

“There were big jackpots, big winners and – most importantly – the biggest winning number of the year was the \$41.5 million dividend returned to the citizens of Idaho.” - Governor Butch Otter



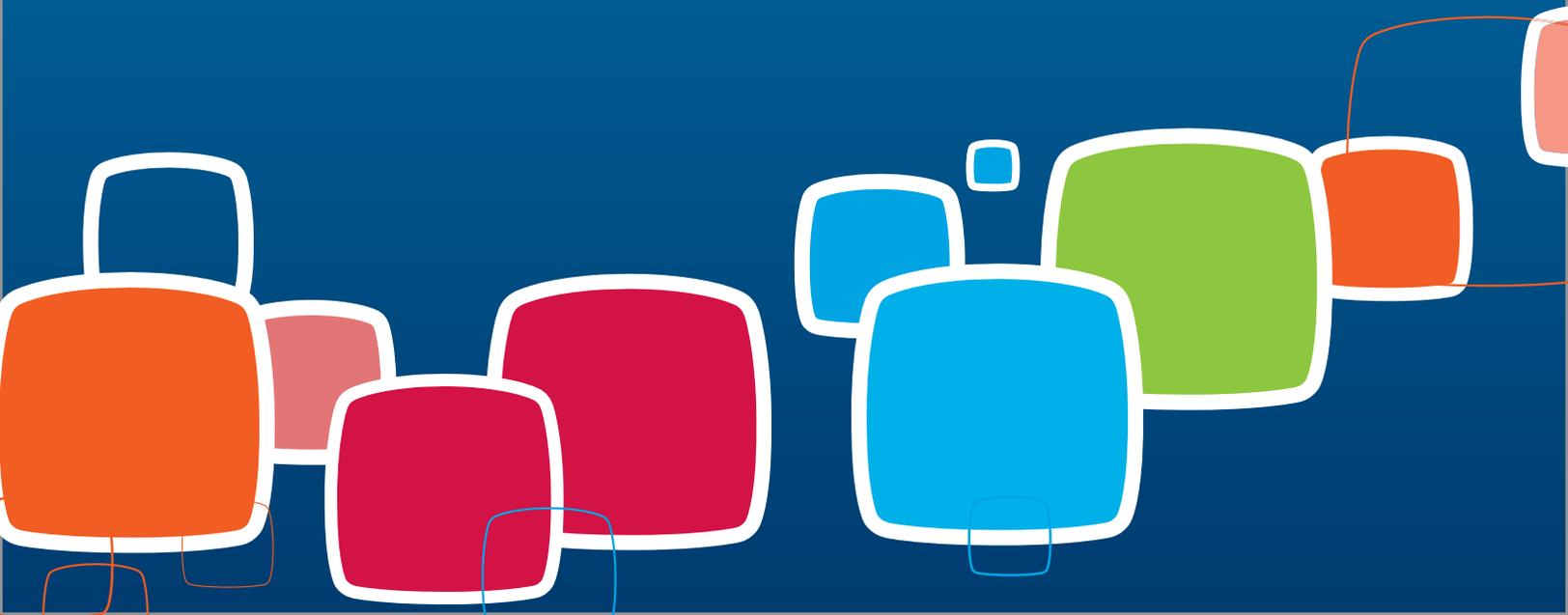
Annual Report 2012



Spring rain showers clung to the Samaria Mountains outside Malad, Idaho where thousands of Idaho Lottery players waited up to three hours in line to buy tickets. All six retail locations had lines out the door and down the street. Across the Wellsville Mountains to the east of Malad, CNN was broadcasting live from Franklin, Idaho where a similar line of players stretched down the block. All across the Gem State this spring afternoon, Idaho Lottery retailers had long waits for tickets, reminiscent of the days when the Lottery first began. The date: March 30, 2012. Responsibility for the lines belonged solely to the world record setting \$656 million Mega Millions jackpot that night.

That portrayal of the historic jackpot run perhaps best exemplifies how Fiscal Year 2012 unfolded for it became a year unlike any other in the 23-year history of the Idaho Lottery. Beyond Mega Millions, the Idaho Lottery launched Weekly Grand, the most successful in-state draw game in more than a decade, and after 20 years, Idaho's oldest draw game, Powerball was improved. More players than in any other year won \$10,000 or more and the Lottery returned its largest dividend to the people of Idaho – ever.

This year's annual dividend was reached on the strength of record sales by the Idaho Lottery and its network of 1150 statewide retailers. In Fiscal Year 2012, the Idaho Lottery sold \$175.8 million in products, an increase of 19.5% over the previous year – the second highest increase for any lottery in the United States. At more than \$28 million over last year's record tying sales figure, in terms of dollars, this year's increase was the single largest in the Idaho Lottery's history.



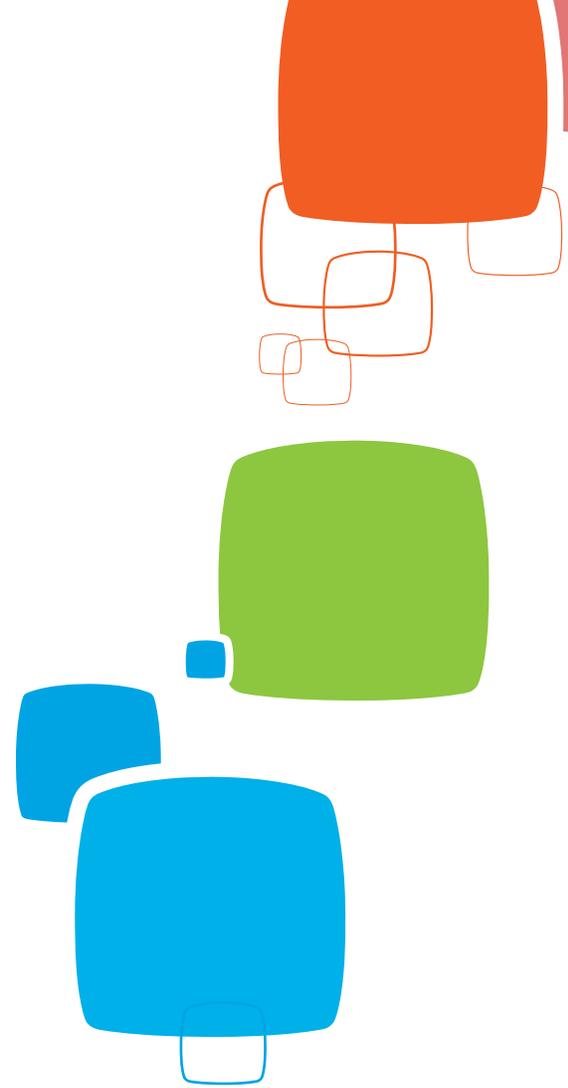


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Lottery mission

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

Lottery vision

To become the highest performing jurisdiction in North America.

Operations 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,

I am pleased to report that the Idaho Lottery had a very successful fiscal 2012. There were big jackpots, big winners and – most importantly – the biggest winning number of the year was the \$41.5 million dividend returned to the citizens of Idaho.

This was the ninth consecutive year the Idaho Lottery has returned a record dividend. Each year, the Idaho Lottery promotes responsible government while fulfilling its mission to benefit Idaho public schools and the State's Permanent Building Fund. In fact, the Lottery has grown its annual contribution by 22 percent in the past six years!

The Idaho Lottery also promotes success for Idaho businesses. Over the past 23 years, Lottery retailers, local businesses and corner markets have earned more than \$136.4 million in commissions – revenue that helps make Idaho's economy vibrant. And when our businesses thrive, we empower all Idahoans toward personal prosperity.

The Idaho Lottery is exceeding expectations and continues delivering on its commitment to help support Idaho public schools and State buildings. The team at the Idaho Lottery takes its stewardship responsibilities very seriously.

I have great confidence in the leadership of Director Anderson and Team Lottery to continue providing meaningful contributions to support the infrastructure and development of a sound education system for all of Idaho.

As Always – Idaho, "Esto Perpetua"

A handwritten signature in black ink that reads "C.L. Butch Otter".

C.L. "Butch" Otter
Governor of Idaho



(Clockwise From Left)
Becky Schroeder, Chief Operating Officer;
Jeff Anderson, Director;
Amber French, Deputy Director of Security;
Sherie Moody-St.Clair, Deputy Director of Marketing;
Mike Helppie, Deputy Director of Sales



Jeffrey R. Anderson
Idaho Lottery Director

Greetings!

This past July, it was my great privilege to present Governor C.L. "Butch" Otter with our ninth consecutive record-breaking dividend check for \$41.5 million. Fiscal Year 2012 was our most successful year in the 23-year history of the Idaho Lottery and in addition to our financial success, the Idaho Lottery's commitment and reputation for security, integrity, and responsible play remains unblemished.

Our record achievement in Fiscal Year 2012 would not have been possible without the continued support from our players and the dedication of our vendor partners, our more than 1150 member retailer network, and Team Lottery. Our gratitude is yours. Thank you, everyone. Our beneficiaries, Idaho's public education and the permanent buildings of Idaho, are better for the success everyone helped us realize. In the course of our history, the Idaho Lottery has now returned \$552.3 million to our good causes.

No year in Idaho Lottery history has equaled the success we experienced in Fiscal Year 2012. Team Lottery's responsible management led to our most popular offering, Scratch™ Games, turning in a 10% increase in player participation. In addition, we launched the most successful Idaho-only Draw Game, Weekly Grand, where players win tax-paid jackpots. Idaho and the nation experienced an eye-popping, world record \$656 million Mega Millions jackpot, and we made improvements to Idaho's most popular Draw Game, Powerball.

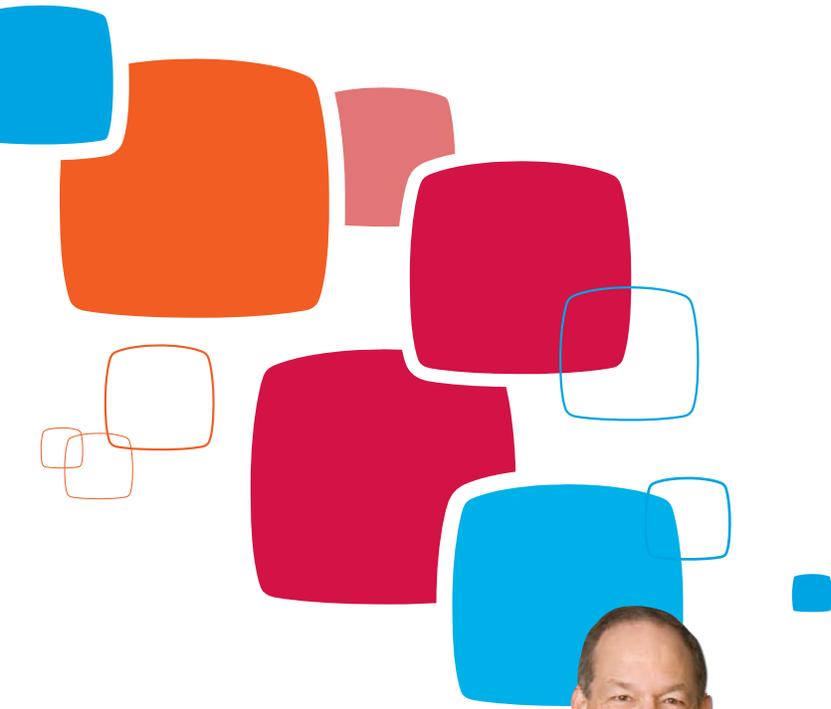
The Department of Education's Public School Building Account and Bond Levy Equalization Fund, as well as the Department of Administration's Permanent Building Fund have all benefited from this defining moment in Idaho Lottery history.

Thank you everyone for your continuing support and commitment to making the Lottery and Idaho a better place tomorrow and for future generations. Success is what we choose to make of it and we know our best success still lies ahead. In the lottery world, anything is possible.

Good luck!

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

Jeffrey R. Anderson
Director, Idaho Lottery



Idaho Lottery Commissioners:
(Clockwise From Left) Mel Fisher;
Chairman, Roger Jones; David Keyes;
Craig Corbett and Jim Rehder



Roger Jones

Chairman of the Idaho Lottery Commission

Building a better Idaho begins with providing quality facilities for all levels of education. The Idaho Lottery plays an important role in developing the future success of our citizens by providing needed and necessary funds to the Department of Education for their buildings, supporting the Bond Levy Equalization Fund to assist districts with their bond obligations, and supporting the restoration, care, and maintenance of Idaho's permanent buildings like state office facilities and college campuses.

I have had the good fortune to serve on the Idaho Lottery Commission for the past 17 years and this truly was a year for the record books.

The Idaho Lottery recorded sales of \$175.8 million, a 19.7% increase over the previous year. The Idaho businesses that sell our products earned a record amount in commissions this year of \$10.4 million. And more players than in any other year won over \$10,000, including 4 new millionaires.

We had record sales for Scratch™ Games. With the help of a \$656 million world record-setting jackpot, Mega Millions also achieved record sales.

Each year, the Idaho Lottery Commissioners ask Director Anderson and his team to improve upon the previous year's success. And each year, they welcome the challenge of finding new levels of achievement. With clear vision of mission and under the careful guidance of Director Anderson, the Idaho Lottery Commission sees tremendous possibilities for greater accomplishments by Team Lottery that will lead to a prosperous future for all Idahoans.

Sincerely,

A handwritten signature in black ink that reads "Roger L. Jones". The signature is written in a cursive style with a large initial "R".

Roger Jones

Chairman, Idaho Lottery Commission

Where The Money Goes

In Rathdrum, John Brown Elementary School replaced old and worn playground equipment. In Cottonwood, Prairie Elementary School repaired their sidewalks. In Boise, the Treasure Valley Mathematics and Science Center repaired, replaced and replenished necessary equipment for their FIRST Robotics team. The former Ada County Courthouse is currently undergoing safety and infrastructure renovations that include geothermal heating for future use as the Idaho Supreme Court's Law Library and the University of Idaho's Law Learning Center. The Bonneville School District is providing new student facilities for their students to meet the demand of enrollment growth.

It is projects like these, and others occurring across Idaho's communities that validate the meaningful partnership the Lottery has with the citizens by providing lasting benefits toward the success of public education in Idaho.

Every time someone plays the Lottery, public education and the state of Idaho's permanent buildings benefit. When you play the Lottery today, you are helping public education tomorrow. In essence, the dollars returned to the beneficiaries is played forward.



The Treasure Valley Mathematics and Science Center repaired and replaced necessary equipment for their FIRST Robotics team!



The Bonneville School District is providing new student facilities for their students to meet the demand of enrollment growth.

Here's how it works. Each Fiscal Year ends on June 30th, and at the beginning of July, the Idaho Lottery returns the remaining balance of all their expenses – prizes, retailer commissions, and administrative costs – back to the State of Idaho in the form of a dividend. This year, it was a record \$41.5 million.

Never in the history of the Idaho Lottery has there been a year like Fiscal Year 2012. It was a hallmark in achievements with record sales of \$175.8 million. The record amount of revenue also led to record amounts being paid in prizes, commissions, and dividends.



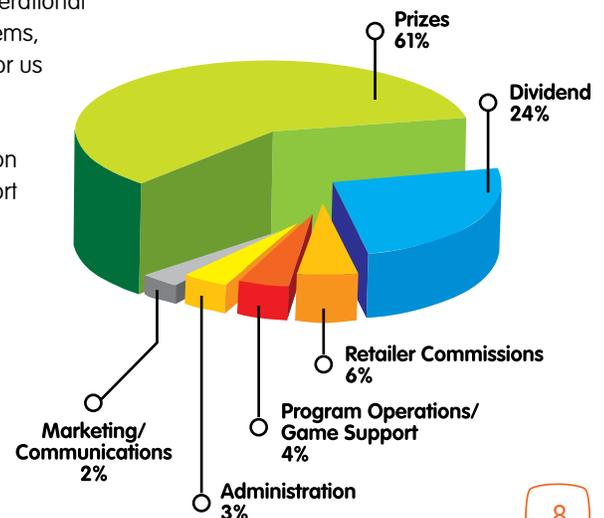
In Rathdrum, John Brown Elementary School replaced old and worn playground equipment.

Players claimed a staggering \$108.8 million, about 61% of all revenues. That averages \$297,400 per day, every day, for the entire year. This figure represents the portion of prizes the Idaho Lottery is responsible to pay for their share in big jackpot wins and includes our portion of the \$3.8 million Hot Lotto jackpot prize won in June of 2012. It also includes 100% of the prizes paid on in-state games like our Idaho \$1,000,000 Raffle and Scratch™ Games.

After prizes, the second largest amount of revenue is returned to the people of Idaho through the annual dividend. This was the ninth consecutive record year for an Idaho Lottery dividend. In the past ten years, the annual dividend has more than doubled going from \$20.5 million in 2003 to this year's mark of \$41.5 million. Both the Department of Education School Building Fund and the Department of Administration's Permanent Building Fund received equal amounts of \$17,000,000. The Department of Education's Bond Levy Equalization Fund received its largest contribution in a single year of \$7.5 million.

Also a record amount, \$10.4 million in commissions was earned by our network of 1150 retailers in 161 communities across the Gem State, roughly 6% of sales, for providing Idaho Lottery products to their customers.

The remaining 9% of expenditures goes toward the Lottery's operational expenses. Gaming support, the vendors who provide our systems, terminals, vending machines, and print our Scratch™ Games for us earn collectively about 4% of the total revenue. Administrative costs continue to be managed well and represent less than 3% of the total cost to operate the Idaho Lottery. The smallest portion of revenue is used for marketing and communications to support products and sales.



Jim Bruce SCRATCH FOR SCHOOLS

This marked the 11th year of Scratch for Schools, the single most popular and widely known benefits program offered by the Idaho Lottery. Scratch for Schools was created to further help the Idaho Lottery's mission to benefit each and every Idaho public school that participates. Every participating school received an entire pack of Scratch tickets and five minutes to scratch as many tickets as they could. Top schools advanced to the finals where teams received another pack of tickets and another five minutes to scratch. The top scratching schools received a third pack, or 900 tickets, for their efforts. Every school kept all the prize money they found in all of their ticket packs.

In total, a record number of schools, 423, participated this year. That represented nearly 55% of every public school in Idaho. Nearly \$88,700 was shared between all the participating schools. This year, more than 153,000 Lunch Money Scratch tickets were used for the events. Since the first year, Scratch for Schools has returned over \$567,000 to public schools. Here are the overall results from each venue:

Date:	Event Location:	Number of Schools:	Dollars to Schools:
October 11, 2011	Twin Falls, CSI Gymnasium	71	\$14,789
October 13, 2011	Boise, The Grove Hotel	78	\$16,924
October 18, 2011	Lewiston, LSCS Activity Center	41	\$8,528
October 19, 2011	Sandpoint, Best Western	19	\$3,967
October 20, 2011	Coeur d'Alene, Greyhound Park	37	\$8,784
October 25, 2011	Caldwell, College of Idaho	36	\$6,869
October 26, 2011	Caldwell, College of Idaho	29	\$6,042
November 1, 2011	Pocatello, ISU Student Union	50	\$10,017
November 2, 2011	Idaho Falls, ISU Extension	32	\$5,655
November 3, 2011	Idaho Falls, ISU Extension	30	\$6,508

Charitable Gaming in Idaho

Charitable gaming, community bingo games and non-profit raffles, were a primary discussion point when Idaho's citizens voted to approve the creation of the Idaho Lottery in 1988. In 1992, the Lottery received oversight responsibility for charitable bingo and raffle games in Idaho. In the past year, more than 229 charitable and non-profit organizations obtained 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 nonprofit 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.

The number of organizations conducting bingo is on the rise and it is a great way for a nonprofit to raise money. State law directs that a minimum of 20% of an organization's gross bingo revenue must be used for charity. In the past year there were 42 organizations conducting bingo operations with gross revenues totaling just over \$4.2 million and just over \$1 million returned to charities.

Raffles are another great source of income and 214 organizations held a raffle license last year. St. Jude alone raised \$777,700 for their organization with one raffle. State law directs that 80% of an organization's net raffle proceeds must be used for charitable purposes and allows for up to 12 raffles per year, per license. In the past year net proceeds were just over \$2.9 million of which 94% was donated to charity totaling just over \$2.7 million.

The funds raised by licensed organizations conducting bingo and raffles benefit people and communities throughout Idaho in numerous and varied ways including conservation research on the Island Park Dam; funding a food bank in Payette; offering self-esteem courses for young women in the Treasure Valley; and providing leadership skills in agribusiness statewide.

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

Scratch™ Games

Idaho has a long standing reputation in the North American lottery industry as a leader in Scratch™ Games. Nationally, Idaho realized the 9th highest increase in Scratch Game sales among all lotteries at 10.2% ahead of Fiscal Year 2011. Total Scratch Game sales for FY12 were \$99.8 million. Rigorous game portfolio management, inventory control, and product development were integral to the success of providing value and quality entertainment from Scratch Games to the Lottery's players. And with 48 new games introduced during the fiscal year, a handful of games led the charge during the past historic year.

MEGA FORTUNE

Fueled by a seemingly endless supply of \$600 winning tickets, Mega Fortune dominated the sales landscape during the first half of the Fiscal Year. The \$20 ticket churned winnings back into the game and the retail locations selling them. With 25 ways to win and a top prize of \$250,000, the game structure and prize levels led to an average of \$225,600 in sales and 64 paid winners of \$600 per week for the 27 weeks the game was on the market. Mega Fortune sold through 87.7% of all its tickets when it ended shortly before Christmas of 2011.

EXTREME GREEN

Extreme Green lived up to its billing by selling 95.11% of its tickets in only 21 weeks on the market, averaging \$122,000 a week in sales. The \$10 ticket boasted a top prize of \$100,000 and twenty-four different ways to win. Extreme Green represents the balance between price, play-style, value and prize that is unique to the \$10 price point. The simplicity of the art work, the clean, deep color and rich look that features bank rolls of money has been requested for use by five other lotteries in North America.



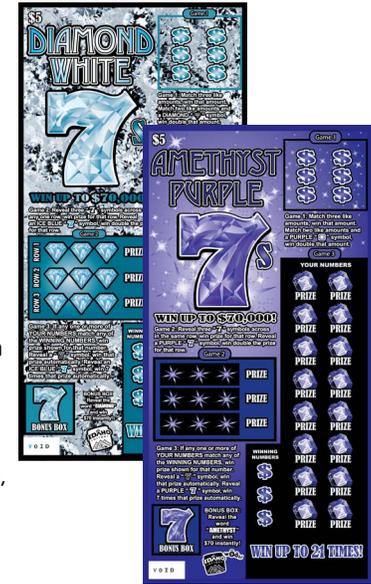
BEJEWLED™

Nothing says romance quite like diamonds, rubies, topaz, and emeralds. Bejeweled the Scratch Game turned out to be the hottest Valentine's Day ticket and perfect complement to chocolates, flowers, and other romantic gifts. Right after the first of the year, the Idaho Lottery brought the Internet sensation Bejeweled and its dazzling \$30,000 top prize into retail locations across the Gem State. On the market for only 13 weeks, Bejeweled sold through 90.7% of all its tickets before it's sparkalicious-ness ended in late March.



GEM 7s SERIES

Unique to the Idaho Lottery, the “Gem 7s” has grown in popularity into some of the best sellers for \$5 Scratch tickets and providing a good compliment to the Cashword, Slingo, and Bingo family ticket offerings. During the course of Fiscal Year 2012, the Idaho Lottery offered three tickets from the Gem Family. Star Garnet 7s and Diamond White 7s both sold out. Star Garnet 7s averaged weekly sales of about \$53,000. Star Garnet was followed by Diamond White 7s which showed the series increasing popularity as it averaged \$77,500 in sales per week. Amethyst Purple 7s, the seventh edition in the Gem 7s series, was still on the market at the close of the fiscal year, but was averaging over \$102,000 per week. The Gem 7s Series is multi-game style ticket that offers players three different games and a bonus box on one ticket and a higher than average top prize for a \$5 Scratch Game of \$70,000. The unique offering, colorful ticket artwork, and innovative prize structure has made this series a favorite.



AVENGERS

Tied to the runaway blockbuster movie, the Idaho Lottery started calling all Super Heroes in April 2012 to play Avengers, the Scratch Game. If being a Super Hero was not rewarding enough on most days, fighting bad guys and crime came with a \$5,000 top prize payout for players of the Avengers Scratch Game. The Avengers Scratch Game swept into Lottery retailers a month before the movie hit the big screen in May. The five scene \$1 game depicted at least one of Marvel Comics greatest super heroes: the Incredible Hulk, Hawkeye, Iron Man, Thor, or Black Widow. The excitement from the screen was action packed into The Avengers scratch ticket. The Avengers sold 97.55% of its tickets and was on the market for 21 weeks.

Draw Games™

There has never been a year in the history of the Idaho Lottery where playing for big jackpots was as popular or fun for the players. During the twelve months of Fiscal Year 2012, Idaho Draw Games made four new millionaires, the most popular game underwent big changes, there was a world-record jackpot run, and a new bi-weekly Draw Game was introduced. Sales were \$60.4 million on Draw Games, a 21.1% increase over the previous year and an all-time record for Draw Game sales.

POWERBALL



More. Bigger. Better. After two decades of success and being the most popular lottery game in Idaho and North America, Powerball turned 20 years old during Fiscal Year 2012 and with the celebration came enhancements to the game that took effect on Sunday, January 15, 2012. With bigger starting jackpots, better overall odds, and more million dollar winning experiences, Powerball continued to sell as the top draw game in Idaho. The game's starting jackpots increased from \$20 million to a guaranteed \$40 million, the overall odds of winning any prize improved to 1:31.8 and the odds of winning the jackpot improved to 1 in 175 million. And, for players who correctly match the first five white balls but not the Powerball number itself now win \$1,000,000; \$2,000,000 if the player has Power Play. The price of a Powerball ticket also increased to \$2 per play, \$3 with Power Play. With an increase of 17.1%, Powerball represented 57.5% of all Draw Game sales in Idaho while making two new millionaires.

MEGA MILLIONS



Mega Millions mania swept across Idaho in late March with a world-record setting jackpot of \$656,000,000 that produced four \$250,000 winners, two \$10,000 winners, and a total of 107,321 tickets that won over \$1.5 million in prizes. Mega Millions sales for the month of March eclipsed \$5.8 million and garnered a total of \$14 million for the entire year, an increase of 56.9% over the previous year. Game awareness created by the historic jackpot run resulted in a sustained average weekly sales increase of 51% for the balance of the Fiscal Year.

WEEKLY GRAND

The Idaho Lottery launched the most successful, regularly offered Draw Game in more than a decade on August 18, 2011 when Weekly Grand made its debut. The new Idaho-only game is a traditional style Draw Game with a set jackpot prize of \$77,380 paid out as \$1,000 per week, every week for a year after the taxes are paid by the Idaho Lottery. In the game, players match 5 numbers correctly out of a pool of 32 numbers. Players can select their own numbers or ask for a quick pick. Each play is \$2. Drawings are held on Wednesday and Saturday nights. Players may purchase tickets until 7:55 p.m. Mountain Time on the night of the draw. In addition to the jackpot prize, there are other prizes in the game for matching winning numbers. Players who match four of the five numbers for a draw win \$200. When players match three of the five numbers, they win \$25. Matching two numbers earns players a free ticket and all non-winning tickets may be entered for a monthly second chance prize of \$100 per week, every week for an entire year. In only nine-and-a-half months, Weekly Grand out sold Hot Lotto, Wild Card, and Pick 3 for the entire year with over \$2.7 million in sales. Second chance entries also soared as the Lottery received more than 218,000 for the first ten draws. The game also delivered seven jackpot winners. Weekly Grand replaced Double Play Daily in the Draw Game lineup for the Idaho Lottery.



HOT LOTTO

Hot Lotto continued its consistent, steady following in Fiscal Year 2012 with sales of \$2.7 million. Idaho recorded its first ever jackpot winner on Hot Lotto with the June 27, 2012 draw. The winner claimed the second largest jackpot of the fiscal year, a \$3.4 million payday, on a ticket bought in Caldwell. Overall, sales for Hot Lotto dipped from the previous year due in large part to smaller average jackpot prizes.



WILD CARD

Jackpot size for Wild Card was considerably less than in previous years, however, the game still continued to have a strong, niche following. The average winning jackpot for the Fiscal Year was \$164,000, down from \$362,000 in the previous year. For the third consecutive year, Idaho also recorded a Wild Card jackpot winner, a \$145,000 prize – the third highest for the year – on October 8, 2011 in Coeur d’Alene. Total sales for Wild Card reached \$2.1 million for the year.



PICK 3

Idaho Pick 3 continues to provide steady, stable sales from its core group of players. At \$1.8 million in annual sales, the classic game realized a 7.3% increase over the previous year, with the majority of those new sales coming from players in northern Idaho. Idaho Pick 3 continued to offer both day and night draws with 57% of all sales coming from the night draws.



RAFFLE

The Idaho \$1,000,000 Raffle ran its fifth edition during the height of the holiday season in this Fiscal Year. The popular, Idaho-only draw game that guarantees the winner a \$1,000,000 prize went on sale November 9, 2011 and created its fifth millionaire on January 2, 2012. The game sold 44.7% of all tickets the last two weeks in December including 17,326 individual tickets the last 12 hours of sales, making it the second-best selling day for the Idaho \$1,000,000 Raffle since the first day tickets were ever offered in November 2007.



POWER PACK

In July 2011, the Idaho Lottery offered Power Pack as a specialized Draw Game promotion. For \$5, players received a \$6 bundle that included two \$1 Powerball tickets, two \$1 Hot Lotto tickets, and one \$2 Wild Card ticket. The promotion proved successful and returned later in October with a different \$6 value that included two \$1 Powerball tickets, two \$1 Hot Lotto tickets, and one \$2 Weekly Grand ticket – all for \$5. With two successful trial runs, the Idaho Lottery began offering Power Pack full-time in April 2012. The full-scale version of the bundle of tickets included a \$3 Powerball with Power Play ticket, a \$2 Mega Millions with Megaplier ticket, a \$2 Hot Lotto with Sizzler ticket, a \$2 Weekly Grand ticket, and a \$1 Wild Card ticket. The bundle price was \$10 and included a second chance voucher for players. From April through late-June, the Idaho Lottery partnered with Delta Airlines for a second chance prize of 1,000,000 Delta SkyMiles, good to any of the 573 destinations Delta services. At the conclusion of the Million Mile Giveaway promotion, the Idaho Lottery continues to offer Power Pack with the second chance voucher players can enter for a chance to win Powerball tickets FREE for a year. These drawings are held monthly.

PullTabs and TouchTabs

After successfully testing for security, integrity, and player acceptance in Fiscal Year 2011, the pilot program for the electronic TouchTab Dispensing Device was extended in Fiscal Year 2012 to 73 new age controlled social environment locations across Idaho.

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

Through the use of modern technology, TouchTabs have rejuvenated the PullTab market in Idaho. Combined, TouchTabs and PullTabs generated \$15.5 million in sales, representing 8.8% of the entire Idaho Lottery product portfolio for Fiscal Year 2012.

Idaho Lottery Retailers

By continuing their dedication and commitment to offer lottery products in their businesses, Idaho Lottery retailers reaped the benefits from this year's record setting year.

The foundation for our success depends on the quality relationship we have built with our brick and mortar retailers. In Fiscal Year 2012, our growing statewide network of nearly 1150 retailers witnessed firsthand the excitement this past year brought to our players while earning a record \$10.4 million in commissions.

An additional 115 retailers joined the Idaho Lottery retail network in Fiscal Year 2012, with 984 offering traditional lottery products. An additional 151 offer PullTab products only, locations with age controlled environments that are able to offer both the traditional break-open and new TouchTab products. Idaho Lottery products are available in 162 towns across the Gem State.

The business landscape for lottery products in Fiscal Year 2012 shows approximately 54.3% of Idaho Lottery retailers were convenience store-type operations and accounted for 68% of all sales. Another 15% were grocery store accounts that realized 16.7% of total sales. The remaining retail locations were a combination of variety stores, bowling centers, restaurants and lounges. Of the entire composition of operators and businesses, 48.4% are corporate chain stores that accounted for 60% of the Idaho Lottery's total sales in Fiscal Year 2012.

Since the Idaho Lottery began operations in 1989, Idaho retailers have earned \$136.4 million in commissions from the sale of lottery products.

Vendor Partners of Record

The success of the Idaho Lottery is also dependent on the continued commitment of its vendor partners:

- INTRALOT, USA – terminal and gaming systems operators, developers
Headquarters: Marietta, Georgia, United States
- Scientific Games, Inc. – Scratch™ Games developer and printer
Headquarters: Alpharetta, Georgia, United States
- International Gamco, Inc. – PullTabs / TouchTabs provider
Headquarters: Omaha, Nebraska, United States
- DaviesMoore – a full service marketing agency
Headquarters: Boise, Idaho, United States



CPAs & BUSINESS ADVISORS

To the Idaho Lottery Commission

Idaho Lottery

Boise, Idaho

We have audited the accompanying financial statements of Idaho Lottery (the Lottery), an agency of the State of Idaho, as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of Lottery's management. 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 Governmental 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lottery, as of June 30, 2012 and 2011, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 20, 2012 on our consideration of the Lottery's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Boise, Idaho
September 20, 2012

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, 2012 and 2011, and financial activity for the years then ended, the MD&A also includes this information for the year ended June 30, 2010, 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 Assets* provides information about the nature and amounts of investments in resources (assets) and obligations (liabilities) at the close of fiscal year 2012 and 2011.
- *The Statements of Revenues, Expenses and Changes in Fund Net Assets*, measures the success of the Lottery's operations for fiscal year 2012 and 2011 and the resulting increase or decrease in net assets.
- *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 2012 and 2011. 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 Assets. The following analysis is intended to highlight selective changes between 2012 and 2011 and 2011 and 2010.

Management's Discussion and Analysis

	<u>2012</u>	<u>2011</u>	Change 2012 to 2011	<u>2010</u>	Change 2011 to 2010
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 40,067,309	\$ 36,285,130	\$ 3,782,179	\$ 37,024,584	\$ (739,454)
Receivables	1,425,176	1,022,466	402,710	2,177,129	(1,154,663)
Due From MUSL	3,235,898	-	3,235,898	-	-
Other	174,850	313,625	(138,775)	464,202	(150,577)
Total current assets	<u>44,903,233</u>	<u>37,621,221</u>	<u>7,282,012</u>	<u>39,665,915</u>	<u>(2,044,694)</u>
Reserves with MUSL	2,774,340	2,779,816	(5,476)	2,504,259	275,557
Capital assets, net	295,527	268,277	27,250	439,529	(171,252)
	<u>\$47,973,100</u>	<u>\$ 40,669,314</u>	<u>\$ 7,303,786</u>	<u>\$ 42,609,703</u>	<u>\$ (1,940,389)</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable and accrued expenses	\$ 1,373,925	\$ 1,271,500	\$ 102,425	\$ 1,096,062	\$ 175,438
Dividend payable	41,500,000	37,000,000	4,500,000	36,500,000	500,000
Due to MUSL	121,941	437,778	(315,837)	440,291	(2,513)
Prizes payable	3,756,923	1,772,122	1,984,801	3,187,245	(1,415,123)
Current portion of notes payable	37,854	33,541	4,313	49,057	(15,516)
Total current liabilities	<u>46,790,643</u>	<u>40,514,941</u>	<u>6,275,702</u>	<u>41,272,655</u>	<u>(757,714)</u>
OTHER POST EMPLOYMENT BENEFITS	-	69,989	(69,989)	65,795	4,194
LONG-TERM NOTES PAYABLE	106,987	-	106,987	33,541	(33,541)
TOTAL LIABILITIES	<u>46,897,630</u>	<u>40,584,930</u>	<u>6,312,700</u>	<u>41,371,991</u>	<u>(787,061)</u>
NET ASSETS					
Invested in capital assets, net or related debt	150,686	234,736	(84,050)	439,529	(204,793)
Unrestricted	924,784	(150,352)	1,075,136	798,183	(948,535)
Total net assets	<u>1,075,470</u>	<u>84,384</u>	<u>991,086</u>	<u>1,237,712</u>	<u>(1,153,328)</u>
	<u>\$ 47,973,100</u>	<u>\$ 40,669,314</u>	<u>\$ 7,303,786</u>	<u>\$ 42,609,703</u>	<u>\$ (1,940,389)</u>

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 2012, 2011 and 2010 consist of the following:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Week ended June 30 sales	\$ 1,406,269	\$ 985,985	\$ 2,146,796
Accounts to Attorney General for collection	<u>18,907</u>	<u>36,481</u>	<u>30,333</u>
Total	<u>\$ 1,425,176</u>	<u>\$ 1,022,466</u>	<u>\$ 2,177,129</u>

Ticket Inventory (prepaid subcategory)

Under the contractual agreement with its scratch ticket supplier, Scientific Games International (SGI), the Lottery pays set-up and certain other fixed costs for each game printed. SGI, however, retains ownership of the tickets and the Lottery pays SGI 1.5479 percent of scratch ticket sales. Other production costs are amortized over the sales life of the game. PullTab tickets are expensed when the tickets are sold to the retailers. PullTab tickets are purchased from International Gamco for 12.6% of the sales price in 2012 and 14% of the sales price in 2011. Consequently, the Ticket Inventory balances on June 30, 2012, 2011, and 2010, consist of any unamortized production costs of scratch tickets and the cost of unsold PullTab ticket stock.

Plant, Property, and Equipment, net

The balances shown were derived as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Beginning balance	\$ 268,277	\$ 439,529	\$ 521,518
Add: acquisitions	189,131	4,600	111,760
Deduct: depreciation	<u>(161,881)</u>	<u>(175,852)</u>	<u>(193,749)</u>
Ending balance	<u>\$ 295,527</u>	<u>\$ 268,277</u>	<u>\$ 439,529</u>

LIABILITIES AND NET ASSETS

Dividend Payable

The dividends declared by the Idaho Lottery Commission for 2012, 2011 and 2010 were \$41,500,000, \$37,000,000, and \$36,500,000, respectively. The dividend is declared on or before June 30th and paid on July 1 or shortly thereafter.

Prizes Payable

The \$1,984,801 increase in prizes payable between 2012 and 2011 is primarily due to an outstanding \$1,000,000 Powerball prize winner. The prize was claimed in July 2012. The \$1,415,123 decrease in prizes payable between 2010 and 2011 is primarily due to two reasons. First, there was a significant decrease in Scratch ticket prize expense accrual at year end. Second, there had been a year end Raffle in 2010 but there was not one in 2011. The 2010 Raffle had a prizes payable amount of \$756,550 at June 30, 2010.

Management's Discussion and Analysis

Total Net Assets

Net assets represent the difference between the Lottery's total assets and its total liabilities. Net assets are 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:

	<u>2012</u>	<u>2011</u>	Change 2011 to <u>2012</u>	<u>2010</u>	Change 2010 to <u>2011</u>
Draw game sales					
Powerball	\$ 34,757,979	\$ 29,682,810	\$ 5,075,169	\$ 36,662,205	\$ (6,979,395)
Wild Card	2,105,335	2,363,022	(257,687)	3,144,771	(781,749)
Pick 3	1,774,518	1,653,267	121,251	1,639,869	13,398
Hot Lotto Sizzler	2,700,652	3,132,109	(431,457)	3,792,324	(660,215)
Double Play Daily	148,760	1,251,100	(1,102,340)	1,569,130	(318,030)
Mega Millions	14,064,660	8,962,895	5,101,765	2,623,081	6,339,814
Weekly Grand	2,713,342	-	2,713,342	-	-
Raffle	2,152,270	2,909,120	(756,850)	3,968,525	(1,059,405)
Total Draw Game Sales	<u>60,417,516</u>	<u>49,954,323</u>	<u>10,463,193</u>	<u>53,399,905</u>	<u>(3,445,582)</u>
Scratch ticket sales	99,834,885	90,627,115	9,207,770	90,647,308	(20,193)
PullTab ticket sales	2,733,759	3,079,170	(345,411)	3,186,863	(107,693)
TouchTab ticket sales	12,841,600	3,491,000	9,350,600	-	3,491,000
Total sales	<u>175,827,760</u>	<u>147,151,608</u>	<u>28,676,152</u>	<u>147,234,076</u>	<u>(82,468)</u>
Online charges	675,563	642,113	33,450	626,118	15,995
Other revenues	40,150	52,868	(12,718)	59,980	(7,112)
Total operating revenues	<u>\$ 176,543,473</u>	<u>\$ 147,846,589</u>	<u>\$ 28,696,884</u>	<u>\$ 147,920,174</u>	<u>\$ (73,585)</u>

Draw Game Sales

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

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

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

Management's Discussion and Analysis

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

In 2010, the Idaho Lottery launched sales of Mega Millions with Megaplier. Mega Millions is sold in forty four localities: forty-two states plus the District of Columbia and the U.S. Virgin Islands, with odds of winning the jackpot 1:175,711,536. The Mega Millions game is similar to Powerball but holds drawings on Tuesday and Friday, instead of Wednesday and Saturday. Mega Millions was originally launched and sold by states NOT selling Powerball. In 2010 all states came together to agree on a cross selling initiative which allowed all states to sell both of the "big games" across borders. While sales have been slower than hoped in Idaho (and other jurisdictions) we continue to be optimistic that players will eventually embrace both games and actively play big jackpot games four times a week. As with Powerball, it is important to be aware of the relationship of the jackpot and sales as illustrated in the following chart.

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

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

Scratch™ Ticket Sales

Sales are up in all categories of Scratch games. Increased profitability continues to be the focus, with efforts to shift sales from the lower price points (one to four dollar tickets) to higher price point tickets, especially those tickets selling from five to seven dollars. The more expensive games generally offer more interesting and longer play features than the simple "match three" format of many one and two-dollar games. As a result, players often feel the higher priced tickets offer more entertainment value. Scratch ticket sales by price point for the fiscal years 2012, 2011 and 2010 are as follows:

	2012		2011		2010	
One-dollar games	\$ 8,379,786	8.4%	\$ 9,098,309	10.0%	\$ 9,674,854	10.7%
Two-dollar games	8,261,000	8.3%	8,136,506	9.0%	7,833,742	8.6%
Three-dollar games	21,892,734	21.9%	19,551,435	21.6%	21,846,132	24.1%
Five-dollar games	31,794,995	31.8%	29,792,155	32.9%	26,888,570	29.7%
Ten-dollar games	14,379,970	14.4%	9,619,920	10.6%	11,939,520	13.2%
Fifteen-dollar games	-	0.0%	-	0.0%	525,450	0.6%
Twenty-dollar games	15,126,400	15.2%	14,428,790	15.9%	11,939,040	13.2%
Total sales	<u>\$ 99,834,885</u>	100.0%	<u>\$ 90,627,115</u>	100.0%	<u>\$ 90,647,308</u>	100.0%

Management's Discussion and Analysis

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Increase over prior year	\$ 9,207,770	\$ (20,193)	\$ 2,222,259

PullTab Ticket Sales

PullTab tickets, which are sold mainly in restaurants and bars, have previously represented less than 2% of the Lottery's total annual sales. Despite competition from illegal gaming machines, annual sales reached their highest in 2012 (\$15.6 million) and are continuing to trend up. Concentrated effort between the Lottery and our PullTab vendor, International Gamco, has resulted in a substantial increase in sales for 2012, and a hearty 8.9% of the mix. We continue to focus on new delivery options for our PullTab product this fiscal year, with increased installations of Gamco's paper ticket vending machines (the TabBOXX) around the state.

TouchTab PullTab Ticket Sales

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

The first phase, beyond the pilot, launched in July 2011 in additional age controlled locations that have passed our criminal and financial background checks. The Idaho Lottery expects to deliver enhanced dividends from this new product going forward, the payout to the player for this product is higher than other offerings, so the resulting profit margin is lower.

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. As of FY2007, 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 2012, 2011 and 2010 were \$95,166, \$111,140, and \$138,162, respectively.

Operating expenses

2012, 2011 and 2010 operating expenses are as follows:

	<u>2012</u>	<u>2011</u>	<u>Change 2011 to 2012</u>	<u>2010</u>	<u>Change 2010 to 2011</u>
Prizes, net of unclaimed prizes	\$ 108,862,168	\$ 90,229,948	\$18,632,220	\$ 88,276,295	\$ 1,953,653
Retailer commissions	10,412,783	8,983,146	1,429,637	8,729,172	253,974
Draw Game contractor's fees	4,019,929	3,484,683	535,246	3,394,629	90,054
Scratch tickets	1,736,331	1,641,817	94,514	1,627,084	14,733
PullTab/TouchTab tickets	1,344,779	660,524	684,255	481,946	178,578
Advertising	3,727,557	3,065,535	662,022	3,367,179	(301,644)
Salaries and benefits	2,277,965	2,395,595	(117,630)	2,449,848	(54,253)
Depreciation and amortization	161,881	175,852	(13,971)	193,749	(17,897)
Telephone and data line costs	45,963	47,024	(1,061)	56,794	(9,770)
Professional services	123,558	91,080	32,478	144,158	(53,078)
Office and equipment rental	426,746	458,629	(31,883)	555,257	(96,628)
Shipping costs	369,549	348,714	20,835	387,223	(38,509)
Supplies	68,873	66,841	2,032	96,847	(30,006)
Tribe compact	128,207	95,554	32,653	97,887	(2,333)
Other costs	345,617	257,329	88,288	345,185	(87,856)
Total operating expenses	<u>\$134,051,906</u>	<u>\$112,002,271</u>	<u>\$22,049,635</u>	<u>\$110,203,253</u>	<u>\$ 1,799,018</u>

Management's Discussion and Analysis

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, and PullTab) represents of total sales. Sales levels and mix for each of the years is represented below:

	2012		2011		2010	
Draw Game sales	\$ 60,417,516	34.4%	\$ 49,954,323	33.9%	\$ 53,399,905	36.3%
Scratch Game sales	99,834,885	56.7%	90,627,115	61.6%	90,647,308	61.5%
PullTab sales	2,733,759	1.6%	3,079,170	2.1%	3,186,863	2.2%
TouchTab sales	<u>12,841,600</u>	7.3%	<u>3,491,000</u>	2.4%	-	0.0%
Total sales	<u>\$ 175,827,760</u>	100.0%	<u>\$ 147,151,608</u>	100.0%	<u>\$ 147,234,076</u>	100.0%
Increase (decrease) from prior year	\$ 28,676,152		\$ (82,468)		\$ 7,584,895	

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

Prizes, net of unclaimed prizes

Each of the three product types, draw games, scratch, and PullTabs have differing average prize expense percentages associated with that product. The average prize percentage for each category depends upon the prize percentage of the individual games within that product type. For example, Powerball has a prize percentage of 50% (i.e. 50% of the sales go into the prize fund for Powerball); Pick 3 also has a 50% prize percentage while Mega Millions has a prize percentage of 51%, Wild Card has a prize percentage of 55%, and Weekly Grand has a prize percentage of 58.5%. The overall average prize percentage for the suite of draw products depends upon the sales mix for the three games. Similarly, most Scratch and PullTab games have different prize percentages, although they average in the range of 67-70%, with higher price point tickets generally offering a higher prize payout percentage. TouchTab games have a prize percentage of between 72-82%.

Two other prize 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.

Prize expense, net of unclaimed prizes, consisted of the following for the years 2010-2012:

2012	Sales	Prize %	Prizes
Draw ticket sales	\$ 58,265,246	50.47%	\$ 29,405,019
Scratch ticket sales	99,834,885	69.06%	68,944,539
Raffle sales	2,152,270	60.40%	1,300,000
PullTab ticket sales	2,733,759	70.15%	1,917,809
TouchTab ticket sales	12,841,600	79.59	10,220,204
Second chance draws			104,652
Unclaimed prizes			<u>(3,030,055)</u>
			<u>\$ 108,862,168</u>

Management's Discussion and Analysis

2011	<u>Sales</u>	<u>Prize %</u>	<u>Prizes</u>
Draw ticket sales	\$ 47,045,203	50.12%	\$ 23,578,831
Scratch ticket sales	90,627,115	68.74%	62,294,657
Raffle sales	2,909,120	51.26%	1,491,100
PullTab ticket sales	3,079,170	70.49%	2,170,616
TouchTab ticket sales	3,491,000	79.71%	2,782,600
Second chance draws			179,893
Unclaimed prizes			(2,267,749)
			<u>\$ 90,229,948</u>

2010	<u>Sales</u>	<u>Prize %</u>	<u>Prizes</u>
Draw ticket sales	\$ 49,431,380	50.64%	\$ 25,034,223
Scratch ticket sales	90,647,308	69.01%	62,553,558
Raffle sales	3,968,525	52.44%	2,081,225
PullTab ticket sales	3,186,863	70.15%	2,235,718
Second chance draws			63,544
Unclaimed prizes			(3,691,973)
			<u>\$ 88,276,295</u>

Retailer commissions, Scratch™ and PullTab ticket costs

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

Draw Game Contractor Fee

The draw game vendor provides the Lottery with critical hardware and software, network communications, and support personnel. GTECH Corporation was the Lottery's vendor from 1990 to 2007. In February 2007, after a lengthy competitive bidding process, the Lottery changed vendors to INTRALOT.

Outlook for the Fiscal Year ended June 30, 2012

Over the course of Fiscal Year 2012, the Idaho Lottery successfully launched Weekly Grand, a bi-weekly \$2 Draw Game and made improvements to Powerball, the longest running Draw Game in Idaho. In addition, Mega Millions experienced a new world record jackpot in March. The combined effect of these three games was realized with a \$10.4 million overall increase to Draw Game sales in FY12. Additionally, Powerball and Mega Millions combined for seven jackpot runs over \$200 million. Both Powerball and Mega Millions proved to be impressive performers with over five million dollar increases in each game. Scratch™ Games saw a 10% lift in sales with an increase of over \$9 million. This success is attributed to the careful management of the scratch game portfolio that kept popular tickets on the market with the correct price point and facings at all times. The PullTab product line was buoyed by sales generated from the TouchTab dispensing devices, although as previously mentioned, the profitability of this product has a lower margin than our other games.

With 2012 as reasonable base, the Lottery believes that FY2013 sales, in all categories, will trend up. With a jackpot winner in FY11 and the historic jackpot run in FY12, Mega Millions has gained greater brand awareness and is expected to increase the Draw Games bottom line. Weekly Grand celebrated its first anniversary in August with its 8th jackpot winner. This game has brought renewed interest in Idaho-only Draw Games and continues to outperform its predecessor, Double Play Daily. The interest for Idaho-only Draw Games is also seen with the return of the ever-popular Idaho \$1,000,000 Raffle during the holidays. These two Idaho-only games should increase Draw Game sales. Focus on scratch promotions, the continued installation of additional player activated vending machines, and player migration toward higher Scratch Game price points also make 2013 sales estimates look favorable.

Contacting the Idaho Lottery

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

Statements of Net Assets

ASSETS

CURRENT ASSETS

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 40,067,309	\$ 36,285,130
Due from MUSL	3,235,898	-
Receivables	1,425,176	1,022,466
Other	174,850	313,625
Total current assets	<u>44,903,233</u>	<u>37,621,221</u>

DEPOSITS WITH MUSL

	2,774,340	2,779,816
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PROPERTY AND EQUIPMENT, NET

	<u>295,527</u>	<u>268,277</u>
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	<u>\$ 47,973,100</u>	<u>\$ 40,669,314</u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 1,373,925	\$ 1,271,500
Dividend payable	41,500,000	37,000,000
Due to MUSL	121,941	437,778
Prizes payable	3,756,923	1,722,122
Current portion of notes payable	37,854	33,541
Total current liabilities	<u>46,790,643</u>	<u>40,514,941</u>

OTHER POST EMPLOYMENT BENEFITS

	-	69,989
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LONG-TERM NOTES PAYABLE

	<u>106,987</u>	-
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TOTAL LIABILITIES

	<u>46,897,630</u>	<u>40,584,930</u>
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NET ASSETS

Invested in capital assets	150,686	234,736
Unrestricted	<u>924,784</u>	<u>(150,352)</u>
Total net assets	<u>1,075,470</u>	<u>84,384</u>

TOTAL LIABILITIES AND NET ASSETS

	<u>\$ 47,973,100</u>	<u>\$ 40,669,314</u>
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Statements of Revenues, Expenses, and Changes in Net Assets

	2012	2011
OPERATING REVENUES		
Scratch ticket sales	99,834,885	90,627,115
Draw ticket sales	58,265,246	47,045,203
PullTab ticket sales	2,733,759	3,079,170
TouchTab ticket sales	12,841,600	3,491,000
Raffle sales	2,152,270	2,909,120
Data line charges	675,563	642,113
Other	40,150	52,868
Total operating revenues	<u>176,543,473</u>	<u>147,846,589</u>
OPERATING EXPENSES		
Prizes, net of unclaimed prizes	\$ 108,862,168	\$ 90,229,948
Retailer commissions	10,412,783	8,983,146
Gaming system services	4,019,929	3,484,683
Scratch tickets	1,736,331	1,641,817
PullTab/TouchTab tickets	1,344,779	660,524
Advertising	3,727,557	3,065,535
Salaries and benefits	2,277,965	2,395,595
Depreciation and amortization	161,881	175,852
Telephone and data line costs	45,963	47,024
Professional services	123,558	91,080
Office and equipment	426,746	458,629
Shipping costs	369,549	348,714
Supplies	68,873	66,841
Tribe compact	128,207	95,554
Other	345,617	257,329
Total operating expenses	<u>134,051,906</u>	<u>112,002,271</u>
OPERATING INCOME	<u>42,491,567</u>	<u>35,844,318</u>
NONOPERATING REVENUES		
Interest income	2,554	3,498
Interest income on funds held at the State	95,166	111,140
Interest expense	(3,035)	(1,144)
Total non operating revenue	<u>94,685</u>	<u>113,494</u>
INCOME BEFORE TRANSFERS	<u>42,586,252</u>	<u>35,957,812</u>
TRANSFERS		
State Permanent Building Fund	(17,000,000)	(17,000,000)
State Public Schools Building Fund	(17,000,000)	(17,000,000)
State Bond Equalization Fund	(7,500,000)	(3,000,000)
State general fund-interest earnings	(95,166)	(111,140)
Total transfers	<u>(41,595,166)</u>	<u>(37,111,140)</u>
CHANGE IN NET ASSETS	991,086	(1,153,328)
TOTAL NET ASSETS, BEGINNING OF YEAR	84,384	1,237,712
TOTAL NET ASSETS, ENDING OF YEAR	<u>\$ 1,075,470</u>	<u>\$ 84,384</u>

Statements of Cash Flows

	2012	2011
OPERATING ACTIVITIES		
Ticket sales	\$ 176,140,763	\$ 149,001,252
Prizes paid to winners	(110,429,102)	(91,647,584)
Commissions and payment to retailers	(10,412,783)	(8,983,146)
Paid to vendors for goods and services	(8,384,008)	(6,846,335)
Paid to vendors for promotions	(3,727,557)	(3,065,534)
Paid to employees for service	(2,332,299)	(2,371,247)
NET CASH FROM OPERATING ACTIVITIES	<u>40,855,014</u>	<u>36,087,406</u>
NON CAPITAL FINANCING ACTIVITIES		
Transfers to State Permanent Building Fund	(17,000,000)	(17,000,000)
Transfers to State Public Schools Building Fund	(17,000,000)	(17,000,000)
Transfer to Bond Equalization Fund	(3,000,000)	(2,500,000)
NET CASH USED FOR NON CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(37,000,000)</u>	<u>(36,500,000)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of equipment and software	(102,630)	(4,600)
Borrowings of long term debt	69,544	-
Principal paid on notes payable	(44,744)	(49,057)
Interest paid on notes payable	(3,035)	(1,144)
NET CASH USED BY CAPITAL FINANCING ACTIVITIES	<u>(80,865)</u>	<u>(54,801)</u>
INVESTING ACTIVITIES		
Interest income	2,554	3,498
Change in deposit with MUSL	5,476	(275,557)
NET CASH FROM (USED FOR) INVESTING ACTIVITIES	<u>8,030</u>	<u>(272,059)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,782,179	(739,454)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>36,285,130</u>	<u>37,024,584</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 40,067,309</u>	<u>\$ 36,285,130</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating income	\$ 42,491,567	\$ 35,884,318
Adjustment to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	161,881	175,852
Changes in assets and liabilities		
Receivables	(402,710)	1,154,663
Due from MUSL	(3,235,898)	-
Other assets	138,775	150,577
Accounts payable and accrued expenses	102,425	175,438
Other post employment benefits	(69,990)	4,194
Due to MUSL	(315,837)	(2,513)
Prizes payable	1,984,801	(1,415,123)
NET CASH FROM OPERATING ACTIVITIES	<u>\$ 40,855,014</u>	<u>\$ 36,087,406</u>
SUPPLEMENTAL DISCLOSURE FOR CASH FLOW INFORMATION NONCASH INVESTING, CAPITAL AND FINANCING TRANSACTIONS COPIER PURCHASED BY CAPITAL LEASE	\$ 86,500	

Notes to the Financial Statements

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Authorizing Legislation

The Idaho Lottery (the Lottery), an agency of the State of Idaho (the State), was established in November 1988 with the enactment of Title 67, Chapter 74 of the Idaho Code (the Act). The purpose of the Act is to establish a lottery to generate revenue for the State. Revenues generated by the Lottery, after allowances for prizes and expenses, are distributed to the State Permanent Building, Public School, 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. In order to conform to the reporting election made by the State, the Lottery has elected not to apply any Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989, which is an option under Governmental Accounting Standards Board No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting."

Multi-State Lottery Association

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

Revenue Recognition

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

Accounts Receivable

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

Commissions

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

Prizes

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

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

Multi-State Draw Games:

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

Wild Card – Idaho, in association with Montana, North Dakota and South Dakota, acting as a sub-organization of MUSL, participates in the Wild Card game. Prize expense represents 55% of revenues recognized for the game. Jackpot prizes are paid out as single cash payments.

Hot Lotto Sizzler – In association with the following jurisdictions: District of Columbia, Delaware, Idaho, Iowa, Kansas, Maine, Minnesota, Montana, New Hampshire, New Mexico, North Dakota, Oklahoma, South Dakota, Vermont and West Virginia, and as a sub organization of MUSL, Idaho participates in Hot Lotto. Prize expense represents 50% of revenues recognized for the game. Jackpot prizes are paid out over a twenty-four year annuity (twenty-five payments) or as a single cash payment.

Idaho Draw Games:

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

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

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

Weekly Grand – Weekly Grand is an Idaho only game launched on August 18, 2011. Weekly Grand offers a prize expense of 58.5%. This game 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, 2012 for the US Government Treasury securities and Agency securities was .73 years.

Unclaimed Prizes

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

Cash and Equivalents

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

Property and Equipment

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

Other Assets

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

Notes Payable

Notes payable as of June 30, 2012 consists of a three-year loan for the purchase of four vehicles for the Lottery sales representative fleet. The final note payment is due in April 2015. In addition, the Lottery entered into a capital lease agreement for a copier in 2012 that matures in December 2016. Notes payable as of June 30, 2011 consisted of a four-year loan for the purchase of eight vehicles for the Lottery sales representative fleet. The final note payment was due in February 2012.

Compensated Absences

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

Dividends

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

Budget

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

Estimates

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

NOTE 2 – CASH AND EQUIVALENTS

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

	2012	2011
Cash in banks	\$ 1,577,765	\$ 1,351,838
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	38,369,544	34,813,292
Total cash and equivalents	<u>\$ 40,067,309</u>	<u>\$ 36,285,130</u>

Notes to the Financial Statements

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 is fully insured by FDIC under the Transaction Account Guarantee Program.

NOTE 3 – PROPERTY AND EQUIPMENT

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

	2011	Additions	Retirements	2012
Computer equipment	\$ 548,791	\$ 32,069	\$ -	\$ 580,860
Office furniture	1,864,863	87,361	-	1,952,224
Vehicles	430,916	69,701	-	500,617
Leasehold improvements	<u>387,840</u>	<u>-</u>	<u>-</u>	<u>387,840</u>
	3,232,410	189,131	-	3,421,541
Accumulated depreciation and amortization	<u>(2,964,133)</u>	<u>(161,881)</u>	<u>-</u>	<u>(3,126,014)</u>
Property and equipment, net	<u>\$ 268,277</u>	<u>\$ 27,250</u>	<u>\$ -</u>	<u>\$ 295,527</u>

Fixed asset activity for the year ended June 30, 2011 was as follows:

	2010	Additions	Retirements	2011
Computer equipment	\$ 544,190	\$ 4,601	\$ -	\$ 548,791
Office furniture	1,864,863	-	-	1,864,863
Vehicles	430,916	-	-	430,916
Leasehold improvements	<u>387,840</u>	<u>-</u>	<u>-</u>	<u>387,840</u>
	3,227,809	4,601	-	3,232,410
Accumulated depreciation and amortization	<u>(2,788,281)</u>	<u>(175,852)</u>	<u>-</u>	<u>(2,964,133)</u>
Capital assets, net	<u>\$ 439,528</u>	<u>\$ (171,251)</u>	<u>\$ -</u>	<u>\$ 268,277</u>

Depreciation and amortization expense for the year ended June 30, 2012 and 2011 was \$161,881 and \$175,852, respectively.

NOTE 4 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	2012	2011
Trade accounts payable	\$ 587,929	\$ 456,917
Personnel costs payable	152,841	141,010
Accrued compensated absences	119,791	115,967
Deferred draw sales	<u>513,364</u>	<u>557,606</u>
Accounts payable and accrued expenses	<u>\$ 1,373,925</u>	<u>\$ 1,271,500</u>

NOTE 5 – EMPLOYEE RETIREMENT PLAN

Substantially all Lottery employees are eligible to participate in the Public Employee Retirement System of Idaho (PERSI). The PERSI Base Plan, a cost sharing multiple-employer public retirement system, was created by the Idaho State Legislature. It is a defined benefit plan requiring that both the member and the employer contribute. The plan provides benefits based on members' years of service, age, and compensation. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries. The authority to establish and amend benefit provisions is established in Idaho Code. Designed as a mandatory system for eligible state and school district employees, the legislation provided for other political subdivisions to participate by contractual agreement with PERSI. After 5 years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each month of credited service, the annual service retirement allowance is 2.0% of the average monthly salary for the highest consecutive 42 months.

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

The actuarially determined contribution requirements of the Lottery and its employees are established and may be amended by the PERSI Board of Trustees. For the year ended June 30, 2012, the required contribution rate as a percentage of covered payrolls for members was 6.23% for general members. The employer rate as a percentage of covered payroll was 10.39% for general members. The Lottery employer contributions required and paid were \$183,529, \$182,796, and \$172,146, for the years ended June 30, 2012, 2011, and 2010, respectively.

NOTE 6 – CONTRACT WITH INTRALOT

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

NOTE 7 – COMMITMENTS

The Lottery has entered into operating leases for the rental of office (expiring in December 2017), warehouse space (expiring in June 2013), and copier leases (expiring in February 2017). Both the office lease and warehouse lease are renewable at the option of the Lottery. Future lease expense for the operating leases follows:

For the year ended June 30,

2013	364,092
2014	266,561
2015	273,015
2016	279,630
2017	283,602
Thereafter	<u>140,709</u>
	<u>\$ 1,607,609</u>

Rent expense for operating leases was \$362,296 and \$388,306 for the years ended June 30, 2012 and 2011, respectively.

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS

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

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

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