

Report 15-9
July 2015

Wisconsin Lottery

Department of Revenue

STATE OF WISCONSIN



Legislative Audit Bureau ■

Wisconsin Lottery

Department of Revenue

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Joe Chrisman
State Auditor

July 7, 2015

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Cowles and Representative Kerkman:

As authorized by s. 13.94(1)(em), Wis. Stats., we have completed a financial audit of the Wisconsin Lottery, which is administered by the Department of Revenue (DOR). We have provided an unmodified opinion on the Wisconsin Lottery's fiscal year (FY) 2013-14 and FY 2012-13 financial statements. We found that the Wisconsin Lottery was in compliance with statutory spending limitations related to prizes, product information, administrative expenses, and retailer compensation.

Sales of instant and lotto tickets increased from \$566.1 million in FY 2012-13 to \$568.8 million in FY 2013-14, or by 0.5 percent. An increase of \$12.2 million in sales of instant tickets was largely offset by a decrease of \$9.5 million in sales of lotto tickets, primarily as a result of lower Powerball sales due to fewer record jackpots in FY 2013-14. Operating expenses increased in FY 2013-14 to \$408.7 million, a 1.6 percent increase from \$402.3 million in FY 2012-13.

The Wisconsin Constitution requires that net proceeds from the Wisconsin Lottery be used exclusively for property tax relief for Wisconsin residents. During FY 2013-14, lottery proceeds used for property tax relief totaled \$168.4 million. In October 2014, the Department of Administration and the Legislature's Joint Committee on Finance authorized the use of \$170.1 million in Wisconsin Lottery proceeds for property tax relief for FY 2014-15.

Although the Wisconsin Lottery took some steps to address our prior concerns, we found internal controls in administering retailer accounts could be further improved. The Wisconsin Lottery indicated it plans to address our continuing concerns.

We appreciate the courtesy and cooperation extended to us by DOR staff in completing this audit.

Respectfully submitted,

Joe Chrisman
State Auditor

JC/KE/ss

Introduction ■

The Wisconsin Lottery began operations in September 1988, after Wisconsin voters adopted a constitutional amendment in 1987 that allowed the Legislature to create a state lottery with net proceeds to be distributed for property tax relief. Since 1995, the Department of Revenue has managed the Wisconsin Lottery. As required by s. 13.94(1)(em), Wis. Stats., we have completed a financial audit of the Wisconsin Lottery and have provided an unmodified opinion on its financial statements for the years ended June 30, 2014, and June 30, 2013. We reviewed ticket sales, operating expenses, property tax relief funded by net proceeds available from the Wisconsin Lottery, and compliance with selected statutory provisions.

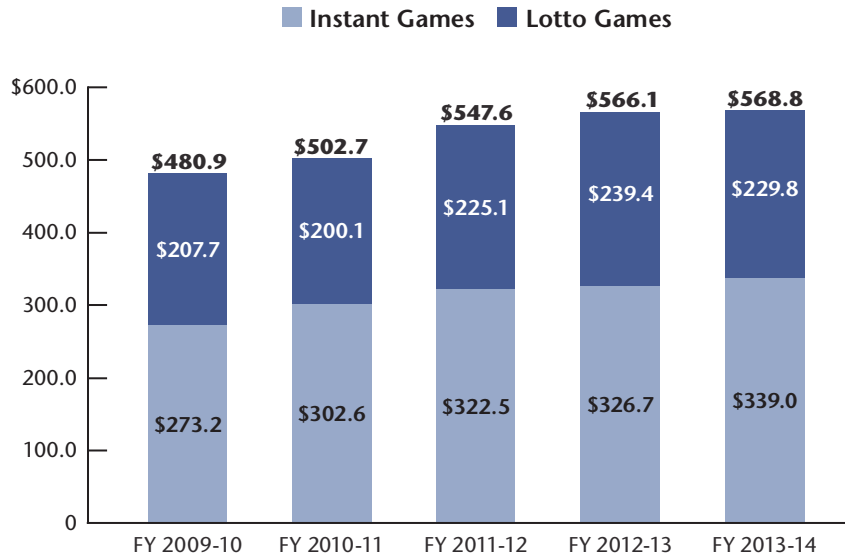
Wisconsin Lottery Ticket Sales

From FY 2012-13 to FY 2013-14, total ticket sales increased by 0.5 percent to \$568.8 million.

As shown in Figure 1, the Wisconsin Lottery's total ticket sales increased slightly from \$566.1 million in fiscal year (FY) 2012-13 to \$568.8 million in FY 2013-14, or by 0.5 percent. Sales of instant tickets, which are scratch-off and pull-tab tickets, increased by \$12.3 million, or by 3.8 percent. That increase was largely offset by a decrease of \$9.6 million, or 4.0 percent, in sales of lotto tickets, which are tickets with prizes based on the results of a drawing. This decrease was primarily the result of lower Powerball ticket sales due to fewer record jackpots than in the prior year.

Figure 1

Wisconsin Lottery Ticket Sales
(in millions)



To maximize ticket sales, and ultimately net proceeds available to fund property tax relief, the Wisconsin Lottery regularly reviews the number and types of games it offers. In February 2014, the Wisconsin Lottery first introduced \$30 scratch-off tickets to its game offerings. The new \$30 scratch-off tickets offer players the opportunity to win larger prizes than would typically be available from the less expensive scratch-off tickets offered. In April 2014, the Wisconsin Lottery launched 5 Card Cash, a new lotto game. Other than raffle games, 5 Card Cash was the first new lotto game offered by the Wisconsin Lottery since the EZ Match feature for Megabucks was added in April 2011.

Wisconsin Lottery Operating Expenses

From FY 2012-13 to FY 2013-14, Wisconsin Lottery operating expenses increased by 1.6 percent to \$408.7 million.

The Wisconsin Lottery’s largest expenses are prizes and retailer compensation, which includes commissions and incentives that are paid to retailers to promote higher ticket sales. As shown in Table 1, the Wisconsin Lottery’s operating expenses increased from \$402.3 million in FY 2012-13 to \$408.7 million in FY 2013-14, or by 1.6 percent, primarily because expenses for instant prizes increased as instant ticket sales increased.

Table 1
Wisconsin Lottery Operating Expenses
(in millions)

Operating Expense Type	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14
Prize Expenses	\$274.0	\$292.7	\$320.1	\$329.2	\$336.7
Retailer Compensation	33.3	35.3	38.2	39.2	38.4
Game Development and Production	15.4	16.5	17.4	18.2	18.0
Product Information	7.5	7.4	7.5	7.5	7.5
Other ¹	8.2	8.2	8.0	8.2	8.1
Total	\$338.4	\$360.1	\$391.2	\$402.3	\$408.7

¹ Includes staff salaries, fringe benefits, supplies and services, and depreciation.

Game development and production expenses include donated prize expense, instant game ticket printing and delivery costs and payments to GTECH Corporation, which provides a central information system to account for instant and lotto game activity and to network with retailer terminals. Game development and production expenses have generally increased in recent years as ticket sales have increased. However, despite increased ticket sales in FY 2013-14, game development and production expenses decreased slightly due to a reduction in instant game ticket printing costs. The Wisconsin Lottery paid GTECH approximately \$13.4 million in both FY 2012-13 and FY 2013-14.

The Wisconsin Lottery further extended its contract with GTECH to June 25, 2016. In May 2015, a letter of intent was issued to enter into a new contract with GTECH, which had merged with International Game Technology in April 2015. The Wisconsin Lottery anticipates that the gaming system to be provided under the new contract will be implemented in FY 2016-17.

In FY 2013-14, the Wisconsin Lottery spent \$7.5 million to provide information about its products.

The Wisconsin Constitution prohibits public funds or revenues derived from lottery operations from being spent for promotional advertising and requires that any advertising provide only information about the prize structures and chances of winning. The Wisconsin Lottery's annual product information budget, which is established through the State's biennial budget, has remained unchanged at \$7.5 million since FY 2007-08. The Wisconsin Lottery spent \$7.5 million on product information in both FY 2012-13 and FY 2013-14.

Property Tax Relief

From its inception in 1988 and through FY 2013-14, the Wisconsin Lottery has provided \$3.7 billion in property tax relief.

The Wisconsin Constitution requires that net proceeds from the Wisconsin Lottery be used exclusively for property tax relief. The proceeds are largely distributed to owners of primary residences in Wisconsin through the Lottery and Gaming Tax Credit. From its inception in 1988 and through FY 2013-14, the Wisconsin Lottery provided \$3.7 billion in property tax relief. As shown in Table 2, lottery proceeds distributed for property tax relief increased from \$155.9 million in FY 2012-13 to \$168.4 million in FY 2013-14, or by 8.0 percent.

Table 2

Wisconsin Property Tax Relief¹ (in millions)

Fiscal Year	Lottery and Gaming Tax Credit	Farmland Tax Relief Credit ²	School Levy Tax Credit ³	Total Distributed
2009-10	\$112.8	\$14.3	\$ 0	\$127.1
2010-11	129.1	0.9	14.9	144.9
2011-12	135.0	0.0	14.9	149.9
2012-13	141.0	0.0	14.9	155.9
2013-14	168.4	0.0	0.0	168.4
Total	\$686.3	\$15.2	\$44.7	\$746.2

¹ Property tax relief is funded by net proceeds from the Wisconsin Lottery and by transfers from other gaming-related appropriations, including racing and charitable bingo operations.

² Use of Wisconsin Lottery proceeds for this program was discontinued after December 2009. Small payments continue as taxpayers amend or file late tax returns.

³ General purpose revenue replaced the use of Wisconsin Lottery proceeds to fund this program beginning in FY 2013-14. Use of Wisconsin Lottery proceeds for this program was limited to FY 2010-11, FY 2011-12, and FY 2012-13.

In FY 2013-14, lottery proceeds were used solely for funding the Lottery and Gaming Tax Credit. In October 2014, the Department of Administration and the Legislature's Joint Committee on Finance authorized the use of \$170.1 million in Wisconsin Lottery proceeds for the FY 2014-15 Lottery and Gaming Tax Credit. The total distributed for property tax relief has increased each of the past five years partly due to increased ticket sales.

Statutory Requirements

State statutes impose limitations on certain types of lottery expenses. For example, s. 25.75(3)(a), Wis. Stats., requires that at least 50 percent of lottery sales be returned to players as prize payments. As shown in Table 3, the Wisconsin Lottery's prize expenses as a percentage of ticket sales have complied with the statutory requirement. Prize expenses have fluctuated because of changes in the types of games offered and played. Lotto game prize payments, which are dependent on jackpot amounts and the frequency of winners claiming prizes, tend to fluctuate more than payments for instant games.

Table 3

Prize Expenses as a Percentage of Ticket Sales (in millions)

Fiscal Year	Prize Expenses	Ticket Sales	Prize Expenses as a Percentage of Ticket Sales
2009-10	\$274.0	\$480.9	57.0%
2010-11	292.7	502.7	58.2
2011-12	320.1	547.6	58.5
2012-13	329.2	566.1	58.2
2013-14	336.7	568.8	59.2

The Wisconsin Lottery's administrative expenses were under statutory limits from FY 2009-10 through FY 2013-14.

Section 25.75(3)(b), Wis. Stats., limits certain administrative expenses to no more than 10 percent of gross lottery revenues. Gross lottery revenues for this calculation are statutorily defined to consist of instant and lotto ticket sales and retailer fees. Statutory administrative expenses include most expenses and transfers, except prize payments; retailer compensation; transfers to property tax relief; and transfers to the Department of Justice for lottery-related law enforcement activities. As shown in Table 4, the Wisconsin Lottery's administrative expenses remained under the statutory limit from FY 2009-10 through FY 2013-14.

Table 4

Administrative Expenses as a Percentage of Gross Lottery Revenues¹
(in millions)

Fiscal Year	Statutorily Defined Administrative Expenses	Statutorily Defined Gross Lottery Revenues	Percentage of Gross Lottery Revenues
2009-10	\$31.8	\$481.0	6.6%
2010-11	32.9	502.7	6.5
2011-12	33.6	547.7	6.1
2012-13	34.6	566.2	6.1
2013-14	34.3	568.9	6.0

¹ As defined by s. 25.75(1)(b) and (3)(b), Wis. Stats.

The Wisconsin Lottery spent \$4.4 million in Retailer Performance Program payments in FY 2013-14.

Statutes establish maximum compensation rates for basic commissions and performance program payments to retailers who sell lottery tickets. Basic commission rates, as established in s. 565.10(14)(b), Wis. Stats., are currently 5.5 percent of the retail price for lotto tickets and 6.25 percent for instant tickets. In addition, s. 565.02(4)(g), Wis. Stats., authorizes a performance program to provide incentives to retailers and requires that payments do not exceed 1.0 percent of total ticket sales. Table 5 shows the Wisconsin Lottery's Retailer Performance Program payments from FY 2009-10 through FY 2013-14.

Table 5

Retailer Performance Program Payments as a Percentage of Ticket Sales
(in millions)

Fiscal Year	Retailer Performance Program Payments	Ticket Sales ¹	Payments as a Percentage of Ticket Sales
2009-10	\$4.5	\$480.9	0.9%
2010-11	5.1	502.7	1.0
2011-12	5.5	547.6	1.0 ²
2012-13	5.2	566.1	0.9
2013-14	4.4	568.8	0.8

¹ Ticket sales shown here represent the total ticket sales net of allowances and discounts, which is an approximate, but smaller amount than the revenues to be used in this calculation as defined by s. 565.02(4)(g), Wis. Stats.

² In FY 2011-12, the Wisconsin Lottery exceeded the statutory limit on payments under the Retailer Performance Program by \$54,800, or 0.01 percent.

The Retailer Performance Program includes a bonus for retailers selling winning tickets, short-term incentives for retailers that increase ticket sales of certain games for specific time periods, and sales incentives for retailers that increase ticket sales. During FY 2013-14, performance payments for the sales incentive accounted for 77.2 percent of the total incentive payments, followed by winning ticket bonuses and short-term incentives accounting for 17.9 percent and 4.9 percent, respectively. The Wisconsin Lottery offered ten short-term incentives during FY 2013-14. Total payments for each of these short-term incentives ranged from \$1,095 to \$57,500, and the number of retailers who earned each of these short-term incentives ranged from 8 retailers to 2,963 retailers.

■ ■ ■ ■

Audit Opinion ■



Independent Auditor's Report on the Financial Statements and Other Reporting Required by *Government Auditing Standards*

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee

Mr. Richard G. Chandler, Secretary
Mr. Michael Edmonds, Lottery Administrator
Department of Revenue

Report on the Financial Statements

We have audited the accompanying financial statements and the related notes of the Wisconsin Lottery as of and for the years ended June 30, 2014, and June 30, 2013, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management of the Department of Revenue and the Wisconsin Lottery are 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*, which is issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the

financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the 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 opinion on these financial statements.

Opinion

In our opinion, based on our audits, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Wisconsin Lottery as of June 30, 2014, and June 30, 2013, and the respective changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the financial statements referred to in the first paragraph present only the Wisconsin Lottery and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of June 30, 2014, and June 30, 2013, the changes in its financial position, or where applicable, its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Our audits for the years ended June 30, 2014, and June 30, 2013, were conducted for the purpose of forming an opinion on the financial statements of the Wisconsin Lottery. Schedules 1, 2, and 3 on pages 54 through 56, for the years ended June 30, 2014, and June 30, 2013, are presented for purposes of additional analyses and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements for the years ended June 30, 2014, and June 30, 2013, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Wisconsin Lottery as of and for the years ended June 30, 2012, June 30, 2011, and June 30, 2010 (not presented herein), and issued reports thereon dated, July 8, 2013 (report 13-11) and June 6, 2012 (report 12-12), which contained unmodified opinions on the respective financial statements of the Wisconsin Lottery. Schedule 2, on page 55, for the year ended June 30, 2012, and Schedule 3, on page 56, for the

years ended June 30, 2012, June 30, 2011, and June 30, 2010, are presented for purposes of additional analyses and are not a required part of the financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements for the years ended June 30, 2012, June 30, 2011, and June 30, 2010. The information has been subjected to the auditing procedures applied in the audits of those financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole for the years ended June 30, 2012, June 30, 2011, and June 30, 2010.

The supplementary information included as Management's Discussion and Analysis on pages 17 through 25 is presented for purposes of additional analysis and is not a required part of the financial statements. We have applied certain limited procedures to the information that included inquiries of management about the methods of preparing the information. We further compared the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. However, 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 do so.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated July 1, 2015, on our consideration of the Department of Revenue's and Wisconsin Lottery's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, and contracts; 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 used when considering the Department of Revenue's and Wisconsin Lottery's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU



Joe Chrisman
State Auditor

July 1, 2015

Management's Discussion and Analysis ■

Prepared by Wisconsin Lottery Management

This section of the Wisconsin Lottery's financial statements presents the Wisconsin Lottery Management's Discussion and Analysis of the financial performance of the Wisconsin Lottery for the fiscal years ended June 30, 2014, and June 30, 2013, with comparative information from the fiscal year ended June 30, 2012. This discussion should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes, and this discussion are the responsibility of the Department of Revenue and Wisconsin Lottery management.

Financial Highlights

For the third year in a row, the Wisconsin Lottery had record sales. Operating revenues generated from ticket sales for the Wisconsin Lottery were \$568.8 million in fiscal year (FY) 2013-14 versus \$566.1 million in FY 2012-13, an increase of 0.5 percent. Net income before transfers was \$158.7 million for FY 2013-14, compared to \$161.3 million in FY 2012-13.

Operating expenses for FY 2013-14 increased \$6.5 million, or by 1.6 percent, primarily as a result of increased prize expenses which rise with increased sales. Office administration expenses (salaries, fringe benefits, and supplies) remained relatively constant at \$8.1 million in FY 2013-14 versus \$8.2 million in FY 2012-13.

Administrative expenses, as defined in s. 25.75(3)(b), Wis. Stats., were 6.0 percent of gross lottery revenues in FY 2013-14, well below the statutory maximum of 10.0 percent. Total statutory administrative expenses which include administrative

expenses reported in the financial statements, all program expenses except prizes and retailer compensation, and certain transfers out were \$34.3 million in FY 2013-14. This was a decrease of \$0.3 million from the FY 2012-13 total of \$34.6 million.

Understanding the Financial Statements

The Wisconsin Constitution requires that net proceeds from the operations of the Wisconsin Lottery be used to provide property tax relief. The Wisconsin Lottery is accounted for as an enterprise activity, a type of proprietary fund that reports on all of the activity's assets and liabilities using the accrual basis of accounting, much like a private business entity.

This report consists of a series of comparative financial statements, along with explanatory notes to the financial statements and supplemental schedules. The financial statements are comprised of three components:

- **Statement of Net Position**—provides detailed information on the nature and amount of the Wisconsin Lottery's assets, liabilities, and net position as of June 30, 2014, and June 30, 2013;
- **Statement of Revenues, Expenses, and Changes in Net Position**—reports the revenues and expenses incurred in relation to the sale of lottery products, as well as other non-gaming related activity for FY 2013-14 and FY 2012-13; and
- **Statement of Cash Flows**—outlines the cash inflows and outflows related to the sale of lottery products and other business related activities for FY 2013-14 and FY 2012-13.

To assess the Wisconsin Lottery's financial position and financial health, the reader of these statements should pay particular attention to the changes in the components of assets and liabilities as set forth in the Statement of Net Position, and to changes in income and expenses as set forth in the Statement of Revenues, Expenses, and Changes in Net Position, as well as the Statement of Cash Flows.

Overview of Financial Position

The Statement of Net Position provides detailed information on the nature and amount of the Wisconsin Lottery's assets, liabilities, and net position at the close of FY 2013-14 and FY 2012-13. Table A presents these data in a condensed form for the past three fiscal years. The relationship of assets to liabilities and resulting net position is one indicator of the financial condition of the Wisconsin Lottery.

Table A
Statement of Net Position
(in millions)

	June 30, 2014	Change	June 30, 2013	Change	June 30, 2012
Investments	\$41.1	\$ (5.4)	\$ 46.5	\$(7.5)	\$ 54.0
Capital Assets (Net of Accumulated Depreciation)	0.1	0.0	0.1	0.0	0.1
Other Assets	78.0	(20.1)	98.1	21.0	77.1
Total Assets	119.2	(25.5)	144.7	13.5	131.2
Current Liabilities	46.3	(10.9)	57.2	12.7	44.5
Noncurrent Liabilities	30.3	(3.8)	34.1	(3.6)	37.7
Total Liabilities	76.6	(14.7)	91.3	9.1	82.2
Net Position:					
Invested in Capital Assets	0.1	0.0	0.1	0.0	0.1
Restricted for MUSL Reserves	5.8	0.4	5.4	0.4	5.0
Restricted for Investment Fair Value Adjustment	6.1	(1.6)	7.7	(2.9)	10.6
Restricted for Property Tax Relief	30.6	(9.6)	40.2	6.9	33.3
Total Net Position	<u>\$42.6</u>	<u>\$(10.8)</u>	<u>\$ 53.4</u>	<u>\$4.4</u>	<u>\$ 49.0</u>

Assets

The Wisconsin Lottery's assets consist primarily of cash and cash equivalents, investments for prize annuities, accounts receivable, Multi-State Lottery Association (MUSL) reserve accounts, and instant ticket inventory. As shown in Table A, total assets were \$119.2 million at the end of FY 2013-14, compared to \$144.7 million at the end of FY 2012-13, and \$131.2 million at the end of FY 2011-12. The decrease in assets in FY 2013-14 is primarily due to a decrease in cash and cash equivalents of \$22.7 million, from \$68.2 million at the end of FY 2012-13 to \$45.5 million at the end of FY 2013-14. This decrease in cash and cash equivalents is due partly to an increase in transfers for property tax relief and partly to a timing difference of a FY 2012-13 transfer to the General Fund. The FY 2012-13 transfer for the School Levy Tax Credit totaling \$14.9 million was made in FY 2013-14.

Liabilities

At the end of FY 2013-14, the Wisconsin Lottery had total liabilities of \$76.6 million, compared with total liabilities of \$91.3 million at the end of FY 2012-13 and \$82.2 million at the end of FY 2011-12. Current liabilities consist primarily of accrued prizes payable, annuity prizes payable, and accounts payable due to

suppliers. Noncurrent liabilities consist primarily of annuity prizes payable more than a year beyond the date of the Statement of Net Position. Since 2007, no winners have chosen to receive their winnings in the form of an annuity. As a result, total annuity prizes payable has continued to decrease each year as existing annuitants have continued to receive their annual payments.

Another factor that contributed to the decrease in liabilities at the end of FY 2013-14 relates to the timing of a FY 2012-13 transfer to the General Fund. The transfer consisted of \$14.9 million for the School Levy Tax Credit that was paid in FY 2013-14. As a result, the \$14.9 million transfer reduced the total liability for the Wisconsin Lottery in FY 2013-14.

Net Position

The Wisconsin Lottery's total net position was \$42.6 million at the end of FY 2013-14, a \$10.8 million decrease from the prior year. The decrease in net position was primarily the result of an increase of \$12.5 million in property tax transfers in FY 2013-14. During FY 2012-13, total net position increased by \$4.4 million to \$53.4 million. Total net position was \$49.0 million at the end of FY 2011-12.

The Wisconsin Lottery's net position is generally available for property tax relief unless restricted for other uses. There are currently three other uses of the Wisconsin Lottery's net position. Amounts invested in capital assets cannot be used to provide property tax relief. Reserve accounts held by MUSL are not currently available for property tax relief. Unrealized gains or losses related to the change in the fair value of investments are not available for property tax relief because investments have been purchased for the payment of annuity prizes payable and are generally held to maturity. All remaining net position is available for property tax relief.

The Statement of Revenues, Expenses, and Changes in Net Position provides detailed information on the nature and financial impact of the Wisconsin Lottery's operations for FY 2013-14 and FY 2012-13. Table B presents data for the past three fiscal years in a condensed form.

Table B

Statement of Revenues, Expenses, and Changes in Net Position
(in millions)

	FY 2013-14	Change	FY 2012-13	Change	FY 2011-12
Revenues					
Operating Revenues:					
Ticket sales	\$568.8	\$ 2.7	\$566.1	\$18.5	\$547.6
Retailer fees and miscellaneous revenue	0.1	0.0	0.1	0.0	0.1
Nonoperating Revenues:					
Investment income (loss)	(1.5)	1.1	(2.6)	(4.4)	1.8
Miscellaneous revenue	0.0	0.0	0.0	0.0	0.0
Total Revenues	567.4	3.8	563.6	14.1	549.5
Expenses					
Program Expenses:					
Prize expenses	336.7	7.5	329.2	9.1	320.1
Retailer commissions and incentives	38.4	(0.7)	39.1	0.9	38.2
Instant and lotto vendor services	13.4	0.0	13.4	0.6	12.8
Other game-related expenses	12.1	(0.3)	12.4	0.3	12.1
Office Administration Expenses	8.1	(0.1)	8.2	0.2	8.0
Total Expenses	408.7	6.4	402.3	11.1	391.2
Net Income Before Transfers	158.7	(2.6)	161.3	3.0	158.3
Transfers					
Transfers for Property Tax Relief	(168.4)	12.5	(155.9)	6.0	(149.9)
Transfers In from General Fund	0.0	(0.1)	0.1	0.0	0.1
Transfer for Compulsive Gambling Programs	(0.4)	0.0	(0.4)	0.0	(0.4)
Transfer for Law Enforcement	(0.4)	0.0	(0.4)	0.1	(0.3)
Transfer for Lottery Credit Administration	(0.2)	0.0	(0.2)	0.0	(0.2)
Transfers Out to General Fund	(0.1)	0.0	(0.1)	0.0	(0.1)
Change in Net Position	<u>\$ (10.8)</u>	<u>\$ (15.2)</u>	<u>\$ 4.4</u>	<u>\$ (3.1)</u>	<u>\$ 7.5</u>

Revenues

Operating revenues are generated almost entirely from ticket sales. Ticket sales for the Wisconsin Lottery were \$568.8 million in FY 2013-14, \$566.1 million in

FY 2012-13, and \$547.6 million in FY 2011-12. Table C compares ticket sales for each game category for FY 2013-14, FY 2012-13, and FY 2011-12.

Table C
Wisconsin Lottery Ticket Sales
(in millions)

	FY 2013-14	Change	FY 2012-13	Change	FY 2011-12
Instant					
Scratch-off	\$337.7	\$13.7	\$324.0	\$ 3.9	\$320.1
Pull-tab	1.3	(1.4)	2.7	0.3	2.4
Total Instant Ticket Sales	339.0	12.3	326.7	4.2	322.5
Lotto					
SuperCash!	24.5	(1.1)	25.6	0.2	25.4
Powerball	86.9	(26.9)	113.8	35.6	78.2
Wisconsin's Megabucks	16.1	1.2	14.9	(6.7)	21.6
Wisconsin's Megabucks EZ Match	1.9	(0.1)	2.0	(1.2)	3.2
Daily Pick 3	24.5	0.7	23.8	(0.3)	24.1
Daily Pick 4	12.5	0.2	12.3	0.1	12.2
Badger 5	23.8	(0.6)	24.4	2.2	22.2
Mega Millions	33.9	12.3	21.6	(15.4)	37.0
5 Card Cash ¹	4.7	4.7	0.0	0.0	0.0
Raffle Games	1.0	0.0	1.0	(0.2)	1.2
Total Lotto Ticket Sales	229.8	(9.6)	239.4	14.3	225.1
Total Sales	<u>\$568.8</u>	<u>\$ 2.7</u>	<u>\$566.1</u>	<u>\$18.5</u>	<u>\$547.6</u>

¹ The Wisconsin Lottery began selling 5 Card Cash on April 6, 2014.

The sales increase in FY 2013-14 was driven by a 4.2 percent increase in the sale of scratch-off tickets. Lotto game sales decreased by \$9.6 million during FY 2013-14 following a \$14.3 million increase in FY 2012-13. Instant scratch-off ticket sales increased \$13.7 million during FY 2013-14, after increasing \$3.9 million during FY 2012-13. Pull-tab sales decreased \$1.4 million in FY 2013-14, following a \$0.3 million increase in FY 2012-13.

Expenses

Expenses consist of amounts paid in prizes, retailer commissions and incentives, fees paid to the Wisconsin Lottery's gaming system vendor (instant and lotto vendor services), other game-related expenses, and administrative expenses. In FY 2013-14, total expenses were \$408.7 million, an increase of \$6.4 million from FY 2012-13 expenses of \$402.3 million, which had increased from FY 2011-12 expenses of \$391.2 million. The increase in expenses during FY 2013-14 is primarily a result of increased prize expense driven by the increase in scratch ticket sales, which have a higher prize expense than lotto tickets.

Prizes are the Wisconsin Lottery's largest expense. Table D compares ticket prize awards for each lottery game category for FY 2013-14, FY 2012-13, and FY 2011-12.

Table D
Wisconsin Lottery Ticket Prize Awards
(in millions)

	FY 2013-14	Change	FY 2012-13	Change	FY 2011-12
Instant					
Scratch-off	\$220.6	\$11.3	\$209.3	\$2.1	\$207.2
Pull-tab	0.7	(0.9)	1.6	0.2	1.4
Super 2nd Chance ²	0.3	0.0	0.3	0.0	0.3
Total Instant Prize Awards	221.6	10.4	211.2	2.3	208.9
Lotto					
SuperCash!	13.7	0.6	13.1	(0.3)	13.4
Powerball	42.0	(13.6)	55.6	18.6	37.0
Wisconsin's Megabucks	8.5	0.7	7.8	(3.5)	11.3
Wisconsin's Megabucks EZ Match	1.2	0.0	1.2	(0.7)	1.9
Daily Pick 3	12.7	1.2	11.5	0.3	11.2
Daily Pick 4	5.6	0.1	5.5	(0.5)	6.0
Badger 5	11.5	(0.8)	12.3	1.0	11.3
Mega Millions	16.0	5.8	10.2	(7.9)	18.1
5 Card Cash ¹	3.2	3.2	0.0	0.0	0.0
Raffle Games	0.4	(0.1)	0.5	(0.2)	0.7
Super 2nd Chance ²	0.3	0.0	0.3	0.0	0.3
Total Lotto Prize Awards	115.1	(2.9)	118.0	6.8	111.2
Total	<u>\$336.7</u>	<u>\$ 7.5</u>	<u>\$329.2</u>	<u>\$9.1</u>	<u>\$320.1</u>

¹ The Wisconsin Lottery began 5 Card Cash on April 6, 2014.

² Super 2nd Chance prizes are awarded through drawings to players who send in non-winning scratch-off and lotto tickets. The prizes are funded from the sale of the scratch-off and lotto tickets.

Prizes awarded are a function of ticket sales: higher ticket sales will result in greater prize expense, while lower sales will result in lower prize expense. The change in prize expense, however, is not always perfectly proportional to sales. Each individual game has a unique prize structure, so as sales shift between the different games being offered, prize expenses can fluctuate more or less than would be expected based on the change in sales. Since FY 2013-14 saw increased sales in scratch-off tickets and lower sales in Powerball tickets, the overall prize expense rose significantly compared to overall sales. In FY 2013-14, ticket sales increased \$2.7 million while prize expense increased \$7.5 million. In FY 2012-13, ticket sales increased \$18.5 million while prize expense increased \$9.1 million. Schedule 3, which follows the Notes to the Financial Statements, shows a multi-year summary of ticket sales and their related prize expenses.

Since expenses for retailer commissions and incentives are a function of sales, they typically rise and fall with sales. However, despite the increase in sales during FY 2013-14, total retailer compensation decreased by \$0.7 million as a result of a reduction in annual incentives paid. In FY 2013-14, retailers were paid \$38.4 million in commissions and incentives, down from \$39.1 million in FY 2012-13. In FY 2011-12, retailer commissions and incentives were \$38.2 million.

The Wisconsin Lottery contracted with GTECH Corporation for an integrated gaming computer system and services (instant and lotto vendor services). In FY 2013-14, payments to GTECH were \$13.4 million. In FY 2012-13 and FY 2011-12, these payments were \$13.4 million and \$12.8 million, respectively. Initially, the Wisconsin Lottery paid GTECH 2.54 percent of total net ticket sales. In July 2009, the Wisconsin Lottery extended its contract with GTECH through June 2013. In consideration for that extension, GTECH reduced the cost of the contract by \$1.0 million per year, beginning in FY 2009-10. Therefore, beginning with FY 2009-10, the Wisconsin Lottery paid GTECH 2.54 percent of net sales, less \$1.0 million. In addition, GTECH is providing, at no additional cost, a remote, hot-site backup of the system and a data feed which can be used for business analytics. The Wisconsin Lottery further extended its contract with GTECH through June 25, 2015. The payment terms for FY 2014-15 were changed to 2.54 percent of the total net sales, less \$1,750,000.

Net Income and Transfer for Property Tax Relief

Net income before transfers was \$158.7 million in FY 2013-14, down from \$161.3 million in FY 2012-13. Net income before transfers was \$158.3 million in FY 2011-12.

As shown in Table B, the amount transferred out for property tax relief differs from net income. This is because the transfers occur before the end of the fiscal year and are based on an estimate of the total funds that will be available for distribution. The transfers out for property tax relief increased by \$12.5 million, or by 8.0 percent, during FY 2013-14, while they increased by \$6.0 million, or by 4.0 percent, during FY 2012-13.

Potential Factors Impacting Future Results

The Wisconsin Lottery's success is dependent upon its ability to effectively gauge the market for its products. The Wisconsin Lottery regularly changes its product offerings in response to consumer preferences. The Wisconsin Lottery is engaged in

a long-term growth strategy for instant scratch sales by meeting consumer demand for more games at higher price points. Sales continue to build for tickets priced \$10 and higher. While the Wisconsin Lottery makes every effort to ensure the success of its products, overall sales will be adversely affected if the Wisconsin Lottery misjudges the market.

Approximately 21.2 percent of all ticket sales in FY 2013-14 came from the two MUSL jackpot games, Powerball and Mega Millions. The sales of these games can be volatile as they are driven by the size and frequency of large jackpots, which occur randomly. For example, Powerball ticket sales rose 45.5 percent in FY 2012-13, only to drop 23.6 percent in FY 2013-14. The volatility of jackpot games makes forecasting ticket sales difficult. The Wisconsin Lottery has established a range to forecast future performance based upon past performance, but that range is broad and jackpot game sales can vary from year to year by tens of millions of dollars from estimates.

Lottery tickets are a discretionary purchase. Consequently, the Wisconsin Lottery's performance is subject to economic conditions and their impact on consumer spending. Some factors influencing consumer spending include unemployment, fuel costs, the cost of essential goods such as food, clothing, and shelter, and consumer confidence in the economy. Consumer purchases of discretionary items, such as lottery tickets, generally decline during periods when disposable income is adversely affected or when there is a lack of consumer confidence in the economy.

Contacting the Wisconsin Lottery's Financial Management

These financial statements are designed to provide the Legislature and the executive branch of government, the public, and other interested parties with an overview of the financial results of the Wisconsin Lottery's activities and to show the Wisconsin Lottery's accountability for the money it receives.

If you have questions about these financial statements, or need additional financial information, please contact:

Wisconsin Department of Revenue
Attention: Director, Bureau of Financial Management Services
Post Office Box 8931
Mailstop 6-261
Madison, Wisconsin 53708-8931
Telephone (608) 266-8469

If you have questions concerning general program information relating to the Wisconsin Lottery, please contact:

Wisconsin Department of Revenue
Attention: Director of the Wisconsin Lottery
Post Office Box 8941
Madison, Wisconsin 53708-8941
Telephone (608) 261-8800

Financial Statements ■

Statement of Net Position

June 30, 2014, and June 30, 2013

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents (Note 3)	\$ 45,460,333	\$ 68,211,676
Investments for Prize Annuities (Note 3)	6,276,986	6,254,644
Accounts Receivable (Note 4)	23,570,696	21,055,358
Due from Other State Programs (Note 4)	47,248	131,576
Ticket Inventory	1,689,501	1,755,200
MUSL Reserve Accounts (Note 9)	365,342	410,114
Prepaid Expenses	1,152,476	1,191,644
Interest Receivable	1,665	3,522
Total Current Assets	<u>78,564,247</u>	<u>99,013,734</u>
Noncurrent Assets:		
Investments for Prize Annuities (Note 3)	34,785,238	40,213,445
MUSL Reserve Accounts (Note 9)	5,795,845	5,408,056
Capital Assets: (Note 10)		
Equipment	500,527	500,527
Leasehold Improvements	159,724	159,724
Accumulated Depreciation	<u>(594,354)</u>	<u>(574,562)</u>
Total Noncurrent Assets	<u>40,646,980</u>	<u>45,707,190</u>
TOTAL ASSETS	<u>119,211,227</u>	<u>144,720,924</u>
LIABILITIES		
Current Liabilities:		
Annuity Prizes Payable (Note 5)	6,092,733	6,138,134
Prizes Payable	35,432,224	30,202,750
Accounts Payable (Note 4)	2,393,418	3,574,081
Due to Other State Programs (Note 4)	722,565	15,482,955
MUSL Payable	116,336	667,613
Unearned Revenue	915,898	754,262
Due to Other Governments (Note 4)	315,041	107,544
Accrued Payroll	117,184	117,913
Compensated Absences (Note 17)	178,372	171,944
Total Current Liabilities	<u>46,283,771</u>	<u>57,217,196</u>
Noncurrent Liabilities:		
Annuity Prizes Payable (Note 5)	29,230,783	33,092,823
Compensated Absences (Note 17)	511,428	523,294
Other Postemployment Benefits (Note 16)	<u>548,275</u>	<u>510,276</u>
Total Noncurrent Liabilities	<u>30,290,486</u>	<u>34,126,393</u>
TOTAL LIABILITIES	<u>76,574,257</u>	<u>91,343,589</u>
NET POSITION		
Net Position: (Note 14)		
Invested in Capital Assets	65,897	85,689
Restricted for MUSL Reserves	5,795,845	5,408,056
Restricted for Investment Fair Value Adjustment	6,186,000	7,737,198
Restricted for Property Tax Relief	<u>30,589,228</u>	<u>40,146,392</u>
TOTAL NET POSITION	<u>\$ 42,636,970</u>	<u>\$ 53,377,335</u>

The accompanying notes are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Net Position for the Years Ended June 30, 2014, and June 30, 2013

	<u>Year Ended June 30, 2014</u>	<u>Year Ended June 30, 2013</u>
OPERATING REVENUES		
Instant Ticket Sales (Net of Allowances of \$621,272 and \$556,377, respectively) (Note 7)	\$ 338,960,811	\$ 326,725,747
Lotto Ticket Sales (Net of Ticket Discounts of \$156,224 and \$274,274, respectively) (Note 7)	229,876,604	239,376,954
Retailer Fees	35,195	78,155
Miscellaneous Revenue	38,969	59,453
Total Operating Revenues	<u>568,911,579</u>	<u>566,240,309</u>
OPERATING EXPENSES		
Program Expenses:		
Instant Prize Expense (Note 8)	221,635,297	211,185,530
Lotto Prize Expense (Note 8)	115,059,226	118,016,139
Retailer Commissions and Incentives	38,444,174	39,141,284
Instant and Lotto Vendor Services	13,422,691	13,355,439
Product Information Costs	7,487,472	7,483,570
Instant Ticket Printing Costs	3,813,054	4,043,739
Instant Ticket Delivery Costs	804,297	803,383
Donated Prize Expense (Note 12)	4,551	3,609
Total Program Expenses	<u>400,670,762</u>	<u>394,032,693</u>
Administrative Expenses:		
Salaries and Fringe Benefits	5,470,323	5,602,465
Supplies and Services	2,559,805	2,631,356
Depreciation Expense	19,792	1,829
Total Administrative Expenses	<u>8,049,920</u>	<u>8,235,650</u>
Total Operating Expenses	<u>408,720,682</u>	<u>402,268,343</u>
NET OPERATING INCOME	160,190,897	163,971,966
NONOPERATING REVENUES (EXPENSES) AND TRANSFERS		
Investment Income (Loss) (Note 6)	(1,483,003)	(2,683,069)
Miscellaneous Revenue (Note 12)	4,551	3,609
Net Income Before Transfers	158,712,445	161,292,506
Transfers:		
Transfers of Lottery Proceeds for Property Tax Relief (Note 15)	(168,372,540)	(155,900,284)
Transfers In from General Fund (Note 18)	43,274	91,178
Transfer to Department of Health Services for Compulsive Gambling Programs	(396,000)	(396,000)
Transfer to Department of Justice for Law Enforcement	(375,078)	(359,065)
Transfer to Department of Revenue for Lottery Credit Administration	(182,801)	(154,044)
Transfers Out to General Fund (Note 19)	(169,665)	(153,560)
CHANGE IN NET POSITION	<u>(10,740,365)</u>	<u>4,420,731</u>
Total Net Position—Beginning of the Year	<u>53,377,335</u>	<u>48,956,604</u>
Total Net Position—End of the Year	<u>\$ 42,636,970</u>	<u>\$ 53,377,335</u>

The accompanying notes are an integral part of this statement.

Statement of Cash Flows for the Years Ended June 30, 2014, and June 30, 2013

	Year Ended June 30, 2014	Year Ended June 30, 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Retailers	\$ 566,619,804	\$ 563,602,042
Cash Paid for Prizes	(337,458,156)	(337,518,371)
Cash Paid for Retailer Commissions and Incentives	(38,988,914)	(39,078,952)
Cash Paid/Received for MUSL Reserve Accounts	(341,048)	(426,530)
Cash Paid to Employees	(5,441,864)	(5,532,896)
Cash Paid to Suppliers	(29,205,035)	(28,651,369)
Net Cash Provided by Operating Activities	155,184,787	152,393,924
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers of Proceeds for Property Tax Credit	(183,222,540)	(141,047,451)
Transfer of Proceeds for Law Enforcement	(397,038)	(335,094)
Transfer of Proceeds for Lottery Credit Administration	(182,148)	(157,416)
Transfer of Proceeds for Compulsive Gambling Programs	(396,000)	(396,000)
Transfers to the General Fund	(169,665)	(153,560)
Transfers from the General Fund	91,178	102,317
Net Cash Used by Noncapital Financing Activities	(184,276,213)	(141,987,204)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash Paid for Purchase of Equipment	0	(21,423)
Net Cash Used by Capital and Related Financing Activities	0	(21,423)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	68,083	125,991
Cash Received for Redemption of Bonds	6,272,000	7,382,000
Net Cash Provided by Investing Activities	6,340,083	7,507,991
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(22,751,343)	17,893,288
Cash and Cash Equivalents—Beginning of the Year	68,211,676	50,318,388
Cash and Cash Equivalents—End of the Year	\$ 45,460,333	\$ 68,211,676

	Year Ended June 30, 2014	Year Ended June 30, 2013
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net Operating Income	\$ 160,190,897	\$ 163,971,966
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:		
Depreciation Expense	19,792	1,829
Noncash Donated Prize Expense	4,551	3,609
Changes in Assets and Liabilities:		
Decrease (Increase) in Accounts Receivable	(2,515,338)	(2,223,021)
Decrease (Increase) in MUSL Reserve Accounts	(341,048)	(426,530)
Decrease (Increase) in Ticket Inventory	65,699	(139,615)
Decrease (Increase) in Prepaid Expenses	39,169	(357,512)
Decrease (Increase) in Due from Other State Programs	36,424	(32,142)
Increase (Decrease) in Prizes Payable	(1,095,300)	(7,783,518)
Increase (Decrease) in Unearned Revenue	161,636	62,165
Increase (Decrease) in Due to Other State Programs	112,091	79,421
Increase (Decrease) in Accounts Payable	(1,181,271)	(137,330)
Increase (Decrease) in MUSL Payable	(551,277)	(702,350)
Increase (Decrease) in Due to Other Governments	206,932	11,004
Increase (Decrease) in Accrued Payroll	(730)	2,623
Increase (Decrease) in Compensated Absences	(5,438)	38,619
Increase (Decrease) in Other Postemployment Benefits	37,998	24,706
Total Adjustments	<u>(5,006,110)</u>	<u>(11,578,042)</u>
Net Cash Provided by Operating Activities	<u>\$ 155,184,787</u>	<u>\$ 152,393,924</u>
Noncash Activities:		
Net Change in Unrealized Gains and Losses	\$ (1,551,197)	\$ (2,809,378)
Increase in Fair Value of Investments for Prize Annuities and Annuities Payable Due to Amortization	2,417,332	2,699,299

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements ■

1. DESCRIPTION OF THE WISCONSIN LOTTERY

Wisconsin voters authorized the creation of a lottery by the passage of a constitutional amendment, by a 65 percent to 35 percent margin, on April 7, 1987. The Wisconsin Constitution requires that the net proceeds from Wisconsin Lottery operations be used to provide local property tax relief. The Wisconsin Lottery was created in December 1987 and sold its first ticket on September 14, 1988. The Lottery is administered by the Lottery Division within the Department of Revenue. During FY 2013-14 and FY 2012-13, the Wisconsin Lottery sold instant games, including scratch-off and pull-tab tickets, and lotto games. Lotto games have drawings to determine winning tickets, which include raffle tickets and tickets produced from a terminal located at a retailer's place of business (e.g., Powerball, Badger 5).

Since June 1989, the Wisconsin Lottery has been a member of MUSL. In FY 2013-14 and FY 2012-13, as a member of MUSL, the Wisconsin Lottery participated in two national lotto games: Powerball (start date April 19, 1992) and Mega Millions (start date January 31, 2010). See Note 9 for information about MUSL.

During FY 2013-14 and FY 2012-13, the Wisconsin Lottery also sold tickets for six Wisconsin lotto games: SuperCash! (start date February 4, 1991), Wisconsin's Megabucks (start date June 20, 1992), Daily Pick 3 (start date September 21, 1992), Daily Pick 4 (start date September 15, 1997), Badger 5 (start date February 17, 2003), and 5 Card Cash (start date April 6, 2014). The EZ Match feature for Megabucks was added on April 3, 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity and Basis of Presentation

The financial statements of the Wisconsin Lottery have been prepared in conformance with generally accepted accounting principles (GAAP) for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). These statements present the financial position and results of operations of only the activity of the Wisconsin Lottery and are not intended to present the financial activity for the State of Wisconsin as a whole. The Wisconsin Lottery is accounted for within the Lottery Fund, which is part of the State of Wisconsin financial reporting entity. The Wisconsin Lottery's stand-alone financial statements do not include the Lottery Fund appropriations from which the property tax credit disbursements are made. However, funding for these appropriations is reported on the Statement of Revenues, Expenses, and Changes in Net Position as "Transfers Out."

B. Measurement Focus and Basis of Accounting

The accompanying financial statements were prepared based upon the flow of economic resources and full accrual basis of accounting. With this measurement focus, all assets and liabilities associated with the operation of the Wisconsin Lottery are included on the Statement of Net Position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

The Statement of Revenues, Expenses, and Changes in Net Position classifies the Wisconsin Lottery's activities as either operating or nonoperating. Because the Lottery Fund is an enterprise fund, which is a type of proprietary fund, it accounts for operations in a manner similar to private businesses in which operating revenues are derived from exchange transactions, such as sales. Operating expenses include the costs of sales, administrative expenses, and depreciation on capital assets. Certain revenues and expenses that are not related to the Wisconsin Lottery's primary purpose, such as investment income, are reported as nonoperating revenues and expenses.

The State of Wisconsin monitors and records financial transactions on the State's central accounting system using the budgetary basis of accounting. A reconciliation between the budgetary basis and the accrual basis of accounting for the Wisconsin Lottery's general operations expenses is shown in Schedule 1.

GASB issued Statement Number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective beginning in FY 2012-13. The objective of this statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources as required elements of the financial statements. The implementation of this statement did not impact the

financial position of the Wisconsin Lottery. However, the adoption of this statement resulted in presentation changes to replace Net Assets with Net Position on the financial statements.

GASB issued Statement Number 65, *Items Previously Reported as Assets and Liabilities*, effective beginning in FY 2013-14. The objective of this statement is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources or inflows of resources. The Wisconsin Lottery did not have any items to classify or recognize as deferred outflows of resources or deferred inflows of resources.

C. Cash and Cash Equivalents

Cash and cash equivalents reported on the Statement of Net Position and on the Statement of Cash Flows include cash deposited in the State's bank and the Wisconsin Lottery's pro rata share of the State Investment Fund, which is a short-term pool of state and local funds managed by the State of Wisconsin Investment Board. Balances pooled in the State Investment Fund are restricted to legally stipulated investments valued consistent with GASB Statement Number 31.

D. Investments for Prize Annuities

Investments for prize annuities consist entirely of securities backed by the full faith and credit of the United States government or its agencies. The securities finance jackpot prizes that are payable as annuities over a 20-year or 25-year period and are scheduled to mature near the time prize payments become payable to winners. These investments are reported at fair value consistent with the provisions of GASB Statement Number 31. Fair value is determined using quoted market prices.

E. Accounts Receivable

Accounts receivable balances primarily represent amounts due from Wisconsin Lottery retailers. Receivables are recorded when instant tickets are sold to retailers. Payments for instant ticket orders are typically due in four weeks, except for nonprofit organizations that typically have payments due within a week. Receivables are recorded for lotto games when retailers sell lotto tickets and have payments due within a week. The Wisconsin Lottery collects receivables weekly from retailer deposit accounts.

F. Due to or from Other State Programs

During the course of operations, numerous transactions for goods provided or services rendered occur among individual state programs. The Statement of Net Position classifies these receivables and payables as "Due from Other State Programs" or "Due to Other State Programs."

G. Ticket Inventory

Ticket inventory consists of ticket printing costs and related royalty fees for instant tickets of games in progress that have not yet been sold or shipped, and tickets for new games. The tickets are valued at cost using the first in–first out (FIFO) method. The cost of tickets sold is charged to operations. Unused tickets are charged to operations in the fiscal year the game ends or at the end of ticket distribution for a given game, whichever occurs first.

H. Capital Assets

Tangible assets purchased for \$5,000 or more and intangible assets that have a cost or value greater than \$100,000 are capitalized and recorded at historic cost. As applicable, assets are depreciated using the straight-line method according to the following schedule:

	<u>Estimated Life</u>
Leasehold Improvements	10 years
Office Furniture and Security Equipment	10 years
Printing and Microfilming Equipment	7 years
Office, Computer, and Data Processing Equipment	5 years
Personal Computers	4 years

I. Prizes Payable and Annuity Prizes Payable

For lotto games, a liability is recognized at the time the drawing is held. For instant ticket games, a liability is recognized at the time tickets are sold to retailers. For additional information on annuity prizes payable, see Note 5.

J. Unearned Revenue

Retailers have the right to return unsold instant scratch-off tickets to the Wisconsin Lottery for a refund at any time prior to the game end date. Therefore, receivables and cash collected in advance of these ticket sales represent a contingent liability of the Wisconsin Lottery. A sales allowance estimate is made for the portion of the tickets that may be returned based on historical information on unsold tickets returned by the retailers and is reported as unearned revenue.

Depending on the game, lotto tickets may be sold for up to eight future drawings. Lotto ticket revenue is recognized at the time the related drawings are held. All ticket sales for future drawings are reported as unearned revenue.

K. Compensated Absences

The Wisconsin Lottery's compensated absence liability consists of accumulated unpaid leave, compensatory time, personal holiday hours, and Saturday/legal holiday hours earned and vested as of June 30.

L. Ticket Sales Revenue

Ticket sales are made to the public through licensed retail sales agents.

Instant scratch-off ticket revenues are recognized when tickets are sold to the retailers. Retail sales agents have the right to return unsold instant scratch-off tickets for a full refund. Consequently, instant scratch-off ticket sales are reduced through a sales allowance estimate, based on historical information of unsold tickets returned by the retailers. See Note 2J for more information about accounting for the retailers' right to return scratch-off tickets.

Revenues for pull-tab games are recognized upon sale of the tickets to the retail sales agents. No right of return exists for instant pull-tab tickets.

Ticket revenues for lotto games are recognized at the time the related drawings are held. The Wisconsin Lottery occasionally features lotto game promotions that offer bonus tickets, such as six tickets for the price of five. Revenue is recognized for all tickets sold, and a sales discount is used to record the value of the bonus tickets.

M. Prize Expenses

In accordance with s. 25.75(3)(a), Wis. Stats., at least 50.0 percent of Wisconsin Lottery sales must be returned in the form of prizes. Prizes may be claimed for a period of 180 days after the drawing for lotto games, or 180 days from the declaration of the end of a game for instant games. A summary of prize expenses is shown in Schedule 3.

N. Retailer Commissions

Retailer commissions, which are classified as program expenses, are set by statute and are 5.5 percent for lotto ticket sales and 6.25 percent for instant scratch-off and instant pull-tab tickets. Nonprofit organizations receive higher commissions.

O. Retailer Performance Program

In addition to the retailer commissions discussed in Note 2N, the Wisconsin Lottery administers an incentive program for retailers that meet certain performance goals identified by the Wisconsin Lottery. This program began on January 1, 2000. Retailers must be in good standing and sell instant tickets to participate in the program, which has a winning ticket component, a short-term incentive component, and a sales goals incentive component. The total compensation provided to all retailers under the components of the program may not exceed 1.0 percent of gross revenues from the sale of lotto and instant tickets.

Under the winning ticket component, participating retailers that sell a winning scratch-off or lotto game ticket of \$600 or more receive a 2.0 percent commission of the prize award, up to a maximum of \$100,000 per winning ticket. In the event of a pari-mutuel drawing with a large jackpot shared by multiple winning tickets, retailers can earn total compensation up to a maximum of \$300,000. Winning ticket incentive payments are made weekly.

Short-term incentives are offered throughout the year for predefined periods. They focus on supporting one product or category of ticket products. Each incentive has a predetermined goal, which lottery retailers must achieve to receive additional compensation. The aggregate amount of payments to retailers for a short-term incentive is limited to \$300,000 per incentive.

The sales goals incentive allows participating retailers to earn additional commissions based on increased sales. Subject to certain restrictions and allowances, retailers earn up to 2.0 percent of the increase in quarterly sales compared to sales of the previous quarter for instant tickets and certain non-jackpot lotto games (SuperCash!, Daily Pick 3, Daily Pick 4, Badger 5, and 5 Card Cash). These payments are made quarterly. Retailers also earn up to 10.0 percent of the increase in annual sales over the previous year. Due to the variability of sales of jackpot lotto games (Wisconsin's Megabucks, Mega Millions, and Powerball) and raffle games, sales goals incentive payments for these games are made annually. The annual payments may be limited to ensure that total payments do not exceed the statutory cap of 1.0 percent of gross instant and lotto ticket sales.

P. Administrative Expenses

Section 25.75(3)(b), Wis. Stats., limits the Wisconsin Lottery's statutory administrative expenses to 10.0 percent of gross lottery revenues. A summary of statutory administrative expenses and related calculations of the administrative expense limit is included in Schedule 2.

Q. Disbursement of Lottery Proceeds for Property Tax Relief

The Department of Revenue disburses net lottery proceeds through two statutory credits: the Lottery and Gaming Tax Credit and the Farmland Tax Relief Credit. The disbursement of net lottery proceeds through a third credit, the School Levy Tax Credit, ended in FY 2012-13. The Department of Administration, with the approval of the Legislature's Joint Committee on Finance, determines the annual amount available for distribution as the Lottery and Gaming Tax Credit in a given fiscal year. However, the amount to be disbursed is determined by November, well before the end of the fiscal year. The credit is based on the prior year's balance carryover and estimated sales for the current year.

The Farmland Tax Relief Credit is distributed to eligible individual and corporate taxpayers by the Department of Revenue. Payments are disbursed throughout the year. The Farmland Tax Relief Credit was discontinued for taxable years after December 31, 2009, as per s. 20.835(2)(q), Wis. Stats. However, claims are still being processed on amended returns and late returns.

The School Levy Tax Credit is paid to municipalities on the fourth Monday in July. Beginning in FY 2010-11 and through FY 2012-13, Wisconsin Statutes required that \$14,850,000 be transferred annually from the Lottery Fund to cover a portion of the School Levy Tax Credit.

R. Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Accordingly, actual results could differ from those estimates.

3. DEPOSITS AND INVESTMENTS

The Wisconsin Lottery's cash and cash equivalents balance consists of cash deposited in the State's bank and shares in the State Investment Fund, which is a short-term pool of state and local funds managed by the State of Wisconsin Investment Board (SWIB) with oversight by its Board of Trustees. The carrying amount of shares in the State Investment Fund, which approximates fair value, was \$45,460,000 as of June 30, 2014, and \$68,212,000 as of June 30, 2013.

The State Investment Fund is not registered with the U.S. Securities and Exchange Commission. The various types of securities in which the State Investment Fund may invest are enumerated in s. 25.17(3)(b), (ba), (bd), and (dg), Wis. Stats., and include direct obligations of the United States or its agencies, corporations wholly owned by the United States or chartered by an act of Congress, securities guaranteed by the United States, unsecured notes of financial and industrial issuers, direct obligations of or guaranteed by the government of Canada, certificates of deposit issued by banks in the United States and solvent financial institutions in Wisconsin, and bankers acceptances. SWIB trustees may specifically approve other prudent legal investments.

The Wisconsin Lottery manages its investments for prize annuities separately from the cash and investment activities of the State Investment Fund. The investments held by the Wisconsin Lottery have been purchased to finance jackpot prizes that are payable as annuities over a 20-year or 25-year period

and consist entirely of securities backed by the full faith and credit of the United States government or its agencies. These investments are held by the Wisconsin Lottery and are scheduled to mature near the time prize payments become payable to winners.

Credit Risk—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. While the Wisconsin Lottery does not have a formal policy regarding its investments for prize annuities, it has chosen to follow MUSL’s policy that requires all investments for prize annuities to be in the form of securities backed by the full faith and credit of the United States government or its agencies, which are not considered to have credit risk. All of the Wisconsin Lottery’s total investments for prize annuities balance as of June 30, 2014, and June 30, 2013, consist of these types of securities.

The shares of the State Investment Fund classified as cash and cash equivalents are unrated. However, the State Investment Fund’s investment guidelines establish specific maximum exposure limits by security type based on the minimum credit ratings as issued by nationally recognized statistical rating organizations.

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment or a deposit. Typically, this risk is higher in debt securities with longer maturities. The Wisconsin Lottery manages this risk by holding investments for prize annuities to maturity, at which time the fair value of the investment is equal to its stated maturity value. If an annuitant requests premature termination of an annuity that would necessitate an investment be redeemed prior to maturity, any loss or gain due to market fluctuations is passed through to the redeeming annuitant. Therefore, the Wisconsin Lottery has minimal interest rate risk exposure related to these investments, which consisted of U.S. Treasury and agency investments with the following maturities as of June 30, 2014, and June 30, 2013:

<u>Maturity</u>	<u>Fair Value as of June 30, 2014</u>	<u>Fair Value as of June 30, 2013</u>
Less than 1 Year	\$ 6,276,986	\$ 6,254,644
1 to 5 Years	21,625,586	23,349,978
6 to 10 Years	11,728,621	15,076,641
More than 10 Years	<u>1,431,031</u>	<u>1,786,826</u>
Total	<u>\$41,062,224</u>	<u>\$46,468,089</u>

The State Investment Fund uses the weighted average maturity method to analyze interest rate risk. Its investment guidelines mandate that the weighted average maturity for the entire portfolio not exceed one year. The weighted average maturity of the entire State Investment Fund was 88 days as of June 30, 2014, and 34 days as of June 30, 2013.

4. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE BALANCES

Accounts receivable and accounts payable balances are disaggregated as follows:

A. Accounts Receivable

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Accounts Receivable:		
Retailers	\$23,569,092	\$21,054,066
Miscellaneous	<u>1,604</u>	<u>1,292</u>
Total Accounts Receivable	<u>\$23,570,696</u>	<u>\$21,055,358</u>
Due from Other State Programs:		
Transfers for Gaming	\$43,274	\$ 91,178
Miscellaneous	<u>3,974</u>	<u>40,398</u>
Total Due from Other State Programs	<u>\$47,248</u>	<u>\$131,576</u>

B. Accounts Payable

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Accounts Payable:		
Vendors	\$2,329,448	\$ 3,510,349
Lottery Credit Administration	45,629	44,381
Law Enforcement	196	836
Miscellaneous	<u>18,145</u>	<u>18,515</u>
Total Accounts Payable	<u>\$2,393,418</u>	<u>\$ 3,574,081</u>
Due to Other State Programs:		
Farmland Tax Relief Credit	\$ 663	\$ 803
Employee Fringe Benefits	69,177	74,290
Withholding on Prizes	300,633	313,755
Lottery Credit Administration	13,209	10,096
Law Enforcement	16,125	32,668
School Levy Tax Credit	0	14,850,000
Other State Programs	<u>322,758</u>	<u>201,343</u>
Total Due to Other State Programs	<u>\$722,565</u>	<u>\$15,482,955</u>
Due to Other Governments:		
Employee Fringe Benefits	\$ 38,708	\$ 40,244
Withholding on Prizes	272,735	64,267
Lottery Credit Administration	1,283	622
Law Enforcement	2,315	2,411
Supplies	<u>0</u>	<u>0</u>
Total Due to Other Governments	<u>\$315,041</u>	<u>\$107,544</u>

5. ANNUITY PRIZES PAYABLE

The Wisconsin Lottery has an unconditional obligation to pay all prize winners the future value of their prizes. The present value of future jackpot prize payment obligations is included in the financial statements as “annuity prizes payable.” To finance the annuity prize payments, the Wisconsin Lottery purchases, or has acquired from MUSL, investments scheduled to mature near the time prize payments become payable to the winners. See Note 3 for information related to the investments for prize annuities. Each year, an adjustment to the annuity prizes payable account is made using the effective interest method. The amortization of annuity adjustment was \$2,417,332 for FY 2013-14 and \$2,699,299 for FY 2012-13.

Future prize payments and the present value of those payments are as follows:

Fiscal Year Ended June 30	Future Payments as of June 30, 2014	Future Payments as of June 30, 2013
2014	\$ 0	\$ 6,325,237
2015	6,273,871	6,273,871
2016	6,149,499	6,149,499
2017	6,343,036	6,343,036
2018	5,607,653	5,607,653
2019	4,566,071	4,566,071
Subsequent Years	<u>16,257,448</u>	<u>16,257,448</u>
Total Future Prize Payments	45,197,578	51,522,815
Less: Present Value Adjustment	<u>9,874,062</u>	<u>12,291,858</u>
Present Value of Future Prize Payments	<u>\$35,323,516</u>	<u>\$39,230,957</u>

Annuity prizes payable activity for the fiscal years ended June 30, 2014, and June 30, 2013, was as follows:

Fiscal Year	Beginning Balance	Increases	Decreases	Ending Balance	Due within One Year
2013-14	\$39,230,957	\$2,417,332	\$(6,324,773)	\$35,323,516	\$6,092,733
2012-13	43,860,289	2,699,299	(7,328,631)	39,230,957	6,138,134

6. INVESTMENT INCOME (LOSS)

The investment income (loss) shown on the financial statements consists of several elements, as follows:

<u>Change in Fair Value:</u>	<u>FY 2013-14</u>	<u>FY 2012-13</u>
Net Increase (Decrease) in Fair Value of Annuity Investments	\$ 866,135	\$ (110,079)
Less: The Portion of the Increase (Decrease) in Fair Value of Annuity Investments Offset by the Increase in Annuity Prizes Payable from Amortization	<u>(2,417,332)</u>	<u>(2,699,299)</u>
Net Increase (Decrease) in Fair Value Recognized as Investment Income (Loss)	<u>(1,551,197)</u>	<u>(2,809,378)</u>
 <u>Interest Income:</u>		
Interest from State Investment Fund	63,341	122,096
Interest from MUSL Reserve Accounts	1,970	1,526
Miscellaneous Interest	<u>2,883</u>	<u>2,687</u>
Total Interest Income	<u>68,194</u>	<u>126,309</u>
Total Investment Income (Loss)	<u>\$(1,483,003)</u>	<u>\$(2,683,069)</u>

GASB Statement Number 31 requires investments to be reported at fair value, with the increases or decreases in fair value recognized as investment income (loss). In addition, the Wisconsin Lottery earns interest on its shares invested in the State Investment Fund and on its share of the MUSL reserve accounts. For additional information on MUSL reserve accounts, see Note 9.

7. INSTANT AND LOTTO TICKET SALES

Instant and lotto ticket sales shown on the financial statements consist of the following:

	<u>FY 2013-14</u>	<u>FY 2012-13</u>
Instant Ticket Sales:		
Scratch-off	\$337,699,578	\$324,035,688
Pull-tab	<u>1,261,233</u>	<u>2,690,059</u>
Total Instant Ticket Sales	<u>\$338,960,811</u>	<u>\$326,725,747</u>
Lotto Ticket Sales:		
SuperCash!	\$ 24,520,298	\$ 25,623,051
Powerball	86,902,617	113,782,641
Wisconsin's Megabucks	16,122,233	14,947,431
Wisconsin's Megabucks EZ Match	1,937,581	2,064,519
Daily Pick 3	24,493,344	23,840,032
Daily Pick 4	12,561,236	12,360,681
Badger 5	23,829,788	24,405,998
Mega Millions	33,943,178	21,634,551
5 Card Cash	4,843,422	0
Raffle Games	886,140	1,000,000
General Sales and Discounts	<u>(163,233)</u>	<u>(281,950)</u>
Total Lotto Ticket Sales	<u>\$229,876,604</u>	<u>\$239,376,954</u>

8. INSTANT AND LOTTO PRIZE EXPENSE

Instant and lotto prize expenses shown on the financial statements consist of the following:

	<u>FY 2013-14</u>	<u>FY 2012-13</u>
Instant Prize Expense:		
Scratch-off	\$220,611,369	\$209,290,537
Pull-tab	763,928	1,634,993
Super 2 nd Chance ¹	<u>260,000</u>	<u>260,000</u>
Total Instant Prize Expense	<u>\$221,635,297</u>	<u>\$211,185,530</u>
Lotto Prize Expense:		
SuperCash!	\$13,721,364	\$13,072,808
Powerball	41,947,640	55,601,653
Wisconsin's Megabucks	8,506,112	7,834,754
Wisconsin's Megabucks EZ Match	1,181,531	1,248,286
Daily Pick 3	12,713,550	11,485,450
Daily Pick 4	5,625,200	5,495,500
Badger 5	11,539,882	12,302,162
Mega Millions	15,989,257	10,229,926
5 Card Cash	3,193,970	0
Raffle Games	380,720	485,600
Super 2 nd Chance ¹	<u>260,000</u>	<u>260,000</u>
Total Lotto Prize Expense	<u>\$115,059,226</u>	<u>\$118,016,139</u>

¹ There are no sales for the Super 2nd Chance drawing. Players enter the drawing by submitting non-winning tickets. Prizes are funded from the original sale of tickets.

9. MULTI-STATE LOTTERY ASSOCIATION**A. Joint Venture Association**

The Wisconsin Lottery is a member of the Multi-State Lottery Association (MUSL), a nonprofit, government-benefit voluntary association. As of June 30, 2014, MUSL had 37 member lotteries from 34 states, the District of Columbia, the U.S. Virgin Islands, and Puerto Rico. MUSL is owned and operated by the member lotteries, which sell one or more games administered by MUSL. MUSL is controlled by its Board of Directors, consisting of the director or chief executive officer of each member lottery. Each MUSL member sells tickets through its licensed retailers and makes weekly wire transfers to MUSL in an amount equivalent to the member lottery's share of the weekly prize liability less the actual low-tier prize liability for tickets sold by the respective lottery. The Wisconsin Lottery participates in two MUSL games, Powerball and Mega Millions.

B. MUSL Financial Position and Activity

The following schedule presents the summarized audited financial position and activity of MUSL as of June 30, 2014, and June 30, 2013, as audited by other auditors.

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Total Assets	<u>\$706,151,292</u>	<u>\$554,027,998</u>
Total Liabilities	\$695,948,415	\$542,003,963
Total Unrestricted Net Assets	<u>10,202,877</u>	<u>12,024,035</u>
Total Liabilities and Net Assets	<u>\$706,151,292</u>	<u>\$554,027,998</u>
Total Revenues	\$ 3,170,118	\$17,258,740
Total Expenses	<u>(4,991,276)</u>	<u>(5,389,927)</u>
Increase (Decrease) in Unrestricted Net Assets	<u>\$(1,821,158)</u>	<u>\$11,868,813</u>

Complete separate financial statements for MUSL may be obtained from:

Multi-State Lottery Association
 Attention: Charles Strutt
 4400 NW Urbandale Drive
 Urbandale, Iowa 50322

C. Wisconsin Lottery’s MUSL Balances

Lotteries participating in Powerball and Mega Millions transfer 50.0 percent of ticket sales, less actual low-tier prizes, to MUSL for prize pools and reserve accounts for each game. Member lotteries were required to transfer an additional 1.5 percent of Mega Millions sales until April 2, 2013, when MUSL reduced the additional transfer to 1.0 percent of Mega Millions sales (excluding Megaplier sales). Beginning April 1, 2014, this additional transfer requirement was eliminated.

Participating lotteries do not have rights to balances in the prize pool. Therefore, these funds are not reported as assets on the Wisconsin Lottery’s financial statements. However, member lotteries have the right to a refund of their share of Prize Reserve Account balances if they withdraw from MUSL. The Wisconsin Lottery reports the total of its MUSL Prize Reserve Accounts as a restricted noncurrent asset (MUSL Reserve Accounts—Noncurrent).

In addition, each member lottery has an Unreserved Account, which accumulates interest earned on MUSL Prize Reserve Accounts and the

Unreserved Account in excess of MUSL's administrative expenses. Unreserved Accounts may be withdrawn by member lotteries at any time and the Wisconsin Lottery records its share of the balance of this account as an unrestricted current asset (MUSL Reserve Accounts—Current).

The total MUSL Reserve and Unreserved Accounts balances are made up of the following:

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Powerball Set Prize Reserve Account	\$1,291,909	\$1,176,967
Powerball Prize Reserve Account	2,830,648	2,769,731
Mega Millions Prize Reserve Account	1,336,042	1,065,045
Unreserved Account	<u>702,588</u>	<u>806,427</u>
Total MUSL Reserve Accounts	<u>\$6,161,187</u>	<u>\$5,818,170</u>

In FY 2012-13, the Wisconsin Lottery designated \$396,313 of its Unreserved Account balance to pay MUSL for its allocated share of acquisitions costs related to a patent obtained by MUSL. Because these funds are reserved for a specific purpose, the Wisconsin Lottery records this amount as a restricted noncurrent asset (MUSL Reserve Accounts—Noncurrent). At the end of FY 2013-14, the Wisconsin Lottery's remaining share of the cost was \$337,246.

10. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Leasehold Improvements	\$159,724	\$ 0	\$ 0	\$159,724
Equipment	<u>500,527</u>	<u>0</u>	<u>0</u>	<u>500,527</u>
Total Capital Assets at Historical Cost	<u>660,251</u>	<u>0</u>	<u>0</u>	<u>660,251</u>
Less Accumulated Depreciation for:				
Leasehold Improvements	113,280	0	0	113,280
Equipment	<u>461,282</u>	<u>19,792</u>	<u>0</u>	<u>481,074</u>
Total Accumulated Depreciation	<u>574,562</u>	<u>19,792</u>	<u>0</u>	<u>594,354</u>
Total Capital Assets, Net	<u>\$ 85,689</u>	<u>\$(19,792)</u>	<u>\$ 0</u>	<u>\$ 65,897</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Leasehold Improvements	\$159,724	\$ 0	\$ 0	\$159,724
Equipment	<u>799,778</u>	<u>28,688</u>	<u>(327,939)</u>	<u>500,527</u>
Total Capital Assets at Historical Cost	<u>959,502</u>	<u>28,688</u>	<u>(327,939)</u>	<u>660,251</u>
Less Accumulated Depreciation for:				
Leasehold Improvements	112,801	479	0	113,280
Equipment	<u>780,605</u>	<u>8,616</u>	<u>(327,939)</u>	<u>461,282</u>
Total Accumulated Depreciation	<u>893,406</u>	<u>9,095</u>	<u>(327,939)</u>	<u>574,562</u>
Total Capital Assets, Net	<u>\$ 66,096</u>	<u>\$19,593</u>	<u>\$ 0</u>	<u>\$ 85,689</u>

11. OPERATING LEASES

The Wisconsin Lottery occupied a facility in Madison for storage and instant ticket operations under an operating lease during FY 2013-14 and FY 2012-13. The following schedule summarizes the future minimum lease payments required under the operating lease for this facility, which was initially a five-year lease that ran until August 31, 2009, with two optional three-year extensions. The Wisconsin Lottery exercised the first of these renewals effective February 2009, extending the lease through August 31, 2012. On June 28, 2012, the lease was amended to extend the term for five years, commencing on September 1, 2012, and ending on August 31, 2017, with an optional five-year extension.

Fiscal Year Ended June 30	Future Payments as of June 30, 2014	Future Payments as of June 30, 2013
2014	\$ 0	\$147,098
2015	148,532	148,532
2016	150,009	150,009
2017	151,530	151,530
2018	<u>25,297</u>	<u>25,297</u>
Total Minimum Lease Payments Required	<u>\$475,368</u>	<u>\$622,466</u>

Total operating lease expense amounted to \$147,098 for the fiscal year ended June 30, 2014, and \$146,576 for the fiscal year ended June 30, 2013.

12. DONATIONS

Periodically, the Wisconsin Lottery executes agreements with vendors that provide, as part of those agreements, items to the Wisconsin Lottery at no additional charge. For example, the Wisconsin Lottery may agree to use a vendor's name in the marketing of its games, and in turn, the vendors may provide donated items, which the Wisconsin Lottery uses for game prizes, special events, or additional incentives to retailers. Other items that could be provided include brochures, posters, and various other marketing materials that are used to support a game.

The total value of these items was \$4,551 for FY 2013-14 and \$3,609 for FY 2012-13. All donated items received in FY 2013-14 and FY 2012-13 were used as game prizes, special events, or additional incentives to retailers and are recorded as "Donated Prize Expense" and nonoperating "Miscellaneous Revenue" on the financial statements.

13. CONTRACTUAL OBLIGATIONS

A. Scratch-off Tickets

In October 2009, the Wisconsin Lottery signed contracts for scratch-off ticket printing services with three vendors: Scientific Games International, Inc.; GTECH Printing Corporation; and Pollard Banknote Ltd. These three contracts are for the period November 1, 2009, through October 31, 2011, with three one-year renewal options for each contract. Each of these contracts has been renewed through October 31, 2015. The Wisconsin Lottery purchased ticket printing services of approximately \$3.6 million in FY 2013-14 and approximately \$3.6 million in FY 2012-13 under these contracts.

B. Pull-tab Tickets

In October 2009, the Wisconsin Lottery signed contracts for pull-tab ticket printing services with three vendors: Arrow International; International Gamco, Inc.; and Pollard Banknote Ltd. These three contracts to print pull-tab tickets are for the period November 1, 2009, through October 31, 2011, with three one-year renewal options for each contract. The contracts with International Gamco, Inc., and Pollard Banknote Ltd., were renewed through October 31, 2014. The Wisconsin Lottery subsequently entered into a new two-year contract with Pollard Banknote Ltd. that expires on February 28, 2017, but includes four one-year renewal options. The Wisconsin Lottery purchased ticket printing services of approximately \$29,388 in FY 2013-14 and approximately \$95,100 in FY 2012-13 under these contracts.

C. Gaming System Vendor

The Wisconsin Lottery has a contract with GTECH Corporation that supports a network of approximately 4,000 locations where lottery games are sold. The expiration date in the original contract was June 25, 2011, and the Wisconsin Lottery exercised its option to renew the contract for two one-year periods through June 25, 2013. Subsequently, the Wisconsin Lottery amended the current contract, extending it through June 25, 2016.

Under the current contract, during FY 2013-14 and FY 2012-13, GTECH received 2.54 percent of the price of each ticket sold, less \$1.0 million per each fiscal year, offset by liquidated damages due to the Wisconsin Lottery. The Wisconsin Lottery may assess liquidated damages for various processing complications (such as computer failures or “downtime” for the Wisconsin Lottery or its retailers, failure to install new games in a timely manner, and computer system reports not being available in a timely manner). GTECH gives the Wisconsin Lottery credit on the next month’s invoice for any liquidated damages of the previous month. Net payments to GTECH under this contract were approximately \$13.4 million in FY 2013-14 and approximately \$13.4 million in FY 2012-13. In April 2015, GTECH completed a merger with International Game Technology. GTECH, a Delaware corporation, remains a subsidiary of the merged entity, now called International Game Technology PLC. GTECH will fulfill the remaining term of the current contract. In May 2015, a letter of intent was issued to enter into a new contract with GTECH for a gaming system anticipated to be implemented in FY 2016-17.

D. Product Information Costs

The Wisconsin Lottery primarily contracts with HY Connect to provide informational advertising services. The Wisconsin Lottery signed a two-year contract with HY Connect starting July 12, 2010, with an option to renew for three additional one-year periods. The current contract was renewed through July 11, 2015, and HY Connect is anticipated to continue providing informational advertising services subsequent to this date under a new contract with the Wisconsin Lottery. Payments under this contract were \$7.3 million during both FY 2013-14 and FY 2012-13 and total spending on product information costs was approximately \$7.5 million during both FY 2013-14 and FY 2012-13.

14. RESTRICTED NET POSITION

The Wisconsin Lottery has a restricted net position related to capital assets of \$65,897 as of June 30, 2014, and \$85,689 as of June 30, 2013. The portion of restricted net position related to capital assets is reported in detail in Note 10.

The Wisconsin Lottery also has a restricted net position related to the MUSL reserves as described in Note 9. Restricted net position related to the MUSL reserves was \$5,795,845 as of June 30, 2014, and \$5,408,056 as of June 30, 2013.

In addition, the Wisconsin Lottery has a restricted net position for fair value adjustments of investments of \$6,186,000 as of June 30, 2014, and \$7,737,198 as of June 30, 2013. The Wisconsin Lottery does not realize gains or losses from the change in fair value of its annuity investments because it holds the investments until maturity to pay the annual annuity prize payments. Therefore, fair value adjustments recognized as investment income as a result of applying GASB Statement Number 31, and any cash held for annuity prize payments, are restricted and are not available for distribution as property tax credits.

Finally, the Wisconsin Constitution requires net proceeds from the operations of the Wisconsin Lottery to be used to provide local property tax relief. In addition, balances from other gaming-related appropriations, including racing and charitable bingo operations, are transferred to the Lottery Fund for distribution in the form of property tax relief. The net proceeds and gaming-related transfers available for property tax relief make up the remainder of the restricted net position and were \$30,589,228 as of June 30, 2014, and \$40,146,392 as of June 30, 2013.

15. DISTRIBUTION OF NET PROCEEDS

Wisconsin Lottery net proceeds and other gaming-related proceeds were used for the following purposes, as discussed in Note 2Q:

	<u>FY 2013-14</u>	<u>FY 2012-13</u>
Lottery and Gaming Tax Credit	\$168,365,817	\$141,021,671
Farmland Tax Relief Credit	6,723	28,613
School Levy Tax Credit	<u>0</u>	<u>14,850,000</u>
Total Property Tax Relief Credits	<u>\$168,372,540</u>	<u>\$155,900,284</u>

16. EMPLOYEE RETIREMENT PLAN AND OTHER POSTEMPLOYMENT BENEFITS

Permanent employees of the Wisconsin Lottery are participants in the Wisconsin Retirement System, a cost-sharing, multiple-employer, defined benefit plan governed by ch. 40, Wis. Stats. State and local government public employees are entitled to an annual formula retirement benefit based on: 1) the employee’s final average earnings, 2) years of creditable service, and 3) a formula factor. If an employee’s contributions, matching employer’s contributions, and interest credited to the employee’s account exceed the value of the formula benefit, the retirement benefit may instead be calculated

as a money purchase benefit. The Wisconsin Retirement System is considered part of the State of Wisconsin’s financial reporting entity.

Generally, the State’s policy is to fund retirement contributions on a level-percentage-of-payroll basis to meet normal and prior service costs of the retirement system. Prior service costs were amortized over 40 years beginning January 2, 1990. However, in December 2003 the State issued bonds and subsequently fully liquidated its prior service liability balance as of January 2003. In addition, state agencies are required to make future contributions to fund the bond’s debt service.

Required employee and employer contributions, which are equal to specified percentages of qualified earnings based on the employee’s classification, are determined annually. Effective the first day of the first pay period on or after June 29, 2011, the Wisconsin Lottery is no longer permitted to pay any portion of the employee contributions. The Wisconsin Lottery’s employer contributions to the plan were \$307,297 for FY 2013-14 and \$292,488 for FY 2012-13. The relative position of the Wisconsin Lottery in the Wisconsin Retirement System is not available because the Wisconsin Retirement System is a statewide, multi-employer plan.

In accordance with the provisions of GASB Statement Number 45, the State is required to report other postemployment benefit (OPEB) expenses, which the Wisconsin Lottery reports as part of salaries and fringe benefits expenses, and related liabilities in the financial statements and notes. OPEBs include such items as the implicit rate subsidy of retiree health insurance present in the contribution rates for existing employees under the State’s Health Insurance Program, and the postemployment coverage in the State’s Life Insurance Program. Health insurance OPEB activity attributable to the Wisconsin Lottery for the fiscal years ended June 30, 2014, and June 30, 2013, was as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
2013-14	\$510,276	\$41,815	\$(3,816)	\$548,275	\$0
2012-13	485,570	24,706	0	510,276	0

The portion of contributions to the State’s Life Insurance Program attributable to the Wisconsin Lottery is not readily determinable because this is a statewide, multiple-employer plan. Copies of the separately issued financial reports of the Wisconsin Retirement System and the State’s Life Insurance Program are available on the Department of Employee Trust Funds’ website, <http://etf.wi.gov>. The disclosures for the State’s Health Insurance Program are included in the State’s Comprehensive Annual Financial Report, available on the Department of Administration’s website, <http://www.doa.wi.gov>.

17. COMPENSATED ABSENCES

Compensated absence activity for the fiscal years ended June 30, 2014, and June 30, 2013, was as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
2013-14	\$695,238	\$166,506	\$(171,944)	\$689,800	\$178,372
2012-13	656,618	198,812	(160,192)	695,238	171,944

18. TRANSFERS IN FROM GENERAL FUND

Under Wisconsin Statutes, the unencumbered balances and related interest for the following appropriations are to be transferred to the Wisconsin Lottery at the end of the fiscal year: the appropriation under s. 20.435(5)(kg), Wis. Stats., for the Department of Health Services’ compulsive gambling awareness campaigns; the appropriation under s. 20.455(2)(g), Wis. Stats., for the Department of Justice’s gaming law enforcement; and the appropriations under s. 20.505(8)(g) and (jm), Wis. Stats., for general operations of the Department of Administration’s Division of Gaming related to racing and bingo. The Wisconsin Lottery received \$43,274 from these transfers in FY 2013-14 and \$91,178 from these transfers in FY 2012-13.

19. TRANSFERS OUT TO GENERAL FUND

SECTION 9101(9) and (9q) of 2003 Wisconsin Act 33 gave the State of Wisconsin authority to issue annual appropriation bonds to pay off certain unfunded liabilities in the pension and other employee benefit programs. Section 16.529, Wis. Stats., requires state agencies to make certain transfers to the General Fund. The Wisconsin Lottery transferred \$169,665 in FY 2013-14 and \$153,560 in FY 2012-13 for this purpose.



Supplementary Schedules ■

Reconciliation of Lottery General Operations Expenses to the Budgetary Basis of Accounting for the Years Ended June 30, 2014, and June 30, 2013

	Year Ended June 30, 2014	Year Ended June 30, 2013
SALARIES AND FRINGE BENEFITS		
Per Financial Statement	\$ 5,470,323	\$ 5,602,465
Adjustments to Financial Statement Balance:		
Cash Paid in FY 2012-13 but Expensed in FY 2011-12	0	1,142,188
Cash Paid in FY 2013-14 but Expensed in FY 2012-13	1,205,514	(1,205,514)
Cash Paid in FY 2014-15 but Expensed in FY 2013-14	(1,238,075)	0
Reclassified Fringe Benefits to Transfer Out to General Fund	150,947	136,219
Budgetary Basis—Salaries and Fringe Benefits	\$ 5,588,709	\$ 5,675,358
SUPPLIES AND SERVICES AND PERMANENT PROPERTY		
Per Financial Statement:		
Product Information Costs	\$ 7,487,472	\$ 7,483,570
Instant Ticket Printing Costs	3,813,054	4,043,739
Instant Ticket Delivery Costs	804,297	803,383
Donated Prize Expense	4,551	3,609
Supplies and Services	2,559,805	2,631,356
Depreciation Expense	19,792	1,829
Total per Financial Statement	14,688,971	14,967,486
Adjustments to Financial Statement Balance:		
Depreciation Expense	(19,792)	(1,829)
Donated Prize Expense	(4,551)	(3,609)
Cash Paid in FY 2011-12 but Expensed in FY 2012-13	0	(1,959,516)
Cash Paid in FY 2012-13 but Expensed in FY 2013-14	(2,041,502)	2,041,502
Cash Paid in FY 2013-14 but Expensed in FY 2014-15	2,182,445	0
Cash Paid in FY 2013-14 but Expensed in FY 2012-13	91,300	(91,300)
Cash Paid in FY 2014-15 but Expensed in FY 2013-14	(59,760)	0
FY 2013-14 expense Incorrectly Recorded Net of Revenue in WiSMART	(9,378)	0
Compulsive Gambling Payment Not Included Above	396,000	396,000
Capitalized Permanent Property Less Disposals	0	21,423
Budgetary Basis—Supplies and Services and Permanent Property	\$ 15,223,733	\$ 15,370,157

Statutorily Defined Lottery Administrative Expenses for the Years Ended June 30, 2014, June 30, 2013, and June 30, 2012

	<u>Year Ended June 30, 2014</u>	<u>Year Ended June 30, 2013</u>	<u>Year Ended June 30, 2012</u>
ADMINISTRATIVE EXPENSES			
Instant and Lotto Vendor Services	\$ 13,422,691	\$ 13,355,439	\$ 12,828,631
Product Information Costs	7,487,472	7,483,570	7,497,836
Instant Ticket Printing Costs	3,813,054	4,043,739	3,766,851
Instant Ticket Delivery Costs	804,297	803,383	776,016
Salaries and Fringe Benefits	5,470,323	5,602,465	5,356,653
Supplies and Services	2,559,805	2,631,356	2,624,039
Depreciation Expense	19,792	1,829	36,615
Transfer to Department of Health Services for Compulsive Gambling Programs	396,000	396,000	396,000
Transfer to Department of Revenue for Lottery Credit Administration	182,801	154,044	151,371
Transfers Out to General Fund	<u>169,665</u>	<u>153,560</u>	<u>131,205</u>
Total Administrative Expenses as Determined in Accordance with s. 25.75(3)(b), Wis. Stats.	<u>\$ 34,325,900</u>	<u>\$ 34,625,385</u>	<u>\$ 33,565,217</u>
Gross Lottery Revenues per s. 25.75(1)(b), Wis. Stats.	<u>\$ 568,872,610</u>	<u>\$ 566,180,856</u>	<u>\$ 547,679,209</u>
Administrative Expenses as a Percentage of Gross Lottery Revenues	6.03%	6.12%	6.13%

Section 25.75(3)(b), Wis. Stats., limits the Wisconsin Lottery's administrative expenses to 10 percent of gross lottery revenues. Gross lottery revenues, as defined in s. 25.75(1)(b), Wis. Stats., include lottery ticket sales and retailer fees. Administrative expenses, as defined in s. 25.75(3)(b), Wis. Stats., do not include retailer commissions and incentives and transfers to the Department of Justice for law enforcement.

NOTE: All above amounts are based on the accrual basis of accounting.

Summary of Prize Expenses for the Years Ended June 30, 2010, through June 30, 2014

Section 25.75(3)(a), Wis. Stats., requires that at least 50 percent of each year's revenues from the sale of lottery tickets be returned as prizes to the holders of winning lottery tickets. The amounts expensed for winning lottery tickets for the past five years, for both instant and lotto games, are summarized below.

	Fiscal Year 2013-14		
	<u>Prize Expense</u>	<u>Ticket Sales</u>	<u>Prize Expense as a Percentage of Sales</u>
Instant Games	\$ 221,635,297	\$ 338,960,811	65.4%
Lotto Games	115,059,226	229,876,604	50.1
Total for Fiscal Year	\$ 336,694,523	\$ 568,837,415	59.2

	Fiscal Year 2012-13		
	<u>Prize Expense</u>	<u>Ticket Sales</u>	<u>Prize Expense as a Percentage of Sales</u>
Instant Games	\$ 211,185,530	\$ 326,725,747	64.6%
Lotto Games	118,016,139	239,376,954	49.3
Total for Fiscal Year	\$ 329,201,669	\$ 566,102,701	58.2

	Fiscal Year 2011-12		
	<u>Prize Expense</u>	<u>Ticket Sales</u>	<u>Prize Expense as a Percentage of Sales</u>
Instant Games	\$ 208,922,382	\$ 322,482,041	64.8%
Lotto Games	111,192,993	225,158,693	49.4
Total for Fiscal Year	\$ 320,115,375	\$ 547,640,734	58.5

	Fiscal Year 2010-11		
	<u>Prize Expense</u>	<u>Ticket Sales</u>	<u>Prize Expense as a Percentage of Sales</u>
Instant Games	\$ 194,621,768	\$ 302,521,074	64.3%
Lotto Games	98,035,772	200,130,712	49.0
Total for Fiscal Year	\$ 292,657,540	\$ 502,651,786	58.2

	Fiscal Year 2009-10		
	<u>Prize Expense</u>	<u>Ticket Sales</u>	<u>Prize Expense as a Percentage of Sales</u>
Instant Games	\$ 173,852,506	\$ 273,271,670	63.6%
Lotto Games	100,155,657	207,670,334	48.2
Total for Fiscal Year	\$ 274,008,163	\$ 480,942,004	57.0

NOTE: The above amounts are based on the accrual basis of accounting, with adjustments made to prize expense for unclaimed winning tickets and reserve accounts. For each game, the prize structure represents the number, value, and odds of winning for each prize and is used to estimate the expected amounts to be paid to lottery winners. The games' actual prizes (prize expense) may be less than the games' structures because of unclaimed winning tickets and deposits in reserve accounts.

Auditor's Report ■



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee

Mr. Richard G. Chandler, Secretary
Mr. Michael Edmonds, Lottery Administrator
Department of Revenue

We have audited the financial statements and the related notes of the Wisconsin Lottery as of and for the years ended June 30, 2014, and June 30, 2013, and have issued our report thereon dated July 1, 2015. 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*, which is issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Department of Revenue and the Wisconsin Lottery are responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audits of the financial statements, we considered the Department of Revenue's and Wisconsin Lottery's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department of Revenue's and Wisconsin Lottery's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department of Revenue's and Wisconsin Lottery's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent misstatements, or to detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the Wisconsin Lottery's financial statements will not be prevented, or that a material misstatement will not be detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Wisconsin Lottery's financial statements are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain additional matters during our prior audit related to the Wisconsin Lottery's segregation of duties in administering retailer accounts. Although the Wisconsin Lottery took some steps to address these matters, our FY 2013-14 audit found that these concerns had not been fully addressed. We have separately communicated our continuing concerns to management and management agreed with our recommendations.

Purpose of This Report

This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department of Revenue's and the Wisconsin Lottery's internal control and compliance. The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Department of Revenue's and the Wisconsin Lottery's internal control or on compliance. Accordingly, this report is not suitable for any other purpose.

LEGISLATIVE AUDIT BUREAU



Joe Chrisman
State Auditor

July 1, 2015

