reflect the actual prize expense for the reporting period. Prizes are paid out as single cash payments.

**Double Play Daily** – Double Play Daily, an Idaho only game launched on May 3, 2009 and is an Idaho-only draw game where you get two chances to win for \$2. Players' numbers from each play are entered into two drawings each night. The drawings are held back-to-back. The first drawing is for a \$20,000 prize and the second draw is for a progressive jackpot, which starts at \$20,000. Double Play Daily™ ended on August 18, 2011, and was replaced by Weekly Grand.

**Weekly Grand** – Weekly Grand is an Idaho only game launched on August 18, 2011. Weekly Grand has proven to be a popular replacement to Double Play Daily™. Players can win \$1,000 a week for a year, with the Idaho Lottery paying all of the required withheld taxes. The game pays out on Match 5 (\$1,000/week for a year), Match 4 (\$200), Match 3 (\$25), and Match 2 (free ticket) prize levels, but also offers a second chance draw each month for \$100 per week for a year.

### Deposits with MUSL

Two percent of the payments to MUSL for multi-state draw games are accumulated in a deposit account with MUSL until the account balance has reached a level established by the MUSL Board.

The Lottery is an involuntary member of the MUSL Prize Reserve Funds Account (PRFA) investment pool. The PRFA is an unrated investment pool. All investments of the PRFA shall meet the general requirements of state public funds laws. Permitted investments shall include the direct obligations of the United States Government, perfected repurchase agreements, and obligations issued or guaranteed as to payment of principal and interest by agencies or instrumentalities of the United States Government, and mutual funds of approved investments. The average portfolio maturity shall be no more than 2 years. The duration as of June 30, 2013 for the US Government Treasury securities and Agency securities was .90 years.

### Unclaimed Prizes

Prizes may be claimed for a period of 180 days after the drawing for draw games or 180 days from the declaration of the end of game for scratch games. Unclaimed prizes are offset against that fiscal year's prize expense.

### Cash and Equivalents

Cash and equivalents include liquid investments with original maturities of three months or less. The Lottery's excess funds are held in the State of Idaho's investment pool. Funds held in the pool are generally available to the Lottery within 90 days.

### Property and Equipment

Property, equipment and software are stated at cost. Depreciation/amortization is computed using the straight-line method over the estimated useful life ranging from three to five years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the results of operations in the period of disposal.

### Other Assets

Other assets are comprised of prepaid expenses and ticket inventory. Ticket inventory consists of Scratch tickets which are recorded at a fixed cost related to ticket designs and the cost of tickets for PullTab games. The fixed costs of the scratch tickets are amortized over the estimated total sales of the games. The PullTab tickets are valued at cost using the specific identification method, and the cost of tickets is charged to operations when sold. Unused tickets are charged to operations at the end of each game.

### Notes Payable

Notes payable consists of a three year loan for the purchase of four vehicles for the Lottery Sales Representative fleet. The final note payment is due in April 2015. In addition, the Lottery entered into a capital lease agreement for a copier in 2012 which matures in December 2016.

### Compensated Absences

Employees earn the right to be compensated during absences for vacation and illness. Within limits established by law, unused vacation benefits are paid to employees upon separation from State service and are the responsibility of the State entity employing the individual at the time of their separation from State service. Accumulated unused sick leave is paid upon the employee's retirement and is the responsibility of the State. Accumulated benefits for compensated absences are based on the period of service with the State and are accrued at current salary rates. Accordingly, the Lottery assumes the liability for benefits accumulated for employees who transfer to the Lottery from other State agencies. The Lottery will be relieved of liability upon the transfer of an employee to another State agency.

### Dividends

Dividends are recorded on the date they are declared by the Idaho Lottery Commission.

### Budget

The appropriation for administrative costs is limited to 15% of revenue. Modification of the administrative appropriation must be approved by the State Division of Financial Management. In addition, the Lottery prepares and monitors an operating budget. The budget does not meet the definition of a legally adopted budget for financial reporting purposes. Accordingly, no budget is presented within the financial statements.

### Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and

liabilities, and reported revenues and expenses. Management considers all available information related to estimates up to the date of the report. Significant estimates used in preparing these financial statements include those assumed in determining the prizes payable and interest income from the funds held at the state. It is at least reasonably possible that the significant estimates used will change within the next year.

## NOTE 2 – CASH AND EQUIVALENTS

Cash and cash equivalents consisted of the following at June 30,

	2013	2012
Cash in banks	\$ 1,922,034	\$ 1,577,765
Cash on deposit with State Controller	120,000	120,000
Investments in the State of Idaho's General Fund		
Investment Pool, at cost, which approximates market	<u>46,374,122</u>	<u>38,369,544</u>
Total cash and equivalents	<u>\$ 48,416,156</u>	<u>\$ 40,067,309</u>

The Lottery is required to keep excess cash on deposit in the State of Idaho's General Fund. The State Treasurer's Office acts as the State's bank, receiving and disbursing all monies. In accordance with Idaho Code, Section 67-1210 and 67-1210A, all idle cash deposited with the State Treasurer is invested in a variety of securities. The Lottery is an involuntary member of this investment pool, and the Lottery receives no interest or investment income on its cash and equivalents. Further disclosure of the State's investment pool is located in the State of Idaho's Comprehensive Annual Financial Report.

The cash in banks is invested in highly rated financial institutions and may, at times, exceed FDIC insurance limits.

## NOTE 3 – PROPERTY AND EQUIPMENT

Fixed asset activity for the year ended June 30, 2013 was as follows:

	2012	Additions	Retirements	2013
Computer equipment	\$ 580,860	\$ 23,483	\$ -	\$ 604,343
Office furniture	1,952,224	17,374	(9,549)	1,960,049
Vehicles	500,617	-	(82,407)	418,210
Leasehold improvements	<u>387,840</u>	<u>-</u>	<u>(8,607)</u>	<u>379,233</u>
	3,421,541	40,857	(100,563)	3,361,835

Accumulated depreciation and amortization	<u>(3,126,014)</u>	<u>(122,141)</u>	<u>100,563</u>	<u>(3,147,592)</u>
---	--------------------	------------------	----------------	--------------------

Property and equipment, net	<u>\$ 295,527</u>	<u>\$ (81,284)</u>	<u>\$ -</u>	<u>\$ 214,243</u>
-----------------------------	-------------------	--------------------	-------------	-------------------

Fixed asset activity for the year ended June 30, 2012 was as follows:

	2011	Additions	Retirements	2012
Computer equipment	\$ 548,791	\$ 32,069	\$ -	\$ 580,860
Office furniture	1,864,863	87,361	-	1,952,224
Vehicles	430,916	69,701	-	500,617
Leasehold improvements	<u>387,840</u>	<u>-</u>	<u>-</u>	<u>387,840</u>
	3,232,410	189,131	-	3,421,541

Accumulated depreciation and amortization	<u>(2,964,133)</u>	<u>(161,881)</u>	<u>-</u>	<u>(3,126,014)</u>
---	--------------------	------------------	----------	--------------------

Property and equipment, net	<u>\$ 268,277</u>	<u>\$ 27,250</u>	<u>\$ -</u>	<u>\$ 295,527</u>
-----------------------------	-------------------	------------------	-------------	-------------------

Depreciation and amortization expense for the year ended June 30, 2013 and 2012 was \$122,141 and \$161,881, respectively.

## NOTE 4 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30,

	2013	2012
Trade accounts payable	\$ 458,172	\$ 587,929
Personnel costs payable	156,830	152,841
Accrued compensated absences	120,885	119,791
Deferred draw sales	<u>695,397</u>	<u>513,364</u>
Accounts payable and accrued expenses	<u>\$ 1,431,284</u>	<u>\$ 1,373,925</u>

## NOTE 5 – EMPLOYEE RETIREMENT PLAN

Substantially all Lottery employees are eligible to participate in the Public Employee Retirement System of Idaho (PERSI). The PERSI Base Plan, a cost-sharing multiple-employer public retirement system, was created by the Idaho State Legislature. It is a defined benefit plan requiring that both the member and the employer contribute. The Plan provides benefits based on members' years of service, age, and compensation. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries. The authority to establish and amend benefit provisions is established in Idaho Code. Designed as a mandatory system for eligible state and school district employees, the legislation provided for other political subdivisions

to participate by contractual agreement with PERSI. After 5 years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each month of credited service, the annual service retirement allowance is 2.0% of the average monthly salary for the highest consecutive 42 months.

PERSI issues publicly available stand alone financial reports that include audited financial statements and required supplementary information. These reports may be obtained from PERSI's website [www.persi.idaho.gov](http://www.persi.idaho.gov).

The actuarially determined contribution requirements of the Lottery and its employees are established and may be amended by the PERSI Board of Trustees. For the year ended June 30, 2013, the required contribution rate as a percentage of covered payrolls for members was 6.23% for general members. The employer rate as a percentage of covered payroll was 10.39% for general members. The Lottery employer contributions required and paid were \$209,682, \$183,529, and \$182,796, for the years ended June 30, 2013, 2012, and 2011, respectively.

## NOTE 6 – CONTRACT WITH INTRALOT

Like most U.S. lotteries, the Idaho Lottery contracts with a gaming contractor to provide the Lottery with critical hardware and software, network communications, and technical support personnel necessary to efficiently operate the lottery gaming systems. The Lottery entered into a contract with INTRALOT to provide these services. The contract period is from February 19, 2007, to February 18, 2014; however, the Lottery has the option to extend the contract. As compensation, the Lottery is to pay a fixed price of 1.98% of total net sales. The Lottery also paid INTRALOT a one-time fee of \$173,000 plus a monthly fee of \$3,466 for a Sales Force Automation System, a wireless tablet reporting system used by the Lottery's Regional Sales Representative. The contract also provides for the leasing of ticket checking devices at retail locations and for leasing of Scratch™ and Draw game automated vending machines (Player Activated Terminal [PAT] and Multi-Purpose [MP] vending machines) and electronic jackpot signs.

## NOTE 7 – COMMITMENTS

The Lottery has entered into operating leases for the rental of headquarters offices (expiring December 31, 2017) and a new warehouse lease (expiring in June 30, 2018). Both leases are renewable at the option of the Lottery. Future lease expense for the operating leases follows:

For the year ended June 30,

2014	297,832
2015	304,286
2016	310,901
2017	314,236
2018	<u>173,345</u>
	<u>\$ 1,400,600</u>

Rent expense for operating leases was \$367,460 and \$362,296 for the years ended June 30, 2013 and 2012, respectively.

## NOTE 8 – OTHER POST EMPLOYMENT BENEFITS

The Lottery participates in other post employment benefit plans relating to health and disability administered by the State of Idaho as agent multiple-employer defined benefit plans. Idaho Code, Sections 67-5760 to 67-5767 and 72-1335, establishes the benefits and contribution obligations. Each of these benefits is provided by the Lottery to retired or disabled employees. The Lottery has not set aside any assets to pay future benefits; the Lottery funds these benefits on a pay-as-you-go basis.

Details of the plans can be found in the Comprehensive Annual Report of the State of Idaho, which may be obtained as follows:

Office of the Idaho State Controller  
700 W State Street, 4th Floor  
Boise, ID 83702  
P.O. Box 83720  
Boise, ID 83720-0011  
[www.sco.idaho.gov](http://www.sco.idaho.gov)



**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 of Commissioners  
Idaho Lottery  
Boise, Idaho

We have audited, in accordance with auditing standards generally accepted in the United States of America 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 Idaho Lottery (the Lottery) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements, and have issued our report thereon dated September 19, 2013.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Lottery's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lottery's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lottery'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 that a material misstatement of the entity'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 that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Lottery's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 noncompliance or other matters that 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Boise, Idaho  
September 19, 2013

**Benefiting Idaho Public Schools and the Permanent Building Fund.**

P.O. Box 6537, Boise, ID 83707-6537 | [idaholottery.com](http://idaholottery.com)