

Annual Report *2017



your
Play AT **WORK.**

Over \$790 MILLION given back.

Endeavor Elementary

Lottery dividends were used to complete school roof repairs at Endeavor Elementary in Nampa, making it a safer place for learning.



Table of Contents

Lottery Mission 2

Governor's Message 3

Director's Message 5

Commissioner's Message 7

Where the Money Goes 8

Scratch for Schools 9

Scratch Games™ 10

Draw Games™ 12

InstaPlay 14

PullTabs™ & TouchTabs™ 15

Lottery Retailers 15

Charitable Gaming 16

Auditor's Letter 18

Management's Discussion & Analysis 20

Financial Statements 29

Notes to Financial Statements 32

Independent Auditor's Report 37

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 & Overview

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 43 staff members.





C.L. "Butch" Otter

Governor of Idaho

Dear Friends,

After 11 years as Idaho's Governor, I have come to expect annual announcements from the Idaho Lottery about the tremendous benefits it is providing for our citizens and our public schools. The past year was no exception, with this summer's receipt of a dividend check for \$48.5 million!

The Idaho Lottery has been a winner for Idaho since it began 28 years ago – a winner for our public schools and buildings, a winner for Idaho businesses, and a winner for our communities. Behind that success is a team dedicated to upholding the fairness, integrity and responsible play that has been integral to the Idaho Lottery's operations since day one.

Through nearly three decades – since 1989 – the Idaho Lottery has paid out over \$2 billion in prizes to players who participate voluntarily. Idaho's retailers have earned over \$200 million in commissions. And most importantly, the Lottery has returned \$792.5 million to our beneficiaries. That's over three-quarters of a billion dollars.

Through innovation, efficiency, and a strong commitment to protecting and maintaining public confidence in its games, the Idaho Lottery continually achieves great results with responsibility, honesty, and dependability. As always, during the past year the Lottery demonstrated sound fiscal management in its day-to-day business decisions. It demonstrated a dedication to strong governmental practices by working within the framework of Idaho laws, consistently showcasing a commitment to openness and transparency in all facets of its operations.

I commend the Idaho Lottery Commission members, Director Anderson and his staff, and our retailers for doing their part to provide this great benefit for Idaho's students and other citizens. I wish them all continued success and look forward to another outstanding and prosperous year.

As Always, Idaho – "Esto Perpetua"

C. L. "Butch" Otter
Governor of Idaho

Idaho Lottery Management Team

The Idaho Lottery Management Team members (back left to right):

Becky Schroeder, Chief Operating Officer

Jeff Anderson, Director

Amber French, Deputy Director Security and Enforcement

Sherie Moody-St.Clair, Deputy Director of Marketing

Larry Polowski, Deputy Director of Sales





Jeffrey R. Anderson

Idaho Lottery Director

On July 6, 2017, I had the distinct privilege to return to you, the People of Idaho, the eleventh dividend of my tenure as Director of the Idaho Lottery. This year's dividend was one of the most meaningful due to the accomplishments to overcome the challenges placed before us coming off of an exceptional performance in Fiscal Year 2016.

By then end of Fiscal Year 2017, the Idaho Lottery showed record sales, awarded more in prizes to players, and retailers earned more in commissions than in any previous year. In particular, sales and advertised jackpots on Powerball and Mega Millions returned to expected and normal levels. The Idaho Lottery anticipated a decline in sales for these games from last year when we experienced a world record-setting Powerball jackpot of \$1.586 billion. We implemented a business plan to overcome the loss of those extraordinary sales and the plan proved successful. The Idaho Lottery saw its sixth consecutive year of responsible sales growth and we returned \$500,000 more to the People of Idaho than we originally forecast. This year's \$48.5 million dividend ranked as the third largest dividend returned in Idaho Lottery history.

Most importantly, I'm pleased to report that the Idaho Lottery's twenty-eight year record of security, integrity, and responsible and fair play remains unblemished in Idaho. Throughout the year, our on-going commitment to openness and transparency in how we administer the Lottery affirmed the guiding principle of promoting responsible government.

We are only as great as the sum of our individual parts working together from a common vision, for a common goal: to benefit Idaho Public Education and the State's Permanent Building Fund. In the past eleven years, we've returned nearly \$459 million to our good causes.

The economic opportunity for businesses from Idaho Lottery games are real dollars, the prize winnings by our players are tangible, and dividends returned are meaningful and benefit every community in Idaho. What was true in 1989 is still true today – every play pays.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. Anderson', with a long horizontal flourish extending to the right.

Jeffrey R. Anderson
Director

Idaho Lottery Commission

The five-member Commission adopts rules for the agency, approves large contracts, and monitors Lottery operations. Its members are appointed by the Governor with each serving a five-year term.

The current Idaho Lottery Commissioners are (back left to right):

Grant Brackebusch, Commissioner

Mel Fisher, Commission Chairman

Gary Michael, Commissioner

Susan Kerrick, Commissioner

Craig Corbett, Commissioner





Mel Fisher

Chairman of the Idaho Lottery Commission

I have had the privilege of participating in the last fifteen Idaho Lottery dividend presentations to the State of Idaho. Over the years, I have watched the Idaho Lottery grow into the world-class organization it is today. The Idaho Lottery is a recognized leader in the industry nationwide and an exemplary agency for the State of Idaho.

This summer, it was my honor to present my fourth dividend check as chairman, to the People of Idaho, for the outstanding accomplishment of \$48.5 million. Each year, the Idaho Lottery's annual dividend is distributed between the Department of Education and the State of Idaho's Permanent Building Fund. All 114 school districts in all 44 counties in Idaho, as well as the 54 Charter Schools, will benefit from this year's \$18,187,500 dividend. An additional \$12,125,000 will go to benefit Idaho's Bond Levy Equalization Fund for Idaho's public schools. Of the \$18,187,500 returned to the Permanent Building Fund, 85% or more will go to college campuses.

Education is the foundation for the future of Idaho. Ensuring our young student's educational ambitions by providing the necessary means to offer safe and productive learning environments is the best dividend we can provide.

The Idaho Lottery Commission applauds the leadership of Director Jeff Anderson and the entire Lottery staff for continually providing innovative and exciting games to keep Idahoans enthusiastic about playing. Perseverance and professionalism leads to new levels of excellence and will enable Idaho schools to achieve tremendous success in the years ahead.

Sincerely,

A handwritten signature in black ink that reads "Melville W. Fisher II". The signature is written in a cursive style with a horizontal line underlining the name.

Melville W. Fisher II, Chairman
Idaho Lottery Commission

Where the Money Goes

Every day, every play, every community in Idaho comes out a winner every time you play the Idaho Lottery.

Since 1989, the Idaho Lottery has been a committed partner of Idaho's Public Education and the State's Permanent Building Fund, returning \$792.5 million for the benefit of schools from kindergarten through college.

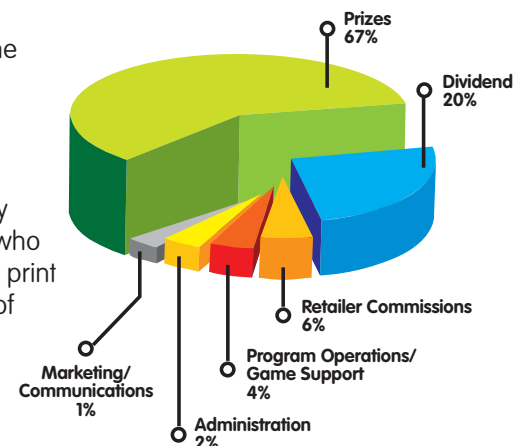
The Idaho Lottery provides dividend dollars to three different public funds: the Department of Education's Public School Building Fund, the Department of Education's Bond Levy Equalization Fund, and the Department of Administration's Permanent Building Fund. A 2009 statute change to the Lottery proceeds distribution formula fixed Public School and Permanent Building Fund dividends at a minimum based on FY2008 distributions. When proceeds surpass the FY2008 minimum, up to three-eighths goes to the Public School Building Fund, up to three-eighths to the Permanent Building Fund, and up to one quarter to the Bond Levy Equalization Fund. A change in statute during the 2017 Legislative Session eliminated the sunset date for the Bond Levy Equalization Fund provision, extending the Lottery's funding to the Bond Levy Equalization Fund in perpetuity.

The businesses where you purchase your tickets earn commissions for each sale and every winning ticket cashed in their store. Your local schools benefit with building fund projects funded through Lottery dividends. Winning prize experiences, large and small, eventually find their way back in to your community where the winners live. Every play pays.

Players claimed a record \$159.9 million in prizes, about 67% of all revenues. That averages \$438,000 per day, every day, for the entire year. After prizes, the second largest amount of revenue was returned to the People of Idaho through the annual dividend, roughly 20% of total revenue. With this year's dividend, over the past five years, the Idaho Lottery has returned over \$240 million dollars.

Also a record, over \$14 million in commissions was earned by our network of nearly 1,200 retail locations in 168 communities across the Gem State for providing lottery products to their customers, roughly 6% of sales.

Rigorous fiscal management of Idaho Lottery's operating costs is paramount to its overall success. Administrative costs represent only 2% of the total cost operate the Idaho Lottery. Our vendor partners, who provide our operational systems, terminals, vending machines, and print our scratch tickets, collectively earn about 4%. The smallest portion of revenue is used for marketing and communications to support products in sales, is about 1%.

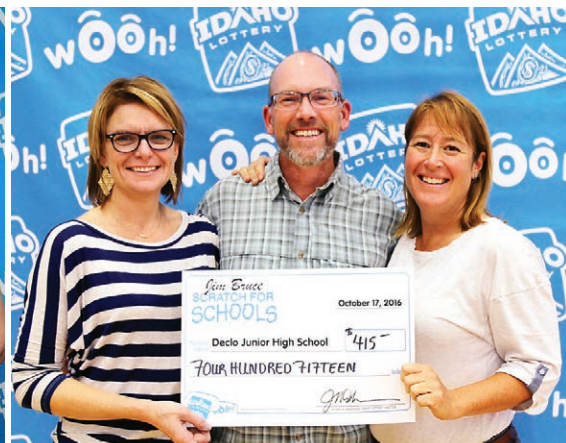


Jim Bruce SCRATCH FOR SCHOOLS

Scratch for Schools in 2016 was a year for record participation. And nowhere was the participation higher than in Lewiston, where forty-four schools from the greater Clearwater Valley and Palouse participated – approximately 83% of every public school in the area. Record number of schools attended the events in Caldwell, Pocatello, and Lewiston. Statewide, a record number of schools also participated, with 464 attending one of eight events held across the Gem State from mid-October through early November. All totaled, the schools collected over \$91,000 in prize winnings. During the largest Scratch-off event ever held in Idaho, 110 schools at Century Link Arena in Boise on the ice, under the stadium lights, the fifteen year-old program returned its one millionth dollar back to further assist public schools.

Here is a breakdown of all the events this year and winnings earned at each location:

Event Location:	Number of Schools:	Dollars to Schools:
Caldwell, College of Idaho	31	\$6,230
Caldwell, College of Idaho	45	\$8,594
Twin Falls, College of Southern Idaho	65	\$12,613
Pocatello, Idaho State University	56	\$10,855
Idaho Falls, Idaho State University Extension	57	\$11,232
Boise, Century Link Arena	110	\$21,307
Lewiston, Lewis-Clark State College	44	\$8,530
Coeur d' Alene, Coeur d' Alene Inn	56	\$11,879
Total attendance and prizes claimed from events:	464	\$91,240



Scratch Games™

The original games offered by the Idaho Lottery 28 years ago were Scratch Games™. Today, Scratch Games comprise 57% of all Idaho Lottery sales. Their popularity among the players continues to grow as the Idaho Lottery continues to manage the balance between price, prize, and entertainment value. In Fiscal Year 2017, the Idaho Lottery sold more in Scratch Games products than in any previous year at \$137.1 million, and nearly two-and-a-half times the amount of Scratch Games products over our very first year.

During the course of the year, the Idaho Lottery issued 51 Scratch Games. We tried different playstyles in the Cashword games with Corner Club Cashword and Cashword Connect. The holiday game line-up was particularly strong, with four of those games ending before the end of January. These games included the \$2 Santa Paws, the \$3 Hot Cocoa Cashword, the \$5 Peppermint Payout, and the \$20 Merry Millions. Here are some of the more unique, original games and programs offered during Fiscal Year 2017.

Ghostbusters™

The strange noises coming from local convenient stores was not spook central, it was the sound of winners playing the game Ghostbusters™. The Idaho Lottery asked players not to get slimed, but to play the \$5 Ghostbusters Scratch Game as they teamed up with Columbia Pictures to offer this blockbuster.



"Hot" Family of Games

Summer 2016 heated up when the "Hot" family of Scratch Games from the Idaho Lottery hit the stores in early August. Players could choose from the \$1 Hot Cash, \$2 Red Hot Cash, or the \$5 White Hot Cash, depending on their "hot factor". Top prizes ranged from \$5,000 up to \$50,000! These games were used throughout the fair season at public events and offered a second chance draw to win six \$1,000 prizes.



Russet Riches

To celebrate National Potato Month in September 2016, the Idaho Lottery embraced its "inner" tuber and brought players the best "farm to table" Scratch Game on the market. Russet Riches was more than just a \$2 game, bringing with it the chance to win \$10,000 from regular game play, or up to \$5,000 through a second chance, interactive game.



Hogs & Kisses

The Lottery turned Valentine's Day into "Valenswines" Day when they debuted the \$2 Hogs & Kisses game. It was the sweetest x's and o's available for the holiday that celebrates love. Players went hog wild over this early winter treat with a sweet top prize of \$10,000!



NAME THAT SCRATCH GAME

Name that Scratch Game Contest

The Idaho Lottery asked its players if they had a great name that could become a legendary Scratch Game. The winner received \$1,000 in Idaho Lottery scratch tickets and worked with one of the Idaho Lottery's graphic artists to design the ticket for future sales! The winner's name and town of residence will even appear on the ticket. The "Name That Scratch Game" contest ran from mid-April through the end of May and provided a lot of engagement from the Lottery's player base. There were a total of 8,055 entries of unique and memorable game submissions. After a lengthy selection process, the game name winners from the "Name That Scratch Game" contest were:

- 1st Place – Huckle-buried Treasure, Ginger Brewer, Coeur d'Alene
- 2nd Place – Peel the Love, Redd Wade, Caldwell
- 3rd Place – The Whole Enchilada, Brian Higgins, Boise

Limited Edition

Everything about the \$10 Scratch Game Limited Edition was exclusive. The game featured a total of \$1.7 million in prizes with only two prize amounts of \$50 or \$100. With only two prize amounts available in this game, winning became an exclusive matter as the game sold like wildfire, selling 92% of the entire game in only ten weeks.



Harley-Davidson®

There are motorcycles, and then there's Harley. Harley is synonymous with every facet of Americana. During the spring and early summer of 2017, the Idaho Lottery gave players their shot at winning the ultimate bike. The \$5 Harley-Davidson Scratch Game featured three Harley-Davidson Dyna Low Rider motorcycles that could be won instantly in the game. Players could also enter any non-winning Harley scratch tickets for the second chance prize of an Electra Glide Ultra Classic Harley-Davidson motorcycle. Players got their motor running and headed out on the highway as the Lottery teamed their Wooh Crew with Maverik Country Stores during June for in-store events that featured Lottery-themed games, prizes, and even tricked-out trike races.



Draw Games

Following a year which saw Powerball reach world-record status in FY16 with a \$1.586 billion jackpot, the Idaho Lottery anticipated that sales for this game, as well as Mega Millions, would return to more traditional, normal levels, and they did. The Lottery's business model for FY17 included strategies to overcome the decline in these games' sales through other games in the draw game portfolio including the introduction of two new games Idaho Cash and a St. Patrick's Day Raffle game, as well as watching the success of the new add-on - Sum it Up! to the longstanding game Pick 3. Here's a look at how Draw Games performed in FY2017.



After the world-record jackpot run during Fiscal Year 2016, Powerball sales and announced jackpots returned to more normal, consistent levels during the past Fiscal Year.

In Fiscal Year 2017, Powerball had eight different jackpot runs, with an average announced jackpot of \$167 million and an average winning jackpot of \$297 million. The single highest winning jackpot occurred at the start of the Fiscal Year in July when the jackpot reached \$487.4 million. During the remainder of the year, the jackpot would climb over \$400 million three additional times – once in each financial quarter. A game like Powerball is very jackpot driven; typically the higher the announced jackpot, the higher the sales. However, as players become used to increasingly larger jackpot amounts, the trend in sales has remained more consistent, especially with jackpots that hover between the \$200 million to \$300 million threshold. Powerball sales accounted for 55% of all Draw Game sales.



Like Powerball, sales and jackpots on Mega Millions returned to more normal levels in FY17. While Mega Millions contributed 18% of the overall Draw Game sales for the Fiscal Year, the average announced jackpot of Mega Millions was lowest average it had been in four years at only \$78 million. The highest jackpot recorded for the game was early in the Fiscal Year as the annuitized prize

soared to \$536.3 million on July 8, 2016. For the remainder of the year, though, the daily announced jackpot would never reach \$200 million.



Reversing a trend from the past two years, Hot Lotto realized an increase in revenue, up 7.4% from the previous year. Despite competition from new Draw Games, the higher daily announced jackpots led to an increase of \$187,000 over the previous year. Hot Lotto continues to have a stable, consistent following among players.



Luck that lasts a lifetime found Idaho again with yet another second-tier, \$25,000 a year for life prize winner in October 2016. This was the third, second-tier winner in Idaho on this game and the third in as many years as we've offered the game. Lucky for Life, the game that awards \$1,000 a day every day for as long as you live to a jackpot winner, continued its popularity and following among players. Sales for the year were \$3.3 million.

Pick 3

For the second year in a row, Idaho's Pick 3 saw an overall game increase over 5%. This year's 5.7% improvement was due to the continued popularity of the Sum it up! feature which allows players to add to their winnings, or win when the total of their selected numbers matches the total of Sum it Up! numbers drawn, even if they do not match the individual numbers. Fiscal Year 2017 marked the eighth consecutive year for an increase in sales of this game.



The Idaho Lottery celebrated the 10th anniversary of the Idaho \$1,000,000 Raffle by providing the most anticipated game of the year with more prizes than in any previous Raffle. The Idaho \$1,000,000 Raffle ran an early-bird promotion from October 21 through October 30 before official sales began with advertising on Halloween. This early bird promotion awarded one player \$10,000. The boost to sales provided by the early start doubled the previous year's early Raffle Sales.

This year's game also featured the return of the 'game within a game'. Players who purchased one of the ten 25,000th tickets (025000, 050000, 075000, 100000, 125000, 150000, 175000, 200000, 225000, and 250000) won \$1,000 instantly, and their ticket was still eligible to win the game's top prize of \$1,000,000.

Idaho \$1,000,000 Raffle sold out two days before Christmas this year, the ninth sell-out in the game's history and achieved its highest ever return on investment of over 52%.



Beginning on St. Patrick's Day, the Idaho Lottery offered a new, smaller-scale Raffle game. The St. Patrick's Day Raffle offered only 50,000 tickets at \$10 each. Once all 50,000 tickets were sold, the Lottery drew the winning numbers including the game's top prize of \$100,000 and ten, \$1,000 prizes. In addition, there were 1,350 prizes of \$50 and 5,500 prizes of \$15 in the game. At 6,861 prizes, the St. Patrick's Day Raffle offered more prizes than in any previous Raffle game.

The game kicked-off with a statewide promotion with one of our strategic partners, Albertsons, and sold twenty-eight percent of all tickets on St. Patrick's Day. The game ultimately sold out in just 22 days.



As the value propositions for the Draw Game portfolio continues to evolve, Weekly Grand still maintains its staunch, steady support among the player base. This \$2, Idaho-only game delivers \$1,000 a week after withholding taxes, every week for a year to players who win the jackpot. This year, the game produced the fewest jackpot winners in its history with two, one from Boise and one from Orofino. Overall sales for Weekly Grand were about \$2 million.



There are many things that make Idaho uniquely Idaho, but there are some things that make Idaho better. The Idaho Lottery welcomed the next big thing, Idaho Cash, on February 12, 2017. Idaho Cash is as great as the state it represents. It has a rolling jackpot that starts at \$20,000 and grows until it's won and the limit on the jackpot is as high as the Idaho sky on a clear summer day. The largest single jackpot won during the year on Idaho Cash was \$147,000.

In Idaho Cash, players get two plays for \$1. Idaho Cash has the best overall odds of any Draw Game. For each play, players pick five numbers from 1 to 45. Drawings are held on Wednesday and Saturday night at 8:00 pm MT. There are other great prizes to win along the way to being a jackpot winner and players win by matching just two numbers. Match three numbers and win \$5, match four numbers and win \$200. Match all five and the Idaho-only jackpot is theirs. If the jackpot is not won, prize funds are added to the next drawing's jackpot prize. If there is more than one jackpot winner for a draw, the jackpot prize will be divided equally among multiple winners. The jackpot prize is paid in a single lump-sum, cash payment.

After a little over four months on sale, it was evident with \$884,810 in sales that many Idahoans and visitors discovered this game was truly an Idaho thing!

InstaPlay Games

InstaPlay continued to perform as a new sensation during Fiscal Year 2017. InstaPlay Games are instant play-style Scratch Games generated through the Lottery terminal. Everything a player needs to know is printed on each InstaPlay game ticket. The games play just like Scratch Games, with a finite pool of predetermined prizes distributed randomly throughout the course of the game.

Every InstaPlay game ticket is generated at the time of purchase and printed with a set of numbers or symbols. Players simply match their play numbers/symbols to see if they won. It's that easy! There are no drawings to wait for.

This terminal-based, scratch-game style product line also proved successful generating \$10.6 million in sales. Leading the way for InstaPlay was the growing family of rolling jackpot games, Idaho Jackpot – the original \$5 InstaPlay jackpot game, the \$10 Big Money Jackpot game, and the introduction of the \$20 Ultimate Diamond Jackpot game in August 2016. Sales this year came predominantly from record jackpot runs on both the Big Money Jackpot and Ultimate Diamond Jackpot games.

The largest jackpot for Idaho Cash was \$66,603. For the Big Money Jackpot game, the largest jackpot was \$134,715. The largest jackpot of the year belonged to the Ultimate Diamond Jackpot game at \$322,124 on June 1, 2017. During the course of the Fiscal Year, these Idaho-only games delivered thirteen jackpot winners.

PullTabs and TouchTabs

Combined, PullTabs and TouchTabs sales totals were \$40 million in FY 2017. The Idaho Lottery offers TouchTab products at player activated self-service terminals in 144 age-controlled, retail locations in Idaho. After six years in the retail marketplace, TouchTabs games are now a well-established product line and realized a FY2017 sales increase of 18.3%.

Like the classic, break-open versions, TouchTabs play exactly like PullTabs only they are paperless. Traditional PullTabs are still available for sale in all locations where TouchTabs are offered. The primary difference between the traditional, break-open style of PullTabs and Touch Tabs is how they are played. The TouchTabs are dispensed via a touchscreen monitor and players open windows electronically to reveal winning and non-winning combinations.

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

Idaho Lottery Retailers

Idaho's long standing commitment to its brick and mortar retail network of over 1,200 locations reached an important milestone in Fiscal Year 2017. In late December 2016, retailers earned their two-hundred millionth dollar in commissions. Throughout the course of the year, retailers earned more in commissions than in any previous year, totaling just over \$14 million. All totaled, since the Lottery began operations in 1989, Idaho's retailers have earned \$200.5 million.

During Fiscal Year 2017, there were 1,168 retailers offering traditional lottery products. An additional 140 offered PullTab products only, locations with age-controlled environments that are able to offer the traditional break-open paper and TouchTabs products. Idaho Lottery products are available in 165 towns across the Gem State.

The business landscape for lottery products in Fiscal Year 2017 shows approximately 54% of Idaho Lottery retailers were convenient store-type operations and accounted for 63% of all sales. Another 14% were grocery store accounts who realized 16% of total sales. The remaining retail locations were a combination of variety stores, smoke shops, bowling centers, restaurants, and lounges.

Charitable Gaming

The Idaho Lottery was assigned oversight of Charitable Gaming in 1992. The 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.

Each year in December, the Idaho Lottery publishes an Annual Report on Charitable Gaming in Idaho. For more information on charitable bingo and raffles in Idaho, visit www.idaholottery.com/charitablegaming

- 
- Over \$790 Million given back
 - \$48.5 Million dividend
 - \$91,240 awarded at Scratch for Schools
 - 51 new Scratch Games launched
 - \$159.9 Million in prizes won
 - Over \$14 Million in retailer commissions



CPAs & BUSINESS ADVISORS

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, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position and 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 Lottery'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 Lottery'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, 2017 and 2016, and the changes in its financial position and its 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, the schedule of employer's share of net pension liability, and the schedule of employer's contributions as listed in the table of contents 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 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 reports 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.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Boise, Idaho
September 19, 2017

Management's Discussion and Analysis

The following Management Discussion and Analysis (MD&A) allows Idaho Lottery (the 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, 2017 and 2016, and financial activity for the years then ended, the MD&A also includes this information for the year ended June 30, 2015, 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 FY 2017 and 2016.
- The Statements of Revenues, Expenses and Changes in Net Position measures the success of the Lottery's operations for FY 2017 and 2016 and the resulting increase or decrease in net position.
- The Statements of Cash Flows provides information about the Lottery's cash receipts and cash payments during the FY 2017 and 2016. 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 2017 and 2016 and between 2016 and 2015.

	<u>2017</u>	<u>2016</u>	<u>Change 2016 to 2017</u>	<u>2015</u>	<u>Change 2015 to 2016</u>
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 49,374,084	\$ 52,119,190	\$ (2,745,106)	\$ 43,632,267	\$ 8,486,923
Receivables	1,142,910	1,268,238	(125,328)	2,200,676	(932,438)
Due From MUSL	-	-	-	275,000	(275,000)
Other	480,877	77,107	403,770	133,910	(56,803)
Total current assets	<u>50,997,871</u>	<u>53,464,535</u>	<u>(2,466,664)</u>	<u>46,241,853</u>	<u>7,222,682</u>
Reserves with MUSL	2,502,776	2,490,808	11,968	2,678,967	(188,159)
Plant and Equipment, Net	437,766	385,978	51,788	368,601	17,377
DEFERRED OUTFLOWS OF RESOURCES					
Deferred Outflows Pensions	633,051	589,906	43,145	257,199	332,707
	<u>\$ 54,571,464</u>	<u>\$ 56,931,227</u>	<u>\$ (2,359,763)</u>	<u>\$ 49,546,620</u>	<u>\$ 7,384,607</u>
LIABILITIES AND NET POSITION					
CURRENT LIABILITIES					
Accounts payable and accrued expenses	\$1,373,328	\$1,390,557	\$ (17,229)	\$ 1,566,792	\$ (176,235)
Dividend payable	48,500,000	49,500,000	(1,000,000)	45,000,000	4,500,000
Due to MUSL	170,282	570,769	(400,487)	284,180	286,589
Prizes payable	2,503,290	3,364,551	(861,261)	3,090,349	274,202
Current portion of capital leases	51,535	28,173	23,362	28,951	(778)
Total current liabilities	<u>52,598,435</u>	<u>54,854,050</u>	<u>(2,255,615)</u>	<u>49,970,272</u>	<u>4,883,778</u>
NON-CURRENT LIABILITIES					
Long-Term Capital Leases	64,226	67,675	(3,449)	35,074	32,601
Non-Pension Liability	1,359,279	885,821	473,458	307,749	578,072
Total Liabilities	<u>54,021,940</u>	<u>55,807,546</u>	<u>(1,785,606)</u>	<u>50,313,095</u>	<u>5,494,451</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred Inflows Pensions	185,371	631,964	(446,593)	726,164	(94,200)
NET POSITION					
Invested in capital assets	322,005	290,130	31,875	304,576	(14,446)
Unrestricted	42,148	201,587	(159,439)	(1,797,215)	1,998,802
Total net position	<u>364,153</u>	<u>491,717</u>	<u>(127,564)</u>	<u>(1,492,639)</u>	<u>1,984,356</u>
	<u>\$ 54,571,464</u>	<u>\$ 56,931,227</u>	<u>\$ (2,359,763)</u>	<u>\$ 49,546,620</u>	<u>\$ 7,384,607</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 2017, 2016 and 2015 consist of the following:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Week ended June 30 sales	\$ 1,131,610	\$ 1,263,763	\$ 2,195,768
Accounts to Attorney General for Collection	11,300	4,475	4,908
Total	<u>\$ 1,142,910</u>	<u>\$ 1,268,238</u>	<u>\$ 2,200,676</u>

Ticket Inventory (Other Assets subcategory)

Shared Scratch ticket printing contracts were awarded in March 2013 to primary vendor, IGT Printing (formerly known as GTECH) and the secondary printing contract in May 2013 to Pollard Banknote. The Lottery has granted a second two year extension and this contract ends in March of 2019. The Pollard Printing contract was also extended until May of 2019. PullTab tickets are expensed when the tickets are sold to the retailers. The Ticket Inventory balances on June 30, 2017, 2016, and 2015, consist of any unamortized production costs of scratch tickets.

Plant, Property, and Equipment, net

The balances shown were derived as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 385,978	\$ 368,601	\$ 141,725
Add: acquisitions	177,478	148,086	275,961
Deduct: retirements, net of accum. depr.	-	(25,950)	-
Deduct: depreciation	(125,690)	(104,759)	(49,085)
Ending balance	<u>\$ 437,766</u>	<u>\$ 385,978</u>	<u>\$ 368,601</u>

LIABILITIES AND NET POSITION

Dividend Payable

The dividends declared by the Idaho Lottery Commission for 2017, 2016 and 2015 were \$48,500,000, \$49,500,000 and \$45,000,000, respectively. The dividend is declared on or before June 30th and paid on July 1 or shortly thereafter.

Prizes Payable

The increase in prizes payable between 2015 and 2016 of \$274,202 and subsequent decrease of \$861,261 between 2016 to in 2017 is primarily due to two large Powerball jackpots in 2016.

Total Net Position

Net position represents the difference between the Lottery's total assets and deferred outflow of resources and its total liabilities and deferred inflow of resources. 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>2017</u>	<u>2016</u>	<u>Change 2016 to 2017</u>	<u>2015</u>	<u>Change 2015 to 2016</u>
Draw game sales					
Powerball	\$ 28,501,559	\$ 42,632,859	\$ (14,131,300)	\$ 29,330,831	\$ 13,302,028
Wild Card	-	992,239	(992,239)	1,669,886	(677,647)
Pick 3	2,307,494	2,175,855	131,639	2,068,502	107,353
Hot Lotto	2,505,619	2,319,204	186,415	3,146,396	(827,192)
Mega Millions	9,334,536	10,390,885	(1,056,349)	11,295,562	(904,677)
Weekly Grand	1,996,150	2,148,250	(152,100)	2,398,758	(250,508)
Lucky For Life	3,378,658	3,662,388	(283,730)	1,900,540	1,761,848
Idaho Cash	884,810	-	884,810	-	-
Idaho Bingo	-	-	-	490,915	(490,915)
Raffle	2,500,000	2,500,000	-	2,500,000	-
Mini Raffle	500,000	-	500,000	-	-
Total Draw Game Sales	<u>51,908,826</u>	<u>66,821,680</u>	<u>(14,912,854)</u>	<u>54,801,390</u>	<u>12,020,290</u>
Scratch ticket sales	147,926,832	136,040,730	11,886,102	129,822,624	6,218,106
PullTab ticket sales	1,696,958	1,844,068	(147,110)	1,977,684	(133,616)
TouchTab ticket sales	38,397,250	31,373,150	7,024,100	23,593,050	7,780,100
Total sales	<u>239,929,866</u>	<u>236,079,628</u>	<u>3,850,238</u>	<u>210,194,748</u>	<u>25,884,880</u>
Data Line Charges	674,270	675,198	(928)	679,255	(4,057)
Other revenues	45,420	63,206	(17,786)	65,428	(2,222)
Total operating revenues	<u>\$ 240,649,556</u>	<u>\$ 236,818,032</u>	<u>\$ 3,831,524</u>	<u>\$ 210,939,431</u>	<u>\$ 25,878,601</u>

Draw Game Ticket Sales

The Powerball game is sold in forty-four states, Washington, D.C., Puerto Rico 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 1:292,201,338.

The Idaho Lottery recorded more sales, awarded more prizes, and retailers earned more commissions than in any previous year in its history. After a world-record jackpot run during FY 2016, Powerball sales and announced jackpots returned to more normal, consistent levels during the past fiscal year.

In FY 2017, Powerball had eight different jackpot runs, with an average announced jackpot of \$167 million and an average winning jackpot of \$297 million. The single highest winning jackpot occurred at the start of the fiscal year in July when the jackpot reached 487.4 million. During the remainder of the year, the jackpot would climb over \$400 million three additional times – once in each financial quarter.

Big game sales are also very jackpot driven; typically the higher the announced jackpot, the higher the sales. However, as players become used to increasingly larger jackpot amounts, the trend in sales has remained more consistent, especially with jackpots that hover between the \$200 million to \$300 million threshold. It is important to be aware of the jackpot to sales relationship sales as illustrated in the chart below.

POWERBALL RELATIONSHIP BETWEEN ANNOUNCED JACKPOT AND SALES

	Average Announced Jackpot per Draw	Average Sales per Draw	Annual Sales
2017	\$ 166,451,923	\$ 271,443	\$ 28,501,559
2016	\$ 160,275,143	\$ 406,027	\$ 42,632,859
2015	\$ 105,336,538	\$ 282,027	\$ 29,330,831
2014	\$ 117,846,154	\$ 351,215	\$ 36,526,313
2013	\$ 21,403,846	\$ 436,059	\$ 45,350,144
2012	\$ 85,857,143	\$ 331,028	\$ 34,757,979
2011	\$ 63,019,232	\$ 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

MEGA MILLIONS RELATIONSHIP BETWEEN ANNOUNCED JACKPOT AND SALES

In 2010, the Idaho Lottery began selling 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.

Mega Millions is sold in forty six localities - forty four states plus the District of Columbia and the U.S. Virgin Islands, with odds of winning the jackpot 1:258,890,850.

Mega Millions sales have been down over the past year, in many selling jurisdictions and plans are in the works to implement some game changes in the coming year.

As with Powerball, there is typically a strong relationship between the jackpot and resulting sales.

	Average Announced Jackpot per Draw	Average Sales per Draw	Annual Sales
2017	\$ 78,152,381	\$ 89,755	\$ 9,334,536
2016	\$ 101,730,769	\$ 99,912	\$ 10,390,885
2015	\$ 93,752,381	\$ 107,577	\$ 11,295,562
2014	\$ 98,259,615	\$ 128,645	\$ 13,379,076
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

The smaller jackpot games, both in-state and multi-state games are as sensitive to jackpots as Powerball and Mega Millions. Both games have a consistent player base, although players will sometimes shift their buying habits from both games to Powerball and Mega Millions when jackpots are unusually large. The Lottery offers the following Draw games: Powerball, Mega Millions, Lucky for Life, Weekly Grand, Hot Lotto, Pick 3 and a fall Raffle game. 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. The ongoing goal, when managing the Scratch game portfolio is to introduce fun, easy to play themes in all price points. The lower priced games generally have a lower pay out and are more profitable. 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. Keeping the perfect Scratch Ticket Game Portfolio is a challenge, as higher priced tickets are less profitable, so the mix is important and an inordinate number of higher price point sales can skew profit results dramatically.

In FY15 the Lottery launched a new product line, InstaPlay, which are played like a Scratch ticket, with predetermined odds, but printed from the Lottery terminal without having to wait for a drawing like a Draw game. Players are loving the fun play action and sales continue to reflect their interest in these games.

Beginning in FY14 the Lottery launched a terminal based scratch ticket game called TAP Scratch. TAP Scratch Games play just like regular Scratch Games but are paperless. These eco-friendly games are fun, entertaining and have carried top prizes as high as \$20,000. These games have been played on existing MultiPlay Station (MP) vending machines, limited to age controlled establishments, primarily bars and taverns, however, interest in these games has waned over time and this play style was ended on March 25, 2017. As ever, the Lottery will pursue other authorized replacement game styles that our players might enjoy more.

Scratch ticket sales by price point for the fiscal years 2017, 2016 and 2015 are as follows:

	2017			2016			2015		
One-Dollar games	\$	6,299,206	4.3%	\$	7,701,224	5.7%	\$	7,064,193	5.4%
Two-Dollar games		7,039,202	4.8%		7,409,460	5.4%		6,808,290	5.2%
Three-Dollar games		15,851,028	10.7%		19,564,098	14.4%		18,535,851	14.3%
Five-Dollar games		41,320,085	27.9%		41,187,025	30.3%		38,671,645	29.8%
Ten-Dollar games		22,123,500	15.0%		18,471,820	13.6%		20,233,990	15.6%
Twenty-Dollar games		21,244,860	14.4%		21,354,301	15.7%		16,109,840	12.4%
Twenty-five-Dollar games		23,250,150	15.7%		13,286,475	9.8%		19,369,375	14.9%
InstaPlay		10,641,784	7.2%		6,784,896	5.0%		2,735,542	2.1%
TAP Scratch		157,017	0.1%		281,431	0.2%		293,898	0.2%
Total sales	\$	<u>147,926,832</u>	100.0%	\$	<u>136,040,730</u>	100.0%	\$	<u>129,822,624</u>	100.0%
Increase over Prior year	\$	11,886,102		\$	6,218,106		\$	6,473,544	

PullTab Ticket Sales

PullTab tickets, which are sold mainly in restaurants and bars, historically make up less than 2% of the Lottery's total annual sales. Fighting competition from illegal gaming machines, annual sales reached \$1,696,958 in FY2017, down a bit from the previous fiscal year. Concentrated efforts between the Lottery and our PullTab vendor, International Gamco are ongoing and while the paper PullTab product continues to hold with steady sales, we continue to seek out additional selling locations and increased sales in the coming fiscal year. We also 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 Ticket Sales

Together with our PullTab vendor partner International Gamco, the Idaho Lottery launched a pilot project from November 2010 to June 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 offered in age controlled environments (bars and taverns). TouchTab games are nearly identical to paper PullTabs; each game is played just like the paper version; with 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, 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 \$38,397,250 in FY 2017, TouchTab sales 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 2017 and 2016 were \$325,153 and \$136,009, respectively.

Operating expenses

2017, 2016 and 2015 operating expenses are as follows:

	2017	2016	Change 2016 to 2017	2015	Change 2015 to 2016
Prizes, net of unclaimed prizes	\$ 160,304,895	\$ 153,649,679	\$ 6,655,216	\$ 136,769,278	\$ 16,880,401
Retailer commissions	14,063,068	13,840,216	222,852	12,480,217	1,359,999
Gaming system services	5,091,877	5,080,655	11,222	4,628,436	452,219
Scratch tickets	2,329,951	2,148,670	181,281	2,262,987	(114,317)
PullTab tickets	2,374,690	2,021,001	353,689	1,654,499	366,502
Advertising	3,431,517	3,941,500	(509,983)	3,646,882	294,618
Salaries and benefits	2,955,874	2,764,064	191,810	2,475,390	288,674
Depreciation and amortization	125,690	104,759	20,931	49,085	55,674
Telephone and data line costs	27,865	29,131	(1,266)	28,655	476
Professional services	173,524	82,096	91,428	164,329	(82,233)
Office and equipment	449,451	497,511	(48,060)	398,127	99,384
Shipping costs	448,471	429,513	18,958	435,830	(6,317)
Supplies	115,623	119,323	(3,700)	42,303	77,020
Tribe compact	160,282	161,564	(1,282)	140,418	21,146
Other costs	253,441	239,209	14,232	265,723	(26,514)
Total operating expenses	<u>\$ 192,306,219</u>	<u>\$ 185,108,891</u>	<u>\$ 7,197,328</u>	<u>\$ 165,442,159</u>	<u>\$ 19,666,732</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:

	2017	Mix%	2016	Mix%	2015	Mix%
Draw sales	\$ 51,908,826	21.6%	\$ 66,821,680	28.3%	\$ 54,801,390	26.1%
Scratch ticket sales	147,926,832	61.7%	136,040,730	57.6%	129,822,624	61.8%
PullTab ticket sales	1,696,958	0.7%	1,844,068	0.8%	1,977,684	0.9%
TouchTab ticket sales	38,397,250	16.0%	31,373,150	13.3%	23,593,050	11.2%
Total sales	<u>\$ 239,929,866</u>	100.0%	<u>\$ 236,079,628</u>	100.0%	<u>\$ 210,194,748</u>	100.0%

Increase (decrease) from prior year \$ 3,850,238 \$ 25,884,880 \$ 1,302,154

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 does impact 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 (including TAP Scratch and InstaPlay), 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% (so 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 Hot Lotto has a prize percentage of 50%. 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 69-71%, with higher price point tickets generally offering a higher prize payout percentage. TouchTab games have a prize percentage of between 78-82%.

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.

Prize expense, net of unclaimed prizes, consisted of the following for the years 2017, 2016 and 2015:

2017	<u>Sales</u>	<u>Prize %</u>	<u>Prizes</u>
Draw ticket sales	\$ 48,908,826	51.13%	\$ 25,007,632
Scratch ticket sales	\$ 147,926,832	70.95%	104,950,702
Raffle sales	\$ 3,000,000	52.00%	1,560,000
PullTab ticket sales	\$ 1,696,958	70.50%	1,196,394
TouchTab ticket sales	\$ 38,397,250	80.62%	30,955,008
Second chance draws			91,519
Unclaimed prizes			(3,456,360)
			<u>\$ 160,304,895</u>

2016	<u>Sales</u>	<u>Prize %</u>	<u>Prizes</u>
Draw ticket sales	\$ 64,321,680	51.22%	\$ 32,946,166
Scratch ticket sales	\$ 136,040,729	69.96%	95,170,290
Raffle sales	\$ 2,500,000	52.00%	1,300,000
PullTab ticket sales	\$ 1,844,068	67.85%	1,251,237
TouchTab ticket sales	\$ 31,373,150	80.29%	25,189,286
Second chance draws			263,745
Unclaimed prizes			(2,471,045)
			<u>\$ 153,649,679</u>

2015	<u>Sales</u>	<u>Prize %</u>	<u>Prizes</u>
Draw ticket sales	\$ 52,301,390	51.77%	\$ 27,077,998
Scratch ticket sales	\$ 129,822,624	70.37%	91,351,995
Raffle sales	\$ 2,500,000	52.00%	1,300,000
PullTab ticket sales	\$ 1,977,684	70.84%	1,400,982
TouchTab ticket sales	\$ 23,593,050	80.68%	19,034,704
Second chance draws			153,941
Unclaimed prizes			(3,550,342)
			<u>\$ 136,769,278</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, 2017

The Idaho Lottery recorded more sales, awarded more prizes, and retailers earned more commissions than in any previous year in its history during FY 2017. Following a year which saw Powerball reach world-record status in FY16 with a \$1.586 billion jackpot, the Idaho Lottery anticipated that sales for this game, as well as Mega Millions, would return to more normal levels. The business model for FY17 included strategies to overcome the decline in these games' sales through other games in their product portfolio. The plan worked. The Idaho Lottery increased overall sales by 1.6% and returned a dividend \$500,000 higher than originally forecasted.

At the conclusion of its 28th year of operations in FY 2017, the Idaho Lottery has now returned \$792.5 million to the people of Idaho. This year's dividend was the third largest in Idaho Lottery history at \$48.5 million.

Scratch Games™ continued to lead the way in sales with a record year that saw an increase of \$11.9 million and an improvement of 8.7% in sales. Careful marketing and Scratch Game product portfolio management led to this year's success. The terminal-based, scratch-game style product line InstaPlay also proved successful generating \$10.6 million in sales, predominantly from record jackpot runs on the Big Money

Jackpot and Ultimate Diamond Jackpot games. Sales in the PullTabs and TouchTabs product line stabilized over the previous year with only a 20.7% increase in sales for FY 2017. Also boosting sales were the Draw Game introductions of Idaho Cash and a St. Patrick's Day Raffle game. Idaho Cash is a continually growing jackpot game and St. Patrick's Day Raffle plays like the Idaho \$1,000,000 Raffle, only with 50,000 tickets and a top guaranteed prize of \$100,000.

Idaho continues to be a lucky jurisdiction to play the Lottery. There were thirteen jackpot winners between the three terminal-based Scratch Games Idaho Jackpot, Big Money Jackpot, and Ultimate Diamond Jackpot; the largest being \$322,124. The Idaho \$1,000,000 Raffle sold out two days prior to Christmas, and, there were five jackpot winners, all on in-state draw games. There was also one second-tier winner of \$25,000 a year for life on the game Lucky for Life.

FY 2017 found a resurgence in Idaho-only games and products. The market conditions supported this with the success of both the Idaho \$1,000,000 Raffle and the introductions of Idaho Cash and the short-run St. Patrick's Day Raffle in the spring. Coupled with the success of the terminal-based jackpot Scratch Games, a clear picture can be seen as to how the Idaho Lottery was able to overcome the success of FY16 in the absence of a world record jackpot.

Looking ahead to FY2018, there are significant game changes to Mega Millions and Powerball while the game Hot Lotto will end. In addition, there will be a new \$1 jackpot Draw Game introduced during the year and a short-run raffle game introduced during the summer of 2017. These game changes and introductions will bolster the Draw Game portfolio. The Lottery also believes they will see continue to steady, responsible increases in Scratch Games, InstaPlay, and the TouchTabs product lines.

With game improvements, and the continued migration toward higher Scratch Game price points, sales estimates for 2018 look promising to reach another strong dividend return.

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.

Financial Statements

Statements of Net Position

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

CURRENT ASSETS

	2017	2016
Cash and cash equivalents	\$ 49,374,084	\$ 52,119,190
Receivables	1,142,910	1,268,238
Other	<u>480,877</u>	<u>77,107</u>
Total current assets	50,997,871	53,464,535

DEPOSITS WITH MUSL

2,502,776 2,490,808

PROPERTY AND EQUIPMENT, NET

437,766 385,978

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows Pensions	633,051	589,906
	<u>\$ 54,571,464</u>	<u>\$ 56,931,227</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 1,373,328	\$ 1,390,557
Dividend payable	48,500,000	49,500,000
Due to MUSL	170,282	570,769
Prizes payable	2,503,290	3,364,551
Current portion of notes payable	<u>51,535</u>	<u>28,173</u>
Total current liabilities	52,598,435	54,854,050

NON-CURRENT LIABILITIES

Long-Term Capital Leases	64,226	67,675
Net Pension Liability	<u>1,359,279</u>	<u>885,821</u>
Total Liabilities	<u>54,021,940</u>	<u>55,807,546</u>

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Pensions	<u>185,371</u>	<u>631,964</u>
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NET POSITION

Invested in capital assets		
Unrestricted	322,005	290,130
	<u>42,148</u>	<u>201,587</u>
Total net position	<u>364,153</u>	<u>491,717</u>
	<u>\$ 54,571,464</u>	<u>\$ 56,931,227</u>

See Notes to Financial Statements

Statements of Revenues, Expenses, and Changes in Net Position

	2017	2016
OPERATING REVENUES		
Scratch ticket sales	\$ 147,926,832	\$ 136,040,730
Draw ticket sales	48,908,826	64,321,680
PullTab ticket sales	1,696,958	1,844,068
TouchTab ticket sales	38,397,250	31,373,150
Raffle sales	3,000,000	2,500,000
Data line charges	674,270	675,198
Other	45,420	63,206
Total operating revenues	<u>240,649,556</u>	<u>236,818,032</u>
OPERATING EXPENSES		
Prizes, net of unclaimed prizes	160,304,895	153,649,679
Retailer commissions	14,063,068	13,840,216
Gaming system services	5,091,877	5,080,655
Scratch tickets	2,329,951	2,148,670
PullTab tickets/TouchTab tickets	2,374,690	2,021,001
Advertising	3,431,517	3,941,500
Salaries and benefits	2,955,874	2,764,064
Depreciation and amortization	125,690	104,759
Telephone and data line costs	27,865	29,131
Professional services	173,524	82,096
Office and equipment	449,451	497,511
Shipping costs	448,471	429,513
Supplies	115,623	119,323
Tribe compact	160,282	161,564
Other	253,441	239,209
Total operating expenses	<u>192,306,219</u>	<u>185,108,891</u>
OPERATING INCOME	<u>48,343,337</u>	<u>51,709,141</u>
NONOPERATING REVENUES		
Gain on disposal of capital assets	34,950	
Interest income	2,064	1,386
Interest income on funds held at the State	325,153	136,009
Interest expense	(7,915)	(6,422)
Total non operating revenue	<u>354,252</u>	<u>130,973</u>
INCOME BEFORE TRANSFERS	<u>48,697,589</u>	<u>51,840,114</u>
TRANSFERS		
State Permanent Building Fund	(18,187,500)	(18,562,500)
State Public Schools Building Fund	(18,187,500)	(18,562,500)
State Bond Equalization Fund	(12,125,000)	(12,375,000)
State general fund-interest earnings	(325,153)	(136,009)
Total transfers	<u>(48,825,153)</u>	<u>(49,636,009)</u>
CHANGE IN NET POSITION	(127,564)	2,204,105
TOTAL NET POSITION, BEGINNING OF YEAR	491,717	(1,712,388)
TOTAL NET POSITION, END OF YEAR	<u>\$ 364,153</u>	<u>\$ 491,717</u>

Statements of Cash Flows

OPERATING ACTIVITIES

Ticket sales
Prizes paid to winners
Commissions and payment to retailers
Paid to vendors for goods and services
Paid to vendors for promotions
Paid to employees for service

NET CASH FROM OPERATING ACTIVITIES

NON CAPITAL FINANCING ACTIVITIES

Transfers to State Permanent Building Fund
Transfers to State Public Schools Building Fund
Transfer to Bond Equalization Fund
Transfer to State general fund - interest earnings

NET CASH USED FOR NON CAPITAL FINANCING ACTIVITIES

CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of equipment and software
Proceeds from sale of capital assets
Borrowings of long term debt
Principal paid on notes payable
Interest paid on notes payable

NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES

INVESTING ACTIVITIES

Interest income
Change in deposit with MUSL

NET CASH FROM INVESTING ACTIVITIES

NET CHANGE IN CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

CASH AND CASH EQUIVALENTS, END OF YEAR

RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES

Operating income
Adjustment to reconcile operating income to net cash from operating activities
Depreciation and amortization
Pension expense adjustment
Changes in assets and liabilities
Receivables
Due from MUSL
Other assets
Accounts payable and accrued expense
Due to MUSL
Prizes payable

NET CASH FROM OPERATING ACTIVITIES

Supplemental Disclosure for Cash Flow Information

Non cash Investing, Capital and Financing Transactions
Copier purchahsed by capital lease
Vehicles purchahsed by notes payable

	2017	2016
	\$ 240,774,884	\$ 237,750,469
	(161,566,643)	(152,813,888)
	(14,063,068)	(13,840,216)
	(11,752,252)	(10,956,389)
	(3,431,517)	(3,941,500)
	(3,066,076)	(2,804,363)
	<u>46,895,328</u>	<u>53,394,113</u>
	(18,562,500)	(17,000,000)
	(18,562,500)	(17,000,000)
	(12,375,000)	(11,000,000)
	(325,153)	(136,009)
	<u>(49,825,153)</u>	<u>(45,136,009)</u>
	(177,478)	(63,737)
	34,950	-
	65,884	-
	(45,971)	(26,576)
	(7,915)	(6,422)
	<u>(130,530)</u>	<u>(96,735)</u>
	327,217	137,395
	(11,968)	188,159
	<u>315,249</u>	<u>325,554</u>
	(2,745,106)	8,486,923
	52,119,190	43,632,267
	<u>\$ 49,374,084</u>	<u>\$ 52,119,190</u>
	\$48,343,337	\$51,709,141
	125,690	104,759
	(16,280)	(68,584)
	125,328	932,438
	-	275,000
	(403,770)	56,803
	(17,229)	(176,235)
	(400,487)	286,589
	(861,261)	274,202
	<u>\$ 46,895,328</u>	<u>\$ 53,394,113</u>
	\$ -	\$ 87,000
	\$ 65,884	\$ -

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.

Basis of Accounting

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

Pensions

For purposes of measuring the net pension liability and pension expense, information about the fiduciary net position of the Public Employee Retirement System of Idaho Base Plan (Base Plan) and additions to/deductions from Base Plan's fiduciary net position have been determined on the same basis as they are reported by the Base Plan. 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.

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 but settling at the time the pack goes on sale is encouraged.

Accounts Receivable

The Lottery provides credit in the normal course of business to its customers and performs a thorough credit evaluation of each customer before approving a license to sell lottery products. 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 will be closer to six percent of revenue. In addition, retailers selling a winning draw or scratch ticket with a prize amount of \$1,000 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.

TAP Scratch Games – The Lottery introduced TAP Scratch games in July of 2013. These games are played on existing vending kiosks, but limited to age controlled

establishments, primarily bars and taverns. They play like regular Scratch Games but are paperless. These eco-friendly games are fun, entertaining and carry top prizes as high as \$25,000. The average payout for TAP Scratch games was 62.8%. The game ended on March 25, 2017.

InstaPlay Games – Idaho InstaPlay Games were launched in October of 2014. They are instant play-style games generated through the Lottery terminal. Every InstaPlay Game ticket is generated at the time of purchase with a set of numbers/symbols on it. Players simply match their play numbers/symbols to see if they won. There are no drawings to wait for. Winning tickets are validated through the Lottery terminal just like any other Idaho Lottery game. The payout for InstaPlay games is ranges between 70-80%, with an average payout of 75%.

Multi-State Draw Games:

Idaho Powerball – The Powerball game is sold in forty-four states along with the District of Columbia, Puerto Rico 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-six localities (forty-four states, 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.

Hot Lotto – In conjunction 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.

Lucky for Life – Lucky for Life launched in Idaho in January, 2015 along with 15 other US jurisdictions, and offers an actual FOR LIFE prize as its jackpot prize. The game has since grown to 21 US lotteries and continues to be a popular option in Idaho. The prize expense for this game is 65%.

Idaho Draw Games:

Raffle – Idaho's Million Dollar Raffle is a game developed by the Idaho Lottery and played only in Idaho. The first version of the Million Dollar Raffle 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 51% 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.

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, 2017 for the US Government Treasury securities and Agency securities was 1 year.

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 the game.

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,

	2017	2016
Cash in banks	\$ 1,825,441	\$ 2,013,985
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	47,428,643	49,985,205
Total cash and equivalents	\$ 49,374,084	\$ 52,119,190

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

Capital asset activity for the year ended June 30, 2017 was as follows:

Depreciable capital assets	2016	Additions	Retirements	2017
Computer equipment	\$ 776,583	\$ 21,213	\$ -	\$ 797,796
Office furniture	1,034,679	90,381	-	1,125,060
Vehicles	449,407	65,884	(111,913)	403,378
Leasehold improvements	446,211	-	-	446,211
	2,706,880	177,478	(111,913)	2,772,445
Less accumulated depreciation				
Computer equipment	(642,883)	(44,601)	-	(687,484)
Office furniture	(937,798)	(29,921)	-	(967,719)
Vehicles	(349,267)	(44,471)	111,913	(281,825)
Leasehold improvements	(390,954)	(6,697)	-	(397,651)
Property and equipment, net	\$ 385,978	\$ 51,788	\$ -	\$ 437,766

Capital asset activity for the year ended June 30, 2016 was as follows:

Depreciable capital assets	2015	Additions	Retirements	2016
Computer equipment	\$ 767,301	\$ 9,282	\$ -	\$ 776,583
Office furniture	1,015,317	105,862	(86,500)	1,034,679
Vehicles	489,030	32,942	(72,565)	449,407
Leasehold improvements	446,211	-	-	446,211
	2,717,859	148,086	(159,065)	2,706,880
Less accumulated depreciation				
Computer equipment	(595,487)	(47,396)	-	(642,883)
Office furniture	(975,755)	(22,593)	60,550	(937,798)
Vehicles	(393,760)	(28,072)	72,565	(349,267)
Leasehold improvements	(384,256)	(6,698)	-	(390,954)
Property and equipment, net	\$ 368,601	\$ 43,327	\$ (25,950)	\$ 385,978

Depreciation and amortization expense for the year ended June 30, 2017 and 2016 was \$125,690 and \$104,759, respectively.

NOTE 4 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2017 and 2016.

	2017	2016
Trade accounts payable	\$ 512,951	\$382,065
Personnel costs payable	124,072	216,708
Accrued compensated absences	143,258	144,544
Deferred draw sales	<u>593,047</u>	<u>647,240</u>
Accounts payable and accrued expenses	<u>\$ 1,373,328</u>	<u>\$1,390,557</u>

NOTE 5 – PENSION PLAN

Plan Description - The Lottery contributes to the Base Plan which is a cost-sharing multiple-employer defined benefit pension plan administered by Public Employee Retirement System of Idaho (PERSI or System) that covers substantially all employees of the State of Idaho, its agencies and various participating political subdivisions. The cost to administer the plan is financed through the contributions and investment earnings of the plan. PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at www.persi.idaho.gov.

Responsibility for administration of the Base Plan is assigned to the Board comprised of five members appointed by the Governor and confirmed by the Idaho Senate. State law requires that two members of the Board be active Base Plan members with at least ten years of service and three members of the board who are Idaho citizens and not members of the Base Plan except by reason of having served on the Board.

Pension Benefits - The Base Plan provides retirement, disability, and death and survivor benefits of eligible members or beneficiaries. Benefits are based on members' years of service, age, and highest average salary. Members become fully vested in their retirement benefits with five years of credited service (5 months for elected or appointed officials). Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. The annual service retirement allowance for each month of credited service is 2.0% (2.3% for police/firefighters) of the average monthly salary for the highest consecutive 42 months. Amounts in parenthesis represent police/firefighters.

The benefit payments for the Base Plan are calculated using a benefit formula adopted by the Idaho Legislature. The Base Plan is required to provide a 1% minimum cost of living increase per year provided the Consumer Price Index increases 1% or more. The PERSI Board has the authority to provide higher cost of living increases to a maximum of the Consumer Price Index movement or 6%, whichever is less; however, any amount above the 1% minimum is subject to review by the Idaho Legislature.

Member and Employer Contributions- Member and employer contributions paid to the Base Plan are set by statute and are established as a percent of covered compensation and earnings from investments. Contribution rates are determined by the PERSI Board within limitations, as defined by state law. The Board may make periodic changes to employer and employee contribution rates (expressed as percentages of annual covered payroll) if current rates are actuarially determined to be inadequate or in excess to accumulate sufficient assets to pay benefits when due.

The contribution rates for employees are set by statute at 60% of the employer rate for general employees and 72% for police and firefighters. As of June 30, 2016 it was 6.79% for general employees and 8.36% for police and firefighters. The employer contribution rate as a percent of covered payroll is set by the Retirement Board and was 11.32% general employees and 11.66% for police and firefighters. The Lottery's contributions were \$221,998 and \$213,289 for the years ended June 30, 2016 and 2015, respectively.

At June 30, 2017, the Lottery reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2016, 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 in the Base Plan pension plan relative to the total contributions of all participating PERSI Base Plan employers. At July 1, 2016 and 2015, the Lottery's proportion was .0670535 percent and .0672688 percent, respectively.

For the years ended June 30, 2017 and 2016, the Lottery recognized pension expense (revenue) of \$224,452 and \$163,055, respectively. At June 30, 2017, 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	\$ 30,216	\$ 135,442
Changes in assumptions or other inputs	-	-
Net difference between Projected and Actual Investment Earnings on Pension Plan investments	352,463	49,929
Lottery contributions subsequent to measurement date	<u>250,372</u>	-
	<u>\$ 633,051</u>	<u>\$ 185,371</u>

At June 30, 2016, 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	\$ -	\$ 106,191
Changes in assumptions or other inputs	32,260	-
Change in Proportionate Share	-	60,597
Net difference between Projected and Actual Investment Earnings on Pension Plan investments	326,007	-
Net difference between projected and actual earnings on plan investments	-	465,176
Lottery contributions subsequent to measurement date	<u>231,639</u>	-
	<u>\$ 589,906</u>	<u>\$ 631,964</u>

\$250,372 and \$231,639 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017 and 2016, respectively.

The average of the expected remaining service lives of all employees that are provided with pensions through the System (active and inactive employees) determined at July 1, 2015 the beginning of the measurement period ended June 30, 2016 is 4.9 and 5.5 for the measurement period June 30, 2015.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ended June 30	
2017	\$ 13,016
2018	(13,016)
2019	143,302
2020	<u>80,038</u>
	<u>\$ 197,308</u>

Actuarial Assumptions - Valuations are based on actuarial assumptions, the benefit formulas, and employee groups. Level percentages of payroll normal costs are determined using the Entry Age Normal Cost Method. Under the Entry Age Normal Cost Method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated as a level percentage of each year's earnings of the individual between entry age and assumed exit age. The Base Plan amortizes any unfunded actuarial accrued liability based on a level percentage of payroll. The maximum amortization period for the Base Plan permitted under Section 59-1322, Idaho Code, is 25 years.

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	4.25 - 10.00%
Salary inflation	3.75%
Investment rate of return	7.10%, net of investment expenses
Cost-of-living adjustments	1.00%

Mortality rates were based on the RP – 2000 combined table for healthy males or females as appropriate with the following offsets:

- Set back 3 years for teachers
- No offset for male fire and police
- Forward one year for female fire and police
- Set back one year for all general employees and all beneficiaries

An experience study was performed for the period July 1, 2007 through June 30, 2013, which reviewed all economic and demographic assumptions other than mortality. Mortality and all economic assumptions were studied in 2014 for the period from July 1, 2009 through June 30, 2013. The Total Pension Liability as of June 30, 2016, is based on the results of an actuarial valuation date of July 1, 2016.

The long-term expected rate of return on pension plan investments was determined using the building block approach and a forward-looking model in which best estimate ranges of expected future real rates of return (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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Even though history provides a valuable perspective for setting the investment return assumption, the System relies primarily on an approach which builds upon the latest capital market assumptions. Specifically, the System uses consultants, investment managers and trustees to develop capital market assumptions in analyzing the System's asset allocation. The assumptions and the System's formal policy for asset allocation are shown below. The formal asset allocation policy is somewhat more conservative than the current allocation of System's assets.

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are as of January 1, 2016.

	Expected Return	Expected Risk	Strategic Normal	Strategic Ranges
Asset Class				
Equities			70.00%	66% - 77%
Broad Domestic Equity	9.15%	19.00%	55.00%	50% - 65%
International	9.25%	20.20%	15.00%	10% - 20%
Fixed Income	3.05%	3.75%	30.00%	23% - 33%
Cash	2.25%	0.90%	0.00%	0% - 5%
	Expected Return	Expected Inflation	Expected Real Return	Expected Risk
Total				
Actuary	7.00%	3.25%	3.75%	N/A
Portfolio	6.58%	2.25%	4.33%	12.67%

*Expected arithmetic return net of fees and expenses.

Actuarial Assumptions

Assumed Inflation – Mean	3.25%
Assumed Inflation – Standard Deviation	2.00%
Portfolio Arithmetic Mean Return	8.42%

Portfolio Long-Term Expected Geometric Rate of Return	7.50%
Assumed Investment Expenses	0.40%
Long-Term Expected Geometric Rate of Return, Net of Investment Expenses	7.10%

Discount Rate - The discount rate used to measure the total pension liability was 7.10%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate. Based on these assumptions, the pension plans' net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return was determined net of pension plan investment expense but without reduction for pension plan administrative expense.

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate.

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 7.10 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.10 percent) or 1-percentage-point higher (8.10 percent) than the current rate:

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
June 30, 2017			
Employer's proportionate share of the net pension liability (asset)	\$ 2,666,420	\$ 1,359,277	\$ 272,244
	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
June 30, 2016			
Employer's proportionate share of the net pension liability (asset)	\$ 2,157,537	\$ 885,821	\$ (171,443)

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued PERSI financial report.

PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at www.persi.idaho.gov.

Payables to the pension plan

At June 30, 2016, the Lottery reported no payables to the defined benefit pension plan for legally required employer contributions and for legally required employee contributions which had been withheld from employee wages but not yet remitted to PERSI.

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 was from February 19, 2007 to February 18, 2017, with an option for the Lottery to extend the contract. Currently, as compensation, the Lottery pays 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 Representatives. The current contract also provides for the leasing of ticket checking devices at retail locations and for leasing of Scratch™ and Draw game automated vending machines (Winstation Player Vending [WSVM] and MultiPlay Station [MPS] vending machines) and electronic jackpot signs.

During fiscal year 17, the Lottery elected to publish an RFP seeking information from Gaming System vendors and by the end of fiscal year 17 negotiated a new 10 year contract with the successful vendor, and current gaming system vendor, INTRALOT. The specifics of this newly signed contract will be detailed in next year's financial statements and annual report and are quite positive for the Lottery.

NOTE 7 – LEASES

The Lottery has entered into operating leases for the rental of headquarters offices (expiring December 31, 2027) 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:

2018	\$	273,210
2019		247,791
2020		255,225
2021		262,882
2022		<u>270,768</u>
	\$	<u>1,309,876</u>

Rent expense for operating leases was \$314,378 and \$312,831 for the years ended June 30, 2017 and 2016, respectively.

NOTE 8 – CONTINGENCIES AND COMMITMENTS

Prize Annuities

The Lottery purchases annuity contracts in the name of individual jackpot prize winners. Although the annuity contracts are in the name of the individual winners, the Lottery retains title to the annuity contracts. The Lottery remains liable for the payment of the guaranteed minimum prizes in the event the insurance companies issuing the annuity contracts default. The guaranteed minimum prize payments for which annuity contracts have been purchased are due in varying amounts through March 2034. The specified payments are \$11,290,136 and \$11,983,673 for the years ended June 30, 2017 and 2016, respectively

NOTE 9 – NOTE AND CAPITAL LEASES PAYABLE

The notes payable consists of two three year loans for the purchases of vehicles for the Lottery Sales Representative fleet. The first loan was for two vehicles with a final note payment due in July 2018. The second loan was for the purchase of four vehicles with a final note payment due in July 2020. In addition, the Lottery entered into a capital lease agreement for a copier in 2015 which matures in April 2020.

A summary of the activity in notes and capital leases payable for the year ended June 30, 2017 is as follows:

	2016	Additions	Retirements	2017
Capital lease for copiers	\$ 71,533	\$ -	\$ (16,380)	\$ 55,153
Notes payable for copiers	24,315	65,884	(29,591)	60,608
	<u>\$ 95,848</u>	<u>\$ 65,884</u>	<u>\$ (45,971)</u>	<u>\$ 15,761</u>

A summary of the activity in notes and capital leases payable for the year ended June 30, 2016 is as follows:

	2015	Additions	Retirements	2016
Capital lease for copiers	\$ 28,601	\$ 87,000	\$ 44,068	\$ 71,533
Notes payable for copiers	35,424	-	(11,109)	24,315
	<u>\$ 64,025</u>	<u>\$ 87,000</u>	<u>\$ (55,177)</u>	<u>\$ 95,848</u>

The annual payment requirements are as follows:

	Capital Lease		Notes Payable	
	Principal	Interest	Principal	Interest
For the year ended June30,				
2018	\$17,346	\$2,719	\$34,189	\$2,706
2019	18,371	1,695	24,141	898
2020	19,436	610	2,278	11
	<u>\$55,153</u>	<u>\$5,024</u>	<u>\$60,608</u>	<u>\$3,615</u>

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS

Summary of Plans

The Lottery participates in other postemployment 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

Required Supplementary Information

	2016	2015	2014
Employer's portion of the net pension liability	0.0670535%	0.0672688%	0.0716557%
Employer's proportionate share of the net pension liability	\$1,359,277	\$885,821	\$527,498
Employer's covered-employee payroll	\$1,900,483	\$1,819,119	\$1,812,989
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	71.52%	48.70%	29.10%
Plan fiduciary net position as a percentage of the total pension liability	87.26%	91.38%	94.95%

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Lottery will present information for those use for which information is available.

Data reported is measured as of July 1 of the respective year (measurement date).

Schedule of Employer's Contributions - Last 10 - Fiscal Years*

	2017	2016	2015
Statutorily required contribution	\$ 221,998	\$ 219,749	\$ 213,289
Contributions in relation to the statutorily required contribution	<u>221,998</u>	<u>219,749</u>	<u>213,289</u>
Contribution (deficiency) excess	\$ -	\$ -	\$ -
Employer's covered- employee payroll	\$ 2,064,242	\$ 1,900,483	\$ 1,819,119
Contributions as a percentage of the covered-employee payroll	10.75%	11.56%	11.72%

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Lottery will present information for those use for which information is available.

Data reported is measured as of June 30 of the respective year.



CPAs & BUSINESS ADVISORS

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 the 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, 2017, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements, and have issued our report thereon dated .

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 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 that we consider to be material weaknesses. However, material weaknesses may exist that have not 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 Lottery's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "EideBailly LLP".

Boise, Idaho
September 19, 2017

Benefiting Idaho Public Schools and the Permanent Building Fund.
P.O. Box 6537, Boise, ID 83707-6537 | idaholottery.com