

Annual Report 2015



your
Play AT **WORK.**

Over \$650 MILLION given back.

\$45

Million given back to Idaho Public Schools and the Permanent Building Fund in FY15.

\$136

Million in prizes paid to players in FY15.

Over
\$690

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



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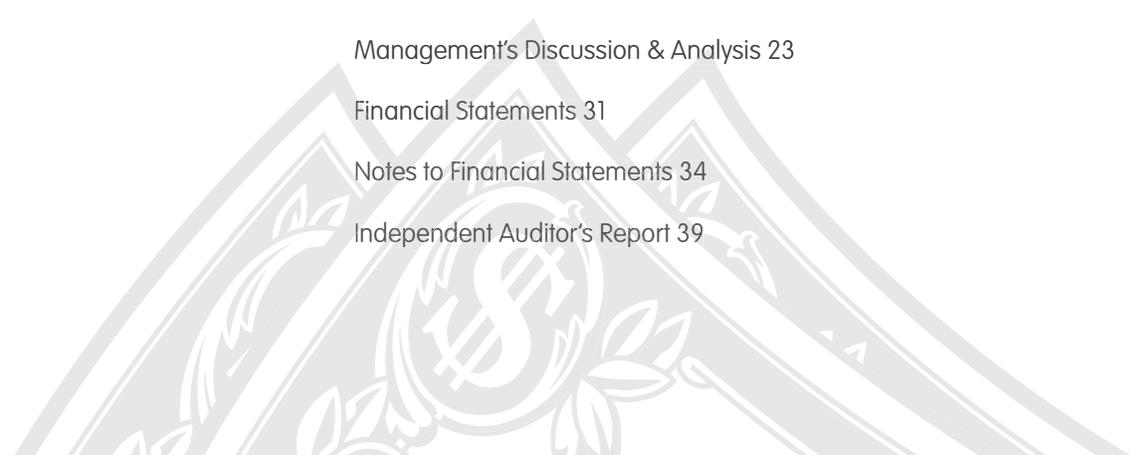
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Lottery Mission

The mission of the Idaho Lottery is to responsibly provide entertaining games with a high degree of integrity to maximize the dividend for Public Schools and the Permanent Building Fund.

Lottery Vision

To become the highest performing jurisdiction in North America.

Operations

The Idaho Lottery is self-funding and self-governing, comprised of a five-member appointed Lottery Commission and the Idaho Lottery staff. Idaho Lottery Director, Jeffrey R. Anderson, serves at the pleasure of the Governor. As the Director, he is responsible for overseeing day-to-day lottery operations, including security, marketing, sales, media relations, warehousing and inventory control, information technology, and fiscal management. Currently, the Idaho Lottery employs 43 staff members.

Overview

At the conclusion of its 26th year of operations in Fiscal Year 2015, the Idaho Lottery has returned \$694.5 million to the people of Idaho. This year's dividend was \$45 million on the strength of sales that reached over \$210 million for the first time in the Lottery's history. For the fourth consecutive year, the Idaho Lottery returned a dividend greater than \$41 million. Over the course of the past ten years, the annual dividend has increased by 36%. During this year, the Idaho Lottery successfully introduced a new Draw Game, Lucky for Life, and a new product line, InstaPlay.

Idaho continues to be one of the luckiest jurisdictions in the country. Idaho ranked 5th nationally per capita for wins among jurisdictions with more than one \$500,000 or higher wins on a multi-state draw game. For the fifth consecutive year, Idaho recorded a Wild Card jackpot winner. The Idaho \$1,000,000 Raffle sold out and Weekly Grand provided six jackpot winners. In addition, one player won the second tier prize on Lucky for Life, \$25,000 a year for life, in March, shortly after the game's introduction.

Thank you Idaho, for playing, participating, and helping our achievements become a success for Idaho's Public Schools and the Permanent Building Fund.



C.L. "Butch" Otter

Governor of Idaho

Dear Friends,

Every year, Idaho's Public Schools and the State's Permanent Building Fund are the true winners of the Idaho Lottery. With this year's dividend, the Idaho Lottery has returned \$694.5 million to support public education and the State of Idaho's permanent facilities.

In 1988, Idaho citizens took a chance that the State would benefit economically and funding to schools and the State's permanent buildings would grow by creating a state run Lottery. In that year's November general election, voters approved H.J.R. 3. Eight months later, on July 19, 1989, the Idaho Lottery sold its first ticket on the steps of the Capitol.

Taking that chance has been paying dividends for 26 years now. Beyond the dollars benefiting our schools, millions of players have voluntarily participated by purchasing \$2.95 billion in products and earning Idaho's retailers \$172.6 million in commissions.

The other key ingredient to the Idaho Lottery's success has been its ability to maintain public confidence in its games and its advocacy for responsible play. For over two-and-a-half decades, the Lottery has upheld its commitment to operate with the greatest degree of fairness and integrity while fulfilling its mission of providing dividends to the people of Idaho. At every step of the way, the Idaho Lottery reminds all participants that its products are just entertainment and to participate responsibly.

The Idaho Lottery is a leader nationally in its industry and an example of how good government practices can provide needed financial resources for our State and its citizens. Benefits, public confidence and responsible play – it's what we took a chance on 26 years ago, and it's still paying dividends today!

As Always – Idaho, "Esto Perpetua"

A handwritten signature in black ink that reads "C.L. Butch Otter". The signature is written in a cursive, flowing style.

C.L. "Butch" Otter
Governor of Idaho

Idaho Lottery Management Team



Becky Schroeder
Chief Operating Officer



Amber French
Deputy Director of
Security and Enforcement



Jeff Anderson
Director



Sherie Moody-St.Clair
Deputy Director of Marketing



Shannon Helppie
Deputy Director of Sales



Jeffrey R. Anderson

Idaho Lottery Director

The Idaho Lottery exists to responsibly maximize our annual dividend for the benefit of the good causes we support, public education and the State of Idaho's permanent facilities. The reason we were created twenty-six year ago, every play pays, holds true today. Players play, have fun, and win. Retailers earn commissions from sales, and our public schools and permanent buildings benefit from our dividends.

This year's \$45 million dividend came during a challenging year for the Idaho Lottery. Powerball and Mega Millions only produced one jackpot each over \$300 million during the entire year. This year's dividend was delivered, in part, by the successful introduction and player acceptance of our new Draw Game, Lucky for Life, our new Scratch Games, InstaPlay, and the responsible and skillful management of our Scratch Game portfolio.

Reaching our annual dividend though is more than just providing games in the corner stores and grocery markets in Idaho. It is about accountability. This is a matter, we at the Idaho Lottery, take seriously every day. Whether it is a draw for a big jackpot or a \$1 prize on a Scratch Game, we recognize the trust placed in us by the people of Idaho to operate games fairly and honestly. We are accountable every day of the year to our players, to Idaho's citizenry, and to those who provide governmental oversight of our operations. After twenty-six years, I continue to be proud of your Lottery's reputation for security, integrity, and responsible play.

We also recognize that our success comes from the continued support of our players who had a great year, claiming a record \$136.7 million in prizes. During the year we had eight jackpot winners, including seven on Idaho-only games. We created five new millionaires and eleven players won more than \$250,000.

Our annual dividend is only possible with the outstanding work of Team Lottery, the tremendous dedication from our statewide network of twelve-hundred private sector retail partners, and all of our vendors who manage equipment, print our tickets, and assist with connecting with our customers.

Thank you, Idaho, for another great year!



Jeffrey R. Anderson
Director, Idaho Lottery

Idaho Lottery Commissioners

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



David Keyes



Susan Kerrick



Mel Fisher
Chairman



Craig Corbett



Gary Michael



Mel Fisher

Idaho Lottery Commission Chairman

After twenty-six years of successful operations, nearly \$3 billion in total sales, and more than two-thirds of a billion dollars returned to benefit education and public buildings in the Gem State, one word can sum up the Idaho Lottery: Integrity.

At every level of the organization, integrity is at the heart of the Idaho Lottery. From the management team in Boise to the sales representatives spread across the State, every member of Team Lottery is committed to excellence and providing unique player experiences while maintaining the security of the games.

Providing these experiences requires vision, planning, artistry, accountability, distribution, and messaging. Like an orchestra, everyone works together in concert, a confident harmony that translates into exciting winning experiences for players, deserving commissions for our retailers, and meaningful dividends to our beneficiaries.

This past summer was my twelfth with the Idaho Lottery as a Commissioner. It was my pleasure to present Governor Otter with the annual dividend check of \$45 million for Fiscal Year 2015. With this year's total, the Department of Education and their Bond Levy Equalization Fund have received a total of \$371.9 million. The Permanent Building Fund has received dividend distributions of \$322.6 million. All totaled, the Idaho Lottery has returned \$694.5 million since beginning operations in the summer of 1989.

Hard work and achievement is the true embodiment of integrity. Congratulations to Director Jeff Anderson and Team Lottery for another truly outstanding year.

Melville W. Fisher II, Chairman
Idaho Lottery Commission

Where The Money Goes

For twenty-six years, the Idaho Lottery has provided meaningful contributions to the State of Idaho for the benefit of public schools and the State's permanent buildings. At the conclusion of Fiscal Year 2015, the Idaho Lottery returned a \$45 million dividend check, marking the fourth consecutive year of returning a dividend greater than \$41 million. Since the Idaho Lottery started in the summer of 1989, the people of Idaho have received over two-thirds-of-a-billion dollars in dividends, a total of \$694.5 million.

Each day, each play of the Idaho Lottery provides benefits to Idaho's communities. Whether it is new outdoor safety lighting at Forrest M. Bird Charter School in Sandpoint, or library shelving and storage at Farnsworth Elementary in Rigby, the Idaho Lottery makes meaningful contributions to assist with the Department of Education's varied building and operations projects. From the installation of smart boards at White Pine Elementary in Boise to a seven classroom addition at Jefferson Elementary in Jerome, the educational needs of Idaho are vast and diverse, and the Idaho Lottery is a proud partner and contributor.

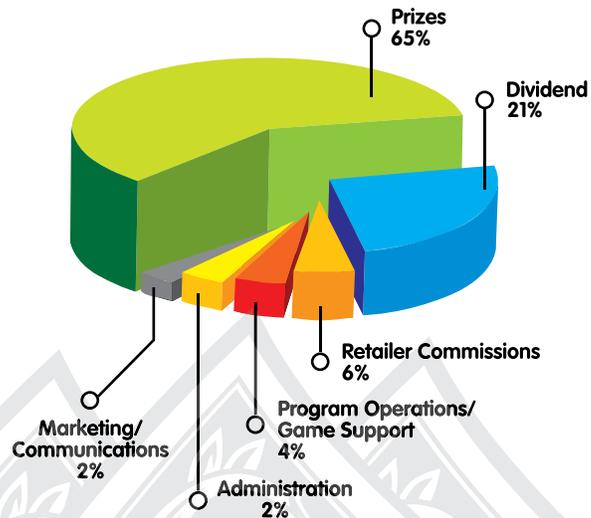
This year culminated twenty-six years of operations for the Idaho Lottery. The net proceeds from all Idaho Lottery operations are distributed by statute to three different funds: the Department of Education's Public School Building Fund, the Department of Education's Bond Levy Equalization Fund, and the Department of Administration's Permanent Building Fund. Since inception, these three accounts have received tremendous financial support from Idaho Lottery proceeds. With this year's dividends included, the Department of Administration's Permanent Building Fund has received \$322,600,000 in support of the State's permanent facilities, places like Idaho's college campuses. The Department of Education has received over \$310,100,000 in support. The Department of Education uses a formula of total enrollment divided by average daily attendance to determine annual disbursements to the districts. In addition, the Department of Education's Bond Levy Equalization Fund has received \$49,300,000 since a law change was passed in 2008. This fund helps districts reach their bond obligations.



Dividends are only part of the benefit equation. When you play the Lottery, someone, somewhere is always benefiting. Retailers, more than 1,200 brick and mortar locations in every corner of the Gem State, earned a record \$12.4 million in commissions, about 6% of total sales. Players had a very good year, claiming \$136.7 million in prizes, about 65% of total revenue.

Each year, the Idaho Lottery rigorously manages its financial operating expenditures to improve the bottom-line and increase the dividend. Administrative costs represent only about 2% of the total cost to operate the Idaho Lottery. Our vendor partners, who provide our operational systems, terminals, vending machines, and print our Scratch Games™, collectively earn about 4%. The smallest portion of revenue is used for marketing and communications to support products and sales.

The record speaks for itself. Twenty-six years and \$694.5 million, the Idaho Lottery is making a difference today for Idaho's schools of tomorrow.



Jim Bruce SCRATCH FOR SCHOOLS



After scratching nearly 300 tickets in the final round, only three tickets separated first place from third place, and one ticket separated first place from second. There had never been a final scratch round at Scratch for Schools like the one in Pocatello on November 18, 2014 when Arbon Elementary, a two-room school house in the Arbon Valley, took on the rookies from Soda Springs' Tigert Middle School and Turning Point Elementary from Pocatello.

When the tickets were audited per the official rules of the event, Tigert was left the champion with 298 tickets scratched, Turning Point right behind them at 297, and Arbon with 295. Tigert won a total of \$504, Turning Point claimed \$549, and Arbon took home \$356 from their tickets.



In all, 434 schools competed at one of nine Scratch for Schools venues in 2014 held across Idaho. This is the largest number of schools to participate in the program's 13 year history. In total, over \$96,000 was awarded for classroom needs in Idaho.

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

Since the first year, Scratch for Schools has returned over \$858,000 to public schools. Here are the overall results from each venue for 2014:

Date:	Event Location:	Number of Schools:	Dollars to Schools:
October 27, 2014	Boise, Riverside Hotel	95	\$20,773
October 28, 2014	Caldwell, College of Idaho	31	\$6,864
October 29, 2014	Caldwell, College of Idaho	39	\$8,492
November 5, 2014	Twin Falls, College of Southern Idaho	62	\$13,692
November 12, 2014	Lewiston, Lewis-Clark State College	42	\$9,192
November 13, 2014	Coeur d' Alene, Coeur d' Alene Inn	57	\$12,680
November 18, 2014	Pocatello, Idaho State University	55	\$12,119
November 19, 2014	Idaho Falls, Idaho State University Ext.	25	\$6,040
November 20, 2014	Idaho Falls, Idaho State University Ext.	28	\$6,467
Total attendance and prizes claimed from events:		434	\$96,319



Charitable Gaming in Idaho

There has been a noticeable shift in the types of charitable gaming taking place in Idaho over the past year. Charitable gaming encompasses bingo games and raffles in the Gem State. Over the last year, fewer organizations are offering raffles but those who do are making them more profitable. At the same time, overall operators and revenue for Bingo operations is down from the previous year.

The Idaho Lottery was asked to oversee Charitable Gaming in 1992. Last year, licensed charitable gaming organizations decreased by 17.4% with 195 charitable and non-profit organizations obtaining a charitable gaming license from the Idaho Lottery.

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

Non-profit bingo games saw a slight decrease in the number of operators in Idaho, with 35 licensed organizations conducting bingo operations, a decrease of 5.7%. State law directs that a minimum of 20% of an organization's gross bingo revenue must be used for charity. In the past year these organizations had gross revenues totaling just over \$3.4 million, a decrease of 17.6%, with \$852,706 returned to charities, a decrease of 15% from the previous year.

Non-profit organizations operating licensed Raffle games in Idaho saw the biggest charitable gaming benefits last year. While fewer organizations, 160 – a decrease of 30% in the number licensees, held a Raffle license, the net proceeds increased by 17.2% to over \$3.4 million. State law directs at least 80% of an organizations net raffle proceeds must be used for charitable purposes and allows for up to 12 raffles per year, per license. In the past year, the charitable donations for Raffles were just over \$3.2 million with 94.1% being donated for a charitable purpose. North Idaho College Foundation alone raised \$204,685 for their carpentry management, and faculty and staff grant programs.

For more information on charitable bingo and raffles in Idaho, visit www.idaholottery.com/charitablegaming.

Scratch Games™

The very first Idaho Lottery ticket ever sold was a \$1 Scratch Game. That was twenty-six years ago. Since then, the Idaho Lottery has produced over 1,200 different Scratch Games and sold more than \$1,851,000,000 in tickets alone. In Fiscal Year 2015, the Idaho Lottery introduced 56 new Scratch Games ranging from the \$1 Sky High to the \$25 game \$300,000 Triple Platinum, with top prizes ranging from \$500 all the way up to \$300,000. During the course of FY15, the Idaho Lottery sold \$129.8 million in Scratch Games, with the most popular being the \$3 and \$5 offerings.



BONUS PLAY CASHWORD

New this year for the \$3 Cashword Games is the opportunity for players to enter a code and play Cashword for fun. It's called Bonus Play Cashword, an added feature on \$3 Cashword tickets only. Players can also earn entries into a second-chance draw where they could win \$300 in Cashword tickets every month. Cashword as a family of games, along with Slingo, continue to be consistently among the top games offered every year representing 12% of total Scratch Game sales.

JUMBO BUCKS FAMILY

Make room in the neighborhood for a new family of Scratch Games! Meet the Jumbo Bucks Family, a complete family of Scratch Games for every player. There are five different Jumbo Bucks Scratch Games in the family. There's the \$1 Junior Jumbo, the \$2 Jumbo Bucks, the \$5 Giant Jumbo Bucks, the \$10 Jumbo Jumbo Bucks, and the \$20 Super Jumbo Bucks. And the prizes are jumbo, too, ranging from \$5,000 up to \$250,000!





HOLIDAY GAMES

Holiday-themed Scratch Games have long been a gift giving tradition in Idaho, however, this year, the Idaho Lottery offered players the chance to have a Merry Christmas AND a Happy New Year by adding a little extra jingle to the holiday campaign. Idaho Lottery players entered any non-winning holiday themed Scratch ticket (including \$1 Gingerbread, \$2 Meow! Christmas, \$3 Candy Cane Cashword (a scented ticket), the \$5 Snow Me the Money, and the \$20 Winter Wonders) to win one of two \$5,000 shopping sprees. The first shopping spree was offered before Christmas with the second one offered in January to take advantage of the post-holiday sales.

RODEO RICHES

The Idaho Lottery commemorated 100 years of rodeo in Idaho at the Snake River Stampede by offering a special Scratch Game called Rodeo Riches. Steeped in the traditions of the old west, an homage to the heritage of the pioneering spirit of Idaho, the game artwork captures the essence of the free range cowboy in an era when long cattle drives and six-shooters were legends.

Rodeo Riches was a \$5 ticket with a top prize of \$50,000.



Top Games of the Year



BUCKS 'N TRUCKS

In Idaho, trucks are a way of life. There are nearly 1,000,000 pickup trucks on the road in Idaho, and Ford F-150s are the most popular. This game was for players who love their Ford truck, always wanted a Ford truck or want to upgrade to a Ford truck. The game featured four Ford F-150 XLT trucks, three won instantly (withholding taxes paid) and one through a second chance draw of non-winning tickets. To promote the game, the Idaho Lottery teamed up with Maverik store locations around Idaho during the month of June and early July for special *Bucks 'N Trucks* retail events. Players played plinko, won prizes, and even raced remote control Ford F-150 Trucks to win \$100 in *Bucks 'N Trucks* Scratch tickets.

FIRST CLASS FORTUNE

Four first class airline tickets to any destination in the world plus \$10,000 spending money once you arrive in your own paradise is just the second chance prize on the Idaho Lottery's glitziest, glamorous \$25 Scratch Game™ *First Class Fortune*. Of course, the game's top prize of \$300,000 would allow the winner to live a lifestyle of the rich and famous.

The unique value of this game, though, came with the second chance prize. Where would the winners go with four tickets to anywhere, anytime? The Great Wall of China? The misty fjords of Norway? Perhaps Machu Picchu in Peru? In the end, the winners elected to visit Australia with two tickets and Austria with the other pair.



INSTAPLAY

InstaPlay tickets were the "new thing" when they debuted on October 6, 2014.

InstaPlay Games are terminally generated Scratch Games. Everything a player needs to know is printed on each InstaPlay ticket. The games play just like Scratch Games, with a finite pool of predetermined prizes loaded into the gaming system and 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! Top prizes on InstaPlay begin at \$777. Tickets cost between \$1 and \$5 to play.



FROGGER

Leaping back into stores during the spring was the most popular Scratch Game™ ever offered by the Idaho Lottery. *Frogger* made a leaping return from lily pads, across the roads, through the parking lots, and into ticket dispensers in late April. Just like its predecessor, the Lottery version of the popular 1980's arcade game played true to the timeless arcade version, only without the joystick, arcade music, and sound effects. The game was filled with prizes from \$5 to the top prize of \$50,000. The game also offered over \$1 million in prizes from \$25 to \$50!

The true video gamers had their opportunity to show their skill to win weekly prizes by playing *Frogger* online. The game offered a free interactive website game with age controlled parameters and a Leader board. The Leader board was used once a week the game was on sale to determine a weekly winner. Participants played *Frogger* through the Lottery's website, a game of skill, and the top ranking player on the leader board at the end of each week won a Frogger prize pack.

MONEY MAKEOVER

Money Makeover comes with multiple ways to win cash to help players complete those lingering home improvement projects, large or small, up to \$40,000. Constructed with \$40 prizes, players also could win one of four \$5,000 gift cards to the home improvement store of their choice instantly on the ticket.

As part of the Scratch Game™ *Money Makeover*, public schools across all of Idaho were asked to submit projects for improvements to their facilities. The Idaho Lottery awarded five top prizes of \$1,000 to schools who met the criteria for consideration. The criteria used to evaluate the winning entries were the project's need, the impact the project would have to improve education and the ability of the project to be completed using the funds. The winning schools were:

- Indian Hills Elementary, Pocatello
 - Restroom safety improvements for special needs students
- Lava Elementary, Lava Hot Springs
 - Science Lab shelving for equipment storage
- Farnsworth Elementary, Rigby
 - Library shelving and storage
- Rolling Hills Charter, Eagle
 - Gymnasium storage facilities
- Pleasant Valley School, Owyhee County
 - Build shelf space for updated language arts text books





Draw Games™

New games and longer, lower jackpot runs dominated the Draw Game landscape for the Idaho Lottery during FY2015. There were only two significant jackpot runs, one each on Powerball and Mega Millions. The Idaho Lottery also introduced two new Draw Games during the year. Idaho Lottery Draw Games produced five new millionaires, ten jackpot winners, and sold out the eighth edition of the Idaho \$1,000,000 Raffle. Overall, Draw Games accounted for 26% of the Idaho Lottery's overall sales for FY2015 and provided \$21.9 million in dividends.

POWERBALL

While Powerball is easily the most recognizable, identifiable, and most synonymous with the Idaho Lottery, the game recorded its lowest amount in sales in over a decade during FY2015. This was, most notably, due to the infrequency of super-sized jackpots. During the year, only three jackpots reached the \$200 million mark and only one of those crossed the \$300 million threshold, eventually ending at \$564.1 million in February, the third largest jackpot in the game's history. Nationwide, sales for Powerball were down about 18%. This downward trend was felt in Idaho, as FY2015 sales were down from FY2014 by 19.7% and totaled \$29.3 million. Sales in FY2015 were percentage points lower than similar sales in FY2011, when, like FY2015, nationwide there were also 16 jackpot winners. Luck, though, still favored Idaho Powerball players making three new millionaires.



MEGA MILLIONS

Game changes to Mega Millions in FY2014 continued to provide slower building, longer run jackpots during FY2015. The result was that Mega Millions enjoyed the largest average jackpot won at \$202.8 million since tickets began selling in Idaho. There were, however, only six jackpot wins nationwide during the year, providing a low daily average on the game of just \$93.8 million. Like Powerball, Mega Millions also only saw three jackpot runs reach the \$200 million mark and only one of those reached over \$300 million, ending at \$321 million in November 2014. Overall sales on Mega Millions decreased by 15.6% over FY2014 totaling about \$11.3 million. Nationwide, Mega Millions sales were down, consistent with Idaho's.



HOT LOTTO

Competition from the introduction of new Draw Games and lower performing jackpots than previous years led to a minor decline in Hot Lotto sales during FY2015. Sales for Hot Lotto, a game with a dedicated following were off 2.4% from the previous year and reaching \$3.1 million. During the year, twenty-three players were one number away from winning the jackpot matching at least five of the six numbers necessary to win.



WILD CARD

The Wild Card game in Idaho has a very devout following. Facing competition from new games, and consistent with its jackpots during the year, Wild Card sales saw a decline in FY2015, dropping 17.77% over the previous year totaling \$1.66 million. For the fifth consecutive year, an Idaho player won the Wild Card jackpot. The lone \$275,000 win came in June 2015 with the ticket sold in Twin Falls.

The logo for Pick 3, featuring the word "Pick" in red and "3" in a yellow circle with a red outline.

PICK 3

The twice daily, 'Old Reliable' Idaho Pick3 provided a sales increase for the Idaho Lottery's existing Draw Games. Overall sales for FY2015 were up 7.5% over the previous year, reaching \$2 million in annual sales. This is the sixth consecutive year with sales increases for the game, reaching its highest annual total in the game's history.

The logo for Weekly Grand, featuring the words "WEEKLY GRAND" in purple with a green dollar sign and wavy lines below.

WEEKLY GRAND

After continued success since its introduction in FY2012, overall sales for Weekly Grand declined by 14.3% in FY2015. The \$2, Idaho-only game that delivers \$1,000 a week after withholding taxes, every week for a year to players who win the jackpot, met with direct competition from the introduction of the new Draw Game Lucky for Life in late January. The following for Weekly Grand continues to be loyal and in FY2015, there were six jackpot winners, doubling the previous year's total. Overall sales for Weekly Grand were about \$2.4 million.

IDAHO \$1,000,000 RAFFLE

This is one of the most anticipated games every year. Making another round during the Holidays for the eighth straight year was the Idaho \$1,000,000 Raffle, which launched on Halloween, October 31, 2014. For the seventh time the game sold out, this time sixty-two days later, on New Year's Eve day. Under bitter cold skies, the Idaho Lottery made the live, publicly televised winning numbers announcement at the famous New Year's Eve Potato Drop in downtown Boise.

This year's game offered the most prizes yet for the Idaho \$1,000,000 Raffle at 6,163. The game also featured a series of "Early Bird" prizes where at selected intervals in the game random tickets were chosen to win \$2,500.

LUCKY FOR LIFE

It's luck that lasts a lifetime! On January 27, 2015, the Idaho Lottery debuted the new \$2 Lucky for Life Draw Game across the Gem State. And when this game began, living a long life just got a \$1,000 a day incentive. Top prize winners on Lucky for Life receive \$1,000 a day, every day, for the rest of their lives. It's \$1,000/365/Life! There is no maximum payout, and a minimum of twenty years, guaranteed.

Idaho joined 13 other states to offer Lucky for Life. In the game, players select five white numbers between 1 and 48. They also select one Lucky Ball between 1 and 18. Players who match all six numbers win the jackpot. Players who match the first five numbers, but miss the Lucky Ball, receive the game's second tier prize, \$25,000 a year for life. Like the jackpot prize, there is no maximum, only a minimum of twenty years.

The game also features additional prizes ranging from \$4 to \$5,000. Within the first two months of the game, the Idaho Lottery recorded their first second-tier prize level winner. Anthony Mael from Lewiston won on a ticket he purchased from Liberty Mart in the Orchards.

Lucky for Life was an instant hit with players in Idaho. In less than six months on sale in Idaho, the game sold \$1.9 million in tickets.

The logo for the Idaho \$1,000,000 Raffle, featuring a yellow ticket with the text "\$1,000,000 RAFFLE" and "IDAHO LOTTERY" on a red background.The logo for Lucky for Life, featuring the words "Lucky -FOR- LIFE" in green and white on a red background with a white banner.

The logo for Idaho BINGO features the word "Idaho" in a black, cursive font above the word "BINGO" in a bold, yellow, blocky font with a black outline. The entire logo is set against a white circular background.

Idaho BINGO

IDAHO BINGO

Bingo has long had a traditional following among Idahoans, so on August 17, 2014 the Idaho Lottery offered a new Draw Game, Idaho Bingo, with a top prize of \$100,000. Tickets for the game cost \$5 each. Each ticket produced with a Bingo grid that had randomly selected numbers in five columns: B = 1-15, I = 16-30, N=31-45, G=46-60, O=61-75. There is a free space in the middle of every card on the ticket. Only one Bingo grid appeared on each \$5 ticket.

Draws were on Wednesday and Saturday nights, and thirty numbers from a pool of seventy-five numbers were selected. Players won by matching the numbers to those drawn and completing winning patterns. These patterns were printed on the ticket below the playing grid.

The logo for PULLTABS features the word "PULLTABS" in a bold, orange, blocky font with a black outline. The letters are set against a white circular background with a yellow starburst effect behind the text.

PULLTABS

PullTabs and TouchTabs

Combined, PullTabs and TouchTabs products sold \$25.5 million in FY 2015. The Idaho Lottery offers player activated, self-service terminals in 147 age-controlled environments in limited locations in Idaho for our TouchTabs products. TouchTabs is now a well-established product line and realized a FY15 sales increase of 11.22%.

Just 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.

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

The logo for TOUCHTABS features the word "TOUCHTABS" in a bold, orange, blocky font with a black outline. The letters are set against a white circular background with a yellow starburst effect behind the text.

TOUCHTABS

Idaho Lottery Retailers

The very first Lottery ticket in Idaho was not sold at a true-brick and motor establishment in the Gem State. It was sold during a ceremony on the steps of the Idaho Capitol. What started as a single ticket has grown into a meaningful business for our statewide network of partners, a list of stores that has grown to nearly 1,200, earning them \$12.4 million in commissions for FY15 and \$172.6 million since the Lottery began in 1989. Providing economic opportunity for Idaho's businesses that ultimately benefit individual communities is another way the Idaho Lottery is helping out state to prosper.

During Fiscal Year 2015, there were 1,017 retailers offering traditional lottery products. An additional 143 offered PullTab products only, locations with age controlled environments that are able to offer the traditional break-open paper and TouchTab products. About 48 of these establishments also offered TAP Scratch Games. Idaho Lottery products are available in 168 towns across the Gem State.

The business landscape for lottery products in Fiscal Year 2015 shows approximately 53% of Idaho Lottery retailers were convenient store-type operations and accounted for 65% of all sales. Another 15% were grocery store accounts that realized 16% of total sales. The remaining retail locations were a combination of variety stores, smoke shops, bowling centers, and restaurants and lounges.



Vendor Partners of Record

The success of the Idaho lottery is also dependent on the continued good success of its vendor partners. The Idaho Lottery appreciates the creativity, strategic ability, and professional execution of all of these companies' efforts during fiscal year 2015.

- INTRALOT, USA - Terminal and gaming systems operators, developers
Headquarters: Marietta, Georgia, United States
- IGT Printing, Inc. - Scratch Games™ developer/printer
Headquarters: Lakeland, Florida, United States
- Pollard Banknote, Inc. – Scratch Games™ developer/printer
Headquarters: Ypsilanti, Michigan, United States
- International Gamco, Inc. – PullTabs/TouchTabs provider
Headquarters: Omaha, Nebraska, United States
- Drake Cooper - Creative and Strategic Services
Headquarters: Boise, Idaho, United States
- CLM - Media Services marketing partner
Headquarters: Boise, Idaho, United States



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, 2015, and the related statement of revenues, expenses and changes in net position and statement of cash flows for the year 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, 2015, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Lottery adopted the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date, which has resulted in a restatement of the net position as of July 1, 2014. Our opinion is not modified with respect to this matter.

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 October 08, 2015 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 "Eric Dailly LLP". The signature is written in a cursive, flowing style.

Boise, Idaho
September 19, 2013

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, 2015 and financial activity for the year then ended, the MD&A also includes this information for the years ended June 30, 2014, 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 Statement of Net Position provides information about the nature and amounts of investments in resources (assets) and obligations (liabilities) at the close of fiscal year 2015.
- The Statement of Revenues, Expenses and Changes in Net Position, measures the success of the Lottery's operations for fiscal year 2015 and the resulting increase or decrease in net position.
- The Statement of Cash Flows - The primary purpose of this statement is to provide information about the Lottery's cash receipts and cash payments during the fiscal year 2015. 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 year.

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 Statement of Net Position. The following analysis is intended to highlight selective changes between 2015 and 2014.

	<u>2015</u>	<u>2014</u>	<u>Change 2015 to 2014</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 43,632,267	\$ 47,738,879	\$ (4,106,612)
Receivables	2,200,676	1,858,660	342,016
Due From MUSL	275,000	-	275,000
Other	133,910	107,672	26,238
Total current assets	<u>46,241,853</u>	<u>49,705,211</u>	<u>(3,463,358)</u>
Reserves with MUSL	2,678,967	2,785,597	(106,630)
Plant and Equipment, Net	368,601	141,725	226,876
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows Pensions	257,199	-	257,199
	<u>\$ 49,546,620</u>	<u>\$ 52,632,533</u>	<u>\$ (3,085,913)</u>
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$ 1,566,792	\$ 1,807,399	\$ (240,607)
Dividend payable	45,000,000	49,000,000	(4,000,000)
Due to MUSL	284,180	317,817	(33,637)
Prizes payable	3,090,349	2,497,075	593,274
Current portion of notes payable	28,951	38,237	(9,286)
Total current liabilities	<u>49,970,272</u>	<u>53,660,528</u>	<u>(3,690,256)</u>
NON-CURRENT LIABILITIES			
Long-Term Capital Leases	35,074	28,601	6,473
Non-Pension Liability	527,498	-	527,498
Total Liabilities	<u>50,532,844</u>	<u>53,689,129</u>	<u>(2,649,870)</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows Pensions	726,164	-	726,164
NET POSITION			
Invested in capital assets	304,576	74,887	229,689
Unrestricted	<u>(2,016,964)</u>	<u>(1,131,483)</u>	<u>(885,481)</u>
Total net position	<u>(1,712,388)</u>	<u>(1,056,596)</u>	<u>(655,792)</u>
	<u>\$ 49,546,620</u>	<u>\$ 52,632,533</u>	<u>\$ (3,085,913)</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 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Week ended June 30 sales	\$ 2,195,768	\$ 1,852,777
Accounts to Attorney General for collection	4,908	5,883
Total	\$ <u>2,200,676</u>	\$ <u>1,858,660</u>

Ticket Inventory (Other Assets subcategory)

Shared Scratch ticket printing contracts were awarded in March 2013 to primary vendor, GTECH Printing and secondary printing contract in May 2013 to Pollard Banknote. In July of 2014, GTECH SpA bought International Game Technology (IGT) so GTECH Printing is now called IGT Printing. The Lottery granted a two year extension and this contract ends in March of 2017. The Pollard Printing contract was also extended until May of 2017. PullTab tickets are expensed when the tickets are sold to the retailers. Consequently, the Ticket Inventory balances on June 30, 2015 and 2014, consist of any unamortized production costs of scratch tickets.

Plant, Property, and Equipment, net

The balances shown were derived as follows:

	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 141,725	\$ 214,243
Add: acquisitions	275,961	29,799
Deduct: depreciation	<u>(49,085)</u>	<u>(102,317)</u>
Ending balance	\$ <u>368,601</u>	\$ <u>141,725</u>

LIABILITIES AND NET POSITION

Dividend Payable

The dividends declared by the Idaho Lottery Commission for 2015 and 2014 were \$45,000,000 and \$49,000,000, respectively. The dividend is declared on or before June 30th and paid on July 1 or shortly thereafter.

Prizes Payable

The increase of \$593,274 between 2014 and 2015 is primarily due an increase of scratch ticket prize liability.

Total Net Position

Net position represents the difference between the Lottery's total assets and deferred outflows of resources and its total liabilities and deferred inflows 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.

The Lottery implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date on July 1, 2014. The implementation of these standards required the Lottery to record deferred outflows of resources and deferred inflows of resources which is detailed out in Note 5 to the financial statements. Also, see Note 6 to the financial statements for the effects of implementation on the beginning net position.

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>2015</u>	<u>2014</u>	Change 2014 to <u>2015</u>
Draw game sales			
Powerball	\$ 29,330,831	\$ 36,526,313	\$ (7,195,482)
Wild Card	1,669,886	2,030,710	(360,824)
Pick 3	2,068,502	1,924,401	144,101
Hot Lotto	3,146,396	3,224,267	(77,871)
Mega Millions	11,295,562	13,379,076	(2,083,514)
Weekly Grand	2,398,758	2,800,996	(402,238)
Lucky For Life	1,900,540	-	1,900,540
Idaho Bingo	490,915	-	490,915
Raffle	2,500,000	2,500,000	-
Total Draw Game Sales	<u>54,801,390</u>	<u>62,385,763</u>	<u>(7,584,373)</u>
Scratch ticket sales	129,822,624	123,349,080	6,473,544
PullTab ticket sales	1,977,684	1,921,901	55,783
TouchTab ticket sales	<u>23,593,050</u>	<u>21,235,850</u>	<u>2,357,200</u>
Total sales	<u>210,194,748</u>	<u>208,892,594</u>	<u>1,302,154</u>
Online charges	679,255	692,704	(13,449)
Other revenues	65,428	56,140	9,288
Total operating revenues	<u>\$ 210,939,431</u>	<u>\$ 209,641,438</u>	<u>\$ 1,297,993</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 1:175,223,510. Over time, additional lottery jurisdictions have joined the game, thereby increasing the player base.

Sales performance was down dramatically in all jurisdictions (including Idaho) for both national favorites, Powerball and Mega Millions. Both games have seen double digit declines in sales for two years running. Powerball had its worst year in both sales per draw and annual sales since 2001. Experience has shown us and the wider industry there's little that can be done to stimulate additional sales in a material way when advertised annuity jackpot levels fail to meet consumer expectations and interest. Member states, vendor partners and other resources are invested in addressing the downward trends and a game change is planned for Powerball in October 2015. These are two of our most profitable products. The 20-30% year-over-year decline in sales performance going on two years in a row now was not anticipated nor could it have been predicted based on past performance. Game enhancements in FY16 lead us to expect these two popular products will return to being leading contributors to our bottom line.

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

	Average Announced Jackpot per Draw	Average Sales per Draw	Annual Sales
2015	\$ 105,336,538	\$ 282,027	\$ 29,330,831
2014	\$ 117,846,154	\$ 351,215	\$ 36,526,313
2013	\$ 121,403,846	\$ 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	\$ 8,348,748
2006	\$ 82,345,192	\$ 430,385	\$ 44,760,077
2005	\$ 49,202,885	\$ 289,351	\$ 30,092,519
2004	\$ 62,099,048	\$ 339,498	\$ 5,647,385
2003	\$ 49,337,500	\$ 302,959	\$ 31,577,648

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.

As discussed in the previous section, Mega Millions sales have been down over the past year and plans are in the works to potentially change to the game in the coming year.

As with Powerball, it is important to be aware of the relationship of the jackpot and sales as illustrated in the chart below.

	Average Announced Jackpot per Draw	Average Sales per Draw	Annual Sales
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

Neither Wild Card, nor Pick 3 is as sensitive to jackpots as Powerball and Mega Millions. Both games have a consistent player base, although players will sometimes shift their buying habits from both games to Powerball and Mega Millions when jackpots are unusually large. The Lottery continues to offer Weekly Grand, Hot Lotto and a fall Raffle game to the mix, giving the current seven draw games a sales lift in the second quarter.

In January of 2015 the Idaho Lottery joined with fifteen other states and the District of Columbia to play Lucky for Life, a draw game with a genuine FOR LIFE jackpot prize. Drawings are held Monday and Thursday and this game is already finding a dedicated following. Lucky Idaho found ourselves with a second tier prize winner in our first three months of play, worth \$25,000 a year for life, won by a Lewiston player.

In FY15, the Idaho Lottery briefly offered an Idaho-only draw game called Idaho Bingo. This game had a short shelf life and was ended within the year. It wasn't deemed to be as profitable as we had planned and was ended.

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.

Since FY14 the Lottery has offered 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 currently carry top prizes as high as \$20,000. These games are played on existing MultiPlay Station (MP) vending machines, and are limited to age controlled establishments, primarily bars and taverns.

Scratch ticket sales by price point for the fiscal years 2015 and 2014 are as follows:

	2015		2014	
One-Dollar games	\$ 7,064,193	5.4%	\$ 7,739,682	6.3%
Two-Dollar games	\$ 6,808,290	5.2%	\$ 7,130,438	5.8%
Three-Dollar games	\$ 18,535,851	14.3%	\$ 20,448,546	16.6%
Five-Dollar games	\$ 38,671,645	29.8%	\$ 37,620,580	30.5%
Ten-Dollar games	\$ 20,233,990	15.6%	\$ 19,267,770	15.6%
Twenty-Dollar games	\$ 16,109,840	12.4%	\$ 30,625,685	24.8%
Twenty-five-Dollar games	\$ 19,369,375	14.9%	\$ -	0.0%
InstaPlay	\$ 2,735,542	2.1%	\$ -	0.0%
TAP Scratch	\$ 293,898	0.2%	\$ 516,379	0.4%
Total sales	\$ <u>129,822,624</u>	100.0%	\$ <u>123,349,080</u>	100.0%
Increase over Prior year	\$ 6,473,544		\$ 14,665,775	

PullTab Ticket Sales

PullTab tickets, which are sold mainly in restaurants and bars, have historically less than 2% of the Lottery's total annual sales. Fighting competition from illegal gaming machines, annual sales reached \$1,977,684 in fiscal year 2015 and we are hopeful that they continue an upward trend. Concentrated efforts between the Lottery and our PullTab vendor, International Gamco are ongoing and while the paper PullTab product continues to hold its own, we continue to seek out additional selling locations and increased sales in the coming fiscal year. We continue our focus on new delivery options for our PullTab product this fiscal year, with increased installations of Gamco's paper ticket vending machines (TabBOXX) around the state.

TouchTab PullTab Ticket Sales

Together with our PullTab vendor partner International Gamco, the Idaho Lottery launched a pilot project from 11/2010 to 6/2011 to introduce a new TouchTab dispensing device to retailers around Idaho. The TouchTab dispensing device is co-located with our paper ticket vending machines (TabBOXX), and only in age controlled environments (bars and taverns). TouchTab games are nearly identical to paper PullTabs; each game is played just like the paper version; 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 \$23,593,050 in fiscal year 2015, TouchTab sales have garnered a hearty 11.2% of the product mix and continue to trend up.

Interest income on funds held at the State

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

Interest income earned on the funds held at the state by the Lottery for 2015 and 2014 were \$83,773 and \$94,199, respectively.

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 2015 and 2014:

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			<u>(3,550,342)</u>
			\$ <u>136,769,278</u>

2014	<u>Sales</u>	<u>Prize %</u>	<u>Prizes</u>
Draw ticket sales	\$ 59,885,763	50.22%	\$ 30,074,178
Scratch ticket sales	123,349,080	70.46%	86,906,210
Raffle sales	2,500,000	52.00%	1,300,000
PullTab ticket sales	1,921,901	70.10%	1,347,289
TouchTab ticket sales	21,235,850	80.46%	17,085,315
Second chance draws			129,735
Unclaimed prizes			<u>(3,610,624)</u>
			\$ <u>133,232,103</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, 2015

At the conclusion of its 26th year of operations in Fiscal Year 2015, the Idaho Lottery has now returned \$694.5 million to the people of Idaho. This year's dividend was \$45 million on the strength of sales that reached over \$210 million. For the fourth consecutive year, the Idaho Lottery returned a dividend greater than \$41 million. Over the course of the past ten years, the annual dividend has increased by 36%. During the course of the year, the Idaho Lottery successfully introduced a new Draw Game, Lucky for Life, and a new product line, InstaPlay.

Scratch Games™ continued to lead the way in sales with a record year that saw an increase of nearly \$6.5 million and an improvement of 5.25% in sales. Careful marketing and Scratch Game product portfolio management led to this year's success. The single most successful game of the year was Frogger, a nostalgic game based on the popular 1980's arcade game. The PullTabs and TouchTabs product line also saw a 14% increase in sales for Fiscal Year 2015. During FY15, the Lottery realized a marginal impact to sales from the introduction of the Wyoming Lottery on its eastern border. Although annual average jackpots declined for both Powerball and Mega Millions, the Lottery did deliver new product sales from the introduction of Lucky of Life. This new game created \$1.9 million in revenue. In addition, the terminal-based, scratch-game style product line InstaPlay also proved successful generating \$2.7 million in sales, predominantly from the \$5 Idaho Jackpot game.

Idaho continues to be one of the luckiest jurisdictions in the country. Idaho ranked 5th nationally per capita for wins among jurisdictions with more than one \$500,000 or higher wins on a multi-state draw games. For the fifth consecutive year, Idaho recorded a Wild Card jackpot winner. The Idaho \$1,000,000 Raffle sold out and Weekly Grand provided six jackpot winners. In addition, one player won the second tier prize on Lucky for Life, \$25,000 a year for life, in March shortly after the game's introduction.

Understanding the market conditions of FY2015, and utilizing that knowledge as a working base, the Idaho Lottery believes FY2016 sales will see mild growth in the secondary Draw Game portfolio, games other than Powerball and Mega Millions which may remain flat depending on jackpot size and frequency. The Lottery also believes they will see steady, responsible increases in Scratch Games, InstaPlay, and the TouchTabs product lines.

The introduction of more dynamic, extended play features on Scratch Games as well as a game change to Powerball in early October will highlight the coming year. With these improvements, and the continued migration toward higher Scratch Game price points, sales estimates for 2016 look promising.

Contacting the Idaho Lottery

This financial reporting is designed to provide a general overview of the Idaho Lottery's finances and to demonstrate accountability for money earned by the Idaho Lottery. If you have questions about this report or need additional financial information, contact Becky Schroeder, Chief Operating Officer, Idaho Lottery, P.O. Box 6537, Boise, ID 83707-6537, or call 208.334.2600.

Statements of Net Position

ASSETS

CURRENT ASSETS

	<u>2015</u>
Cash and cash equivalents	\$ 43,632,267
Receivables	2,200,676
Due from MUSL	275,000
Other	<u>133,910</u>
Total current assets	46,241,853

RESERVES WITH MUSL

2,678,967

PLANT, PROPERTY AND EQUIPMENT, NET

368,601

DEFERRED OUTFLOWS OF RESOURCES

	<u>257,199</u>
Deferred Outflows Pensions	\$ <u>49,546,620</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 1,566,792
Dividend payable	45,000,000
Due to MUSL	284,180
Prizes payable	3,090,349
Current portion of notes payable	<u>28,951</u>
Total current liabilities	49,970,272

NON-CURRENT LIABILITIES

Long-Term Capital Leases	35,074
Net Pension Liability	527,498
Total Liabilities	<u>50,532,844</u>

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Pensions	<u>726,164</u>
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NET POSITION

Invested in capital assets	304,576
Unrestricted	<u>(2,016,964)</u>
Total net position	<u>(1,712,388)</u>
	\$ <u>49,546,620</u>

* Due to the implementation of GASB 68 as of July 1, 2014, comparative information is not available for fiscal year 2014. See Note 6 to the financial statements for effects of implementation on the beginning net position.

Statements of Revenues, Expenses, and Changes in Net Position

OPERATING REVENUES

	2015
Scratch ticket sales	\$ 129,822,624
Draw ticket sales	54,801,390
PullTab ticket sales	25,570,734
Data line charges	679,255
Other	<u>65,428</u>
Total operating revenues	210,939,431

OPERATING EXPENSES

Prizes, net of unclaimed prizes	136,769,278
Retailer commissions	12,480,217
Gaming system services	4,628,436
Scratch tickets	2,262,987
PullTab tickets	1,654,499
Advertising	3,646,882
Salaries and benefits	2,475,390
Depreciation and amortization	49,085
Telephone and data line costs	28,655
Professional services	164,329
Office and equipment	398,127
Shipping costs	435,830
Supplies	42,303
Tribe compact	140,418
Other	<u>265,723</u>
Total operating expenses	165,442,159

OPERATING INCOME

45,497,272

NONOPERATING REVENUES

Interest income	698
Interest income on funds held at the State	83,773
Interest expense	<u>(2,686)</u>
Total non operating revenue	<u>81,785</u>

INCOME BEFORE TRANSFERS

45,579,057

TRANSFERS

State Permanent Building Fund	(17,000,000)
State Public Schools Building Fund	(17,000,000)
State Bond Equalization Fund	(11,000,000)
State general fund-interest earnings	(83,773)
Total transfers	<u>(45,083,773)</u>

CHANGE IN NET ASSETS

495,284

TOTAL NET ASSETS, BEGINNING

(2,207,672)

TOTAL NET ASSETS, ENDING

\$ (1,712,388)

Statements of Cash Flows

OPERATING ACTIVITIES	2015
Ticket sales	\$ 210,597,415
Prizes paid to winners	(136,484,641)
Commissions and payment to retailers	(12,480,217)
Paid to vendors for goods and services	(10,323,201)
Paid to vendors for promotions	(3,646,882)
Paid to employees for service	(2,594,954)
NET CASH FROM OPERATING ACTIVITIES	<u>45,067,520</u>
NON CAPITAL FINANCING ACTIVITIES	
Transfers to State Permanent Building Fund	(18,375,000)
Transfers to State Public Schools Building Fund	(18,375,000)
Transfer to Bond Equalization Fund	(12,250,000)
Transfer to State general fund - interest earnings	(83,773)
NET CASH USED FOR NON CAPITAL FINANCING ACTIVITIES	<u>(49,083,773)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of equipment and software	(275,961)
Borrowings of long term debt	35,424
Principal paid on notes payable	(38,237)
Interest paid on notes payable	(2,686)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(281,460)</u>
INVESTING ACTIVITIES	
Interest income	84,471
Change in deposit with MUSL	106,630
NET CASH FROM INVESTING ACTIVITIES	<u>191,101</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(4,106,612)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>47,738,879</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 43,632,267</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES	
Operating income	
Adjustment to reconcile operating income to net cash from operating activities	\$ 45,497,272
Depreciation and amortization	49,085
Changes in assets and liabilities	(154,613)
Receivables	(342,016)
Due from MUSL	(275,000)
Other assets	(26,238)
Accounts payable and accrued expense	(240,607)
Due to MUSL	(33,637)
Prizes payable	593,274
NET CASH FROM OPERATING ACTIVITIES	<u>\$ 45,067,520</u>
SUPPLEMENTAL DISCLOSURE FOR CASH FLOW INFORMATION NONCASH INVESTING, CAPITAL AND FINANCING TRANSACTIONS VEHICLE PURCHASED BY CAPITAL LEASE	<u>\$ 35,424</u>

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.

Implementation of New Standards

As of July 1, 2015, the Idaho Lottery adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date. The implementation of these standards requires governments calculate and report the costs and obligations associated with pensions in their basic financial statements. Employers are required to recognize pension amounts for all benefits provided through the plan which include the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. See Note 5 for additional disclosures related to pensions and Note 6 for the effects of implementation on the beginning net position.

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 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 is 65.3%.

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. Average payout for InstaPlay games is between 70-72%.

Multi-State Draw Games:

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

Mega Millions – The Mega Millions game is sold in forty-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.

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

Hot Lotto – In 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 prize expense for this game is 57.6%

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 50% of game revenues, but adjusted in the financial statements to reflect the actual prize expense for the reporting period. Prizes are paid out as single cash payments.

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, 2015 for the US Government Treasury securities and Agency securities was 0.71 years.

Unclaimed Prizes

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

Cash and Equivalents

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

Property and Equipment

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

Other Assets

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. The Lottery's pension obligation qualifies for reporting in this category. The pension obligation results from changes in assumptions or other inputs in the actuarial calculation of the Lottery's net pension liability and contributions to the plan after the measurement date.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The Lottery's employer pension assumptions qualifies for reporting in this category. The employer pension assumption results from the differences between the expected and actual experience and the net difference between projected and actual earnings on pension plan investments derived from the actuarial calculation of the Lottery's net pension liability.

Notes Payable

Notes payable consists of a three year loan for the purchase of two vehicles for the Lottery Sales Representative fleet. The final note payment is due in July 2018. In addition, the

Lottery entered into a capital lease agreement for a copier in 2015 which matures in April 2020.

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,

	<u>2015</u>
Cash in banks	\$ 207,529
Cash on deposit with State Controller	120,000
Investments in the State of Idaho's General Fund	
Investment Pool, at cost, which approximates market	<u>43,304,738</u>
Total cash and equivalents	<u>\$ 43,632,267</u>

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

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

NOTE 3 – PROPERTY AND EQUIPMENT

Fixed asset activity for the year ended June 30, 2015 was as follows:

	2014	Additions	Retirements	2015
Computer equipment	\$ 629,138	\$ 138,163	\$ -	\$ 767,301
Office furniture	1,015,317	-	-	1,015,317
Vehicles	418,210	70,820	-	489,030
Leasehold improvements	379,233	66,978	-	446,211
	<u>2,441,898</u>	<u>275,961</u>	<u>-</u>	<u>2,717,859</u>
Accumulated depreciation and amortization	<u>(2,300,173)</u>	<u>(49,085)</u>	<u>-</u>	<u>(2,349,258)</u>
Property and equipment, net	<u>\$ 141,725</u>	<u>\$ 226,876</u>	<u>\$ -</u>	<u>\$ 368,601</u>

Depreciation and amortization expense for the year ended June 30, 2015 was \$49,085.

NOTE 4 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	2015
Trade accounts payable	\$ 595,546
Personnel costs payable	190,738
Accrued compensated absences	135,309
Deferred draw sales	<u>645,199</u>
Accounts payable and accrued expenses	<u>\$ 1,566,792</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% (72%) of the employer rate. As of June 30, 2014, it was 6.79% (8.36%). The employer contribution rate is set by the Retirement Board and was 11.32% (11.66%) of covered compensation. The Lottery's contributions were \$219,749 for the year ended June 30, 2014.

Pension Liabilities, Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Lottery reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Lottery's proportion of the net pension liability was based on the Lottery's share of contributions in the Base Plan pension plan relative to the total contributions of all participating PERSI Base Plan employers. At July 1, 2014, the Lottery's proportion was .0716557 percent.

For the year ended June 30, 2015, the Lottery recognized pension expense of \$58,676. At June 30, 2015, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred inflows of Resources
Differences between expected and actual experience	\$ -	\$ 65,481
Changes in assumptions or other inputs	43,910	-
Net difference between projected and actual earnings on pension plan investments	-	660,683
Lottery contributions subsequent to the measurement date	<u>213,289</u>	<u>-</u>
Total	<u>\$ 257,199</u>	<u>\$ 726,164</u>

213,289 was 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, 2015.

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, 2013, the beginning of the measurement period ended June 30, 2014, is 5.6 years.

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

2016	\$ 169,860
2017	169,860
2018	169,860
2019	169,860
2020	2,814

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 July 1, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	4.5 - 10.25%
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 in 2012 for the period July 1, 2007 through June 30, 2011, 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, 2014, is based on the results of an actuarial valuation date of July 1, 2014.

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, 2014.

Asset Class	Index	Long-Term	
		Target Allocation	Expected Real Rate of Return
Core Fixed Income	Barclays Aggregate	30.00%	0.80%
Broad US Equities	Wilshire 5000 / Russell	55.00%	6.90%
Developed Foreign Equities	3000	15.00%	7.55%
Assumed Inflation - Mean Assumed	MSCI EAFE		3.25%
Inflation - Standard Deviation			2.00%
Portfolio Arithmetic Mean Return			8.42%
Portfolio Standard Deviation			13.34%
Portfolio Long-Term Expected Rate of Return			7.50%
Assumed Investment Expenses			0.40%
Long-Term Expected 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%, 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%) or 1-percentage-point higher (8.10%) than the current rate:

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
Employer's proportionate share of the net pension liability (asset)	\$ 1,831,847	\$ 527,498	\$ (556,796)

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, 2015, 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 – ADOPTION OF NEW STANDARD

As of July 1, 2014, the Idaho Lottery adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date. The implementation of these standards requires governments calculate and report the cost and obligations associated with pensions in their financial statements, including additional note disclosures and required supplementary information. Beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date as follows:

Net position at June 30, 2014, as previously reported	\$ 1,056,596
Net pension liability at June 30, 2014	(1,370,825)
Deferred outflows of resources related to contributions made	219,749
Net position at July 1, 2014, as restated	\$ <u>(2,207,672)</u>

NOTE 7 – CONTRACT WITH INTRALOT

Like most U.S. lotteries, the Idaho Lottery contracts with a gaming contractor to provide the Lottery with critical hardware and software, network communications, and technical support personnel necessary to efficiently operate the lottery gaming systems. The Lottery entered into a contract with Intralot to provide these services. The contract period is from February 19, 2007 to February 18, 2017; however, the Lottery has the option to extend the contract. As compensation, the Lottery is to pay a fixed price of 1.98% of total net sales. The Lottery also paid Intralot a one-time fee of \$173,000 plus a monthly fee of \$3,466 for a Sales Force Automation System, a wireless tablet reporting system used by the Lottery's Regional Sales Representatives. The contract also provides for the leasing of ticket checking devices at retail locations and for leasing of Scratch™ and Draw game automated vending machines (Winstation Player Vending [WSVM] and MultiPlay Station [MP] vending machines) and electronic jackpot signs.

NOTE 8 – LEASES

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

For the year ended June 30,

2016	\$	302,633
2017		309,413
2018		172,136
	\$	<u>784,182</u>

Rent expense for operating leases was \$319,824 for the year ended June 30, 2015.

NOTE 9 – 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 \$15,091,210 for the year ended June 30, 2015.

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS

Summary of Plans

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

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

Office of the Idaho State Controller
700 W State Street, 4th Floor
Boise, ID 83702
P.O. Box 83720
Boise, ID 83720-0011
www.sco.idaho.gov

Required Supplementary Information**PERSI - Base Plan
Last 10 - Fiscal Years***

		<u>2015</u>
Employer's portion of the net pension liability		0.0716557%
Employer's proportionate share of the net pension liability	\$	527,498
Employer's covered-employee payroll	\$	1,754,523
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll		30.07%
Plan fiduciary net position as a percentage of the total pension liability		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, 2014 (measurement date).

**PERSI - Base Plan
Last 10 - Fiscal Years***

		<u>2015</u>
Statutorily required contribution	\$	213,289
Contributions in relation to the statutorily required contribution	\$	213,289
Contribution (deficiency) excess	\$	-
Employer's covered- employee payroll	\$	1,754,523
Contributions as a percentage of the covered-employee payroll		12.16%

*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, 2015.



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, 2015, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements, and have issued our report thereon dated October 08, 2015.

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 cursive script that reads "EideBailly LLP".

Boise, Idaho
October 08, 2015

Benefiting Idaho Public Schools and the Permanent Building Fund.
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