

**A G E N D A**  
**IOWA LOTTERY BOARD**

**May 27, 2009**  
**10:00 a.m.**

1. Call to Order  
Approval of Minutes
2. Monthly Reports
  - a. Security
  - b. Financial/Budget Amendment
  - c. Marketing and Sales
3. CEO Update
  - a. MegaMillions/Powerball
  - b. Federal Legislation
  - c. Request for Proposals - Batelle
  - d. Casino Expansion
  - e. Security/Dateline NBC
4. Ombudsman Report and Discussion
5. Advertising Agency Contract Extensions
6. Closed Session
  - a. Personnel – key employee compensation
  - b. Litigation – Attorney General

If you require the assistance of auxiliary aids or services to participate in or attend the meeting because of a disability, please call our ADA coordinator at 515-725-7870, or if you are hearing impaired, call Relay TTY at 1-800-735-2942.

**MINUTES**  
**IOWA LOTTERY BOARD**  
**March 25, 2009**

The Iowa Lottery Board convened at 10:00 a.m. at Lottery headquarters in Des Moines, Chairperson Junge presiding. Board members present: Elaine Baxter, Mary Junge, Michael Klappholz, Thomas Rial, Brad Schroeder, Michael Fitzgerald.

Lottery staff present: Terry Rich, CEO; Kenneth Brickman, Executive Vice President; Brenda Loy, Acting Chief Financial Officer; Joe Hrdlicka, Vice President for Marketing; Larry Loss, Vice President for Sales; Mary Neubauer, Vice President for External Affairs; John Ellison, Security Investigator; Evelyn Halterman, IT Manager; Therese Spaulding, Validations Manager; Marci Tooman, Assistant Vice President for Legal Affairs; David Van Compennolle, Assistant Attorney General; Barbara DeHeck, secretary.

Others present: David Berger (Scientific Games), Bill Petroski (Des Moines Register).

**Minutes**

Schrader moved to approve the minutes of the December 2, 2008 meeting. The motion was seconded by Klappholz and carried unanimously.

**Monthly Reports**

Written security, financial, and marketing/sales reports were included in the agenda package. Staff members reviewed the information and responded to questions from Board members. Rich reported on plans for boosting sales, concentrating on Powerball as the game with the highest player recognition and best return to the state. He said Lottery staff members were working with the Department of Tourism to offer discounts for Iowa attractions through the Lottery's website and a Lottery presence at festivals throughout the state. Hrdlicka added that the campaign would present the Lottery as a real asset to the state, not only through providing revenue, but also as a catalyst to promote Iowa destinations.

Baxter moved to approve the monthly reports. The motion was seconded by Rial and carried unanimously.

**Bottom-Line Challenge Contest**

Loss announced that in keeping with the Lottery's emphasis on striving to provide the highest possible proceeds to the state, a proposed contest was developed, aimed at both increasing competition and boosting employee morale. In the "Bottom-line Challenge Contest," employees would compete over a 16-week period for credits toward the purchase of logoed clothing items by meeting cost reduction or product placement goals.

Baxter expressed concern about the investment involved, given current economic conditions.

Klappholz noted that similar items had been awarded at annual meetings in previous years and pointed out that logoed clothing worn by Lottery personnel would help to

promote and advertise the Lottery. Rial added that he thought it was a good idea, with a relatively low cost.

Rial moved to approve the Bottom Line Challenge Contest. Schroeder seconded the motion. Voting aye: Junge, Klappholz, Rial, Schroeder. Nay: Baxter. Motion carried 4-1.

### **Audit Firm RFP Award and Contract Approval**

Loy reported that a request for proposals was issued on January 14, 2009, seeking independent certified public accountants to provide auditing services for the Lottery's drawing events and other special events. Two responses were received: from Faller & Kincheloe, PLC, and Larson, Watson, Bartling & Jeffer, LLP. She indicated the staff evaluation committee reviewing the proposals had found that both firms met all requirements of the RFP, and therefore recommended contracting with the lower bidder, Faller & Kincheloe. A draft contract was presented for Board approval, subject to any nonsubstantive adjustments to terms that might be negotiated between the parties or counsel prior to execution. The proposed contract would be effective from May 1, 2009 through April 30, 2011 with four one-year renewal options.

Baxter moved to award the auditing services contract to Faller & Kincheloe, and to approve the proposed contract document subject to non-substantive changes negotiated between the parties. The motion was seconded by Rial and carried unanimously.

### **Membership Dues**

Board approval was requested for payment of the Lottery's annual membership dues to the Iowa Grocery Industry Association (\$500), Petroleum Marketers & Convenience Stores of Iowa (\$625), North American Association of State and Provincial Lotteries (\$16,000) and the World Lottery Association (5600 Swiss Francs). Hrdlicka noted that membership in the grocery industry and petroleum marketers associations enabled the Lottery to stay up to date on industry trends, as well as facilitating greater cooperation between the Lottery and its retailers. He indicated all North American lotteries were members of NASPL, an organization which provided information and education on key trends, communication among its members, and a united voice for the lottery industry on critical issues; while membership in the World Lottery Association provided a valuable exchange of information with lotteries from other continents.

Rial moved to approve the 2009 membership dues as listed. The motion was seconded by Klappholz and carried unanimously.

### **Personnel**

Rich recognized and commended Brickman for his 16 months of service as Acting CEO and thanked him for his invaluable assistance during the transition. He also expressed his appreciation to Brenda Loy, Acting Chief Financial Officer, and John Ellison, Acting Vice President Security. Junge thanked them on behalf of the Board for taking on additional duties to keep the Lottery running smoothly, without additional compensation.

Rich recommended that Brenda Loy be appointed Chief Financial Officer, noting that she was both very capable and highly recommended. For the position of Vice President

Security he recommended Joe Diaz, a former assistant director with the Division of Criminal Investigation who had been involved in gaming industry matters for many years.

Baxter moved to approve Brenda Loy as Chief Financial Officer and Joe Diaz as Vice President, Security. The motion was seconded by Rial and carried unanimously.

### **Management Line of Succession**

Rich indicated the Lottery's management line of succession established by the CEO and the Board in January of 2004 needed to be update to reflect personnel changes. The new line of succession would be:

1. Chief Executive Officer (statutory)
2. Executive Vice President/Chief Operating Officer – Ken Brickman
3. Vice President Sales – Larry Loss
4. Vice President External Relations – Mary Neubauer
5. Vice President Marketing – Joe Hrdlicka
6. Vice President Finance/Chief Financial Officer – Brenda Loy
7. Vice President Security – Joe Diaz

Rial moved to approve the line of succession. The motion was seconded by Schroeder and carried unanimously.

Adjournment having been moved and carried, the meeting adjourned at 11:08 a.m.

## **SECURITY REPORT**

**MARCH 2009**

### **INVESTIGATIONS**

**05 Thefts**

**03 Arrests**

### **EVENTS**

**Provide Security for the \$100,000.00 Cash Game and all second chance and promotional drawings. Total 27 drawings.**

### **WAREHOUSING AND DISTRIBUTION**

**See attached report.**

### **MISCELLANEOUS**

**19 Assist Validation Department**

**04 Days monitoring production of pull-tabs.**

**04 Days monitoring production of Instant tickets.**

**10 Law enforcement contacts.**

### **TOTAL RETAILERS**

**2450**

## **SECURITY REPORT**

**APRIL 2009**

### **INVESTIGATIONS**

05 Thefts  
05 Arrests

### **EVENTS**

Provide Security for the \$100,000.00 Cash Game and all second chance and promotional drawings. Total 27 drawings.

### **WAREHOUSING AND DISTRIBUTION**

See attached report.

### **MISCELLANEOUS**

21 Assist Validation Department.  
22 04 Days monitoring production of pull-tabs.  
09 Law enforcement contacts.

### **TOTAL RETAILERS**

2449

DATE: May 18, 2009

TO: Board Members of the Iowa Lottery Authority

FROM: Brenda Loy, Chief Financial Officer

Attached are the financial statements for April 2009. During April, we had revenue of \$21,367,816. This sales level resulted in \$5,366,610 of proceeds payable to the State General Fund, \$172,841 of proceeds payable to the Veterans Trust Fund, and \$106,968 payable to the Gambler's Treatment Program.

Attachments

**IOWA LOTTERY AUTHORITY**  
**SCHEDULE OF ECONOMIC BENEFITS**

**April 30, 2009**

<b>Proceeds to Iowa Plan</b>		\$170,318,439
<b>Proceeds to CLEAN fund</b>		\$35,894,355
<b>Proceeds to Special Appropriations</b>		\$13,773,572
<b>Proceeds to Gambler's Treatment Program</b>		
Prior to Fiscal Year 2009	\$14,513,071	
Fiscal Year 2009		
Transferred	904,973	
Payable	106,968	
	<hr/>	15,525,012
<b>Proceeds to the State General Fund:</b>		
Prior to Fiscal Year 2009	\$895,703,116	
Fiscal Year 2009		
Transferred	41,110,477	
Payable	5,366,610	
	<hr/>	942,180,203
<b>Proceeds to the Veterans Trust Fund:</b>		
Prior to Fiscal Year 2009	\$0	
Fiscal Year 2009		
Transferred	2,378,009	
Payable	172,841	
	<hr/>	2,550,850
<b>Total</b>		<hr/> <b><u><u>\$1,180,242,431</u></u></b>

**IOWA LOTTERY AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE MONTH AND YEAR ENDED APRIL 30, 2009**

	<b>Month ended April 30, 2009</b>	<b>Month ended April 30, 2008</b>	<b>Year-to-date April 30, 2009</b>	<b>Year-to-date April 30, 2008</b>
<b>OPERATING REVENUES</b>				
Instant ticket sales	\$11,801,663	\$11,555,875	\$114,005,744	\$115,841,771
Pick 3 sales	557,929	527,948	5,438,411	5,316,287
Powerball sales	5,117,493	6,270,341	47,399,437	55,444,900
Hot Lotto sales	1,441,535	1,020,945	11,839,208	9,869,460
Pick 4 sales	218,854	196,935	2,118,776	1,934,658
\$100,000 Cash Game sales	344,177	351,471	3,446,098	3,598,411
Pull-tab sales	1,885,355	1,993,244	17,751,663	17,874,460
Application fees	425	650	3,230	4,350
Other revenue	385	420	44,726	38,253
<b>Total operating revenues</b>	<b>21,367,816</b>	<b>21,917,829</b>	<b>202,047,293</b>	<b>209,922,550</b>
<b>OPERATING EXPENSES</b>				
Instant Prize expense	7,073,796	7,023,390	68,719,285	72,971,468
Pick 3 prize expense	331,167	312,909	3,186,613	3,135,365
Powerball prize expense	2,463,291	3,117,521	22,829,212	26,702,777
Hot Lotto prize expense	708,203	498,846	5,794,978	4,772,274
Raffle Prize Expense	0	0	(10,500)	0
Pick 4 prize expense	124,662	117,381	1,229,072	1,126,575
\$100,000 Cash Game prize expense	163,112	166,381	1,956,963	2,197,394
Pull-tab prize expense	1,189,510	1,250,342	11,150,398	11,182,492
Promotional prize expense	91,624	6,743	516,022	88,942
Advertising/Publicity	530,051	687,903	5,588,688	6,181,284
Retailer compensation expense	1,328,539	1,379,218	12,638,274	13,142,402
Ticket expense	218,464	210,561	2,250,833	2,011,449
Vendor compensation expense	681,232	693,239	6,467,160	6,567,626
Administrative Payroll	753,274	745,972	7,189,630	7,258,341
Travel	36,762	36,471	348,702	369,945
Supplies	13,880	8,085	90,380	97,327
Printing	1,351	1,580	6,447	15,737
Postage	415	0	3,219	3,117
Communications	52,084	51,745	477,706	477,310
Rentals	24,231	23,312	237,992	225,647
Utilities	7,464	9,259	92,334	101,689
Professional fees	2,790	7,066	110,025	61,600
Vending machine maintenance	40,798	41,021	408,257	410,453
Outside services and repairs	11,924	12,116	214,378	215,654
Data processing	3,192	3,323	33,970	31,611
Equipment	525	25,414	117,831	135,378
Reimbursement to other				

**IOWA LOTTERY AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE MONTH AND YEAR ENDED APRIL 30, 2009**

	<b>Month ended April 30, 2009</b>	<b>Month ended April 30, 2008</b>	<b>Year-to-date April 30, 2009</b>	<b>Year-to-date April 30, 2008</b>
state agencies	29,533	25,311	339,936	351,731
Depreciation	116,653	118,473	1,165,081	1,172,285
Other	10,059	8,311	150,272	127,069
<b>Total operating expenses</b>	<b>16,008,586</b>	<b>16,581,893</b>	<b>153,303,158</b>	<b>161,134,942</b>
<b>Operating income (loss)</b>	<b>5,359,230</b>	<b>5,335,936</b>	<b>48,744,135</b>	<b>48,787,608</b>
Interest Income	17,654	24,946	375,123	540,177
Interest expense	(4,105)	(9,578)	(41,050)	(95,783)
<b>Income before transfers</b>	<b>5,372,779</b>	<b>5,351,304</b>	<b>49,078,208</b>	<b>49,232,002</b>
Transfer to:				
Gambler's Treatment Program	(106,968)	(109,827)	(1,011,941)	(1,052,205)
Veterans Trust Fund	(172,841)	0	(2,550,850)	0
State General Fund	(5,366,610)	(5,092,574)	(46,477,087)	(48,655,725)
<b>Change in net assets</b>	<b>(273,640)</b>	<b>148,903</b>	<b>(961,670)</b>	<b>(475,928)</b>
Net assets, beginning of period	4,979,751	3,729,548	5,667,781	4,354,379
<b>Net assets, end of period</b>	<b>\$4,706,111</b>	<b>\$3,878,451</b>	<b>\$4,706,111</b>	<b>\$3,878,451</b>



# Marketing/Sales Board Report, February 2009

Game	Details	February Sales	February Weekly Per Capita*	Fiscal YTD Sales			FY2009 YTD Goal	
				FY2008	FY2009	Change	\$	%
	There was one \$100,000 prize won in the \$100,000 Cash Game in February. Lawrence Barry of Waterloo (02.19.09).	\$346,202	\$0.03	\$2,881,255	<b>\$2,745,102</b>	<b>-4.73%</b>	\$2,800,000	98.04%
	There was one \$1 million prize won in February. Ricky Rushton from Marshalltown (02.24.09). The jackpot reached its peak for the month and ended at \$174.4 million on February 28.	\$5,276,111	\$0.41	\$40,880,542	<b>\$38,110,025</b>	<b>-6.78%</b>	\$43,486,664	87.64%
	There were two \$10,000 Hot Lotto prizes won in February: Carl Tetmeyer of Waukee (02.09.09) and Rosy Garza of East Moline, Ill. (02.13.09). The jackpot was at its highest level and ended for the month at \$3.62 million on February 28.	\$1,071,557	\$0.08	\$7,676,238	<b>\$9,468,797</b>	<b>23.35%</b>	\$7,666,664	123.51%
	Pick 4 sales for February averaged <b>\$54,000</b> per week.*	\$216,001	\$0.02	\$1,528,795	<b>\$1,667,308</b>	<b>9.06%</b>	\$1,466,664	113.68%
	Pick 3 sales for February averaged <b>\$139,931</b> per week.*	\$559,723	\$0.04	\$4,214,065	<b>\$4,304,877</b>	<b>2.15%</b>	\$4,133,336	104.15%

Game	Details	February Sales	February Weekly Per Capita*	Fiscal YTD Sales			FY2009 YTD Goal	
				FY2008	FY2009	Change	\$	%
	Instant sales for February averaged <b>\$3,013,634</b> per week. † Two instant games were introduced in February: "Double Wild 7's" (\$1) and "EZ Grand" (\$5) were introduced on February 16.	\$12,054,534	\$0.93	\$92,745,968	<b>\$89,530,369</b>	<b>-3.47%</b>	\$90,000,000	99.48%
	Pull-tab sales for February averaged <b>\$438,258</b> per week. † No new pull-tab games were introduced in February.	\$1,753,033	\$0.14	\$14,062,512	<b>\$13,903,683</b>	<b>-1.13%</b>	\$14,000,000	99.31%
<b>Totals</b>		<b>\$21,277,161</b>		<b>\$163,989,375</b>	<b>\$159,730,161</b>	<b>-2.60%</b>	<b>\$163,553,328</b>	<b>97.66%</b>

\*Based on the state population of 2.9 million people.

†Monthly sales divided by the number of days in the month, multiplied times seven (days).



#### PROMOTIONS FOR FEBRUARY 2009

The Iowa Lottery introduced its second Midwest Millions scratch ticket on Sept. 15. The game is again a joint effort between the Kansas and Iowa Lotteries. There are two ways to win. Players may win up to \$50,000 instantly playing the scratch game. Or, if they do not win an instant prize, they may enter their nonwinning Midwest Millions ticket in a second-chance drawing for a chance to win up to \$500,000. There will be two second-chance drawings in the game. Each second-chance drawing will offer a \$500,000 prize and 5 prizes of \$10,000.

The first drawing was Jan. 9, 2009, in Topeka, Kan. The \$500,000 winner was Sandra Vines of Wichita, Kansas. The five \$10,000 winners were: Jim Gardner of Ottumwa, Iowa; Dave Von Sprecken of Swisher, Iowa; Steve Dillon of Hutchinson, Kan.; Eric Corrill of Council Bluffs, Iowa, and Roma Wisdom of Eudora, Kan.

The second drawing will be April 17, 2009, in Des Moines. All entries not drawn as winners in the Jan. 9 drawing will be discarded. To enter, players should fill out the information on the back of the nonwinning "Midwest Millions" ticket and 1) put a first class stamp (\$.42) on it and mail it OR 2) drop it in an official entry box at any [Iowa Lottery regional office](#).



The Hot Lotto Sizzler \$100,000 Cash Blast promotion was launched on February 1. The promotion runs through March 4 and offers a top prize of \$100,000. Forty Iowa Lottery players also will win \$500 prizes each in the promotion.

Players can enter the promotion by buying a Hot Lotto Sizzler ticket of at least \$4 between Feb. 1 and Feb. 28. (Tickets must have at least two Hot Lotto Sizzler plays on one ticket and the drawing dates involved cannot extend past Feb. 28.) If your ticket doesn't win a prize, you can visit the lottery Web site at [www.ialottery.com](http://www.ialottery.com) and enter the promotion by keying in the serial number from your ticket.

Players have until noon on March 4 to enter their non-winning tickets in the promotion. They'll need to keep all of the tickets they enter, because tickets must be presented to the lottery to claim a prize. Each ticket can be entered only once in the promotion.

Seven states including Iowa are participating in the promotion. On March 4, 40 winners of \$500 prizes will be selected from each state. One overall winner of \$100,000 also will be selected from all seven states' qualified entries.

Players can enter as many times as they wish, but may win only one prize. Entry into the promotion will be online only; no hand-delivered or mail-in entries will be accepted.

Hot Lotto players choose five numbers from a pool of 39 and another number, called the Hot Ball, from a pool of 19. The Hot Lotto jackpot starts at \$1 million and grows until someone wins it. Tickets in the game cost \$1. Hot Lotto drawings are held at about 9:40 p.m. on Wednesdays and Saturdays, just before the Powerball drawings. The Hot Lotto Sizzler is a multiplier option that triples prizes won, except the jackpot. The Sizzler costs \$1 extra per play.



# Marketing/Sales Board Report, March 2009

Game	Details	March Sales	March Weekly Per Capita*	Fiscal YTD Sales			FY2009 YTD Goal	
				FY2008	FY2009	Change	\$	%
	There were two \$100,000 prizes won in the \$100,000 Cash Game in March: Shirley Caldwell of La Porte City (03.05.09) and Ethel McDowell of Mount Pleasant (03.30.09).	\$356,819	\$0.03	\$3,246,940	<b>\$3,101,921</b>	<b>-4.47%</b>	\$3,150,000	98.47%
	There were no \$200,000 prizes won in March. The jackpot reached its peak for the month and ended at \$95.3 million on March 28.	\$4,171,918	\$0.32	\$49,174,559	<b>\$42,281,944</b>	<b>-14.02%</b>	\$48,922,497	86.43%
	There was one \$10,000 Hot Lotto prize won in March: Robert Dunavan of Callendar (03.12.09). The jackpot was at its highest level and ended for the month at \$1.88 million on March 28.	\$928,876	\$0.07	\$8,848,515	<b>\$10,397,673</b>	<b>17.51%</b>	\$8,624,997	120.55%
	Pick 4 sales for March averaged <b>\$52,525</b> per week.*	\$232,615	\$0.02	\$1,737,722	<b>\$1,899,922</b>	<b>9.33%</b>	\$1,833,330	103.63%
	Pick 3 sales for March averaged <b>\$129,975</b> per week.*	\$575,605	\$0.04	\$4,788,339	<b>\$4,880,483</b>	<b>1.92%</b>	\$4,650,003	104.96%

Game	Details	March Sales	March Weekly Per Capita*	Fiscal YTD Sales			FY2009 YTD Goal	
				FY2008	FY2009	Change	\$	%
	Instant sales for March averaged <b>\$2,861,805</b> per week. † Four instant games were introduced in March: “Aces and 8’s” (\$1) and “Goin’ Green” (\$2) were introduced on March 9; “Reel In The Money” (\$1) and Lucky Diamonds (\$10) were introduced on March 30.	\$12,673,712	\$0.98	\$104,285,896	<b>\$102,204,081</b>	<b>-2.00%</b>	\$101,250,000	100.94%
	Pull-tab sales for March averaged <b>\$443,173</b> per week. † Two new pull-tab games were introduced in March: “Tee One Up” (\$.25) and “Extreme Green” (\$2) were introduced on March 16.	\$1,962,624	\$0.15	\$15,881,216	<b>\$15,866,307</b>	<b>-0.09%</b>	\$15,750,000	100.74%
<b>Totals</b>		<b>\$20,902,169</b>		<b>\$187,963,187</b>	<b>\$180,632,331</b>	<b>-3.90%</b>	<b>\$184,180,827</b>	<b>98.07%</b>

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## PROMOTIONS FOR MARCH 2009



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The first drawing was Jan. 9, 2009, in Topeka, Kan. The \$500,000 winner was Sandra Vines of Wichita, Kansas. The five \$10,000 winners were: Jim Gardner of Ottumwa, Iowa; Dave Von Sprecken of Swisher, Iowa; Steve Dillon of Hutchinson, Kan.; Eric Corroll of Council Bluffs, Iowa, and Roma Wisdom of Eudora, Kan.

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Players had until noon on March 4 to enter their non-winning tickets in the promotion. They had to keep all of the tickets they entered, because the tickets had to be presented to the lottery to claim their prize. Each ticket could only be entered once in the promotion.

Seven states including Iowa participated in the promotion. Players could enter as many times as they wished, but may win only one prize. Entry into the promotion was online only; no hand-delivered or mail-in entries were accepted.

On March 4, 40 winners of \$500 prizes were selected from each state. One overall winner of \$100,000 also was selected from all seven states' qualified entries.

James Walker of Oklahoma City was the lucky winner of \$100,000, the top prize in the promotion. His ticket was drawn from a pool of over 82,000 entries from seven participating states.

The 40 Iowa Lottery winners of \$500 are listed below:

Charles Fuller of Charles City, Karyn Stille of Schaller, Kasey Schafer of West Bend, Brian Honkomp of Sheldon, Danita Bell of Cedar Rapids, John Marsh of Clear Lake, Jerry Wylie of Newton, Vickie Modlin of Omaha, NE, Anthony Empty of West Des Moines, Fred Brown of Newton, Joe Kearney of Dubuque, Darrell Hackbarth of Mason City, Kurt McLain of West Des Moines, John Muelhaupt of Cumming, Susan Briley of Des Moines, Gina Thomas of Norwalk, Tracy Bohr of New Hampton, Dennis Moore of Des Moines, Dave Preuss of Edgewood, Rod Severson of Storm Lake, Joyce Jensen of Council Bluffs, Cindy Mayer of Polk City, Beverly Dougherty of Cedar Rapids, Lynae Lundeen of Castana, Kevin Reynolds of Bettendorf, Mark Bratz of Centerville, Danny Remily of Des Moines, Michael Christopher of East Moline, IL, Gary Schellhammer of Waukon, Steve Davis of Missouri Valley, Kirk Siefert of Fort Dodge, Tony Dam



of Sloan, Lori Oldorf of Cedar Rapids, Wallace Martin of Boone, Mike Hoffman of Le Mars, Barbara Hansel of West Branch, David Fisher of Lehigh, Valerie Gillham of Cromwell, Sheila Lane of Davenport and Kenan Miller of Des Moines.

Hot Lotto players choose five numbers from a pool of 39 and another number, called the Hot Ball, from a pool of 19. The Hot Lotto jackpot starts at \$1 million and grows until someone wins it. Tickets in the game cost \$1. Hot Lotto drawings are held at about 9:40 p.m. on Wednesdays and Saturdays, just before the Powerball drawings. The Hot Lotto Sizzler is a multiplier option that triples prizes won, except the jackpot. The Sizzler costs \$1 extra per play.

May 19, 2009

To: ILA Board

From: Ken Brickman, COO

Re: Battelle Memorial Institute Contract

As with our procurement of our current on-line gaming system in 1999, Management proposes to utilize the services of Battelle Memorial Institute (“Battelle”) in connection with the request for proposals process for a new on-line gaming system. The on-line gaming vendor selection process is the most litigious area of concern to lotteries as competition is keen for a relatively small number of long-term contracts.

Battelle is a not-for-profit organization specializing in technology development, commercialization, and project management that offers its consulting services within the lottery industry exclusively to government lotteries and not to lottery vendors and suppliers. They have worked in the lottery industry since 1979 and with on-line gaming systems since 1984, having assisted numerous lotteries, including Iowa, with similar procurements. This is the only firm with the unique technical expertise and RFP consulting experience essential to our needs. Battelle’s participation gives an RFP process a high degree of credibility in the industry.

We propose to use Battelle sparingly, to review, advise and assist the evaluation team, as requested, regarding various aspects of the RFP process. While Battelle offers full service support, we would follow the same cafeteria approach as in 1999, using them only for selected areas of support where the evaluation team deems Battelle’s expertise essential to producing a quality procurement process yielding a cutting-edge gaming system that will best serve our technological needs in years to come.

The enclosed proposed contract has yet to be approved as to form and content by both parties. Based on past experience with this vendor, the final contract should not vary in substance from the version presented for approval. We ask your approval, subject to any non-substantive changes agreed upon by the parties and their counsel; any changes deemed substantive by the Assistant Attorney General representing the ILA in this transaction would be brought back to the Board for further consideration.

April 15, 2009

Mr. William Angrick II  
Iowa Citizens' Aide/Ombudsman  
Ola Babcock Miller Building  
1112 E. Grand Ave.  
Des Moines, IA 50319

Dear Bill:

Thank you for providing us with a copy of your upcoming report. We know that your office spent a lot of time and effort to produce it and we are happy to review your work.

We are treating your agency's report in the same serious business manner and with the same open-minded reception that we give to an audit conducted at the Iowa Lottery, whether it be a financial audit or an audit of our information-technology systems.

The end result of your work is a report that admittedly "did not uncover a case of large-scale fraud" involving Iowa's lottery, supporting your original assessment that "the vast majority of Iowa retailers and clerks are honest, reputable and do not engage in fraud or theft." All citizens of Iowa and anyone beyond our state's borders who has ever played an Iowa Lottery game can be heartened by that news.

That finding makes sense when you consider that in calendar year 2008, the Lottery's Security Department handled 182 inquiries compared to the 148,136,301 transactions that year for the sale and cashing of Lottery tickets in our state. In other words, 99.99999877 percent of those transactions had no security-related inquiry associated with them.

There is nothing in your agency's report we have not already discussed, considered or implemented at the Iowa Lottery. However, the conclusions and opinions appear to be based upon idealistic possibilities, while our decisions must be based upon what is reasonable, practical and fiscally responsible. We also believe the process must involve input from Iowa citizens and lawmakers.

Because the primary focus in the report is your agency's opinions about the possibility of retailer fraud, it is important that these facts be very clear:

- No fraud or theft was committed or suspected by any state employee involved in the regulation of Iowa's lottery.
- No large-scale fraud was found or reported involving Iowa's lottery.
- Integrity is at the heart of our operations. We do not believe that your overall conclusions are a true representation of what you found at the Iowa Lottery.
- We believe that we are conforming with Iowa Code section 99G.2(3) that states in its entirety: "that lottery games shall be operated and managed in a manner that provides continuing entertainment to the public, maximizes revenues, and ensures that the lottery is operated with integrity and dignity and free from political influence."
- We have made enhancements to many facets of Iowa Lottery operations through the years, including the area of security, and strive for continuous improvement.

With those thoughts in mind, we agree with or have already implemented many of the concepts in principle outlined in your agency's recommendations, although we reserve the right to question specific research background within the report. We disagree with the remainder due to concerns regarding undue governmental intrusion, red tape and impractical business application; game security concerns; personal security risks; and cost-benefit factors.

For example, your agency's report mentions self-checkers. We've been looking at ticket checkers for years. As with any technology, products get better and less costly over time. We believe this will be a viable option in the very near future, but we're not there yet.

We also do not agree that administrative rules or laws need to be revised to achieve an enhancement of lottery security in Iowa.

As someone new to state government, I want to express my hope that we can work together to elevate the positive tone of our discussions. I fear that the interactions of our offices thus far have left the public with the unfortunate impression of government quarreling and fingerpointing, not to mention the enormous resources that were involved. Producing this report involved the staff time of about two dozen state employees over two years' time, when both our organizations desire the same result: to protect the citizens of Iowa. I believe that government should lead by example and when offices argue, it leaves a less-than-flattering impression of how government works. I look forward to working with you to renew our efforts toward a harmonious working relationship.

Lastly, we ask that the report be released to the public immediately so that in the spirit of true openness we can ensure the most open, timely and fair discussion possible of our differences of opinion.

Thank you again for your agency's efforts. I truly believe we share the same goals.

Sincerely,

Terry Rich  
Chief Executive Officer



May 12, 2009

TO: Iowa Lottery Authority Board  
FR: Joe Hrdlicka and Sally Robson  
RE: Advertising Agency Extensions – FY10

Both Creative Service and Broadcast Media Planning and Buying Services were bid in 2007, and awards were made to the Integer Group Midwest and Strategic America, respectively, beginning July 1 for FY08. Last year the Board voted to extend the contracts for the first option year for FY09.

The Integer Group Midwest (Integer) provided the creative concept development and direction for many successful campaigns this year beginning with the “\$uper \$ampler.” The talking chicken delivered the “cheaper by the dozen” message readily understood by our retailers and players in September and April. Communicating the benefit “better than one in three odds” for “Midwest Millions” gave us a strong launch for ticket sales. The photo montage of veterans who have received assistance from the Iowa Veterans Trust Fund provided reassurance to players that our specially-themed tickets are producing proceeds and desired results for Iowa veterans.

The “\$uper \$ampler” television commercial was awarded both a national 2009 Telly Award and 2008 Addy Award from the American Advertising Federation – Des Moines. The TV commercials for “Holiday Riches” and “Set of Wheels” were also Addy Award winners, along with the radio jingle for “Holiday Jingle Bell Jumble.” Integer provided technical assistance and consultation as we expanded into blogs, Twittering and other new media. The Iowa Lottery was rewarded with a 2009 Merit Award for Social Media from the Public Relations Society of America.

The media team at Strategic America has provided exemplary service maximizing opportunities for cost-effective audience delivery. The agency purchased a new media software system which allows them to plan, buy and negotiate more efficiently. It facilitated the transition of our text messaging contract to Sedona Technologies after the purchase of previous vendor. The team arranged the media support of the promotion for “It’s a Wonderful Life.” During May of this year the agency purchased television advertising in a different way, combining a :15 message for the “Big Beepin’ Deal” and :15 “Keep Your Ticket Handy” commercial at the open and close of a commercial break. This allowed us to advertise both significant campaigns simultaneously to increase Powerball sales for the final quarter of the fiscal year.

Both agencies stepped up and really delivered for the “Keep Your Ticket Handy” campaign. This is a very complex, ever-changing promotion that requires dozens of commercials, newspaper ads, billboard designs, point of sale pieces, press kits, car graphics, etc. It also involves numerous radio remotes statewide. Early indications point to the success of their collaborative efforts.

It is our recommendation to extend the contracts with an additional option year in FY10 with both the Integer Group Midwest and Strategic America.

**EXTENSION TO THE AGREEMENT  
FOR CREATIVE ADVERTISING SERVICES**

**THIS EXTENSION**, is effective on July 1, 2009 and is made by and between the **IOWA LOTTERY Authority** (the "Lottery"), an enterprise agency of the State of Iowa, and **THE INTEGER GROUP** (Agency).

In consideration of the premises and the mutual promises and covenants herein contained, the parties hereto agree as follows:

**SECTION 1. IDENTITY OF THE PARTIES.**

**1.1** The Lottery is an instrumentality of the State of Iowa and is authorized by Iowa Code Chapter 99G to conduct a lottery in the State of Iowa. The Lottery's address is 2323 Grand Ave., Des Moines, Iowa 50312.

**1.2** The Integer Group (Agency) is a wholly owned company of Omnicom Group, Inc. whose business, is among other things, of providing advertising planning and preparation services for clients. The address for Agency is 2633 Fleur Drive, Des Moines, IA 50321.

**SECTION 2. STATEMENT OF AGREEMENT AND PURPOSE.** The Lottery and Agency entered into a one-year Agreement providing that the Agency would provide advertising and marketing support for planning and preparation of materials intended to advertise the Lottery, its services and products during the term of the Agreement.

**SECTION 3. EXTENSION.** On July 1, 2007, the Lottery and Agency entered into an Agreement for Creative Advertising Services. The term of the Agreement was for a one-year period with four one-year option periods. The Agreement was extended and amended effective July 1, 2008 to reflect a change to Section 6.4 Outside Services and Products. Pursuant to Section 4 of the Agreement, the term of the Agreement is hereby extended for an additional one-year period through June 30, 2010.

**SECTION 4. RATIFICATION.** Except as expressly amended hereby, the Agreement or any other amendments to the Agreement shall remain in full force and effect, and the parties hereby ratify and confirm the terms and conditions thereof.

**SECTION 5. AUTHORIZATION.** Each party to this Agreement represents and warrants to the other that:

**5.1** It has the right, power and authority to enter into and perform its obligations under this Agreement.

**5.2** It has taken all requisite action (corporate statutory or otherwise) to approve execution, delivery and performance of this Agreement, and this Agreement constitutes a legal, valid and binding obligation upon itself in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency and similar laws.

**SECTION 6. EXECUTION.**

**IN WITNESS WHEREOF**, in consideration of the mutual covenants set forth above and for other good and valuable consideration, the receipt, adequacy and legal sufficiency of which are hereby acknowledged, the parties have entered into the above Agreement and have caused their duly authorized representatives to execute this Agreement.

**IOWA LOTTERY AUTHORITY**

**THE INTEGER GROUP**

By: \_\_\_\_\_  
Kenneth A. Brickman  
Executive Vice-President

By: \_\_\_\_\_  
Al Tramontina  
Executive Vice-President

Date: \_\_\_\_\_

Date: \_\_\_\_\_

**EXTENSION TO THE AGREEMENT FOR  
MEDIA PLANNING, BUYING SERVICES AND PRODUCTS**

**THIS EXTENSION**, is effective on July 1, 2009 and is made by and between the **IOWA LOTTERY AUTHORITY** (the "Lottery"), an enterprise agency of the State of Iowa, and **STRATEGIC AMERICA** (Agency).

In consideration of the premises and the mutual promises and covenants herein contained, the parties hereto agree as follows:

**SECTION 1. IDENTITY OF THE PARTIES.**

**1.1** The Lottery is an instrumentality of the State of Iowa and is authorized by Iowa Code Chapter 99G to conduct a lottery in the State of Iowa. The Lottery's address is 2323 Grand Ave., Des Moines, Iowa 50312.

**1.2** Strategic America (Agency) is an Iowa corporation, whose business, is among other things, of providing media purchasing services for clients. The address for Agency is 1500 NW 118<sup>th</sup> Street, Des Moines, IA 50325.

**SECTION 2. STATEMENT OF AGREEMENT AND PURPOSE.** Effective July 1, 2007, the Lottery and the Agency entered into a one-year Agreement (reference RFP 07-02) providing for media planning and buying services by the Agency to support advertising and marketing efforts to sell Lottery products (Agreement). The Agreement provides that the Lottery and the Agency can extend the Agreement for up to four one-year periods after the initial term of the Agreement.

**SECTION 3. AMENDMENT.** Pursuant to Section 4 of the Agreement, the term of the Agreement is hereby extended for the second option period through June 30, 2010.

**SECTION 4. RATIFICATION.** Except as expressly amended hereby, the Agreement or any other amendments to the Agreement shall remain in full force and effect, and the parties hereby ratify and confirm the terms and conditions thereof.

**SECTION 5. AUTHORIZATION.** Each party to this Agreement represents and warrants to the other that:

**5.1** It has the right, power and authority to enter into and perform its obligations under this Agreement.

**5.2** It has taken all requisite action (corporate statutory or otherwise) to approve execution, delivery and performance of this Agreement, and this Agreement constitutes a legal, valid and binding obligation upon itself in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency and similar laws.

**SECTION 6. EXECUTION.**

**IN WITNESS WHEREOF**, in consideration of the mutual covenants set forth above and for other good and valuable consideration, the receipt, adequacy and legal sufficiency of which are hereby acknowledged, the parties have entered into the above Agreement and have caused their duly authorized representatives to execute this Agreement.

**IOWA LOTTERY AUTHORITY**

**STRATEGIC AMERICA**

By: \_\_\_\_\_  
Kenneth A. Brickman  
Executive Vice-President

By: \_\_\_\_\_  
John C. Schreurs  
President

Date: \_\_\_\_\_

Date: \_\_\_\_\_