

Thanks a

\$700 MILLION



IDAHO LOTTERY
ANNUAL REPORT FY2016



Wilcox Elementary

Wilcox Elementary built a wall that separated the Computer Center from the Library. Scores increased dramatically.



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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

The vision of the Idaho Lottery is to become the highest performing jurisdiction in North America.

Operations and Overview

The Idaho Lottery is self-funding and self-governing, comprised of a five-member appointed Lottery Commission and the Idaho Lottery staff. Idaho Lottery Director, Jeffrey R. Anderson, serves at the pleasure of the Governor. As the Director, he is responsible for overseeing day-to-day lottery operations including security, marketing, sales, media relations, warehousing and inventory control, information technology, and fiscal management. Currently, the Idaho Lottery employs 45 staff members.



C.L. "Butch" Otter
Governor of Idaho

Dear Friends,

Somewhere in Idaho, late on Sunday afternoon, September 27, 2015, the Idaho Lottery sold its three billionth dollar in products. It may have been a Powerball ticket sold in Malad or a scratch ticket sold in Sandpoint. While the exact location or type of ticket is unknown, we do know the first ticket ever sold was a \$1 Scratch ticket to J.R. Simplot on the steps of the Idaho Capitol on July 19, 1989. Since that day, and now \$3 billion in sales later, everything about the Lottery has been a win for Idaho.

The creation of your Idaho Lottery 27 years ago was about creating prosperity for all Idahoans. The value of a State-operated Lottery in 1989 remains true today: Every play benefits Idahoans in the form of dividends to public schools and the State's Permanent Building Fund, commissions are earned by over 1,100 local businesses from the sale of products, and prizes are won by those who participate willingly in these games.

Fairness, integrity, and strict adherence to high standards of good governmental practices are at the heart of the Idaho Lottery's daily mission and all its operations. This commitment is the driving force behind the Lottery's ability to provide the people of Idaho with critical dividend revenues year-in and year-out.

The hard work and dedication of Director Anderson and all members of Team Lottery translated into their most successful year of operations. Their meaningful contributions to the State of Idaho now are at \$744 million. My confidence in Jeff Anderson's leadership and his team at the Lottery remains steadfast as they provide needed support for Idaho's infrastructure and scholastic accomplishments for the benefit of Idaho's future.

As Always - Idaho, "Esto Perpetua"

C.L. "Butch" Otter
Governor of Idaho



Jeffrey R. Anderson

Idaho Lottery Director

During the late spring of 2015, Wilcox Elementary School in the Pocatello School District built a wall to isolate their computer lab, separating it from the rest of the library to create a safe and quiet place for student testing and other yearlong technology projects. The funds used for this project were, in part, monies from Idaho Lottery dividends. A year later, students had the opportunity to take their State ISAT tests in a quiet, and private testing location. The results were significant: Grades 3 through 5 saw tremendous improvement with above State score averages. Many factors play into the success of student achievement, however for the faculty and staff of Wilcox Elementary, they believe the achievements were positively influenced by the improved testing environment.

The Idaho Lottery was created by a vote of the people in 1988 to benefit public education and the State of Idaho's Permanent Building Fund. As a State enterprise, the success of the Idaho Lottery reaches every community, large and small, in the Gem State. The economic activity created by our annual operations and sale of products reaches thousands of Idaho owned businesses every year.

After twenty-seven years, our reputation for the security and integrity in Idaho of our games remains unblemished. Our commitment to responsible play is resolute. Maintaining strong public confidence consistent with the sensibility of Idaho's citizenry is our principle mission each and every day. These primary ethics are cultivated with the strictest adherence to the legal framework, laws, and rules which originally created the Lottery and govern our daily operations.

There has never been a year equal to the success of the Idaho Lottery in Fiscal Year 2016. Players won \$153.6 million in prizes, more than in any time before in the Idaho Lottery's history. The Lottery's valued retailers, 1,179 brick and mortar establishments in 173 communities across Idaho, earned \$13.8 million for their hard work, more than in any other year. And our good causes, Idaho's Public Schools and the Permanent Building Fund received the largest dividend in our history with \$49.5 million, a ten percent increase over Fiscal Year 2015.

The Idaho Lottery provides substantial contributions to local businesses and our beneficiaries every year. The results are seen in tangible projects around Idaho that improve student safety, productivity, and scholastic achievement from kindergarten through college.

Our success is Idaho's success and it is only possible with the collaboration and commitment from our partners and players. Thank you, Idaho, for the best year in Idaho Lottery history!

Sincerely,

Jeffrey R. Anderson
Director, Idaho Lottery

The Management Team

The current Idaho Lottery Management Team members are (clockwise from middle back):
Jeff Anderson, Director
Amber French, Deputy Director of Security and Enforcement
Larry Polowski, Deputy Director of Sales
Sherie Moody-St. Clair, Deputy Director of Marketing
Becky Schroeder, Chief Operating Officer





Mel Fisher

Chairman of the Idaho Lottery Commission

Idaho's college campuses are our hallowed grounds of higher education. The Lionel Hampton School of Music on the University of Idaho campus is a nationally accredited program that serves hundreds of students each semester. Constructed in 1950, the School of Music building plays host to the famous Vandal Marching Band, choirs, ensembles, and students from all areas of the university. The recent renovation of the Haddock Performance Hall, and last summer's much-needed roof replacement completed in part with Idaho Lottery dividends, have allowed the School to provide an updated learning space where University of Idaho students can transform and grow.

Projects like the one on the campus in Moscow, and all Idaho colleges and universities, provide great facilities which promote great learning. Beyond the campuses, though, Idaho's Permanent Building Fund also conducts regular maintenance projects and capital improvements to the State's workforce buildings. Lottery dividend distributions have helped the Department of Administration's Public Works Division to address the most critical building requirements such as life-safety improvements and the conservation needed to extend the life of Idaho's physical assets.

During a ceremony held on the grounds of Valley View Elementary in west Boise this past summer, it was my honor and privilege to provide Governor Otter with the largest dividend check in Idaho Lottery history, \$49.5 million. Over the Idaho Lottery's 27 year history, the Department of Education and their Bond Levy Equalization Fund have received a total of \$402.8 million. The Permanent Building Fund has received \$341.2 million. During Fiscal Year 2016, Idaho Lottery dividends accounted for sixty-two percent of the Permanent Building Fund's budget.

With continued hard work, determination, and adherence to responsibly growing and providing dividends to Idaho's citizens, Idaho Lottery Director Jeff Anderson and his team will provide meaningful resources for years to come that benefit Idaho's public school and the State's permanent buildings.

Sincerely,

Melville W. Fisher II
Chairman, Idaho Lottery Commission

The Idaho Lottery Commission

The five-member Commission adopts rules for the agency and approves major procurements and contracts. Its members are appointed by the Governor with each serving a five-year term.

The current Idaho Lottery Commissioners are (clockwise from left back):
Gary Michael, Commissioner
Mel Fisher, Chairman
Grant Brackebusch, Commissioner
Craig Corbett, Commissioner
Susan Kerrick, Commissioner



Scratch Games™

It was a memorable year for Scratch Games in Idaho during Fiscal Year 2016. From rollicking Pirates to friendly, “fun-dead” Zombies, to spunky dogs and the classic humor of Lucille Ball, to an epic road trip across Idaho, Scratch Games were never more popular than in any time before in Idaho Lottery history.

In Fiscal Year 2016, the Idaho Lottery introduced 52 new Scratch Games ranging from the \$1 Winner, Winner Chicken Dinner to the \$25 Cash Money Blowout, with top prizes ranging from \$500 all the way to \$250,000. During the course of FY16, the Idaho Lottery sold \$136 million in Scratch Game products, with the most popular games being \$3 and \$5 offerings.

NOTES FROM FRANK

Hi, it's me, Frank. I introduced my new scratch game back in July 2015. No, it was not the game where you scratch my belly and I scratch yours. This Scratch Game came from the Idaho Lottery and two players won the top prize of \$10,000. That is some serious dog biscuits. There were five scenes in my game that featured some of my friends: Lulu's Loot, Big Louie's Bankroll, Walter's Winnings, Izzy's Cat Scratch, and my ticket, Frank's Fortune. In the game players scratched dog biscuits, bones, rubber mice, or tennis balls, looking for numbers. With five different scenes to choose from, it just begged the question that was hard to resist, “Wanna play?”



TREASURE HUNT

Players hoisted their colors and prepared to cross blades with scurvy pirates searching for buried treasure and pieces of eight when they played Treasure Hunt, the Scratch Game. There was swashbuckling adventure on the high seas in Treasure Hunt as players navigated three ships o’ the line through pirate infested waters and follow the treasure map to find chests of gold doubloons, up to \$50,000. Each ticket came with an 8-digit alphanumeric bonus treasure code to play an interactive Treasure Hunt game on the Lottery’s website and found additional plunder - second chance entries for a \$10,000 prize, other cash prizes, or VIP Club points.

I LOVE LUCY

I Love Lucy® was a pioneer in the television industry and one of the first “sitcoms” ever created. Starring the iconic Lucille Ball, the beloved television show aired from 1951 to 1957 and was the number one show in America four of those six years. After 60 years, the TV show enjoys a strong following which made this game an ideal choice as the Valentine’s Day game. The five scene game featured some of the most memorable moments in television history, like Lucy stomping grapes, Lucy with a fruit bowl, or Lucy making chocolates, and came with a sweet top prize of \$10,000.



IDAHO ROAD TRIP

From Sandpoint to Ashton, the Selkirks to the Sawtooths, and all points in between, the Idaho Lottery took the road less traveled along Idaho’s 24 scenic byways, and celebrated Idaho’s great outdoors and adventures with the Scratch Game Idaho Road Trip, a traditional cashword game featuring six iconic Idaho background images and a top prize of \$50,000. The game featured a second-chance prize from the Idaho Division of Tourism where players could win their own Idaho Road Trip to one of Idaho’s classic resorts plus \$1,000 spending money. The game also featured fun Idaho facts underneath the signpost on the ticket, which kept players engaged down the long silver-blue ribbon of highway through the Big Lost Mountains, stargazing at the Bruneau Sand Dunes, or traversing the vast expanses of the Palouse.



InstaPlay Games

The “new thing” from the previous year continued to perform as a new sensation during Fiscal Year 2016. InstaPlay Games are instant play style Scratch Games generated through the Lottery terminal. Every InstaPlay game ticket is generated at the time of purchase and printed with a set of numbers or symbols. 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. Players simply match their play numbers/symbols to see if they won. It’s that easy!

InstaPlay games generated nearly \$6.8 million in total sales. Leading the way for InstaPlay is the growing family of rolling jackpot games, Idaho Jackpot – the original InstaPlay jackpot game – and the addition of Big Money Jackpot in May.

By far, the most successful InstaPlay game played during the year was Idaho Jackpot. This games alone accounted for 59.25% of the InstaPlay sales in Fiscal Year 2016. In Idaho Jackpot, the jackpot begins at \$5,000 and increases with each ticket purchase until it is won. During the year, the largest recorded jackpot win for Idaho Jackpot was \$96,730. Big Money Jackpot is all about the 10’s. It’s the first \$10 InstaPlay jackpot game from the Idaho Lottery with jackpots that begin at \$10,000 and grow until the jackpot is won. There are ten individual lines of play, ten ways to win, and players can win on all ten lines. Launched in May, the game became an instant success with its largest jackpot reaching \$99,422.

Draw Games™

The line started under a simple sign that read “Line for Lottery Here” near the seven check-out terminals at KJ’s Kwik Stop in Malad. From that point, the line snaked its way through the store, out the back door and around the building. The mood of the players was jovial, friendly, and optimistic. Despite freezing temperatures outside, players were willing to wait for their opportunity to purchase and play for history. Across the street at Top Stop, the line wrapped through the store, around the building, across the parking lot and down toward the street. The longest wait time was about two hours. The date was January 13, 2016. The Powerball jackpot was a world record \$1.586 billion.



As an entire portfolio of games, and fueled by the world-record setting Powerball jackpot, Draw Games for the Idaho Lottery realized a net gain of \$12 million and increase of 21.9% over the previous year. Understandably, with Powerball grabbing the headlines and capturing the imagination of everyone, performance of other games in the portfolio were certain to take a back seat to the star game in the spotlight.



Powerball underwent a significant game change in October 2015 that produced beneficial results for Idaho. For the first time in history, a single big jackpot lottery game reached and exceeded the one billion dollar mark for an advertised annuity jackpot. Five months after this historic run, Powerball reached \$429.6 million in early May, the 7th largest jackpot in the history of the game. These two big jackpot runs reinvigorated Powerball sales in Idaho as we realized a 45.3% increase over the previous year. Powerball recorded its second largest selling year in Idaho Lottery history totaling \$42.6 million, up by \$13.3 million over the previous year.



While Powerball was enjoying a year of tremendous success, Mega Millions was seemingly overlooked as a game option. Mega Millions daily average announced jackpots increased by ten percent over the previous year, however, the average jackpot won decreased by 34% compared to the previous year. This translated into a 10% decrease in sales, the game’s third consecutive year with a double digit decline. The game changes to Mega Millions in FY2014 continued to provide slower building, longer running jackpots during FY2016 with an average jackpot run lasting 17 draws before having a winner. The Mega Millions jackpot only reached or exceeded the \$200 million mark twice in FY2016, once in November 2015 and then again in May 2016. At the close of FY2016, while in the midst of a string of thirty-one consecutive jackpots without a jackpot winner, the Mega Millions jackpot had grown to \$390 million, boosting annual sales. Nationwide, sales for Mega Millions were down, commensurate with sales in Idaho.



Continuing a trend from FY2015, and in the absence of significant jackpots, Hot Lotto saw a decrease in revenue, down 26.3% from the previous year. Competition from new Draw Games and the lower daily announced jackpots led to a loss of \$827,000 over the previous year. Hot Lotto continues to have a stable, consistent following among players.

Twice a day, afternoon and evening, more and more players are gravitating toward Idaho Pick 3. During FY2016, Pick 3, a twice-daily game, added a new feature called Sum it up! This feature allows players to add to their winnings, or win when the total of their selected numbers matches the total of the numbers drawn, even if they do not match the individual numbers. The Sum it up! feature gave this game a 14.37% sales lift over the second half of the sales year. Overall, Pick 3 ended with a 5.2% sales increase over FY2015 and for the seventh straight year, increased sales for the game.



Play your way. Night and day.



It is the most anticipated game of the year, and in FY2016, the game did not disappoint. The Idaho \$1,000,000 Raffle returned with the ‘Super Secret’ \$5,000 giveaway promotion that ran October 21 through October 30 before official sales began with advertising on Halloween. The boost to sales provided by the early start lifted the game’s performance. For the eighth time the game sold out, this time tying for third earliest sell-out in the game’s history.

This year’s game also featured a ‘game within a game’. Players who purchased one of the 25,000th tickets (25,000th, 50,000th, 75,000th, 100,000th, 125,000th, 150,000th, 175,000th, 200,000th, 225,000th, and 250,000th) won \$1,000 instantly, and their ticket was still eligible to win the game’s top prize of \$1,000,000.

Raffle offered the most prizes of any of the nine preceding years with 6,163 total prizes and achieved its highest ever return on investment of over 50%.

With increased competition in the Draw Game portfolio, overall sales for Weekly Grand declined by 10.4% in FY2016. 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, continued to meet with direct competition from the ongoing success of the new Draw Game Lucky for Life. Interest, though, in Weekly Grand continues to be loyal and in FY2016, there were five jackpot winners, the last two coming almost six months apart but sold at the exact same store location – Castle’s Corner on Pole Line in Twin Falls. Overall sales for Weekly Grand were about \$2.15 million.



Luck that lasts a lifetime found Idaho again with another second-tier, \$25,000 a year for life prize winner in January 2016. Almost a year to the day from the original launch of Lucky for Life in Idaho, the Gem State recorded its second, second-tier winner, Tracy Montgomery from Ogden, Utah who purchased her ticket at KC Oil in Malad. Lucky for Life, a game that awards \$1,000 a day every day for as long as you live to a jackpot winner, continued its popularity and following among players. Sales for the year were \$3.6 million.

For its final time, Wild Card recorded an Idaho Jackpot winner in September 2015. This marked the sixth consecutive year Idaho had a jackpot winner on this game. The lone jackpot win was a \$359,000 winner sold in Malad. In 17 ½ years, Wild Card had twenty-one jackpot winners from the Gem State. Despite a devout following in Idaho, competition from new Draw Games and declining overall jackpots eventually led to a decision by the four States who governed Wild Card to end the game in February 2016.



PullTabs and TouchTabs

Combined, PullTabs and TouchTabs products sold \$33.2 million in FY 2016. Retail locations of these products decreased by 11.5% in FY16, with the Idaho Lottery offering player activated self-service terminals in 125 age-controlled, retail environments in limited locations in Idaho for our TouchTabs products. After five years of operations, TouchTabs is now a well-established product line and realized a FY2016 sales increase of 33%, the largest boost occurring after September 30, 2015.

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

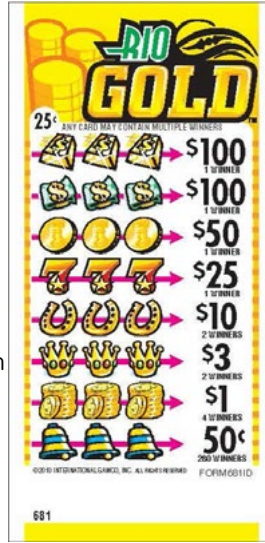
Idaho Lottery Retailers

There were long lines and wait times up to two hours in places like Malad and Franklin along Idaho's border with Utah, and in Hollister near Idaho's border with Nevada. Stores who had sold previous jackpot winners like Addy's Convenience in Post Falls and the Jacksons on Orchard and I-84 in Boise had long waits to buy tickets for the world record jackpot run in January. Powerball, though, was not the only popular event generating lines last year. During the holidays, in-store promotional events for Holiday Scratch Games and Idaho \$1,000,000 Raffle tickets drew big crowds and lines. At the Stinker on Eagle Road and McMillan in west Boise last December the wait to participate was 45 minutes. The same was true for a Stinker store on the south side of Twin Falls, where over the lunch hour on a rainy day, lines to participate went out the door. And while Holiday tickets and the January Powerball frenzy lasted a few weeks, the opportunity gained by the brick and mortar establishments who sell Lottery products lasted well after the event. It was an opportunity to gain new customers and engage with new players who returned to their store to check their tickets for winners.

The Powerball phenomenon in early 2016 fueled record commissions earned by Idaho Lottery retailers in Fiscal Year 2016. All totaled, they earned \$13.8 million, an eleven percent increase over the previous year. The local businesses in communities across Idaho have earned \$186.5 million since 1989.

During Fiscal Year 2016, there were 1,179 retailers offering traditional lottery products. An additional 125 offered PullTab products only, locations with age controlled environments that are able to offer the traditional break-open paper and TouchTabs products. About 49 of these establishments also offered TapScratch Games. Idaho Lottery products are available in 173 cities across the Gem State.

The business landscape for lottery products in Fiscal Year 2016 shows approximately 54% of Idaho Lottery retailers were convenient store-type operations and accounted for 63% of all sales. Another 14% were grocery store accounts that realized 16% of total sales. The remaining retail locations were a combination of variety stores, smoke shops, bowling centers, and restaurants and lounges.



Charitable Gaming in Idaho

In the past few years there has been a paradigm shift in the types of charitable gaming occurring in Idaho. Charitable gaming encompasses bingo games and raffles in the Gem State. For the second consecutive 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 given oversight of Charitable Gaming in 1992. Last year, licensed charitable gaming organizations decreased by 14.3% with 167 charitable and non-profit organizations obtaining a charitable gaming license from the Idaho Lottery.

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

Non-profit bingo games saw a slight decrease in the number of operators in Idaho, with 32 licensed organizations conducting bingo operations, a decrease of 8.5%. 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 3.5 million, an increase of 3%, with \$987,680.35 returned to charities, an increase of 15.8% over the previous year.

Non-profit organizations operating licensed Raffle games in Idaho saw the most significant charitable gaming benefits last year. While fewer organizations, 148— a decrease of 7.5% in the number licensees — held a Raffle license, the net proceeds increased by 65% to over just over \$5.3 million. State law directs at least 80% of an organization's net raffle proceeds must be used for charitable purposes and allows for up to 12 raffles per year, per license. In the past year, the charitable donations for Raffles were just over \$3.4 million with 94.1% being donated for a charitable purpose. The 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.

Independent Auditor's Report

To the Idaho Lottery Commission

Idaho Lottery

Boise, Idaho



CPAs & BUSINESS ADVISORS

Report on the Financial Statements

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, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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, 2016 and 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.

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 September 15, 2016 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.

Eide Bailly LLP

Boise, Idaho
September 15, 2016

Management's Discussion and Analysis

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

A key focus of the MD&A is the discussion of the current-year results in comparison with the prior year. While the accompanying financial statements present the financial position of the Idaho Lottery as of June 30, 2016 and 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 Statements of Net Position provides information about the nature and amounts of investments in resources (assets) and obligations (liabilities) at the close of fiscal year 2016 and 2015.

The Statements of Revenues, Expenses and Changes in Net Position, measures the success of the Lottery's operations for fiscal year 2016 and 2015 and the resulting increase or decrease in net position.

The Statements of Cash Flows - The primary purpose of this statement is to provide information about the Lottery's cash receipts and cash payments during the fiscal year 2016 and 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 years.

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

The reader should refer to the financial statements and the accompanying notes for information on the individual components of the Statements of Net Position. The following analysis is intended to highlight selective changes between 2016 and 2015 and between 2015 and 2014.

Management's Discussion and Analysis

	2016	2015	Change 2016 to 2015	2014	Change 2015 to 2014
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 52,119,190	\$ 43,632,267	\$ 8,486,923	\$ 47,738,879	\$ (4,106,612)
Receivables	1,268,238	2,200,676	(932,438)	1,858,660	342,016
Due From MUSL	-	275,000	(275,000)	-	275,000
Other	77,107	133,910	(56,803)	107,672	26,238
Total current assets	<u>53,464,535</u>	<u>46,241,853</u>	<u>7,222,682</u>	<u>49,705,211</u>	<u>(3,463,358)</u>
Reserves with MUSL	2,490,808	2,678,967	(188,159)	2,785,597	(106,630)
Plant, Property and Equipment, net	385,978	368,601	17,377	141,725	226,876
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows pensions	589,906	257,199	332,707	219,749 *	37,450
	<u>\$ 56,931,227</u>	<u>\$ 49,546,620</u>	<u>\$ 7,384,607</u>	<u>\$ 52,852,282</u>	<u>\$ (3,305,662)</u>
LIABILITIES AND NET POSITION					
CURRENT LIABILITIES					
Accounts payable and accrued expenses	\$ 1,390,557	\$ 1,566,792	\$ (176,235)	\$ 1,807,399	\$ (240,607)
Dividend payable	49,500,000	45,000,000	4,500,000	49,000,000	(4,000,000)
Due to MUSL	570,769	284,180	286,589	317,817	(33,637)
Prizes payable	3,364,551	3,090,349	274,202	2,497,075	593,274
Current portion of notes payable	28,173	28,951	(788)	38,237	(9,286)
Total current liabilities	<u>54,854,050</u>	<u>49,970,272</u>	<u>4,883,778</u>	<u>53,660,528</u>	<u>(3,690,256)</u>
NON-CURRENT LIABILITIES					
Long-term note capital leases	67,675	35,074	32,601	28,601	6,473
Net pension liability	885,821	527,498	358,323	1,370,825 *	(843,327)
Total liabilities	<u>55,807,546</u>	<u>50,532,844</u>	<u>5,274,702</u>	<u>55,059,954</u>	<u>(4,527,110)</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows pensions	631,964	726,164	(94,200)	-	726,164
NET POSITION					
Invested in capital assets	290,130	304,576	(14,446)	74,887	229,689
Unrestricted	201,587	(2,016,964)	2,218,551	(2,282,559)	265,595
Total net position	<u>491,717</u>	<u>(1,712,388)</u>	<u>2,204,105</u>	<u>(2,207,672)</u>	<u>495,284</u>
	<u>\$ 56,931,227</u>	<u>\$ 49,546,620</u>	<u>\$ 7,384,607</u>	<u>\$ 52,852,282</u>	<u>\$ (3,305,662)</u>

* 2014 information updated for implementation of GASB No. 68 to the extent information was available.

Management's Discussion and Analysis

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 2016, 2015 and 2014 consist of the following:

	2016	2015	2014
Week ended June 30 sales	\$ 1,263,763	\$ 2,195,768	\$ 1,852,777
Accounts to Attorney General for collection	<u>4,475</u>	<u>4,908</u>	<u>5,883</u>
Total	<u>\$ 1,268,238</u>	<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, IGT Printing (formerly known as GTECH) and the secondary printing contract in May 2013 to Pollard Banknote. 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. The Ticket Inventory balances on June 30, 2016, 2015, and 2014, consist of any unamortized production costs of scratch tickets.

Plant, Property, and Equipment, net

The balances shown were derived as follows:

	2016	2015	2014
Beginning balance	\$ 368,601	\$ 141,725	\$ 214,243
Add: acquisitions	148,086	275,961	29,799
Deduct: retirements, net of accum. depr.	(25,950)	-	-
Deduct: depreciation	<u>(104,759)</u>	<u>(49,085)</u>	<u>(102,317)</u>
Ending balance	<u>\$ 385,978</u>	<u>\$ 368,601</u>	<u>\$ 141,725</u>

LIABILITIES AND NET POSITION

Dividend Payable

The dividends declared by the Idaho Lottery Commission for 2016, 2015 and 2014 were \$49,500,000, \$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 \$274,202 between 2015 and 2016 is primarily due to an increase in overall sales. The increase of \$593,274 between 2014 and 2015 is primarily due to an increase of scratch ticket prize liability.

Total Net Position

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

REVENUES EXPENSES AND CHANGES IN NET FIXED ASSETS

Operating Revenues

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

Management's Discussion and Analysis

	2016	2015	Change 2015 to 2016	2014	Change 2014 to 2015
Draw Game sales					
Powerball	\$ 42,632,859	\$ 29,330,831	\$ 13,302,028	\$ 36,526,313	\$ (7,195,482)
Wild Card	992,239	1,669,886	(677,647)	2,030,710	(360,824)
Pick 3	2,175,855	2,068,502	107,353	1,924,401	144,101
Hot Lotto Sizzler	2,319,204	3,146,396	(827,192)	3,224,267	(77,871)
Mega Millions	10,390,885	11,295,562	(904,677)	13,379,076	(2,083,514)
Weekly Grand	2,148,250	2,398,758	(250,508)	2,800,996	(402,238)
Lucky for Life	3,662,388	1,900,540	1,761,848	-	1,900,540
Idaho Bingo	-	490,915	(490,915)	-	490,915
Raffle	<u>2,500,000</u>	<u>2,500,000</u>	<u>-</u>	<u>2,500,000</u>	<u>-</u>
Total Draw Game Sales	<u>66,821,680</u>	<u>54,801,390</u>	<u>12,020,290</u>	<u>62,385,763</u>	<u>(7,584,373)</u>
Scratch ticket sales	136,040,730	129,822,624	6,218,106	123,349,080	6,473,544
PullTab ticket sales	1,844,068	1,977,684	(133,616)	1,921,901	55,783
TouchTab ticket sales	<u>31,373,150</u>	<u>23,593,050</u>	<u>7,780,100</u>	<u>21,235,850</u>	<u>2,357,200</u>
Total sales	<u>236,079,628</u>	<u>210,194,748</u>	<u>25,884,880</u>	<u>208,892,594</u>	<u>1,302,154</u>
Data Line Charges	675,198	679,255	(4,057)	692,704	(13,449)
Other revenues	<u>63,206</u>	<u>65,428</u>	<u>(2,222)</u>	<u>56,140</u>	<u>9,288</u>
Total operating revenues	<u>\$ 236,818,032</u>	<u>\$ 210,939,431</u>	<u>\$ 25,878,601</u>	<u>\$ 209,641,438</u>	<u>\$ 1,297,993</u>

Draw Game Sales

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

Current odds of winning the jackpot are 1:292,201,338. Over time, additional lottery jurisdictions have joined the game, thereby increasing the player base.

The Idaho Lottery recorded more sales, awarded more prizes, retailers earned more commissions, and the people of Idaho benefitted more than in any previous year in its history. Fueling the record-breaking year in sales was a world record advertised annuity jackpot of \$1.586 billion won on January 13, 2016. Five months later, Powerball reached \$429.6 million in early May, the 7th largest jackpot in the game's history. These two big jackpots re-invigorated Powerball sales in Idaho and nationwide, with Idaho realizing a 45.3% sales increase over FY2015. 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 following chart.

Management's Discussion and Analysis

Powerball relationship between announced jackpot and sales:

	Average Announced Jackpot per Draw	Average Sales per Draw	Annual Sales
2016	\$ 160,275,143	\$ 406,027	\$ 42,632,859
2015	105,336,538	282,027	29,330,831
2014	117,846,154	351,215	36,526,313
2013	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	38,348,748
2006	82,345,192	430,385	44,760,077
2005	49,202,885	289,351	30,092,519
2004	62,099,048	339,498	35,647,385
2003	49,337,500	302,959	31,577,648

Mega Millions:

In 2010, the Idaho Lottery launched sales of Mega Millions with Megaplier. The Mega Millions game is similar to Powerball but holds drawings on Tuesday and Friday, instead of Wednesday and Saturday. Mega Millions was originally launched and sold by states NOT selling Powerball. In 2010 all states came together to agree on a cross selling initiative which allowed all states to sell both of the "big games" across borders. 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
2016	\$ 101,730,769	\$ 99,912	\$ 10,390,885
2015	93,752,381	107,577	11,295,562
2014	98,259,615	128,645	13,379,076
2013	42,865,385	88,973	9,253,222
2012	68,780,952	133,949	14,064,660
2011	64,615,385	86,182	8,962,895
2010	62,720,930	61,002	2,623,081

The smaller jackpot games, both in-state and multi-state games are as sensitive to jackpots as Powerball and Mega Millions. Both games have a consistent player base, although players will sometimes shift their buying habits from both games to Powerball and Mega Millions when jackpots are unusually large. The Lottery offers the following Draw games: Powerball, Mega Millions, Lucky for Life, Weekly Grand, Hot Lotto, Pick 3 and a fall Raffle game.

The multi-state game Wild Card, played with Montana, North Dakota and South Dakota, offered since 1998, ended in February 2016. The game's popularity had been waning and was ended, with plans to replace it with an Idaho only Draw game in the spring of 2017.

The Draw games, with higher profit margins than Scratch, increase profits in the Draw category.

Management's Discussion and Analysis

Scratch™ Ticket Sales

Sales are up in all categories of Scratch games. The ongoing goal, when managing the Scratch game portfolio is to introduce fun, easy to play themes in all price points. The lower priced games generally have a lower pay out and are more profitable. The more expensive games generally offer more interesting and longer play features than a simple "match three" format of many one and two-dollar games. As a result, some players feel the higher priced tickets offer more entertainment value. Keeping the perfect Scratch Ticket Game Portfolio is a challenge, as higher priced tickets are less profitable, so the mix is important and an inordinate number of higher price point sales can skew profit results dramatically.

In FY15 the Lottery launched a new product line, InstaPlay, which are played like a Scratch ticket, with predetermined odds, but printed from the Lottery terminal for a switch up from having to wait for a drawing, like a Draw game. Players are loving the fun play action and sales are reflecting this.

Since FY14 the Lottery has also 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 2016, 2015 and 2014 are as follows:

	2016		2015		2014	
One-dollar games	\$7,701,224	5.7%	\$7,064,193	5.4%	\$7,739,682	6.3%
Two-dollar games	\$7,409,460	5.4%	\$6,808,290	5.2%	\$7,130,438	5.8%
Three-dollar games	\$19,564,098	14.4%	\$18,535,851	14.3%	\$20,448,546	16.6%
Five-dollar games	\$41,187,025	30.3%	\$38,671,645	29.8%	\$37,620,580	30.5%
Ten-dollar games	\$18,471,820	13.6%	\$20,233,990	15.6%	\$19,267,770	15.6%
Twenty-dollar games	\$21,354,301	15.7%	\$16,109,840	12.4%	\$30,625,685	24.8%
Twenty-five-dollar games	\$13,286,475	9.8%	\$19,369,375	14.9%	\$0	0.0%
InstaPlay	\$6,784,896	5.0%	\$2,735,542	2.1%	\$0	0.0%
TAP Scratch games	\$281,431	0.2%	\$293,898	0.2%	\$516,379	0.4%
Total sales	<u>\$136,040,730</u>	100.0%	<u>\$129,822,624</u>	100.0%	<u>\$123,349,080</u>	100.0%
Increase over prior year	\$6,218,106		\$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 \$1,844,068 in fiscal year 2016, slightly down from the previous fiscal year. Concentrated efforts between the Lottery and our PullTab vendor, International Gamco are ongoing and while the paper PullTab product continues to hold with steady sales, we continue to seek out additional selling locations and increased sales in the coming fiscal year. We also continue our focus on new delivery options for our PullTab product this fiscal year, with increased installations of Gamco's paper ticket vending machines (TabBOXX) around the state.

TouchTab 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 \$31,373,150 in fiscal year 2016, TouchTab sales continue to trend up.

Management's Discussion and Analysis

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 2016 and 2015 were \$136,009 and \$83,773, respectively.

Operating expenses

2016, 2015 and 2014 operating expenses are as follows:

	2016	2015	Change 2015 to 2016	2014	Change 2014 to 2015
Prizes, net of unclaimed prizes	\$153,649,679	\$136,769,278	\$16,880,401	\$133,232,103	\$3,537,175
Retailer commissions	13,840,216	12,480,217	1,359,999	12,140,237	339,980
Gaming system services	5,080,655	4,628,436	452,219	4,666,523	(38,087)
Scratch tickets	2,148,670	2,262,987	(114,317)	2,251,337	11,650
PullTab/TouchTab tickets	2,021,001	1,654,499	336,502	1,789,346	(134,847)
Advertising	3,941,500	3,646,882	294,618	3,692,687 *	(45,805)
Salaries and benefits	2,764,064	2,475,390	288,674	2,678,945	(203,555)
Depreciation and amortization	104,759	49,085	55,674	102,317	(53,232)
Telephone and data line costs	29,131	28,655	476	30,695	(2,040)
Professional services	82,096	164,329	(82,233)	186,689	(22,360)
Office and equipment rental	497,511	398,127	99,384	388,974	9,153
Shipping costs	429,513	435,830	(6,317)	428,363	7,467
Supplies	119,323	42,303	77,020	105,773	(63,470)
Tribe compact	161,564	140,418	21,146	141,029	(611)
Other costs	239,209	265,723	(26,514)	331,282	(65,559)
Total operating expenses	<u>\$185,108,891</u>	<u>\$165,442,159</u>	<u>\$ 19,666,732</u>	<u>\$162,166,300</u>	<u>\$ 3,275,859</u>

* 2014 information updated for implementation of GASB No. 68 to the extent information was available.

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

	2016		2015		2014	
		Mix %		Mix %		Mix %
Draw sales	\$ 66,821,680	28.3%	\$ 54,801,390	26.1%	\$ 62,385,763	29.9%
Scratch ticket sales	136,040,730	57.6%	129,822,624	61.8%	123,349,080	59.0%
PullTab ticket sales	1,844,068	0.8%	1,977,684	0.9%	1,921,901	0.9%
TouchTab ticket sales	<u>31,373,150</u>	<u>13.3%</u>	<u>23,593,050</u>	<u>11.2%</u>	<u>21,235,850</u>	<u>10.2%</u>
Total sales	<u>\$236,079,628</u>	100.0%	<u>\$ 210,194,748</u>	100.0%	<u>\$ 208,892,594</u>	100.0%
Increase (decrease) from prior year	\$ 25,884,880		\$ 1,302,154		\$ 11,443,355	

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

Prizes, net of unclaimed prizes

Each of the three product types, Draw games, Scratch (including TAP Scratch and InstaPlay), and PullTabs (including TouchTabs) have differing average prize expense percentages associated with that product. The average prize percentage for each category depends upon the prize percentage of the individual games within that product type. For example, Powerball has a prize percentage of 50% (so 50% of the sales go to the prize fund for Powerball); Pick 3 also has a 50% prize percentage while Mega Millions has a prize percentage of 51% and Hot Lotto has a prize percentage of 50%. The overall average prize percentage for the suite of Draw game products depends upon the sales mix for the three games. Similarly, most Scratch and PullTab games have different prize percentages, although they average in the range of 69-71%, with higher price point tickets generally offering a higher prize payout percentage. TouchTab games have a prize percentage of between 78-82%.

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

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

Prize expense, net of unclaimed prizes, consisted of the following for the years 2016, 2015 and 2014:

	Sales	Prize %	Prizes
2016			
Draw ticket sales	64,321,680	51.22%	32,946,166
Scratch ticket sales	136,040,729	69.96%	95,170,292
Raffle sales	2,500,000	52.00%	1,300,000
PullTab ticket sales	1,844,068	67.85%	1,251,237
TouchTab ticket sales	31,373,150	80.29%	25,189,286
Second chance draws			263,745
Unclaimed prizes			<u>(2,471,047)</u>
			<u>\$ 153,649,679</u>

	Sales	Prize %	Prizes
2015			
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>

	Sales	Prize %	Prizes
2014			
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>

Management's Discussion and Analysis

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, 2016

The Idaho Lottery recorded more sales, awarded more prizes, retailers earned more commissions, and the people of Idaho benefitted more than in any previous year in its history during Fiscal Year 2016. Fueling the record-breaking year in sales was a world record Powerball jackpot run on January 13, 2016 that ended with a \$1.586 billion jackpot. This was the result of a significant game change to Powerball which occurred in October of 2015. Five months later, Powerball reached \$429.6 million in early May, the 7th largest jackpot in the game's history. These two big jackpot runs re-invigorated Powerball sales in Idaho and nationwide, with Idaho realizing a 45.3% increase over the previous year.

At the conclusion of its 27th year of operations in Fiscal Year 2016, the Idaho Lottery has now returned \$744 million to the people of Idaho. This year's dividend was a record \$49.5 million on the strength of sales that reached over \$236 million.

Scratch Games™ continued to lead the way in sales with a record year that saw an increase of \$6.2 million and an improvement of 4.8% in sales. Careful marketing and Scratch Game product portfolio management led to this year's success. The terminal-based, scratch-game style product line InstaPlay also proved successful generating \$6.8 million in sales, predominantly from the \$5 Idaho Jackpot game and the successful introduction of the \$10 Big Money Jackpot game. The PullTabs and TouchTabs product line saw a 29.9% increase in sales for Fiscal Year 2016.

Idaho continues to be a lucky jurisdiction to play the Lottery. There were seven draw game jackpot winners, and for the sixth consecutive year, this included one on the game Wild Card. The Idaho \$1,000,000 Raffle sold out and Weekly Grand provided five jackpot winners. In addition, one player won the second tier prize on Lucky for Life, \$25,000 a year for life, in January.

Understanding the market conditions of FY2016 and the unique nature of the world-record, billion dollar Powerball jackpot run, the Idaho Lottery believes FY2016 sales will see a mild declination in the primary Draw Game portfolio, Powerball and Mega Millions. Wild Card ended in March 2016, making way for the introduction of a new Idaho-only Draw Game plus the offering of a mini-affle game in the spring of FY2017. These new additions will bolster the secondary Draw Game portfolio and help to stabilize the entire product line-up. The Lottery also believes they will see steady, responsible increases in Scratch Games, InstaPlay, and the TouchTabs product lines.

With game improvements, and the continued migration toward higher Scratch Game price points, sales estimates for 2017 look promising, although may fall slightly short of FY2016's anomalous, record breaking year.

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 AND DEFERRED OUTFLOWS OF RESOURCES

CURRENT ASSETS

	2016	2015
Cash and cash equivalents	\$ 52,119,190	\$ 43,632,267
Receivables	1,268,238	2,200,676
Due from MUSL	-	275,000
Other	77,107	133,910
Total current assets	53,464,535	46,241,853

DEPOSITS WITH MUSL

2,490,808	2,678,967
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PROPERTY AND EQUIPMENT, NET

385,978	368,601
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DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows	589,906	257,199
	<u>\$ 56,931,227</u>	<u>\$ 49,546,620</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 1,390,557	\$ 1,566,792
Dividend payable	49,500,000	45,000,000
Due to MUSL	570,769	284,180
Prizes payable	3,364,551	3,090,349
Current portion of note and capital lease payable	28,173	28,951
Total current liabilities	54,854,050	49,970,272

LONG-TERM NOTE AND CAPITAL LEASE PAYABLE

67,675	35,074
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NET PENSION LIABILITY

885,821	527,498
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TOTAL LIABILITIES

<u>55,807,546</u>	<u>50,532,844</u>
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DEFERRED INFLOWS OF RESOURCES

Deferred inflows pensions	631,964	726,164
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NET POSITION

Invested in capital assets	290,130	304,576
Unrestricted	201,587	(2,016,964)
Total net position	491,717	(1,712,388)

<u>\$ 56,931,227</u>	<u>\$ 49,546,620</u>
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See notes to Financial Statements.

Statements of Revenues, Expenses, and Changes in Net Position

	2016	2015
OPERATING REVENUES		
Scratch ticket sales	\$ 136,040,730	\$ 129,822,624
Draw ticket sales	64,321,680	52,301,390
PullTab ticket sales	1,844,068	1,977,684
TouchTab ticket sales	31,373,150	23,593,050
Raffle sales	2,500,000	2,500,000
Data line charges	675,198	679,255
Other	63,206	65,428
Total operating revenues	<u>236,818,032</u>	<u>210,939,431</u>
OPERATING EXPENSES		
Prizes, net of unclaimed prizes	\$ 153,649,679	\$ 136,769,278
Retailer commissions	13,840,216	12,480,217
Gaming system services	5,080,655	4,628,436
Scratch tickets	2,148,670	2,262,987
PullTab/TouchTab tickets	2,021,001	1,654,499
Advertising	3,941,500	3,646,882
Salaries and benefits	2,764,064	2,475,390
Depreciation and amortization	104,759	49,085
Telephone and data line costs	29,131	28,655
Professional services	82,096	164,329
Office and equipment	497,511	398,127
Shipping costs	429,513	435,830
Supplies	119,323	42,303
Tribe compact	161,564	140,418
Other	239,209	265,723
Total operating expenses	<u>185,108,891</u>	<u>165,442,159</u>
OPERATING INCOME	<u>51,709,141</u>	<u>45,497,272</u>
NONOPERATING REVENUES		
Interest income	1,386	698
Interest income on funds held at the State	136,009	83,773
Interest expense	(6,422)	(2,686)
Total non operating revenue	<u>130,973</u>	<u>81,785</u>
INCOME BEFORE TRANSFERS	<u>51,840,114</u>	<u>45,579,057</u>
TRANSFERS		
State Permanent Building Fund	(18,562,500)	(17,000,000)
State Public Schools Building Fund	(18,562,500)	(17,000,000)
State Bond Equalization Fund	(12,375,000)	(11,000,000)
State general fund-interest earnings	(136,009)	(83,773)
Total transfers	<u>(49,636,009)</u>	<u>(45,083,773)</u>
CHANGE IN NET POSITION	2,204,105	495,284
TOTAL NET POSITION, BEGINNING OF YEAR	<u>(1,712,388)</u>	<u>(2,207,672)</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 491,717</u>	<u>\$ (1,712,388)</u>

Statements of Cash Flows

	2016	2015
OPERATING ACTIVITIES		
Ticket sales	\$ 237,750,469	\$ 210,597,415
Prizes paid to winners	(152,813,888)	(136,484,641)
Commissions and payment to retailers	(13,840,216)	(12,480,217)
Paid to vendors for goods and services	(10,956,389)	(10,323,201)
Paid to vendors for promotions	(3,941,500)	(3,646,882)
Paid to employees for service	(2,804,363)	(2,594,954)
NET CASH FROM OPERATING ACTIVITIES	<u>53,394,113</u>	<u>45,067,520</u>
NONCAPITAL FINANCING ACTIVITIES		
Transfers to State Permanent Building Fund	(17,000,000)	(18,375,000)
Transfers to State Public Schools Building Fund	(17,000,000)	(18,375,000)
Transfer to Bond Equalization Fund	(11,000,000)	(12,250,000)
Transfer to State General Fund - interest earnings	(136,009)	(83,773)
NET CASH USED FOR NON CAPITAL FINANCING ACTIVITIES	<u>(45,136,009)</u>	<u>(49,083,773)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of equipment and software	(63,737)	(275,961)
Borrowings of long-term debt	-	35,424
Principal paid on notes payable	(26,576)	(38,237)
Interest paid on notes payable	(6,422)	(2,686)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(96,735)</u>	<u>(281,460)</u>
INVESTING ACTIVITIES		
Interest income	137,395	84,471
Change in deposit with MUSL	188,159	106,630
NET CASH FROM INVESTING ACTIVITIES	<u>325,554</u>	<u>191,101</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	8,486,923	(4,106,612)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>43,632,267</u>	<u>47,738,879</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 52,119,190</u>	<u>\$ 43,632,267</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating income	\$ 51,709,141	\$ 45,497,272
Adjustment to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	104,759	49,085
Pension expense adjustment	(68,584)	(154,613)
Changes in assets and liabilities		
Receivables	932,438	(342,016)
Due from MUSL	275,000	(275,000)
Other assets	56,803	(26,238)
Accounts payable and accrued expenses	(176,235)	(240,607)
Due to MUSL	286,589	(33,637)
Prizes payable	274,202	593,274
NET CASH FROM OPERATING ACTIVITIES	<u>\$ 53,394,113</u>	<u>\$ 45,067,520</u>
Supplemental Disclosure for Cash Flow Information		
Non cash Investing, Capital and Financing Transactions		
Copier purchased by capital lease	\$ 87,000	\$ 35,424

Notes to the Financial Statements

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Authorizing Legislation

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

Basis of Presentation

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

Basis of Accounting

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

Pensions

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

Multi-State Lottery Association

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

Revenue Recognition

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

Accounts Receivable

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

Commissions

Retailers receive a commission of 5% on ticket sales. Additional discretionary commissions of up to 1% may be awarded to retailers and as a result, commission expense will be closer to six percent of revenue. In addition, retailers selling a winning draw or scratch ticket with a prize amount of \$1,000 or greater receive a selling bonus of 10% of the prize amount, up to a predetermined limit.

Prizes

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

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

TAP Scratch Games – The Lottery introduced TAP Scratch games in July of 2013. These games are played on existing vending kiosks, but limited to age controlled establishments, primarily bars and taverns. They play like regular Scratch Games but are paperless. These eco-friendly games are fun, entertaining and carry top prizes as high as \$25,000. The average payout for TAP Scratch games is between 65.4%.

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

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

Lucky for Life - Lucky for Life launched in Idaho in January, 2015 along with 15 other US jurisdictions, and offers an actual FOR LIFE prize as its jackpot prize. The game has since grown to 21 US lotteries and continues to be a popular option in Idaho. The prize expense for this game is 57.6%.

Hot Lotto –In association with the following jurisdictions: District of Columbia, Delaware, Idaho, Iowa, Kansas, Maine, Minnesota, Montana, New Hampshire, New Mexico, North Dakota, Oklahoma, South Dakota, Vermont and West Virginia and as a sub organization of MUSL, Idaho participates in

Hot Lotto. Prize expense represents 50% of revenues recognized for the game. Jackpot prizes are paid out over a twenty-four year annuity (twenty-five payments) or as a single cash payment.

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, 2016 for the US Government Treasury securities and Agency securities was 1 year.

Unclaimed Prizes

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

Cash and Equivalents

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

Property and Equipment

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

Other Assets

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

Compensated Absences

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

Dividends

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

Budget

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

Estimates

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

Notes to the Financial Statements

NOTE 2 – CASH AND EQUIVALENTS

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

	2016	2015
Cash in banks	\$ 2,013,985	\$ 207,529
Cash on deposit with State Controller	120,000	120,000
Investments in the State of Idaho's General Fund		
Investment Pool, at cost, which approximates market	49,985,205	43,304,738
Total cash and equivalents	\$ 52,119,190	\$ 43,632,267

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

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

NOTE 3 – PROPERTY AND EQUIPMENT

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

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

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

	2014	Additions	Retirements	2015
Depreciable capital assets				
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
	2,441,898	275,961	-	2,717,859
Less accumulated depreciation				
Computer equipment	(563,172)	(32,315)	-	(595,487)
Office furniture and equipment	(950,164)	(25,591)	-	(975,755)
Vehicles	(407,604)	13,844	-	(393,760)
Leasehold improvements	(379,233)	(5,023)	-	(384,256)
Property and equipment, net	\$ 141,725	\$ 226,876	\$ -	\$ 368,601

Depreciation and amortization expense for the year ended June 30, 2016 and 2015 was \$104,759 and \$49,085, respectively.

NOTE 4 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	2016	2015
Trade accounts payable	\$ 382,065	\$ 595,546
Personnel costs payable	216,708	190,738
Accrued compensated absences	144,544	135,309
Deferred draw sales	647,240	645,199
Accounts payable and accrued expenses	\$ 1,390,557	\$ 1,566,792

NOTE 5 – PENSION PLAN

Plan Description - the Lottery contributes to the Base Plan which is a cost-sharing multiple-employer defined benefit pension plan administered by Public Employee Retirement System of Idaho (PERSI or System) that covers substantially all employees of the State of Idaho, its agencies and various participating political subdivisions. The cost to administer the plan is financed through the contributions and investment earnings

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

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

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

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

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

The contribution rates for employees are set by statute at 60% of the employer rate for general employees and 72% for police and firefighters. As of June 30, 2015 it was 6.79% for general employees and 8.36% for police and firefighters. The employer contribution rate as a percent of covered payroll is set by the Retirement Board and was 11.32% general employees and 11.66% for police and firefighters. The Lottery's contributions were \$213,289 and \$219,749 for the year ended June 30, 2015 and 2014, respectively.

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

At June 30, 2016, the Lottery reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2015, 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, 2015 and 2014, the Lottery's proportion was .0672688 percent and .0716557 percent, respectively.

For the year ended June 30, 2016 and 2015, the Lottery recognized pension expense (revenue) of \$163,055 and \$58,676, respectively. At June 30, 2016, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 106,191
Changes in assumption or other inputs	32,260	-
Change in Proportionate Share	-	60,597
Net difference between projected and actual investment earnings on pension plan investments	326,007	-
Net difference between projected and actual earnings on pension plan investments	-	465,176
Lottery contribution subsequent to measurement date	231,639	-
	\$ 589,906	\$ 631,964

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 assumption or other inputs	43,910	-
Change in Proportionate Share	-	-
Net difference between projected and actual investment earnings on pension plan investments	-	-
Net difference between projected and actual earnings on pension plan investments	-	660,683
Lottery contribution subsequent to measurement date	213,289	-
	\$ 257,199	\$ 726,164

\$231,639 and \$213,289 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, 2016 and 2015, respectively.

Notes to the Financial Statements

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, 2014 the beginning of the measurement period ended June 30, 2015 is 5.5 and 5.6 for the measurement period June 30, 2014.

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

Year Ended June 30	
2017	\$ (90,867)
2018	(90,867)
2019	(90,867)
2020	65,956
2021	(6,455)

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, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary increases	4.25 - 10.00 percent
Salary inflation	3.75 percent
Investment rate of return	7.10 percent, net of pension plan investments expense
Cost of Living (COLA) adjustments	1.0 percent

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	Target Allocation	Long-Term expected real rate of return*
Core Fixed Income	Barclays Aggregate	30.00%	0.80%
Broad US Equities	Russell 3000	55.00%	6.90%
Developed Foreign Equities	MSCI ACWI ex USA	15.00%	7.55%

Actuarial Assumptions

Assumed inflation - Mean	3.25%
Assumed Inflation - Standard Deviation	2.00%
Portfolio Arithmetic Mean Return	8.42%
Assumed Investment Expenses	0.40%
Long-Term Expected Geometric Rate of Return, Net of Investment Expenses	7.10%

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

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

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

June 30, 2016	1% Decrease (6.10%)	Current Discount Rate 7.10%	1% Increase (8.10%)
Employer's Proportionate share of the net pension liability (asset)	\$ 2,157,537	\$ 885,821	\$ (171,443)

June 30, 2015	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, 2016, the Lottery reported no payables to the defined benefit pension plan for legally required employer contributions and for legally required employee contributions which had been withheld from employee wages but not yet remitted to PERSI.

NOTE 6 - CONTRACT WITH INTRALOT

Like most U.S. lotteries, the Idaho Lottery contracts with a gaming contractor to provide the Lottery with critical hardware and software, network communications, and technical support personnel necessary to efficiently operate the lottery gaming systems. The Lottery entered into a contract with INTRALOT to provide these services. The contract period 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 [WSPVM] and MultiPlay Station [MP] vending machines) and electronic jackpot signs.

NOTE 7 - 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,

2017	\$ 309,413
2018	172,136
	<u>\$ 481,549</u>

Rent expense for operating leases was \$312,831 for the years ended June 30, 2016.

NOTE 8 - CONTINGENCIES AND COMMITMENTS

Prize Annuities

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

NOTE 9 - NOTE AND CAPITAL LEASES PAYABLE

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

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

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

A summary of the activity in notes and capital leases payable for the year ended June 30, 2015 is as follows:

	2014	Additions	Retirements	2015
Capital lease for copiers	\$ 46,345	\$ -	\$ (17,744)	\$ 28,601
Notes payable for vehicles	20,492	35,424	(20,492)	35,424
	<u>\$ 66,837</u>	<u>\$ 35,424</u>	<u>\$ (38,236)</u>	<u>\$ 64,025</u>

The annual payment requirements are as follows:

Years ending June 30,	Capital Lease		Notes Payable	
	Principal	Interest	Principal	Interest
2017	\$ 16,380	\$ 3,686	\$ 11,793	\$ 1,138
2018	17,346	2,719	12,522	411
2019	18,371	1,695	-	-
2020	19,436	610	-	-
	<u>\$ 71,533</u>	<u>\$ 8,710</u>	<u>\$ 24,315</u>	<u>\$ 1,549</u>

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS

Summary of Plans

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

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

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700 W State Street, 4th Floor
Boise, ID 83702
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Boise, ID 83720-0011
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Lionel Hampton School of Music

The University of Idaho used Idaho Lottery monies to install a new metal roof on the Lionel Hampton School of Music to help facilitate the continued education of students attending the University.



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