

**Report 14-10  
August 2014**

# **Wisconsin Lottery**

*Department of Revenue*

STATE OF WISCONSIN



Legislative Audit Bureau ■



# **Wisconsin Lottery**

*Department of Revenue*

## **Joint Legislative Audit Committee Members**

Senate Members:

Robert Cowles, Co-chairperson  
Mary Lazich  
Alberta Darling  
Kathleen Vinehout  
John Lehman

Assembly Members:

Samantha Kerkman, Co-chairperson  
Howard Marklein  
John Nygren  
Jon Richards  
Melissa Sargent

## LEGISLATIVE AUDIT BUREAU

---

**State Auditor**  
Joe Chrisman

**Financial Audit  
Director**  
Sherry Haakenson

**Supervisor**  
Shellee Bauknecht

**Legislative Auditors**  
Roger Brandstetter  
Michelle Hoehne  
Joseph Westby

**Publications and  
Design Coordinator**  
Susan Skowronski

The Bureau is a nonpartisan legislative service agency responsible for conducting financial and program evaluation audits of state agencies. The Bureau's purpose is to provide assurance to the Legislature that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law and that state agencies carry out the policies of the Legislature and the Governor. Audit Bureau reports typically contain reviews of financial transactions, analyses of agency performance or public policy issues, conclusions regarding the causes of problems found, and recommendations for improvement.

Reports are submitted to the Joint Legislative Audit Committee and made available to other committees of the Legislature and to the public. The Audit Committee may arrange public hearings on the issues identified in a report and may introduce legislation in response to the audit recommendations. However, the findings, conclusions, and recommendations in the report are those of the Legislative Audit Bureau.

---

The Bureau accepts confidential tips about fraud, waste, and mismanagement in any Wisconsin state agency or program through its hotline at 1-877-FRAUD-17.

For more information, visit [www.legis.wisconsin.gov/lab](http://www.legis.wisconsin.gov/lab).



Contact the Bureau at 22 East Mifflin Street, Suite 500, Madison, Wisconsin 53703; [leg.audit.info@legis.wisconsin.gov](mailto:leg.audit.info@legis.wisconsin.gov); or (608) 266-2818.

# CONTENTS

---

<b>Letter of Transmittal</b>	<b>1</b>
<b>Introduction</b>	<b>3</b>
Wisconsin Lottery Ticket Sales	3
Wisconsin Lottery Expenses	4
Wisconsin Lottery Staffing	6
Property Tax Relief	6
Statutory Requirements	7
<b>Audit Opinion</b>	<b>11</b>
<b>Management's Discussion and Analysis</b>	<b>17</b>
<b>Financial Statements</b>	<b>27</b>
Statement of Net Position as of June 30, 2013, and June 30, 2012	28
Statement of Revenues, Expenses, and Changes in Net Position for the Years Ended June 30, 2013, and June 30, 2012	29
Statement of Cash Flows for the Years Ended June 30, 2013, and June 30, 2012	30
<b>Notes to the Financial Statements</b>	<b>33</b>
<b>Supplementary Schedules</b>	<b>53</b>
Schedule 1—Reconciliation of Lottery General Operation Expenses to the Budgetary Basis of Accounting for the Years Ended June 30, 2013, and June 30, 2012	54
Schedule 2—Statutorily Defined Lottery Administrative Expenses for the Years Ended June 30, 2013, June 30, 2012, and June 30, 2011	55
Schedule 3—Summary of Prize Expenses for the Years Ended June 30, 2009, through June 30, 2013	56
<b>Auditor's Report</b>	<b>57</b>





**STATE OF WISCONSIN**  
**Legislative Audit Bureau**

22 East Mifflin Street, Suite 500  
Madison, Wisconsin 53703  
(608) 266-2818  
Fax (608) 267-0410

[www.legis.wisconsin.gov/lab](http://www.legis.wisconsin.gov/lab)

Toll-free hotline: 1-877-FRAUD-17

Joe Chrisman  
State Auditor

August 15, 2014

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) 2012-13 and FY 2011-12 financial statements. We also 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 \$547.6 million in FY 2011-12 to \$566.1 million in FY 2012-13, or by 3.4 percent. This increase is primarily attributed to record Powerball jackpots. As ticket sales increased during FY 2012-13, so did the Wisconsin Lottery's operating expenses. There were 86.7 full-time equivalent authorized positions for the Wisconsin Lottery as of July 2013.

The Wisconsin Constitution requires that net proceeds from the Wisconsin Lottery be used exclusively for property tax relief for Wisconsin residents. During FY 2012-13, lottery proceeds used for property tax relief totaled \$155.9 million. On November 1, 2013, the Department of Administration and the Legislature's Joint Committee on Finance authorized the use of \$171.4 million in Wisconsin Lottery proceeds for FY 2013-14.

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

Respectfully submitted,

Joe Chrisman  
State Auditor

JC/SH/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 (DOR) 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 issued an unmodified opinion on its financial statements for the years ended June 30, 2013, and June 30, 2012. We reviewed operating expenses, property tax relief funded by net proceeds available from the Wisconsin Lottery, and compliance with selected statutory provisions.

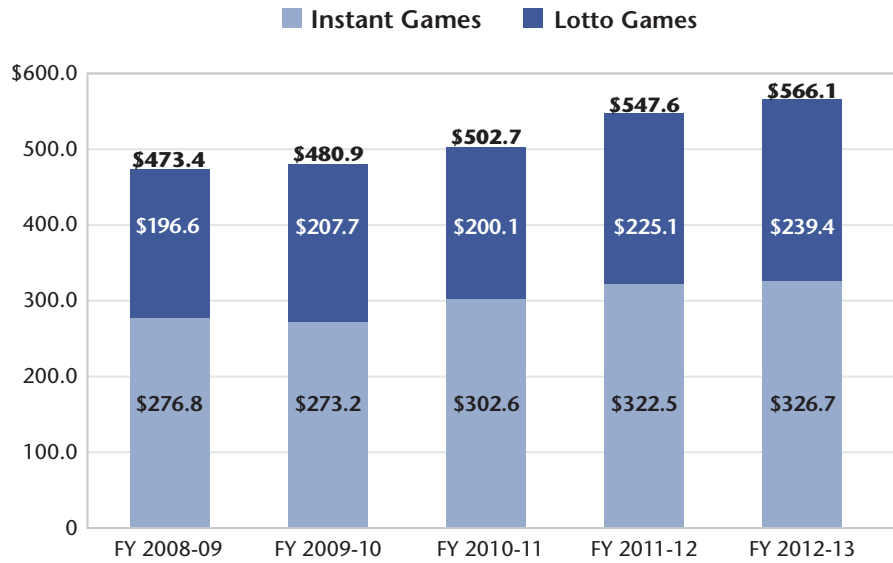
### Wisconsin Lottery Ticket Sales

***Total ticket sales were \$566.1 million in FY 2012-13 and increased by 3.4 percent compared to the prior year.***

As shown in Figure 1, the Wisconsin Lottery's total ticket sales increased from \$547.6 million in fiscal year (FY) 2011-12 to \$566.1 million in FY 2012-13, or by 3.4 percent. Sales of lotto tickets, which are tickets with prizes based on the results of a drawing, increased \$14.3 million, or by 6.4 percent. This increase was primarily the result of higher Powerball ticket sales when there were record jackpots. During the same period, sales of instant tickets, which are scratch-off and pull-tab tickets, increased \$4.2 million, or by 1.3 percent.

Figure 1

**Wisconsin Lottery Ticket Sales**  
(in millions)



**Wisconsin Lottery Expenses**

***In FY 2012-13, Wisconsin Lottery expenses were \$402.3 million and increased by 2.8 percent compared to the prior year.***

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 \$391.2 million in FY 2011-12 to \$402.3 million in FY 2012-13, or by 2.8 percent, primarily because expenses for prizes and retailer compensation increased as ticket sales increased.

Table 1

**Wisconsin Lottery Expenses**  
(in millions)

Expense Type	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Prize Expenses	\$280.2	\$274.0	\$292.7	\$320.1	\$329.2
Retailer Compensation	32.4	33.3	35.3	38.2	39.2
Game Development and Production	16.2	15.4	16.5	17.4	18.2
Product Information	7.4	7.5	7.4	7.5	7.5
Other <sup>1</sup>	8.6	8.2	8.2	8.0	8.2
<b>Total</b>	<b>\$344.8</b>	<b>\$338.4</b>	<b>\$360.1</b>	<b>\$391.2</b>	<b>\$402.3</b>

<sup>1</sup> Includes staff salaries, fringe benefits, supplies and services, and depreciation expenses.

Game development and production expenses include 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 increased in recent years as ticket sales increased. The Wisconsin Lottery paid GTECH Corporation \$12.8 million in FY 2011-12 and \$13.4 million in FY 2012-13.

The Wisconsin Lottery's contract with GTECH Corporation was to expire in June 2013. However, the Wisconsin Lottery received approval from the Department of Administration to extend the contract to June 25, 2015, as it develops specifications for an official bid. Because an official bid has not yet been released, it is anticipated that the Wisconsin Lottery will seek approval to further extend its contract with GTECH Corporation beyond June 25, 2015.

***In FY 2012-13, 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 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. In FY 2012-13, the Wisconsin Lottery spent \$7.5 million on product information.

## Wisconsin Lottery Staffing

***In July 2013, the Wisconsin Lottery was authorized 86.7 FTE positions.***

The number of full-time (FTE) positions authorized for the Wisconsin Lottery decreased from 92.2 in July 2009 to 86.7 in July 2013. Some of the Wisconsin Lottery's authorized positions are located in other divisions within DOR. These positions, including staff in DOR's budget office, spend part of their time supporting the operation of the Wisconsin Lottery. In July 2013, 13.25 FTE positions were located in divisions other than the Wisconsin Lottery. Included in the July 2013 staffing total are 4.0 FTE administrative positions that were authorized by 2013 Wisconsin Act 20, the 2013-15 Biennial Budget Act. Through May 2014, two of these positions had been filled.

## Property Tax Relief

***From its inception in 1988 through FY 2012-13, the Wisconsin Lottery has provided \$3.5 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 and the School Levy Tax Credit. From its inception in 1988 through FY 2012-13, the Wisconsin Lottery provided \$3.5 billion in property tax relief. As shown in Table 2, lottery proceeds distributed for property tax relief increased from \$149.9 million in FY 2011-12 to \$155.9 million in FY 2012-13, or by 4.0 percent.

Table 2

### Wisconsin Property Tax Relief<sup>1</sup> (in millions)

Fiscal Year	Lottery and Gaming Tax Credit	Farmland Tax Relief Credit <sup>2</sup>	School Levy Tax Credit	Total Distributed
2008-09	\$117.8	\$14.6	\$ –	\$132.4
2009-10	112.8	14.3	–	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
<b>Total</b>	<b>\$635.7</b>	<b>\$29.8</b>	<b>\$44.7</b>	<b>\$710.2</b>

<sup>1</sup> 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.

<sup>2</sup> Use of Wisconsin Lottery proceeds for this program was discontinued after December 2009. Payments continue as taxpayers amend or file late tax returns.

As directed by 2009 Wisconsin Act 28, the 2009-11 Biennial Budget Act, in FY 2010-11 Wisconsin Lottery proceeds began funding \$14.9 million of the School Levy Tax Credit instead of the Farmland Tax Relief Credit. However, general purpose revenue will replace the \$14.9 million in lottery proceeds used to fund the School Levy Tax Credit beginning in FY 2013-14. As directed by 2013 Wisconsin Act 20, lottery proceeds will be used solely for the Lottery and Gaming Tax Credit beginning in FY 2013-14. On November 1, 2013, the Department of Administration and the Legislature's Joint Committee on Finance authorized the use of \$171.4 million in Wisconsin Lottery proceeds for the FY 2013-14 Lottery and Gaming Tax Credit.

## 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
2008-09	\$280.2	\$473.4	59.2%
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

***The Wisconsin Lottery's administrative expenses were under statutory limits from FY 2008-09 through FY 2012-13.***

Section 25.75(3)(b), Wis. Stats., limits certain administrative expenses to no more than 10 percent of gross lottery revenues. Statutory gross lottery revenues 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 2008-09 through FY 2012-13.

Table 4

**Administrative Expenses as a Percentage of Gross Lottery Revenues<sup>1</sup>**  
(in millions)

Fiscal Year	Statutorily Defined Administrative Expenses	Statutorily Defined Gross Lottery Revenues	Percentage of Gross Lottery Revenues
2008-09	\$32.9	\$473.5	7.0%
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

<sup>1</sup> As defined by s. 25.75(1)(b) and s. 25.75(3)(b), Wis. Stats.

Statutes establish maximum compensation rates for basic commissions and performance program payments to retailers who sell lottery tickets. Basic commission rates 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.

***The Wisconsin Lottery spent \$5.2 million in Retailer Performance Program payments in FY 2012-13.***

Table 5 shows the Wisconsin Lottery's Retailer Performance Program payments from FY 2008-09 through FY 2012-13. 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, because of an administrative error. However, the Wisconsin Lottery expended \$5.2 million, or 0.9 percent of ticket sales in FY 2012-13, which was \$424,000 less than the 1.0 percent permitted by statute.

Table 5

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

Fiscal Year	Retailer Performance Program Payments	Ticket Sales	Payments as a Percentage of Ticket Sales
2008-09	\$4.0	\$473.4	0.8%
2009-10	4.5	480.9	0.9
2010-11	5.1	502.7	1.0
2011-12	5.5	547.6	1.0 <sup>1</sup>
2012-13	5.2	566.1	0.9

<sup>1</sup> 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 2012-13, performance payments for the sales incentive accounted for 76.6 percent of the total incentive payments, followed by winning ticket bonuses and short-term incentives accounting for 20.1 percent and 3.3 percent, respectively. The Wisconsin Lottery offered six short-term incentives during FY 2012-13. Total payments for each of these short-term incentives ranged from \$8,050 to \$57,250 and the number of retailers who earned each of these short-term incentives ranged from 13 retailers to 2,695 retailers.

■ ■ ■ ■





---

## **Audit Opinion ■**

---





**STATE OF WISCONSIN**  
**Legislative Audit Bureau**

22 East Mifflin Street, Suite 500  
Madison, Wisconsin 53703  
(608) 266-2818  
Fax (608) 267-0410

[www.legis.wisconsin.gov/lab](http://www.legis.wisconsin.gov/lab)

Toll-free hotline: 1-877-FRAUD-17

Joe Chrisman  
State Auditor

## **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, 2013, and June 30, 2012, as listed in the table of contents.

#### **Management's Responsibility for the Financial Statements**

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

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, 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, 2013, and June 30, 2012, 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.

### **Emphases 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, 2013, and June 30, 2012, 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.

As also discussed in Note 2 to the financial statements, the Wisconsin Lottery implemented Governmental Accounting Standards Board Statement Number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which changed the format of its financial statements. Our opinion is not modified with respect to this matter.

### **Other Matters**

Our audits for the years ended June 30, 2013, and June 30, 2012, 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 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 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, 2011, June 30, 2010, and June 30, 2009 (not presented herein), and issued

reports thereon dated, June 6, 2012 (report 12-12) and April 25, 2011 (report 11-6), which contained unmodified opinions on the respective financial statements of the Wisconsin Lottery. Schedule 2, on page 55, for the year ended June 30, 2011, and Schedule 3, on page 56, for the years ended June 30, 2011, June 30, 2010, and June 30, 2009, 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, 2011, June 30, 2010, and June 30, 2009. 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, 2011, June 30, 2010, and June 30, 2009.

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 August 5, 2014, on our consideration of the 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* in considering the Wisconsin Lottery's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU



Joe Chrisman  
State Auditor

August 5, 2014



---

# 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, 2013, and June 30, 2012, with comparative information from the fiscal year ended June 30, 2011. 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 Wisconsin Lottery and Department of Revenue management.

### **Financial Highlights**

For the second year in a row, the Wisconsin Lottery had record sales. Operating revenues generated from ticket sales for the Wisconsin Lottery were \$566.1 million in FY 2012-13 versus \$547.6 million in FY 2011-12, an increase of 3.4 percent. Net income before transfers was \$161.3 million for FY 2012-13, compared to \$158.3 million in FY 2011-12.

Operating expenses for FY 2012-13 increased \$11.1 million, or by 2.8 percent, primarily as a result of increased prize expenses and retailer commission and incentives, both of which rise with increased sales. Office administration expenses (salaries, fringe benefits, and supplies) remained relatively constant at \$8.2 million in FY 2012-13 versus \$8.0 million in FY 2011-12.

Administrative expenses, as defined in s. 25.75(3)(b), Wis. Stats., were 6.1 percent of gross lottery revenues in FY 2012-13, 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 \$34.6 million in FY 2012-13, an increase of \$1.0 million from \$33.6 million in FY 2011-12.

## **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—reflects the Wisconsin Lottery's financial position as of June 30, 2013, and June 30, 2012;
- Statement of Revenues, Expenses, and Changes in Net Position—reports revenues and expenses incurred in relation to the sale of lottery products, as well as other non-gaming related activity for FY 2012-13 and FY 2011-12; 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 2012-13 and FY 2011-12.

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 2012-13 and FY 2011-12. 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, 2013	Change	June 30, 2012	Change	June 30, 2011
Investments	\$ 46.5	\$(7.5)	\$ 54.0	\$(2.5)	\$ 56.5
Capital Assets (Net of Accumulated Depreciation)	0.1	0.0	0.1	0.0	0.1
Other Assets	98.1	21.0	77.1	6.8	70.3
<b>Total Assets</b>	<b>144.7</b>	<b>13.5</b>	<b>131.2</b>	<b>4.3</b>	<b>126.9</b>
Current Liabilities	57.2	12.7	44.5	1.0	43.5
Noncurrent Liabilities	34.1	(3.6)	37.7	(4.2)	41.9
<b>Total Liabilities</b>	<b>91.3</b>	<b>9.1</b>	<b>82.2</b>	<b>(3.2)</b>	<b>85.4</b>
Net Position:					
Invested in Capital Assets	0.1	0.0	0.1	0.0	0.1
Restricted for MUSL Reserves	5.4	0.4	5.0	0.3	4.7
Restricted for Investment Fair Value Adjustment	7.7	(2.9)	10.6	1.8	8.8
Restricted for Property Tax Relief	40.2	6.9	33.3	5.4	27.9
<b>Total Net Position</b>	<b><u>\$ 53.4</u></b>	<b><u>4.4</u></b>	<b><u>\$ 49.0</u></b>	<b><u>\$7.5</u></b>	<b><u>\$ 41.5</u></b>

## 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 was shown in Table A, total assets were \$144.7 million at the end of FY 2012-13, compared to \$131.2 million at the end of FY 2011-12, and \$126.9 million at the end of FY 2010-11. The increase in assets in FY 2012-13 is due to an increase in cash and cash equivalents of \$17.9 million, from \$50.3 million at the end of FY 2011-12 to \$68.2 million at the end of FY 2012-13. This is a result of a higher net income for the year and the timing of a transfer to the General Fund.

## Liabilities

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. In the past three years, no winners chose to receive

their winnings in the form of an annuity. Therefore, total annuity prizes payable decreased each year as existing annuitants continued to receive their annual payments and, as a result, total noncurrent liabilities declined. At the end of FY 2012-13, the Wisconsin Lottery had total liabilities of \$91.3 million, compared with total liabilities of \$82.2 million at the end of FY 2011-12 and \$85.4 million at the end of FY 2010-11. The increase in liabilities at the end of FY 2012-13 relates primarily to the timing of a transfer to the General Fund.

### **Net Position**

The Wisconsin Lottery's total net position was \$53.4 million at the end of FY 2012-13, a \$4.4 million increase from the prior year. During FY 2011-12, total net position increased by \$7.5 million to \$49.0 million. Total net position was \$41.5 million at the end of FY 2010-11.

The Wisconsin Lottery's net position is generally available for property tax relief unless restricted for other uses. There are currently three restricted uses of the Wisconsin Lottery's net position. Amounts invested in capital assets cannot be used to provide property tax relief, just as 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 reported as restricted net position because investments have been purchased for the payment of annuity prizes payable and are generally held to maturity. Therefore, the change in the fair value of these investments is restricted and is not available for property tax relief. 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 2012-13 and FY 2011-12. 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 2012-13	Change	FY 2011-12	Change	FY 2010-11
<b>Revenues</b>					
Operating Revenues:					
Ticket sales	\$566.1	\$18.5	\$547.6	\$44.9	\$502.7
Retailer fees and miscellaneous revenue	0.1	0.0	0.1	0.0	0.1
Nonoperating Revenues:					
Investment income (loss)	(2.6)	(4.4)	1.8	2.9	(1.1)
Miscellaneous revenue	0.0	0.0	0.0	0.0	0.0
<b>Total Revenues</b>	<b>563.6</b>	<b>14.1</b>	<b>549.5</b>	<b>47.8</b>	<b>501.7</b>
<b>Expenses</b>					
Program Expenses:					
Prize expenses	329.2	9.1	320.1	27.4	292.7
Retailer commissions and incentives	39.1	0.9	38.2	2.9	35.3
Instant and lotto vendor services	13.4	0.6	12.8	1.0	11.8
Other game-related expenses	12.4	0.3	12.1	0.0	12.1
Office Administration Expenses	8.2	0.2	8.0	(0.2)	8.2
<b>Total Expenses</b>	<b>402.3</b>	<b>11.1</b>	<b>391.2</b>	<b>31.1</b>	<b>360.1</b>
<b>Net Income Before Transfers</b>	<b>161.3</b>	<b>3.0</b>	<b>158.3</b>	<b>16.7</b>	<b>141.6</b>
<b>Transfers</b>					
Transfers for Property Tax Relief	(155.9)	6.0	(149.9)	5.0	(144.9)
Transfers In from General Fund	0.1	0.0	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)	0.1	(0.3)	0.0	(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)
<b>Change in Net Position</b>	<b><u>\$ 4.4</u></b>	<b><u>\$(3.1)</u></b>	<b><u>\$ 7.5</u></b>	<b><u>\$11.7</u></b>	<b><u>\$( 4.2)</u></b>

## Revenues

Operating revenues are generated almost entirely from ticket sales. Ticket sales for the Wisconsin Lottery were \$566.1 million in FY 2012-13, \$547.6 million in FY 2011-12, and \$502.7 million in FY 2010-11. Table C compares ticket sales for each game category for FY 2012-13, FY 2011-12, and FY 2010-11.

Table C

### Wisconsin Lottery Ticket Sales (in millions)

	FY 2012-13	Change	FY 2011-12	Change	FY 2010-11
<b>Instant</b>					
Scratch-off	\$324.0	\$3.9	\$320.1	\$21.0	\$299.1
Pull-tab	2.7	0.3	2.4	(1.1)	3.5
Total Instant Ticket Sales	326.7	4.2	322.5	19.9	302.6
<b>Lotto</b>					
SuperCash!	25.6	0.2	25.4	(0.5)	25.9
Powerball	113.8	35.6	78.2	13.1	65.1
Wisconsin's Megabucks	14.9	(6.7)	21.6	4.7	16.9
Wisconsin's Megabucks EZ Match <sup>1</sup>	2.0	(1.2)	3.2	1.6	1.6
Daily Pick 3	23.8	(0.3)	24.1	(0.7)	24.8
Daily Pick 4	12.3	0.1	12.2	0.1	12.1
Badger 5	24.4	2.2	22.2	(2.3)	24.5
Mega Millions	21.6	(15.4)	37.0	8.3	28.7
Raffle Games	1.0	(0.2)	1.2	0.7	0.5
Total Lotto Ticket Sales	239.4	14.3	225.1	25.0	200.1
<b>Total Sales</b>	<b><u>\$566.1</u></b>	<b><u>\$18.5</u></b>	<b><u>\$547.6</u></b>	<b><u>\$44.9</u></b>	<b><u>\$502.7</u></b>

<sup>1</sup> The Wisconsin Lottery began selling Wisconsin's Megabucks EZ Match on April 3, 2011. EZ Match is an add-on feature that can only be purchased with Megabucks.

The sales increase in FY 2012-13 was primarily due to an increase in Powerball sales, which were up 45.5 percent. Sales of Powerball are dependent on the size of the jackpot. In FY 2012-13 there were two record Powerball jackpots. Total lotto game sales increased by \$14.3 million during FY 2012-13, following a \$25.0 million increase in FY 2011-12. Instant scratch-off ticket sales increased \$3.9 million during FY 2012-13, after increasing \$21.0 million during FY 2011-12. Pull-tab sales increased \$0.3 million in FY 2012-13, following a \$1.1 million decrease in FY 2011-12.

## 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 2012-13, total expenses were \$402.3 million, an increase of \$11.1 million from FY 2011-12 expenses of \$391.2 million, which had increased from FY 2010-11 expenses of \$360.1 million. The increase in expenses is a result of increased ticket sales.

Prizes are the Wisconsin Lottery's largest expense. Table D compares ticket prize awards for each lottery game category for FY 2012-13, FY 2011-12, and FY 2010-11.

Table D

### Wisconsin Lottery Ticket Prize Awards (in millions)

	FY 2012-13	Change	FY 2011-12	Change	FY 2010-11
<b>Instant</b>					
Scratch-off	\$209.3	\$2.1	\$207.2	\$15.0	\$192.2
Pull-tab	1.6	0.2	1.4	(0.8)	2.2
Super 2nd Chance <sup>1</sup>	0.3	0.0	0.3	0.0	0.3
<b>Total Instant Prize Awards</b>	<b>211.2</b>	<b>2.3</b>	<b>208.9</b>	<b>14.2</b>	<b>194.7</b>
<b>Lotto</b>					
SuperCash!	13.1	(0.3)	13.4	0.2	13.2
Powerball	55.6	18.6	37.0	6.4	30.6
Wisconsin's Megabucks	7.8	(3.5)	11.3	2.4	8.9
Wisconsin's Megabucks EZ Match	1.2	(0.7)	1.9	0.9	1.0
Daily Pick 3	11.5	0.3	11.2	(0.3)	11.5
Daily Pick 4	5.5	(0.5)	6.0	0.6	5.4
Badger 5	12.3	1.0	11.3	(0.9)	12.2
Mega Millions	10.2	(7.9)	18.1	3.4	14.7
Raffle Games	0.5	(0.2)	0.7	0.5	0.2
Super 2nd Chance <sup>1</sup>	0.3	0.0	0.3	0.0	0.3
<b>Total Lotto Prize Awards</b>	<b>118.0</b>	<b>6.8</b>	<b>111.2</b>	<b>13.2</b>	<b>98.0</b>
<b>Total</b>	<b><u>\$329.2</u></b>	<b><u>\$9.1</u></b>	<b><u>\$320.1</u></b>	<b><u>\$27.4</u></b>	<b><u>\$292.7</u></b>

<sup>1</sup> 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.

Generally, 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. In FY 2012-13, ticket sales increased \$18.5 million while prize awards increased \$9.1 million. Ticket sales increased \$44.9 million in FY 2011-12 while prize awards increased \$27.4 million. Schedule 3, which follows the notes to the financial statements, shows a multi-year summary of ticket sales and their related prize expenses.

Expenses for retailer commissions and incentives are also a function of sales. In FY 2012-13, retailers were paid \$39.1 million in commissions and incentives, up from \$38.2 million in FY 2011-12. In FY 2010-11, retailer commissions and incentives were \$35.3 million.

The Wisconsin Lottery contracted with GTECH Corporation for an integrated gaming computer system and services (instant and lotto vendor services). In FY 2012-13, payments to GTECH were \$13.4 million. In FY 2011-12 and FY 2010-11, these payments were \$12.8 million and \$11.8 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. Recently, the Wisconsin Lottery has 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 \$161.3 million in FY 2012-13, up from \$158.3 million in FY 2011-12. Net income before transfers was \$141.6 million in FY 2010-11.

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 \$6.0 million, or by 4.0 percent, during FY 2012-13, while they increased by \$5.0 million, or by 3.5 percent, during FY 2011-12.

### **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. In FY 2013-14, the Wisconsin Lottery introduced its first \$30 scratch ticket and 5 Card Cash, its first new lotto game since 2003. 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 23.9 percent of all ticket sales in FY 2012-13 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, Mega Millions ticket sales rose 28.9 percent in FY 2011-12, only to drop 41.6 percent in FY 2012-13. 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 from year to year can vary by tens of millions of dollars from estimates.

Lottery tickets are a discretionary purchase. Consequently, the 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, 2013, and June 30, 2012

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents (Note 3)	\$ 68,211,676	\$ 50,318,388
Investments for Prize Annuities (Note 3)	6,254,644	7,356,486
Accounts Receivable (Note 4)	21,055,358	18,832,337
Due from Other State Programs (Note 4)	131,576	122,123
Ticket Inventory	1,755,200	1,615,584
MUSL Reserve Accounts (Note 9)	410,114	344,846
Prepaid Expenses	1,191,644	834,133
Interest Receivable	3,522	4,730
Total Current Assets	<u>99,013,734</u>	<u>79,428,627</u>
Noncurrent Assets:		
Investments for Prize Annuities (Note 3)	40,213,445	46,603,683
MUSL Reserve Accounts (Note 9)	5,408,056	5,045,267
Capital Assets: (Note 10)		
Equipment	500,527	799,778
Leasehold Improvements	159,724	159,724
Accumulated Depreciation	<u>(574,562)</u>	<u>(893,406)</u>
Total Noncurrent Assets	<u>45,707,190</u>	<u>51,715,046</u>
<b>TOTAL ASSETS</b>	<b><u>144,720,924</u></b>	<b><u>131,143,673</u></b>
<b>LIABILITIES</b>		
Current Liabilities:		
Annuity Prizes Payable (Note 5)	6,138,134	7,128,427
Prizes Payable	30,202,750	30,657,637
Accounts Payable (Note 4)	3,574,081	3,712,575
Due to Other State Programs (Note 4)	15,482,955	540,303
MUSL Payable	667,613	1,369,963
Unearned Revenue	754,262	692,098
Due to Other Governments (Note 4)	107,544	96,725
Accrued Payroll	117,913	115,291
Compensated Absences (Note 17)	171,944	160,192
Total Current Liabilities	<u>57,217,196</u>	<u>44,473,211</u>
Noncurrent Liabilities:		
Annuity Prizes Payable (Note 5)	33,092,823	36,731,862
Compensated Absences (Note 17)	523,294	496,426
Other Postemployment Benefits (Note 16)	<u>510,276</u>	<u>485,570</u>
Total Noncurrent Liabilities	<u>34,126,393</u>	<u>37,713,858</u>
<b>TOTAL LIABILITIES</b>	<b><u>91,343,589</u></b>	<b><u>82,187,069</u></b>
<b>NET POSITION</b>		
Net Position: (Note 14)		
Invested in Capital Assets	85,689	66,096
Restricted for MUSL Reserves	5,408,056	5,045,267
Restricted for Investment Fair Value Adjustment	7,737,198	10,546,576
Restricted for Property Tax Relief	<u>40,146,392</u>	<u>33,298,665</u>
<b>TOTAL NET POSITION</b>	<b><u>\$ 53,377,335</u></b>	<b><u>\$ 48,956,604</u></b>

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, 2013, and June 30, 2012

	Year Ended June 30, 2013	Year Ended June 30, 2012
<b>OPERATING REVENUES</b>		
Instant Ticket Sales (Net of Allowances of \$598,903 and \$559,374, Respectively) (Note 7)	\$ 326,725,747	\$ 322,482,041
Lotto Ticket Sales (Net of Ticket Discounts of \$29,096 and \$0, Respectively) (Note 7)	239,376,954	225,158,693
Retailer Fees	78,155	38,475
Miscellaneous Revenue	59,453	54,986
<b>Total Operating Revenues</b>	<b>566,240,309</b>	<b>547,734,195</b>
<b>OPERATING EXPENSES</b>		
Program Expenses:		
Instant Prize Expense (Note 8)	211,185,530	208,922,382
Lotto Prize Expense (Note 8)	118,016,139	111,192,993
Retailer Commissions and Incentives	39,141,284	38,215,505
Instant and Lotto Vendor Services	13,355,439	12,828,631
Product Information Costs	7,483,570	7,497,836
Instant Ticket Printing Costs	4,043,739	3,766,851
Instant Ticket Delivery Costs	803,383	776,016
Donated Prize Expense (Note 12)	3,609	3,853
Total Program Expenses	<u>394,032,693</u>	<u>383,204,067</u>
Administrative Expenses:		
Salaries and Fringe Benefits	5,602,465	5,356,653
Supplies and Services	2,631,356	2,624,039
Depreciation Expense	1,829	36,615
Total Administrative Expenses	<u>8,235,650</u>	<u>8,017,307</u>
<b>Total Operating Expenses</b>	<b>402,268,343</b>	<b>391,221,374</b>
<b>NET OPERATING INCOME</b>	<b>163,971,966</b>	<b>156,512,821</b>
<b>NONOPERATING REVENUES (EXPENSES) AND TRANSFERS</b>		
Investment Income (Loss) (Note 6)	(2,683,069)	1,831,952
Miscellaneous Revenue (Note 12)	3,609	3,853
Net Income Before Transfers	161,292,506	158,348,626
Transfers:		
Transfers of Lottery Proceeds for Property Tax Relief (Note 15)	(155,900,284)	(149,949,305)
Transfers In from General Fund (Note 18)	91,178	102,317
Transfer to Department of Health Services for Compulsive Gambling Programs	(396,000)	(396,000)
Transfer to Department of Justice for Law Enforcement	(359,065)	(348,304)
Transfer to Department of Revenue for Lottery Credit Administration	(154,044)	(151,371)
Transfers Out to General Fund (Note 19)	(153,560)	(131,205)
<b>CHANGE IN NET POSITION</b>	<b>4,420,731</b>	<b>7,474,758</b>
Total Net Position—Beginning of the Year	48,956,604	41,481,846
Total Net Position—End of the Year	<u>\$ 53,377,335</u>	<u>\$ 48,956,604</u>

The accompanying notes are an integral part of this statement.

## Statement of Cash Flows for the Years Ended June 30, 2013, and June 30, 2012

	Year Ended June 30, 2013	Year Ended June 30, 2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Retailers	\$ 563,602,042	\$ 554,096,472
Cash Paid for Prizes	(337,518,371)	(329,929,205)
Cash Paid for Retailer Commissions and Incentives	(39,078,952)	(38,273,642)
Cash Paid/Received for MUSL Reserve Accounts	(426,530)	423,466
Cash Paid to Employees	(5,532,896)	(5,316,125)
Cash Paid to Suppliers	(28,651,369)	(26,358,954)
<b>Net Cash Provided by Operating Activities</b>	<b>152,393,924</b>	<b>154,642,012</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers of Proceeds for Property Tax Credit	(141,047,451)	(149,963,131)
Transfer of Proceeds for Law Enforcement	(335,094)	(349,323)
Transfer of Proceeds for Lottery Credit Administration	(157,416)	(148,224)
Transfer of Proceeds for Compulsive Gambling Programs	(396,000)	(396,000)
Transfers to the General Fund	(153,560)	(131,205)
Transfers from the General Fund	102,317	125,546
<b>Net Cash Used by Noncapital Financing Activities</b>	<b>(141,987,204)</b>	<b>(150,862,337)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Cash Paid for Purchase of Equipment	(21,423)	(7,265)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>(21,423)</b>	<b>(7,265)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Received	125,991	73,791
Cash Received for Redemption of Bonds	7,382,000	7,233,000
<b>Net Cash Provided by Investing Activities</b>	<b>7,507,991</b>	<b>7,306,791</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>17,893,288</b>	<b>11,079,201</b>
Cash and Cash Equivalents—Beginning of the Year	50,318,388	39,239,187
Cash and Cash Equivalents—End of the Year	<u>\$ 68,211,676</u>	<u>\$ 50,318,388</u>

The accompanying notes are an integral part of this statement.

	Year Ended June 30, 2013	Year Ended June 30, 2012
<b>RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Net Operating Income	\$ 163,971,966	\$ 156,512,821
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:		
Depreciation Expense	1,829	36,615
Noncash Donated Prize Expense	3,609	3,853
Changes in Assets and Liabilities:		
Decrease (Increase) in Receivables	(2,223,021)	4,153,643
Decrease (Increase) in MUSL Reserve Accounts	(426,530)	423,466
Decrease (Increase) in Ticket Inventory	(139,615)	230,377
Decrease (Increase) in Prepaid Expenses	(357,512)	(503,011)
Decrease (Increase) in Due from Other State Programs	(32,142)	(3,031)
Increase (Decrease) in Prizes Payable	(7,783,518)	(8,034,134)
Increase (Decrease) in Unearned Revenue	62,165	(213,781)
Increase (Decrease) in Due to Other State Programs	79,421	(37,897)
Increase (Decrease) in Accounts Payable	(137,330)	1,253,284
Increase (Decrease) in MUSL Payable	(702,350)	743,036
Increase (Decrease) in Due to Other Governments	11,004	22,415
Increase (Decrease) in Accrued Payroll	2,623	(26,965)
Increase (Decrease) in Compensated Absences	38,619	84,754
Increase (Decrease) in Other Postemployment Benefits	24,706	(3,433)
Total Adjustments	<u>(11,578,042)</u>	<u>(1,870,809)</u>
Net Cash Provided by Operating Activities	<u>\$ 152,393,924</u>	<u>\$ 154,642,012</u>
Noncash Activities:		
Net Change in Unrealized Gains and Losses	\$ (2,809,378)	\$ 1,746,310
Increase in Fair Value of Investments for Prize Annuities and Annuities Payable Due to Amortization	2,699,299	3,001,697



---

# 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 2012-13 and FY 2011-12, 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 includes 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 2012-13 and FY 2011-12, 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 2012-13 and FY 2011-12, the Wisconsin Lottery also sold tickets for five 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), and Badger 5 (start date February 17, 2003). 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, administration 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.

**C. Cash and Cash Equivalents**

Cash and cash equivalents reported on the Statement of Net Position and on the Statement of Cash Flows includes 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. These receivables typically have four-week billing terms, except for nonprofit organizations that typically have weekly billing terms. Receivables are recorded for lotto games when retailers sell lotto tickets and have weekly billing terms. 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 are 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 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. 27.75(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. 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, and Badger 5). These payments are made quarterly. Retailers also earn up to 10.0 percent of the increase in annual sales over the previous year. These incentive payments are made annually. Due to 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 ticket revenues.

**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 three statutory credits: the Lottery and Gaming Tax Credit, the Farmland Tax Relief Credit, and the School Levy Tax Credit. 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 in November, well before the end of the fiscal year. The credit is based 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 require that \$14,850,000 be transferred 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. The carrying amount of shares in the State Investment Fund, which approximates fair value, was \$68,212,000 as of June 30, 2013, and \$50,318,000 as of June 30, 2012.

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 ss. 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. The State of Wisconsin Investment Board's Board of 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, 2013, and June 30, 2012, 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 types 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, 2013, and June 30, 2012:

<u>Maturity</u>	<u>Fair Value as of June 30, 2013</u>	<u>Fair Value as of June 30, 2012</u>
Less than 1 Year	\$ 6,254,644	\$ 7,356,486
1 to 5 Years	23,349,978	24,141,321
6 to 10 Years	15,076,641	18,282,665
More than 10 Years	<u>1,786,826</u>	<u>4,179,697</u>
Total	<u>\$46,468,089</u>	<u>\$53,960,169</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 34 days as of June 30, 2013, and 75 days as of June 30, 2012.

**4. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE BALANCES**

Accounts receivable and accounts payable balances are disaggregated as follows:

**A. Accounts Receivable**

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Accounts Receivable:		
Retailers	\$21,054,066	\$18,832,270
Miscellaneous	<u>1,292</u>	<u>67</u>
Total Accounts Receivable	<u>\$21,055,358</u>	<u>\$18,832,337</u>
Due from Other State Programs:		
Transfers for Gaming	\$ 91,178	\$103,071
Miscellaneous	<u>40,398</u>	<u>19,052</u>
Total Due from Other State Programs	<u>\$131,576</u>	<u>\$122,123</u>

**B. Accounts Payable**

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Accounts Payable:		
Vendors	\$3,510,349	\$3,648,509
Lottery Credit Administration	44,381	45,860
Law Enforcement	836	521
Miscellaneous	<u>18,515</u>	<u>17,685</u>
Total Accounts Payable	<u>\$3,574,081</u>	<u>\$3,712,575</u>
Due to Other State Programs:		
Farmland Tax Relief Credit	\$ 803	\$ 7,963
Employee Fringe Benefits	74,290	68,484
Withholding on Prizes	313,755	182,547
Lottery Credit Administration	10,096	11,922
Law Enforcement	32,668	8,894
School Property Tax Credit	14,850,000	0
Other State Programs	<u>201,343</u>	<u>260,493</u>
Total Due to Other State Programs	<u>\$15,482,955</u>	<u>\$540,303</u>
Due to Other Governments:		
Employee Fringe Benefits	\$ 40,244	\$35,412
Withholding on Prizes	64,267	56,995
Lottery Credit Administration	622	690
Law Enforcement	2,411	2,528
Supplies	<u>0</u>	<u>1,100</u>
Total Due to Other Governments	<u>\$107,544</u>	<u>\$96,725</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 \$2,699,299 for FY 2012-13 and \$3,001,697 for FY 2011-12.

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

<u>Fiscal Year</u>	<u>FY 2012-13</u> <u>Total Future</u> <u>Payments</u>	<u>FY 2011-12</u> <u>Total Future</u> <u>Payments</u>
2012-13	\$ 0	\$ 7,350,520
2013-14	6,325,237	6,304,982
2014-15	6,273,871	6,273,871
2015-16	6,149,499	6,149,499
2016-17	6,343,036	6,343,036
2017-18	5,607,653	5,607,653
Subsequent Years	<u>20,823,519</u>	<u>20,823,519</u>
Total Future Prize Payments	51,522,815	58,853,080
Less: Present Value Adjustment	<u>12,291,858</u>	<u>14,992,791</u>
Present Value of Future Prize Payments	<u>\$39,230,957</u>	<u>\$43,860,289</u>

Annuity prizes payable activity for the fiscal years ended June 30, 2013, and June 30, 2012, 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>
2012-13	\$43,860,289	\$2,699,299	\$(7,328,631)	\$39,230,957	\$6,138,134
2011-12	48,145,904	3,001,697	(7,287,312)	43,860,289	7,128,427

**6. INVESTMENT INCOME (LOSS)**

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



	<u>FY 2012-13</u>	<u>FY 2011-12</u>
<u>Change in Fair Value:</u>		
Net Increase (Decrease) in Fair Value of Annuity Investments	\$ (110,079)	\$4,748,007
Less: The Portion of the Increase (Decrease) in Fair Value of Annuity Investments Offset by the Increase in Annuity Prizes Payable from Amortization	<u>(2,699,299)</u>	<u>(3,001,697)</u>
Net Increase (Decrease) in Fair Value Recognized as Investment Income (Loss)	<u>(2,809,378)</u>	<u>1,746,310</u>
<u>Interest Income:</u>		
Interest from State Investment Fund	122,096	75,706
Interest from MUSL Reserve Accounts	1,526	5,627
Miscellaneous Interest	<u>2,687</u>	<u>4,309</u>
Total Interest Income	<u>126,309</u>	<u>85,642</u>
Total Investment Income (Loss)	<u>\$(2,683,069)</u>	<u>\$1,831,952</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 2012-13</u>	<u>FY 2011-12</u>
Instant Ticket Sales:		
Scratch-off	\$324,035,688	\$320,131,401
Pull-tab	<u>2,690,059</u>	<u>2,350,640</u>
Total Instant Ticket Sales	<u>\$326,725,747</u>	<u>\$322,482,041</u>
Lotto Ticket Sales:		
SuperCash!	\$ 25,623,051	\$ 25,413,981
Powerball	113,782,641	78,210,302
Wisconsin's Megabucks	14,947,431	21,613,346
Wisconsin's Megabucks EZ Match	2,064,519	3,217,933
Daily Pick 3	23,840,032	24,134,837
Daily Pick 4	12,360,681	12,169,248
Badger 5	24,405,998	22,246,971
Mega Millions	21,634,551	36,989,315
Raffle Games	1,000,000	1,199,022
General Sales and Discounts	<u>(281,950)</u>	<u>(36,262)</u>
Total Lotto Ticket Sales	<u>\$239,376,954</u>	<u>\$225,158,693</u>

**8. INSTANT AND LOTTO PRIZE EXPENSE**

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

	<u>FY 2012-13</u>	<u>FY 2011-12</u>
Instant Prize Expense:		
Scratch-off	\$209,290,537	\$207,219,016
Pull-tab	1,634,993	1,443,366
Super 2nd Chance <sup>1</sup>	<u>260,000</u>	<u>260,000</u>
Total Instant Prize Expense	<u>\$211,185,530</u>	<u>\$208,922,382</u>
Lotto Prize Expense:		
SuperCash!	\$ 13,072,808	\$ 13,397,449
Powerball	55,601,653	36,999,713
Wisconsin's Megabucks	7,834,754	11,291,229
Wisconsin's Megabucks EZ Match	1,248,286	1,949,744
Daily Pick 3	11,485,450	11,243,120
Daily Pick 4	5,495,500	6,005,800
Badger 5	12,302,162	11,274,283
Mega Millions	10,229,926	18,125,067
Raffle Games	485,600	646,588
Super 2nd Chance <sup>1</sup>	<u>260,000</u>	<u>260,000</u>
Total Lotto Prize Expense	<u>\$118,016,139</u>	<u>\$111,192,993</u>

<sup>1</sup> There are no sales for the Super 2<sup>nd</sup> 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 MUSL, a nonprofit, government-benefit voluntary association. As of June 30, 2013, MUSL had 33 member lotteries from 31 states, the District of Columbia, and the U.S. Virgin Islands. 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, 2013, and June 30, 2012, as audited by other auditors.

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Total Assets	<u>\$554,027,998</u>	<u>\$583,164,841</u>
Total Liabilities	542,003,963	\$583,009,619
Total Unrestricted Net Assets	<u>12,024,035</u>	<u>155,222</u>
Total Liabilities and Net Assets	<u>\$554,027,998</u>	<u>\$583,164,841</u>
Total Revenues	\$17,258,740	\$4,783,334
Total Expenses	<u>(5,389,927)</u>	<u>(4,869,315)</u>
Increase (Decrease) in Unrestricted Net Assets	<u>\$ 11,868,813</u>	<u>\$ (85,981)</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).

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:

	June 30, 2013	June 30, 2012
Powerball Set Prize Reserve Account	\$1,176,967	\$1,009,754
Powerball Prize Reserve Account	2,769,731	3,296,107
Mega Millions Prize Reserve Account	1,065,045	739,406
Unreserved Account	<u>806,427</u>	<u>344,846</u>
Total MUSL Reserve Accounts	<u>\$5,818,170</u>	<u>\$5,390,113</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).

## 10. CAPITAL ASSETS

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>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Leasehold Improvements	\$159,724	\$ 0	\$ 0	\$159,724
Equipment	<u>805,798</u>	<u>7,265</u>	<u>(13,285)</u>	<u>799,778</u>
Total Capital Assets at Historical Cost	<u>965,522</u>	<u>7,265</u>	<u>(13,285)</u>	<u>959,502</u>
Less Accumulated Depreciation for:				
Leasehold Improvements	109,926	2,875	0	112,801
Equipment	<u>760,150</u>	<u>33,740</u>	<u>(13,285)</u>	<u>780,605</u>
Total Accumulated Depreciation	<u>870,076</u>	<u>36,615</u>	<u>(13,285)</u>	<u>893,406</u>
Total Capital Assets, Net	<u>\$ 95,446</u>	<u>\$(29,350)</u>	<u>\$ 0</u>	<u>\$ 66,096</u>

## 11. OPERATING LEASES

The Wisconsin Lottery occupied a facility in Madison for storage and instant ticket operations under an operating lease during FY 2012-13 and FY 2011-12. 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, 2013	Future Payments as of June 30, 2012
2013	\$ 0	\$146,576
2014	147,098	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>\$622,466</u>	<u>\$769,042</u>

Total operating lease expense amounted to \$146,576 for the fiscal year ended June 30, 2013, and \$149,580 for the fiscal year ended June 30, 2012.

## 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 \$3,609 for FY 2012-13 and \$3,853 for FY 2011-12. All donated items received in FY 2012-13 and FY 2011-12 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, 2014. The Wisconsin Lottery purchased ticket printing services of approximately \$3.6 million in FY 2012-13 and approximately \$3.4 million in FY 2011-12 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., have been renewed through October 31, 2014. The Wisconsin Lottery purchased ticket printing services of approximately \$95,100 in FY 2012-13 and approximately \$119,200 in FY 2011-12 under these contracts.

**C. Gaming System Vendor**

The Wisconsin Lottery has a contract with GTECH Holdings 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 contract, extending it for two additional years through June 25, 2015.

Under the contract, during FY 2012-13 and FY 2011-12, 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 2012-13 and approximately \$12.8 million in FY 2011-12.

**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. This contract has been renewed through July 11, 2015. Payments under this contract were \$7.3 million during FY 2012-13 and FY 2011-12 and total spending on product information costs was \$7.5 million during FY 2012-13 and FY 2011-12.

**14. RESTRICTED NET POSITION**

The Wisconsin Lottery has restricted net position related to capital assets of \$85,689 as of June 30, 2013, and \$66,096 as of June 30, 2012. The portion of restricted net position related to capital assets is reported in detail in Note 10.

The Wisconsin Lottery also has restricted net position related to the MUSL reserves as described in Note 9. Restricted net position related to the MUSL reserves were \$5,408,056 as of June 30, 2013, and \$5,045,267 as of June 30, 2012.

In addition, the Wisconsin Lottery has restricted net position for fair value adjustments of investments of \$7,737,198 as of June 30, 2013, and \$10,546,576 as of June 30, 2012. 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 \$40,146,392 as of June 30, 2013, and \$33,298,665 as of June 30, 2012.

**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 2012-13</u>	<u>FY 2011-12</u>
Lottery and Gaming Tax Credit	\$141,021,671	\$135,009,414
Farmland Tax Relief Credit	28,613	89,891
School Levy Tax Credit	<u>14,850,000</u>	<u>14,850,000</u>
Total Property Tax Relief Credits	<u>\$155,900,284</u>	<u>\$149,949,305</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 contributions to the plan were \$292,488 for FY 2012-13 and \$277,062 for FY 2011-12. 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 for the fiscal years ended June 30, 2013, and June 30, 2012, 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>
2012-13	\$485,570	\$ 24,706	\$ 0	\$510,276	\$0
2011-12	489,002	0	(3,432)	485,570	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, 2013, and June 30, 2012, 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>
2012-13	\$656,618	\$198,812	\$(160,192)	\$695,238	\$171,944
2011-12	571,864	293,088	(208,334)	656,618	160,192

**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 ss. 20.505(8)(g) and 20.505(8)(jm), Wis. Stats., for general operations of the Department of Administration's Division of Gaming related to racing and bingo. The Wisconsin Lottery received \$91,178 from these transfers in FY 2012-13 and \$102,317 from these transfers in FY 2011-12.

**19. TRANSFERS OUT TO GENERAL FUND**

Sections 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 \$153,560 in FY 2012-13 and \$131,205 in FY 2011-12 for this purpose.

■ ■ ■ ■

---

## **Supplementary Schedules ■**

---

## Reconciliation of Lottery General Operations Expenses to the Budgetary Basis of Accounting for the Years Ended June 30, 2013, and June 30, 2012

	Year Ended June 30, 2013	Year Ended June 30, 2012
<b>SALARIES AND FRINGE BENEFITS</b>		
Per Financial Statement	\$ 5,602,465	\$ 5,356,653
Adjustments to Financial Statement Balance:		
Cash Paid in FY 2011-12 but Expensed in FY 2010-11	0	1,217,788
Cash Paid in FY 2012-13 but Expensed in FY 2011-12	1,142,188	(1,142,188)
Cash Paid in FY 2013-14 but Expensed in FY 2012-13	(1,205,514)	0
Reclassified Fringe Benefits to Transfer Out to General Fund	136,219	116,225
<b>Budgetary Basis—Salaries and Fringe Benefits</b>	<b><u>\$ 5,675,358</u></b>	<b><u>\$ 5,548,478</u></b>
<b>SUPPLIES AND SERVICES AND PERMANENT PROPERTY</b>		
Per Financial Statement:		
Product Information Costs	\$ 7,483,570	\$ 7,497,836
Instant Ticket Printing Costs	4,043,739	3,766,851
Instant Ticket Delivery Costs	803,383	776,016
Donated Prize Expense	3,609	3,853
Supplies and Services	2,631,356	2,624,039
Depreciation Expense	1,829	36,615
Total per Financial Statement	14,967,486	14,705,210
Adjustments to Financial Statement Balance:		
Depreciation Expense	(1,829)	(36,615)
Donated Prize Expense	(3,609)	(3,853)
Cash Paid in FY 2010-11 but Expensed in FY 2011-12	0	(1,919,514)
Cash Paid in FY 2011-12 but Expensed in FY 2012-13	(1,959,516)	1,959,516
Cash Paid in FY 2012-13 but Expensed in FY 2013-14	2,042,132	0
Cash Paid in FY 2013-14 but Expensed in FY 2012-13	(91,300)	0
Compulsive Gambling Payment Not Included Above	396,000	396,000
Capitalized Permanent Property Less Disposals	21,423	7,265
<b>Budgetary Basis—Supplies and Services and Permanent Property</b>	<b><u>\$ 15,370,787</u></b>	<b><u>\$ 15,108,009</u></b>

## Statutorily Defined Lottery Administrative Expenses for the Years Ended June 30, 2013, June 30, 2012, and June 30, 2011

<b>ADMINISTRATIVE EXPENSES</b>	<u>Year Ended June 30, 2013</u>	<u>Year Ended June 30, 2012</u>	<u>Year Ended June 30, 2011</u>
Instant and Lotto Vendor Services	\$ 13,355,439	\$ 12,828,631	\$ 11,816,299
Product Information Costs	7,483,570	7,497,836	7,445,141
Instant Ticket Printing Costs	4,043,739	3,766,851	3,918,131
Instant Ticket Delivery Costs	803,383	776,016	743,065
Salaries and Fringe Benefits	5,602,465	5,356,653	5,638,566
Supplies and Services	2,631,356	2,624,039	2,544,692
Depreciation Expense	1,829	36,615	43,678
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	154,044	151,371	237,780
Transfers Out to General Fund	<u>153,560</u>	<u>131,205</u>	<u>137,165</u>
Total Administrative Expenses as Determined in Accordance with s. 25.75(3)(b), Wis. Stats.	<u>\$ 34,625,385</u>	<u>\$ 33,565,217</u>	<u>\$ 32,920,517</u>
Gross Lottery Revenues per s. 25.75(1)(b), Wis. Stats.	<u>\$ 566,180,856</u>	<u>\$ 547,679,209</u>	<u>\$ 502,689,126</u>
<b>Administrative Expenses as a Percentage of Lottery Operating Revenues</b>	<b>6.12%</b>	<b>6.13%</b>	<b>6.55%</b>

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, 2009, through June 30, 2013

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 expended for winning lottery tickets for the past five years, for both instant and lotto games, are summarized below.

	<b>Fiscal Year 2012-13</b>		
	<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

	<b>Fiscal Year 2011-12</b>		
	<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

	<b>Fiscal Year 2010-11</b>		
	<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

	<b>Fiscal Year 2009-10</b>		
	<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

	<b>Fiscal Year 2008-09</b>		
	<u>Prize Expense</u>	<u>Ticket Sales</u>	<u>Prize Expense as a Percentage of Sales</u>
Instant Games	\$ 178,256,545	\$ 276,797,708	64.4%
Lotto Games	101,918,329	196,616,546	51.8
Total for Fiscal Year	\$ 280,174,874	\$ 473,414,254	59.2

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 ■**

---







**STATE OF WISCONSIN**  
**Legislative Audit Bureau**

22 East Mifflin Street, Suite 500  
Madison, Wisconsin 53703  
(608) 266-2818  
Fax (608) 267-0410

[www.legis.wisconsin.gov/lab](http://www.legis.wisconsin.gov/lab)

Toll-free hotline: 1-877-FRAUD-17

Joe Chrisman  
State Auditor

## **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, 2013, and June 30, 2012, and have issued our report thereon dated August 5, 2014. 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 Wisconsin Lottery is 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 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 Wisconsin Lottery's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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. *A significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the following paragraphs, related to the financial reporting process, that we consider to be a significant deficiency.

During the audit of the Wisconsin Lottery's financial statements for the fiscal year ended June 30, 2013, we identified several errors that we believe should have been detected by the Wisconsin Lottery's financial reporting review process. The most significant error included a \$14,850,000 omission in compiling the Statement of Cash Flows. Although this amount was appropriately included in the underlying compilation spreadsheets, the review process did not identify that the amount had been omitted from the Statement of Cash Flows. We also identified less significant errors, including a \$531,000 misclassification between current and noncurrent annuity prizes payable and inconsistent use of new terminology throughout the financial statements as part of implementing a new accounting standard. These errors did not affect the Wisconsin Lottery's net position or the amount of lottery proceeds available for property tax relief. The Wisconsin Lottery's financial statements were corrected for these errors. We recommended that Wisconsin Lottery develop and implement procedures to improve the oversight of its financial reporting review process for its financial statements.

In response to our recommendation, the Wisconsin Lottery indicates it will add a step to its future review process to verify that amounts from the underlying compilation spreadsheets are accurately incorporated into the financial statements.

### 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 related to the Wisconsin Lottery's segregation of duties in administering retailer accounts during our prior audit. The Wisconsin Lottery took some steps to address these matters. However, as part of our FY 2012-13 audit, we continued to find that some of these concerns were still present or had not been fully addressed. We again reported these matters to management of the Wisconsin Lottery in a separate communication dated June 10, 2014. In its written response, the Wisconsin Lottery's management agreed with our recommendations and planned to take steps to address the remaining issues.

## Wisconsin Lottery Response to Findings

The Wisconsin Lottery's written response to the findings identified in our audit is described in the preceding paragraphs. The Wisconsin Lottery's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### Purpose of This Report

This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering 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 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

August 5, 2014