

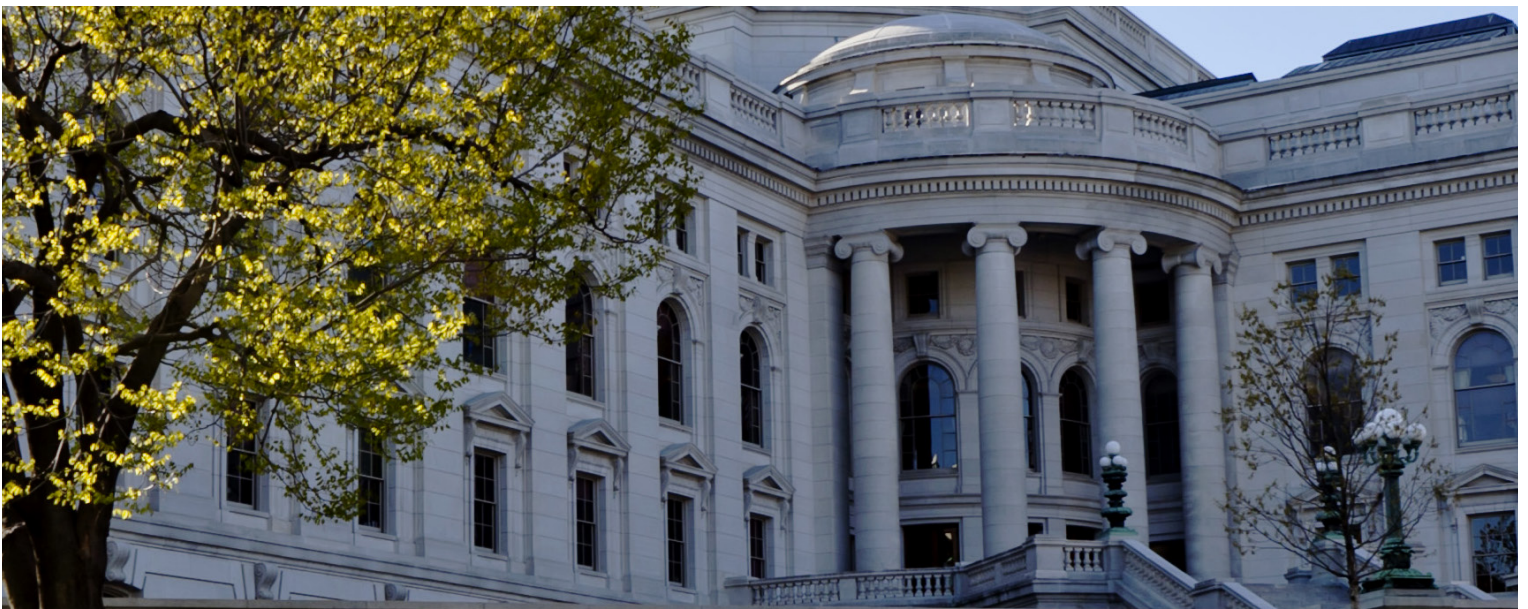


STATE OF WISCONSIN
Legislative Audit Bureau
NONPARTISAN • INDEPENDENT • ACCURATE

Report 21-10
June 2021

Wisconsin Lottery

Fiscal Year 2019-20



Wisconsin Lottery

Fiscal Year 2019-20



STATE OF WISCONSIN

Legislative Audit Bureau

NONPARTISAN • INDEPENDENT • ACCURATE

Report 21-10
June 2021

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Legislative Audit Bureau

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June 30, 2021

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 required by s. 13.94 (1) (em), Wis. Stats., we have completed a financial audit of the Wisconsin Lottery, which is administered by the Wisconsin Department of Revenue. We have provided an unmodified opinion on the Wisconsin Lottery's financial statements as of and for the years ended June 30, 2020, and June 30, 2019.

Wisconsin Lottery ticket sales increased from \$713.1 million in fiscal year (FY) 2018-19 to \$725.4 million in FY 2019-20, or by 1.7 percent. This increase is the result of increased sales of scratch-off tickets that sold for \$10 or more. As ticket sales increase, Wisconsin Lottery expenses also increase. Operating expenses increased from \$520.8 million in FY 2018-19 to \$542.9 million in FY 2019-20, or by 4.2 percent.

2017 Wisconsin Act 59, the 2017-19 Biennial Budget Act, created a general purpose revenue (GPR) appropriation for the Wisconsin Lottery. Under Act 59, the Wisconsin Lottery was provided with \$40.0 million in FY 2018-19 for retailer compensation. 2019 Wisconsin Act 9, the 2019-21 Biennial Budget Act, provided the Wisconsin Lottery with \$71.7 million in FY 2019-20 and \$73.1 million in FY 2020-21 for retailer compensation, vendor fees, and certain general program operations. The provision of GPR funding increased net lottery proceeds available for the Lottery and Gaming Tax Credit in FY 2018-19 and FY 2019-20.

The Wisconsin Constitution requires that net proceeds from the Wisconsin Lottery be used exclusively for property tax relief for Wisconsin residents. During FY 2019-20, net lottery proceeds used for property tax relief totaled \$270.4 million. In October 2020, the Wisconsin Department of Administration and the Legislature's Joint Committee on Finance authorized the use of \$237.4 million in net lottery proceeds for the FY 2020-21 Lottery and Gaming Tax Credit.

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

Respectfully submitted,

Joe Chrisman
State Auditor

JC/BG/ss

Introduction

The Wisconsin Lottery began operations in September 1988 after Wisconsin voters adopted a constitutional amendment in 1987 that allowed the Legislature to create a state lottery with net proceeds to be distributed for property tax relief. Since 1995, the Department of Revenue has managed the Wisconsin Lottery. As required by s. 13.94 (1) (em), Wis. Stats., we have completed a financial audit of the Wisconsin Lottery and have provided an unmodified opinion on its financial statements as of and for the years ended June 30, 2020, and June 30, 2019. We reviewed ticket sales, operating expenses, balances related to Wisconsin Lottery's participation in the Multi-State Lottery Association (MUSL), property tax relief funded by net proceeds available from the Wisconsin Lottery, and compliance with selected statutory provisions.

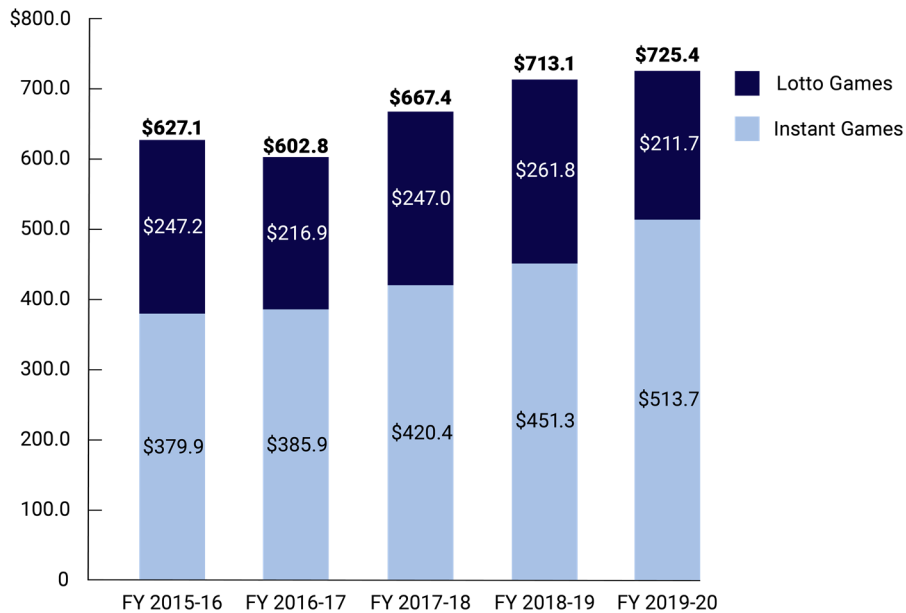
Wisconsin Lottery Ticket Sales

Ticket sales were \$725.4 million in FY 2019-20, which was an increase of 1.7 percent from FY 2018-19.

As shown in Figure 1, the Wisconsin Lottery's ticket sales increased from \$713.1 million in fiscal year (FY) 2018-19 to \$725.4 million in FY 2019-20, or by 1.7 percent. Sales of instant tickets, which are scratch-off and pull-tab tickets, increased by \$62.4 million, or by 13.8 percent. This increase is the result of increased sales of scratch-off tickets that sold for \$10 or more. Lotto ticket sales decreased \$50.1 million, or by 19.1 percent, due to decreased Powerball and Mega Millions ticket sales resulting from the jackpots being lower in FY 2019-20 than those in FY 2018-19.

Figure 1

Wisconsin Lottery Ticket Sales
(in millions)



Wisconsin Lottery Operating Expenses

Operating expenses were \$542.9 million in FY 2019-20, or 4.2 percent more than in FY 2018-19.

The Wisconsin Lottery’s largest expenses are prizes and retailer compensation. Retailer compensation 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 \$520.8 million in FY 2018-19 to \$542.9 million in FY 2019-20, or by 4.2 percent, primarily because expenses for instant prizes increased as instant ticket sales increased.

Game development and production expenses include donated prize expense, instant game ticket printing and delivery costs, and payments to IGT Global Solutions Corporation (IGT), which provides an integrated gaming computer system to account for instant and lotto game activity and to network with retailer terminals. Game development and production expenses generally fluctuate based on changes in ticket sales. The Wisconsin Lottery paid IGT approximately \$18.3 million in FY 2018-19 and \$18.8 million in FY 2019-20.

Table 1

Wisconsin Lottery Operating Expenses
(in millions)

Operating Expense Type	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Prize Expenses	\$372.5	\$363.0	\$404.4	\$431.9	\$453.5
Retailer Compensation	43.5	41.3	46.5	49.7	50.9
Game Development and Production	19.4	18.9	19.7	20.2	21.5
Product Information	7.5	7.5	8.5	8.5	8.4
Other ¹	9.0	9.6	8.1	10.5	8.6
Total	\$451.9	\$440.3	\$487.2	\$520.8	\$542.9

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

In FY 2019-20, the Wisconsin Lottery spent \$8.4 million to provide information about its products.

The Wisconsin Constitution prohibits public funds or revenues derived from lottery operations from being spent for promotional advertising and requires that any advertising provide only information about the prize structures and chances of winning. The Wisconsin Lottery's annual product information budget, which is established through the State's biennial budget, was unchanged at \$8.5 million from FY 2018-19 to FY 2019-20. The Wisconsin Lottery spent \$8.4 million to provide information about its products in FY 2019-20.

Property Tax Relief

The Wisconsin Constitution requires that net proceeds available 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. The total amount distributed for property tax relief is authorized early in the fiscal year and is based on an estimate of proceeds that will be available for distribution. Property tax relief is lower in years where fewer proceeds are anticipated to be available for distribution and is higher in years where more proceeds are anticipated to be available for distribution.

The Wisconsin Lottery was provided with general purpose revenue (GPR) of \$8.0 million in FY 2017-18 and \$40.0 million in FY 2018-19 for retailer compensation expenses. The Wisconsin Lottery was also provided \$71.7 million in GPR in FY 2019-20, including:

- \$48.0 million for retailer compensation expenses;
- \$17.8 million for fees paid to IGT; and

- \$5.9 million for general program operation expenses, excluding salaries and product information.

The provision of GPR funding increased net lottery proceeds available for the Lottery and Gaming Tax Credit in FY 2018-19 and FY 2019-20. As shown in Table 2, the net lottery proceeds used to fund the Lottery and Gaming Tax Credit increased from \$234.9 million in FY 2018-19 to \$270.4 million in FY 2019-20, or by 15.1 percent.

Table 2

Property Tax Relief¹
(in millions)

Fiscal Year	Lottery and Gaming Tax Credit
2015-16	\$ 158.1
2016-17	183.3
2017-18 ²	170.3
2018-19 ²	234.9
2019-20 ³	270.4
Total	\$1,017.0

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

² Under 2017 Wisconsin Act 59, the 2017-19 Biennial Budget Act, the Wisconsin Lottery was provided GPR of \$8.0 million in FY 2017-18 and \$40.0 million in FY 2018-19 for retailer compensation expenses.

³ Under 2019 Wisconsin Act 9, the 2019-21 Biennial Budget Act, the Wisconsin Lottery was provided GPR of \$71.7 million in FY 2019-20 and \$73.1 million in FY 2020-21 for retailer compensation expenses, vendor fees, and certain general program operation expenses.

From its inception in 1988 through FY 2019-20, the Wisconsin Lottery has provided \$4.9 billion in property tax relief.

In October 2020, the Department of Administration and the Legislature's Joint Committee on Finance authorized the use of \$237.4 million in net lottery proceeds for the FY 2020-21 Lottery and Gaming Tax Credit. From its inception in 1988 through FY 2019-20, the Wisconsin Lottery has provided \$4.9 billion in property tax relief.

Statutory Requirements

Wisconsin 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 ticket sales be used as prize payments to players. From FY 2015-16 through FY 2019-20, the Wisconsin Lottery's prize expenses exceeded 50 percent of ticket sales, in compliance with the statutory requirement, as shown in Table 3. Prize expenses 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 Sales¹

Fiscal Year	Prize Expenses (in millions)	Ticket Sales (in millions)	Prize Expenses as a Percentage of Ticket Sales
2015-16	\$372.5	\$627.1	59.4%
2016-17	363.0	602.8	60.2
2017-18	404.4	667.4	60.6
2018-19	431.9	713.1	60.6
2019-20	453.5	725.4	62.5

¹ Section 25.75 (3) (a), Wis. Stats., requires that at least 50 percent of lottery ticket sales be used as prize payments to players.

The Wisconsin Lottery's administrative expenses were below the statutory limit from FY 2015-16 through FY 2019-20.

Section 25.75 (3) (b), Wis. Stats., provides that certain administrative expenses may not exceed 10 percent of gross lottery revenues. Gross lottery revenues for this calculation are statutorily defined to consist of instant and lotto ticket sales and retailer fees. Statutory administrative expenses include most expenses and transfers, except prize payments; retailer compensation; transfers to property tax relief; and transfers to the Wisconsin Department of Justice for lottery-related law enforcement activities. As shown in Table 4, the Wisconsin Lottery's administrative expenses remained below the statutory limit from FY 2015-16 through FY 2019-20.

Table 4

Administrative Expenses as a Percentage of Lottery Revenues¹

Fiscal Year	Statutorily Defined Administrative Expenses (in millions)	Lottery Revenues ² (in millions)	Percentage of Lottery Revenues
2015-16	\$36.6	\$627.2	5.8%
2016-17	36.7	602.8	6.1
2017-18	37.0	667.5	5.5
2018-19	40.2	713.2	5.6
2019-20	39.1	725.5	5.4

¹ Section 25.75 (3) (b), Wis. Stats., provides that certain administrative expenses may not exceed 10 percent of gross lottery revenues.

² Lottery revenues include instant and lotto ticket sales and retailer fees.

In FY 2019-20, the Wisconsin Lottery spent \$43.7 million on basic commissions to retailers that sell lottery tickets.

Statutes establish maximum compensation rates for basic commissions and performance program payments to retailers that sell lottery tickets. Basic commission rates, as established in s. 565.10 (14) (b), Wis. Stats., are currently 5.5 percent of the retail price for lotto tickets and 6.25 percent for instant tickets. The Wisconsin Lottery spent \$43.7 million on basic commissions in FY 2019-20, which was all funded by GPR.

In FY 2019-20, the Wisconsin Lottery spent \$7.0 million in Retailer Performance Program payments.

In addition, s. 565.02 (4) (g), Wis. Stats., authorizes a performance program to provide incentives to retailers and requires that payments not exceed 1.0 percent of gross revenues from the sale of lottery tickets. Table 5 shows the Wisconsin Lottery's performance program payments did not exceed 1.0 percent of gross revenues from the sale of lottery tickets from FY 2015-16 through FY 2019-20. In FY 2019-20, the Wisconsin Lottery spent \$7.0 million on Retailer Performance Program payments.

Table 5

Retailer Performance Program Payments as a Percentage of Ticket Sales¹

Fiscal Year	Retailer Performance Program Payments (in millions)	Ticket Sales (in millions)	Payments as a Percentage of Ticket Sales
2015-16	\$6.0	\$627.1	1.0%
2016-17	5.0	602.8	0.8
2017-18	6.5	667.4	1.0
2018-19	6.9	713.1	1.0
2019-20	7.0	725.4	1.0

¹ Section 565.02 (4) (g), Wis. Stats., authorizes a performance program to provide incentives to retailers and requires that payments not exceed 1.0 percent of gross revenues from the sale of lottery tickets.

The Retailer Performance Program includes sales incentives for retailers that increase ticket sales, a bonus for retailers that sell winning tickets, and short-term incentives for retailers that increase ticket sales of certain games for specific time periods. During FY 2019-20, performance payments for the sales incentives for increasing ticket sales accounted for 76.3 percent of the total incentive payments, winning ticket bonuses accounted for 17.4 percent, and short-term incentives accounted for 6.3 percent. There were five short-term incentives during FY 2019-20. Total payments for each of the five short-term incentives ranged from \$1,641 to \$151,400, and the number of retailers who participated in each of these short-term incentives ranged from 497 retailers to all retailers, which was 3,515 retailers as of June 30, 2020.

In addition to limitations on certain types of lottery expenses, Wisconsin Statutes prescribe various transfers to and from the Wisconsin Lottery. 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 for the Department of Health Services' compulsive gambling awareness campaigns, under s. 20.435 (5) (kg), Wis. Stats.;
- the appropriation for the Wisconsin Department of Justice's gaming law enforcement, under s. 20.455 (2) (g), Wis. Stats.; and
- the appropriations for general operations of the Department of Administration's Division of Gaming related to racing and bingo, under s. 20.505 (8) (g) and (jm), Wis. Stats.

No unencumbered balances were available to be transferred to the Wisconsin Lottery in FY 2018-19 or FY 2019-20.

In addition, the Wisconsin Lottery is required to transfer amounts to the General Fund related to annual appropriation bonds issued by the State of Wisconsin to pay off certain unfunded liabilities in the pension and other employee benefit programs. The Wisconsin Lottery transferred \$112,270 in FY 2018-19 and \$127,753 in FY 2019-20 for this purpose.

Events Subsequent to FY 2019-20

We also note that 2019 Wisconsin Act 9 provided \$73.1 million in GPR for the Wisconsin Lottery in FY 2020-21. Under Act 9, \$48.0 million is for retailer compensation, \$17.8 million is for vendor fees, and \$7.3 million is for general program operation expenses, excluding salaries and product information.

Since June 1989, the Wisconsin Lottery has been a member of MUSL, which included 38 member lotteries from 35 states, the District of Columbia, the U.S. Virgin Islands, and Puerto Rico as of June 30, 2020. As a member of MUSL, in FY 2018-19 and FY 2019-20, the Lottery participated in two multijurisdictional lotto games: Powerball and Mega Millions. 2021 Wisconsin Act 6, which was enacted on February 26, 2021, changed the definition of “multijurisdictional,” for the purposes of the state lottery, to include any other country or nation. This change allows the Wisconsin Lottery to continue participating in a multijurisdictional lottery, such as MUSL, in the event of international expansion.

In 2016, the Wisconsin Lottery entered into a contract with IGT for an integrated gaming computer system. The initial term of this contract was for seven years from the operational start date, with the option to renew up to three additional one-year periods. As noted in Note 11C, the Wisconsin Lottery exercised its first option to renew this contract during FY 2018-19. On March 25, 2021, the Wisconsin Lottery exercised its option to renew this contract a second time, further extending the contract, which has an expiration date of May 13, 2026. Further, the amendment required IGT to develop and maintain a public mobile app for the Wisconsin Lottery.



Audit Opinion



STATE OF WISCONSIN

Legislative Audit Bureau

Joe Chrisman
State Auditor

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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. Peter Barca, Secretary
Department of Revenue

Ms. Cindy Polzin, Administrator
Division of Lottery
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, 2020, and June 30, 2019, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, 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, 2020, and June 30, 2019, and the respective changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2A 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, 2020, and June 30, 2019, the changes in its financial position, or where applicable, its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information—Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis*, on pages 17 through 27, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, which considers it to be essential for placing the financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary 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. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Accompanying Information—Our audits were conducted for the purpose of forming an opinion on the financial statements of the Wisconsin Lottery. Schedules 1 and 2, on pages 58 and 59, respectively, are presented for purposes of additional analysis and are not a required part of the financial statements for the years ended June 30, 2020, and June 30, 2019. 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 for the years ended June 30, 2020, and June 30, 2019.

We also previously audited, 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*, the financial statements of the Wisconsin Lottery as of and for the years ended June 30, 2018, June 30, 2017, and June 30, 2016 (not presented herein), and issued reports thereon dated June 14, 2019 (report 19-10),

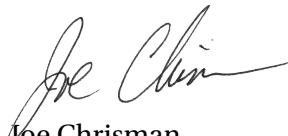
August 3, 2018 (report 18-7), and August 29, 2017 (report 17-15), which contained unmodified opinions on the respective financial statements of the Wisconsin Lottery. In this report (report 21-10), Schedule 1, on page 58, for the year ended June 30, 2018, and Schedule 2, on page 59, for the years ended June 30, 2018, June 30, 2017, and June 30, 2016, 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, 2018, June 30, 2017, and June 30, 2016. 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, 2018, June 30, 2017, and June 30, 2016.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated June 28, 2021, on our consideration of the Department of Revenue's and the Wisconsin Lottery's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, contracts; and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Department of Revenue's and the Wisconsin Lottery's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be used when considering the Department of Revenue's and the Wisconsin Lottery's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU



Joe Chrisman
State Auditor

June 28, 2021

Management's Discussion and Analysis

Prepared by Wisconsin Lottery Management

This section of the Wisconsin Lottery's (Lottery) financial statements provides the Management's Discussion and Analysis of the Lottery's financial performance for the fiscal years ended June 30, 2020, and June 30, 2019, with comparative information from the fiscal year ended June 30, 2018. 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 Department of Revenue and Lottery management.

Financial Highlights

In 2020, the Department of Employee Trust Funds (ETF), which has program administration and oversight of postemployment benefits, determined that the Supplemental Health Insurance Conversion Credit (SHICC) program should be considered a defined benefit other postemployment benefit (OPEB). As such, the Lottery has recorded its proportionate share of the net OPEB asset at June 30, 2020, of \$119,166 as a noncurrent asset. More detail can be found in Note 7 to the financial statements.

Operating Revenues/Program Expenses

The Lottery's operating revenues generated from ticket sales were \$725.4 million in fiscal year (FY) 2019-20 compared to \$713.1 million in FY 2018-19, an increase of 1.7 percent. In FY 2019-20, instant scratch-off tickets also had their highest annual sales in Lottery history. The increase can be attributed to the increased sales of higher price point tickets (\$10 and higher) and to a strong fourth quarter of scratch-off game ticket sales. In FY 2019-20, sales of higher price point tickets increased significantly

compared to the previous year (\$10 priced tickets increased by 12.7 percent, \$20 priced tickets increased by 21.9 percent, and \$30 priced tickets increased by 43.6 percent). In FY 2019-20, sales of higher price point tickets accounted for 56.4 percent of total scratch-off ticket sales.

Program expenses for FY 2019-20 increased by \$24.0 million, or 4.7 percent, primarily due to increased instant prize expense and retailer commissions and incentives, which rise with increased sales. Administrative expenses (salaries and fringe benefits, and supplies) decreased to \$8.6 million in FY 2019-20 from \$10.5 million in FY 2018-19. Supplies and services decreased by \$2.3 million from FY 2018-19. Salaries and fringe benefits increased by \$0.4 million due to the general wage adjustments that were part of the 2019-2021 State of Wisconsin Compensation Plan. Net income before transfers was \$184.3 million for FY 2019-20, compared to \$196.0 million in FY 2018-19, and \$180.2 million in FY 2017-18.

Total statutory administrative expenses were 5.4 percent of gross Lottery revenues in FY 2019-20, well below the statutory maximum of 10.0 percent (s. 25.75 (3) (b), Wis. Stats.). Total statutory administrative expenses, including administrative expenses reported in the financial statements, all program expenses except prizes and retailer compensation, and certain transfers out, were \$39.1 million in FY 2019-20, which was a decrease of \$1.1 million from \$40.2 million in FY 2018-19.

Understanding the Financial Statements

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

This Management's Discussion and Analysis consists of comparative financial statements, and explanatory notes to the financial statements and supplemental schedules. The financial statements are comprised of these three components:

- Statement of Net Position—provides detailed information on the nature and amount of the Lottery's assets, deferred outflows, liabilities, deferred inflows, and net position as of June 30, 2020, and June 30, 2019;
- Statement of Revenues, Expenses, and Changes in Net Position—reports the revenues and expenses incurred in relation to the sale of Lottery products, and other non-gaming related activity for FY 2019-20 and FY 2018-19; 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 2019-20 and FY 2018-19.

The Lottery's financial position and financial health can be assessed by paying attention to the changes in:

- the components of assets and liabilities in the Statement of Net Position;

- income and expenses in the Statement of Revenues, Expenses, and Changes in Net Position; and
- the Statement of Cash Flows.

Overview of Financial Position

The Statement of Net Position provides detailed information on the Lottery's assets, deferred outflows, liabilities, deferred inflows, and net position at the end of FY 2019-20 and FY 2018-19.

Table A presents condensed data for the past three fiscal years. The relationship of assets and deferred outflows to liabilities and deferred inflows and the resulting net position are indicators of the Lottery's financial condition.

Table A

Statement of Net Position (in millions)

	June 30, 2020	Change	June 30, 2019	Change	June 30, 2018
Assets					
Investments	\$ 11.9	\$ (3.3)	\$ 15.2	\$(3.8)	\$ 19.0
Capital Assets (net of accumulated depreciation)	0.1	0.0	0.1	(0.1)	0.2
Other Assets	95.1	(1.1)	96.2	9.1	87.1
Total Assets	107.1	(4.4)	111.5	5.2	106.3
Total Deferred Outflows of Resources	2.4	(0.4)	2.8	1.2	1.6
Liabilities					
Current Liabilities	69.4	13.9	55.5	9.4	46.1
Noncurrent Liabilities	8.9	(3.7)	12.6	(2.6)	15.2
Total Liabilities	78.3	10.2	68.1	6.8	61.3
Total Deferred Inflows of Resources	3.2	1.4	1.8	(0.1)	1.9
Net Position					
Invested in Capital Assets	0.1	0.0	0.1	(0.1)	0.2
Restricted for Pensions	0.9	0.9	0.0	(0.9)	0.9
Restricted for Other Postemployment Benefits	0.1	0.1	0.0	0.0	0.0
Restricted for MUSL Reserves	6.4	(0.3)	6.7	0.9	5.8
Restricted for Investment Fair Value Adjustment	1.3	0.0	1.3	(0.2)	1.5
Restricted for Property Tax Relief	19.2	(17.1)	36.3	0.0	36.3
Total Net Position	<u>\$ 28.0</u>	<u>\$(16.4)</u>	<u>\$ 44.4</u>	<u>\$(0.3)</u>	<u>\$ 44.7</u>

Assets

Lottery's assets consist primarily of cash and cash equivalents, investments for prize annuities, accounts receivable, Multi-State Lottery Association (MUSL) reserve accounts, and Due from Other State Programs.

As was shown in Table A, total assets were \$107.1 million at the end of FY 2019-20, compared to \$111.5 million at the end of FY 2018-19, and \$106.3 million at the end of FY 2017-18. Cash and cash equivalents decreased by \$25.6 million in FY 2019-20.

Liabilities

At the end of FY 2019-20, the Lottery's total liabilities were \$78.3 million, compared to \$68.1 million at the end of FY 2018-19, and \$61.3 million at the end of FY 2017-18.

Current liabilities consist primarily of accrued prizes payable, annuity prizes payable, and accounts payable due to suppliers. Prizes Payable increased significantly in FY 2019-20 because a cash payout of \$16.7 million from a June 2020 Powerball drawing was not paid until FY 2020-21.

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

Net Position

At the end of FY 2019-20, the Lottery's total net position was \$28.0 million, a \$16.4 million decrease from the prior year. The FY 2019-20 change in net position was primarily due to a \$35.4 million increase in property tax relief, an \$11.7 million decrease in Net Income Before Transfers, and a \$30.8 million increase in the transfers in from the General Fund. The total net position at the end of FY 2018-19 was \$44.4 million, a \$0.3 million decrease from FY 2017-18. Total net position was \$44.7 million at the end of FY 2017-18.

The Lottery's net position is generally restricted for property tax relief unless restricted for other uses. The Lottery's net position currently has five restrictions other than property tax relief:

- amounts invested in capital assets;
- reserve accounts held by MUSL;
- unrealized gains or losses related to the change in the fair value of investments because investments have been purchased for the payment of annuity prizes payable and are generally held to maturity;
- restricted for pensions, which are amounts reserved for adjustments required by governmental accounting standards for Wisconsin Retirement System activity; and

- restricted for OPEBs, which are amounts reserved for adjustments required by governmental accounting standards for OPEB activity.

The Statement of Revenues, Expenses, and Changes in Net Position provides detailed information on the financial impact of the Lottery's operations for FY 2019-20 and FY 2018-19. Table B presents condensed data for the past three fiscal years.

Table B

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

	FY 2019-20	Change	FY 2018-19	Change	FY 2017-18
Revenues					
Operating Revenues:					
Ticket Sales	\$725.4	\$12.3	\$713.1	\$45.7	\$667.4
Retailer Fees and Miscellaneous Revenue	0.2	(1.1)	1.3	1.1	0.2
Nonoperating Revenues:					
Investment Income (Loss)	1.6	(0.8)	2.4	2.6	(0.2)
Total Revenues	727.2	10.4	716.8	49.4	667.4
Expenses					
Program Expenses:					
Prize Expenses	453.5	21.6	431.9	27.5	404.4
Retailer Commissions and Incentives	50.9	1.2	49.7	3.2	46.5
Instant and Lotto Vendor Services	18.8	0.5	18.3	1.1	17.2
Other Game-Related Expenses	11.1	0.7	10.4	(0.6)	11.0
Administrative Expenses	8.6	(1.9)	10.5	2.4	8.1
Total Expenses	542.9	22.1	520.8	33.6	487.2
Net Income Before Transfers	184.3	(11.7)	196.0	15.8	180.2
Transfers					
Transfers In—General Fund	70.8	30.8	40.0	32.0	8.0
Transfers Out—Property Tax Relief	(270.4)	(35.4)	(235.0)	(64.7)	(170.3)
Transfers Out—Compulsive Gambling Programs	(0.4)	0.0	(0.4)	0.0	(0.4)
Transfers Out—Law Enforcement	(0.4)	(0.1)	(0.3)	0.0	(0.3)
Transfers Out—Lottery Credit Administration	(0.2)	0.0	(0.2)	0.0	(0.2)
Transfers Out—General Fund	(0.1)	0.3	(0.4)	(0.3)	(0.1)
Change in Net Position	<u>\$ (16.4)</u>	<u>\$ (16.1)</u>	<u>\$ (0.3)</u>	<u>\$ (17.2)</u>	<u>\$ 16.9</u>

Revenues

Operating revenues are generated almost entirely from ticket sales. The Lottery had \$725.4 million in ticket sales in FY 2019-20, \$713.1 million in FY 2018-19, and \$667.4 million in FY 2017-18.

Table C presents condensed data for the past three fiscal years, comparing ticket sales for each game category.

Table C

Wisconsin Lottery Ticket Sales (in millions)

	FY 2019-20	Change	FY 2018-19	Change	FY 2017-18
Instant Ticket Sales					
Scratch-off	\$513.0	\$62.7	\$450.3	\$30.9	\$419.4
Pull-tab	0.7	(0.3)	1.0	0.0	1.0
Total Instant Ticket Sales	513.7	62.4	451.3	30.9	420.4
Lotto Ticket Sales					
SuperCash!	23.6	(1.0)	24.6	(1.2)	25.8
Powerball	53.3	(31.5)	84.8	(13.4)	98.2
Wisconsin's Megabucks	21.2	6.6	14.6	3.2	11.4
Wisconsin's Megabucks EZ Match	2.3	0.4	1.9	0.3	1.6
Daily Pick 3	23.9	0.3	23.6	(0.3)	23.9
Daily Pick 4	14.8	0.7	14.1	0.1	14.0
Badger 5	23.5	(0.9)	24.4	(1.2)	25.6
Mega Millions	34.6	(28.7)	63.3	23.9	39.4
5 Card Cash ¹	0.0	(4.7)	4.7	(1.6)	6.3
All or Nothing ¹	14.0	9.0	5.0	5.0	0.0
Raffle Games	0.5	(0.3)	0.8	0.0	0.8
Total Lotto Ticket Sales	211.7	(50.1)	261.8	14.8	247.0
Total Ticket Sales	<u>\$725.4</u>	<u>\$12.3</u>	<u>\$713.1</u>	<u>\$45.7</u>	<u>\$667.4</u>

¹ 5 Card Cash ended during FY 2018-19 and All or Nothing began during FY 2018-19.

Total ticket sales increased by 1.7 percent in FY 2019-20 compared to FY 2018-19. Instant scratch-off ticket sales increased by \$62.7 million from FY 2018-19 to FY 2019-20. Lotto ticket sales decreased by \$50.1 million from FY 2018-19 to FY 2019-20, primarily due to decreased Mega Millions and Powerball ticket sales in FY 2019-20. Pull-tab sales decreased by \$0.3 million from FY 2018-19 to FY 2019-20.

Expenses

Lottery expenses consist of prize amounts, retailer commissions and incentives, fees paid to the Lottery's gaming system vendor (instant and lotto vendor services), other game-related expenses, and administrative expenses. In FY 2019-20, total operating expenses were \$542.9 million, an increase of \$22.1 million from FY 2018-19 expenses of \$520.8 million, which was an increase from FY 2017-18 expenses of \$487.2 million. The fluctuation in expenses is primarily a result of changes in prize expense, which tend to follow changes in sales. Prizes are the Lottery's largest expense. Table D compares ticket prize expense for each lottery game category for the last three fiscal years.

Table D

Wisconsin Lottery Ticket Prize Expenses (in millions)

	FY 2019-20	Change	FY 2018-19	Change	FY 2017-18
Instant Prize Expense					
Scratch-off	\$346.9	\$47.3	\$299.6	\$18.4	\$281.2
Pull-tab	0.5	(0.1)	0.6	0.0	0.6
Super 2nd Chance ¹	0.2	(0.1)	0.3	0.0	0.3
Total Instant Prize Expense	347.6	47.1	300.5	18.4	282.1
Lotto Prize Expense					
SuperCash!	12.2	(3.2)	15.4	1.9	13.5
Powerball	25.5	(15.8)	41.3	(6.3)	47.6
Wisconsin's Megabucks	11.2	3.4	7.8	1.6	6.2
Wisconsin's Megabucks EZ Match	1.4	0.2	1.2	0.2	1.0
Daily Pick 3	11.7	0.8	10.9	(0.2)	11.1
Daily Pick 4	6.2	(0.1)	6.3	(0.4)	6.7
Badger 5	11.8	0.0	11.8	(0.6)	12.4
Mega Millions	17.1	(13.7)	30.8	11.4	19.4
5 Card Cash ²	0.0	(2.5)	2.5	(1.2)	3.7
All or Nothing ²	8.4	5.6	2.8	2.8	0.0
Raffle Games	0.2	(0.1)	0.3	(0.1)	0.4
Super 2nd Chance ¹	0.2	(0.1)	0.3	0.0	0.3
Total Lotto Prize Expense	105.9	(25.5)	131.4	9.1	122.3
Total Prize Expenses	<u>\$453.5</u>	<u>\$21.6</u>	<u>\$431.9</u>	<u>\$27.5</u>	<u>\$404.4</u>

¹ Super 2nd Chance prizes are awarded through drawings to players who send in non-winning instant scratch-off and lotto tickets. The prizes are funded from instant scratch-off and lotto ticket sales.

² 5 Card Cash ended during FY 2018-19 and All or Nothing began during FY 2018-19.

Chart A and Chart B compare ticket sales and prize expense for each lottery game category (lotto and instant games, respectively) for the last three fiscal years. This is the same data that was shown in Table C and Table D presented by game category in another format.

Chart A

Lotto Ticket Sales and Prize Expense
(in millions)

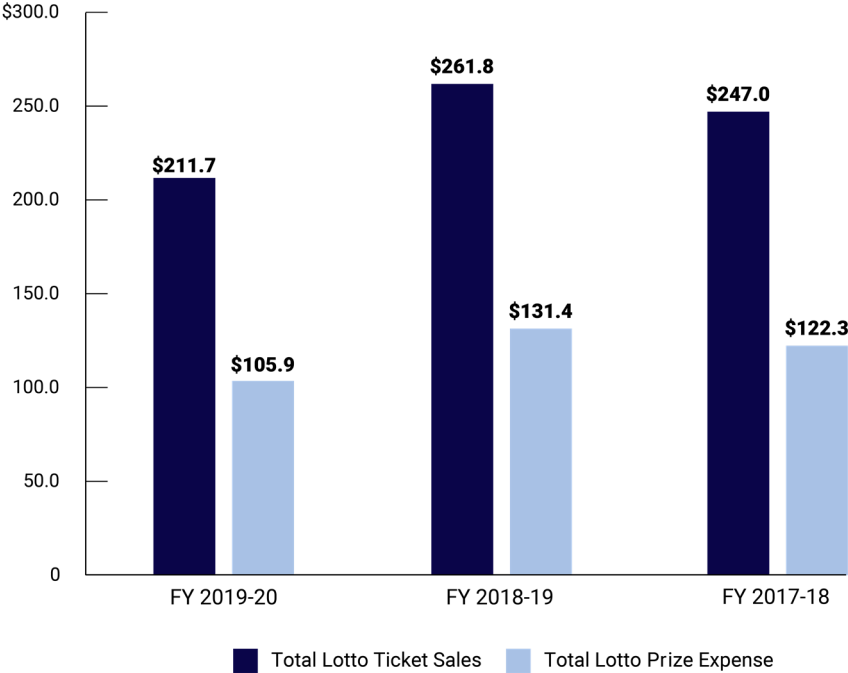
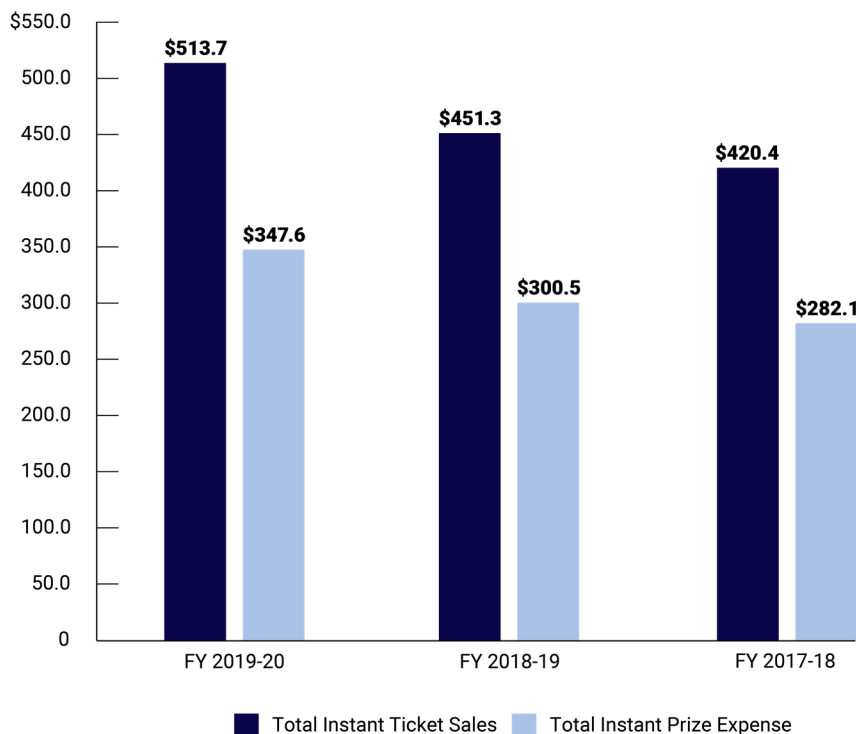


Chart B

Instant Ticket Sales and Prize Expense
(in millions)



Generally, prize expenses are a function of ticket sales. Higher ticket sales result in greater prize expense, while lower sales result in lower prize expense. However, the change in prize expense is not always perfectly proportional to sales. Each individual game has a unique prize structure. As sales shift among the games being offered, prize expenses can fluctuate more or less than would be expected based on the change in sales. In FY 2019-20, ticket sales across all games increased by \$12.3 million, while prize expense increased by \$21.6 million. Most of the growth in sales was driven by scratch-off games, which have a higher overall payout percentage. While lotto ticket sales and the corresponding prize expense decreased by 19.1 percent and 19.4 percent, respectively in FY 2019-20, scratch-off ticket sales increased by 13.9 percent and the corresponding scratch-off prize expense increased by 15.8 percent. Scratch-off game expenses increased at a greater percentage than scratch-off game sales because the growth came from games with higher price point tickets and higher payout percentages. In FY 2018-19, ticket sales increased by \$45.7 million, while prize expense increased by \$27.5 million. Schedule 2, on page 59, shows a multi-year summary of ticket sales and their related prize expenses.

Since retailer commissions and incentives expenses are a function of sales, they typically rise and fall with sales. In FY 2019-20, retailers were paid \$50.9 million in commissions and incentives, up \$1.2 million from the \$49.7 million paid in FY 2018-19. In FY 2017-18, retailer commissions and incentives were \$46.5 million.

The Lottery contracts with IGT Global Solutions Corporation (IGT) for an integrated gaming computer system and services (instant and lotto vendor services). The initial terms of this seven-year contract from the operational start date of May 14, 2017, requires the Lottery to pay IGT 2.57 percent of weekly net sales. This contract is eligible for up to three one-year renewals. The Lottery executed one of the one-year renewals on amendment one in FY 2018-19. The contract requires IGT to provide:

- a lottery gaming system;
- seventy percent of instant scratch-off ticket printing;
- distribution services;
- warehousing facility and services;
- telemarketing services; and
- a hot-site backup.

In FY 2019-20, payments to IGT were \$18.8 million, compared to \$18.3 million in FY 2018-19, and \$17.2 million in FY 2017-18.

Net Income and Transfer for Property Tax Relief

Net income before transfers was \$184.3 million in FY 2019-20, down from \$196.0 million in FY 2018-19. Net income before transfers was \$180.2 million in FY 2017-18.

As shown in Table B, the property tax relief amount transferred out 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 \$35.4 million, or by 15.1 percent, during FY 2019-20, after increasing by \$64.7 million, or by 38.0 percent, during FY 2018-19.

Factors Impacting Future Results

The Lottery's success is dependent on its ability to effectively gauge the market for its products. It regularly changes its product offerings, responding to consumer preferences. The Lottery is engaged in a long-term growth strategy for instant scratch-off ticket sales by meeting consumer demand for more games with higher price points. Sales continue to build for tickets priced \$10 and higher. While the Lottery makes every effort to ensure the success of its products, overall sales are adversely affected if the Lottery misjudges the market.

Approximately 41.5 percent of all lotto ticket sales in FY 2019-20 came from two MUSL jackpot games: Mega Millions and Powerball. The sales of these games can be volatile as they are driven by the random occurrence (size and frequency) of large jackpots. For example, Powerball sales significantly decreased in FY 2018-19 by 13.6 percent and further decreased in FY 2019-20 by 37.1 percent. The volatility of jackpot games makes forecasting ticket sales difficult. The Lottery has established a range to forecast future performance based on past performance. However, that range is broad and jackpot game sales can vary from year-to-year by tens of millions of dollars from estimates.

Since lottery tickets are a discretionary purchase, the Lottery’s performance is subject to economic conditions and its effect 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, including Lottery tickets, generally decline during periods when disposable income is adversely affected or when there is a lack of consumer confidence in the economy. During the public health emergency, the Lottery saw an increase in instant ticket sales as a result of other forms of entertainment being restricted during that time.

2019 Wisconsin Act 9 increased the existing \$71.7 million general purpose revenue (GPR) funding for the Lottery in FY 2020-21 by \$1.4 million. The total FY 2020-21 GPR funding is shown in Table E.

Table E

FY 2020-21 Lottery General Purpose Revenue

	FY 2020-21
General Program Operations—Excluding Salaries and Product Information	\$ 7,276,700
Retailer Compensation	47,980,700
Vendor Fees	17,826,000
Total GPR Funding	\$73,083,400

Contacting Wisconsin Lottery’s Financial Management

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

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

Wisconsin Department of Revenue
 Attn: Director, Bureau of Financial Management Services—Laurie Grams
 MS 6-261
 PO Box 8931
 Madison, Wisconsin 53708-8931
 (608) 266-8469

If you have general questions about the Wisconsin Lottery, contact:

Wisconsin Department of Revenue
 Attn: Wisconsin Lottery Director—Cindy Polzin
 PO Box 8941
 Madison, Wisconsin 53708-8941
 (608) 261-8800



Financial Statements

Statement of Net Position

June 30, 2020, and June 30, 2019

	June 30, 2020	June 30, 2019
ASSETS		
Current Assets:		
Cash and Cash Equivalents (Note 3)	\$ 31,475,485	\$ 57,052,434
Investments for Prize Annuities (Note 3)	3,730,703	3,878,588
Accounts Receivable (Note 4)	46,587,048	30,970,171
Due from Other State Programs (Note 4)	8,320,611	0
Ticket Inventory	468,374	887,542
MUSL Reserve Accounts (Note 5)	440,696	287,241
Prepaid Expenses	359,982	407,232
Total Current Assets	91,382,899	93,483,208
Noncurrent Assets:		
Prepaid Expenses	0	6,122
Investments for Prize Annuities (Note 3)	8,193,733	11,299,444
MUSL Reserve Accounts (Note 5)	6,431,453	6,644,193
Net Pension Asset (Note 6)	874,838	0
Other Postemployment Benefits Asset (Note 7)	119,166	0
Capital Assets:		
Equipment	452,958	452,958
Leasehold Improvements	90,288	90,288
Accumulated Depreciation	(429,653)	(401,693)
Total Noncurrent Assets	15,732,783	18,091,312
TOTAL ASSETS	107,115,682	111,574,520
DEFERRED OUTFLOWS OF RESOURCES (Notes 6 and 7)	2,452,441	2,768,519
LIABILITIES		
Current Liabilities:		
Annuity Prizes Payable (Note 8)	3,711,861	4,027,792
Prizes Payable	58,297,566	43,944,136
Accounts Payable	5,774,113	5,560,471
Due to Other State Programs	138,318	391,431
MUSL Payable	585,121	812,798
Unearned Revenue	694,032	509,672
Due to Other Governments	2,818	106,363
Compensated Absences	243,412	191,492
Total Current Liabilities	69,447,241	55,544,155
Noncurrent Liabilities:		
Annuity Prizes Payable (Note 8)	7,013,545	10,043,175
Compensated Absences	546,751	539,572
Other Postemployment Benefits Liability (Note 7)	1,344,951	1,009,674
Net Pension Liability (Note 6)	0	982,623
Total Noncurrent Liabilities	8,905,247	12,575,044
TOTAL LIABILITIES	78,352,488	68,119,199
DEFERRED INFLOWS OF RESOURCES (Notes 6 and 7)	3,225,703	1,846,514
NET POSITION		
Net Position: (Note 12)		
Invested in Capital Assets	113,592	141,552
Restricted for Pensions	874,838	0
Restricted for Other Postemployment Benefits	119,166	0
Restricted for MUSL Reserves	6,431,453	6,644,193
Restricted for Investment Fair Value Adjustment	1,258,816	1,310,067
Restricted for Property Tax Relief	19,192,067	36,281,514
TOTAL NET POSITION	\$ 27,989,932	\$ 44,377,326

Statement of Revenues, Expenses, and Changes in Net Position for the Years Ended June 30, 2020, and June 30, 2019

	Year Ended June 30, 2020	Year Ended June 30, 2019
OPERATING REVENUES		
Instant Ticket Sales (Net of Allowances of \$12,548,478 and \$8,567,297, respectively) (Note 9)	\$ 513,741,682	\$ 451,343,267
Lotto Ticket Sales (Net of Ticket Discounts of \$265,779 and \$2,611,004, respectively) (Note 9)	211,698,030	261,789,507
Retailer Fees	33,830	56,674
Miscellaneous Revenue	179,675	1,196,465
Total Operating Revenues	725,653,217	714,385,913
OPERATING EXPENSES		
Program Expenses:		
Instant Prize Expense (Note 10)	347,601,836	300,532,518
Lotto Prize Expense (Note 10)	105,920,550	131,413,329
Retailer Commissions and Incentives	50,916,084	49,703,093
Instant and Lotto Vendor Services	18,804,094	18,290,471
Product Information Costs	8,443,164	8,467,617
Instant Ticket Printing Costs	2,658,577	1,906,778
Donated Prize Expense	2,818	5,536
Total Program Expenses	534,347,123	510,319,342
Administrative Expenses:		
Salaries and Fringe Benefits	6,045,441	5,663,494
Supplies and Services	2,508,372	4,809,574
Depreciation Expense	27,960	28,862
Total Administrative Expenses	8,581,773	10,501,930
Total Operating Expenses	542,928,896	520,821,272
NET OPERATING INCOME	182,724,321	193,564,641
NONOPERATING REVENUES (EXPENSES) AND TRANSFERS		
Investment Income (Loss)	1,563,167	2,399,834
Miscellaneous Revenue (Expense)	(3,650)	(2,737)
Net Income Before Transfers	184,283,838	195,961,738
Transfers:		
Transfers In—General Fund (Note 14)	70,801,177	40,000,000
Transfers Out—Lottery Proceeds for Property Tax Relief (Note 13)	(270,402,070)	(234,879,988)
Transfers Out—Department of Health and Family Services for Compulsive Gambling Programs	(396,000)	(396,000)
Transfers Out—Wisconsin Department of Justice for Law Enforcement	(424,324)	(344,029)
Transfers Out—Department of Revenue for Lottery Credit Administration	(196,655)	(224,430)
Transfers Out—General Fund	(53,360)	(399,270)
CHANGE IN NET POSITION	(16,387,394)	(281,979)
NET POSITION		
Net Position—Beginning of the Year	44,377,326	44,659,305
Net Position—End of the Year	\$ 27,989,932	\$ 44,377,326

Statement of Cash Flows for the Years Ended June 30, 2020, and June 30, 2019

	Year Ended June 30, 2020	Year Ended June 30, 2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Retailers	\$ 703,451,591	\$ 710,960,917
Cash Paid for Prizes	(438,574,979)	(428,510,367)
Cash Paid for Retailer Commissions and Incentives	(49,268,162)	(49,418,516)
Cash Paid/Received for MUSL Reserve Accounts	212,740	(840,581)
Cash Paid to Employees	(6,001,607)	(5,358,858)
Cash Paid to Suppliers	(40,104,203)	(31,078,423)
Net Cash Provided by Operating Activities	169,715,380	195,754,172
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers Out—Proceeds for Property Tax Credit	(270,402,070)	(234,879,988)
Transfers Out—Proceeds for Law Enforcement	(417,948)	(345,142)
Transfers Out—Proceeds for Lottery Credit Administration	(199,090)	(223,405)
Transfers Out—Proceeds for Compulsive Gambling Programs	(396,000)	(396,000)
Transfers Out—General Fund	(53,360)	(399,270)
Transfers In—General Fund	70,801,177	40,008,886
Net Cash Used by Noncapital Financing Activities	(200,667,291)	(196,234,919)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash Paid for Purchase of Equipment	0	(21,496)
Cash Received from Sale of Equipment	0	0
Net Cash Used by Capital and Related Financing Activities	0	(21,496)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	1,460,962	2,578,132
Cash Received for Redemption of Bonds	3,914,000	4,574,000
Net Cash Provided by Investing Activities	5,374,962	7,152,132
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(25,576,949)	6,649,889
Cash and Cash Equivalents—Beginning of the Year	57,052,434	50,402,545
Cash and Cash Equivalents—End of the Year	<u>\$ 31,475,485</u>	<u>\$ 57,052,434</u>

Statement of Cash Flows

for the Years Ended June 30, 2020, and June 30, 2019 (continued)

	Year Ended June 30, 2020	Year Ended June 30, 2019
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net Operating Income	\$ 182,724,321	\$ 193,564,641
Adjustments to Reconcile Net Operating Income to Net Cash		
Provided by Operating Activities:		
Depreciation Expense	27,960	28,862
Cancelled Draft Nonoperating Revenue	(6,468)	(8,270)
Noncash Donated Prize Expense	2,818	5,536
Changes in Assets, Liabilities, Deferred Outflows, and Deferred Inflows:		
Decrease (Increase) in Accounts Receivable	(15,616,876)	(2,419,229)
Decrease (Increase) in MUSL Reserve Accounts	212,740	(840,581)
Decrease (Increase) in Ticket Inventory	419,168	(71,314)
Decrease (Increase) in Prepaid Expenses	53,372	(47,908)
Decrease (Increase) in Net Pension Asset and Related Deferred Outflows	(558,760)	(231,597)
Decrease (Increase) in Net Other Postemployment Benefits Asset	(119,166)	0
Decrease (Increase) in Due from Other State Programs	(8,320,611)	0
Increase (Decrease) in Prizes Payable	10,296,216	2,330,046
Increase (Decrease) in Unearned Revenue	184,359	100,787
Increase (Decrease) in Due to Other State Programs	(250,233)	260,900
Increase (Decrease) in Accounts Payable	203,694	2,496,589
Increase (Decrease) in MUSL Payable	(227,677)	61,903
Increase (Decrease) in Due to Other Governments	(100,419)	(10,288)
Increase (Decrease) in Compensated Absences	59,100	84,061
Increase (Decrease) in Other Postemployment Benefits	335,277	(442,213)
Increase (Decrease) in Net Pension Liability and Related Deferred Inflows	396,565	892,247
Total Adjustments	(13,008,941)	2,189,531
Net Cash Provided by Operating Activities	\$ 169,715,380	\$ 195,754,172
Noncash Activities:		
Increase (Decrease) in Fair Value of Investments	\$ (51,250)	\$ (184,038)
Amortization of Long-Term Annuity Prize Liability	711,654	952,821

Notes to the Financial Statements

1. DESCRIPTION OF THE WISCONSIN LOTTERY

On April 7, 1987, Wisconsin voters authorized a lottery's creation by the passage of a constitutional amendment, with a 65 percent to 35 percent margin. The Wisconsin Constitution requires the net proceeds from the lottery's operations be used for local property tax relief. The Wisconsin Lottery (Lottery) began in December 1987 and sold its first ticket on September 14, 1988. The Lottery is administered by the Lottery Division within the Wisconsin Department of Revenue. During FY 2019-20 and FY 2018-19, the Lottery sold instant games (scratch-off and pull-tab tickets) and lotto games. Lotto games have drawings to determine winning tickets, which include raffle tickets and tickets produced from a terminal located at a Lottery retailer (e.g., Powerball, Badger 5).

Since June 1989, the Lottery has been a member of the Multi-State Lottery Association (MUSL). In FY 2019-20 and FY 2018-19, as a member of MUSL, the Lottery participated in two multijurisdictional lotto games: Powerball and Mega Millions. See Note 5 for information about MUSL.

During FY 2018-19 and FY 2019-20, the Lottery sold tickets for the following lotto games:

<u>Game Name</u>	<u>Start Date</u>
SuperCash!	February 4, 1991
Powerball	April 19, 1992
Wisconsin's Megabucks	June 20, 1992
Daily Pick 3	September 21, 1992
Daily Pick 4	September 15, 1997
Badger 5	February 17, 2003
Mega Millions	January 31, 2010
Wisconsin's Megabucks EZ Match	April 3, 2011
5 Card Cash ¹	April 6, 2014
All or Nothing	April 7, 2019

¹5 Card Cash ended on April 6, 2019.

In FY 2019-20, the Lottery added twice daily drawings for three lotto games: Daily Pick 3, Daily Pick 4 and All or Nothing.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity and Basis of Presentation

The Lottery's financial statements are prepared in conformance with generally accepted accounting principles (GAAP) for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). These statements only present the financial position and results of the Lottery's operations and are not meant to present the financial activity for the State of Wisconsin as a whole. The Lottery is accounted for within the Lottery Fund, which is part of the State of Wisconsin financial reporting entity. The 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-Lottery Proceeds for Property Tax Relief."

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accompanying financial statements are prepared based on the flow of economic resources and full accrual basis of accounting. With this measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of the 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 Lottery's activities as either operating or nonoperating. Because the Lottery Fund is an enterprise fund (proprietary fund type), it accounts for operations similar to private businesses where operating revenues are derived from exchange transactions, such as sales. Operating expenses include the costs of sales, administrative expenses, and depreciation on capital assets. Certain revenues and expenses not related to the Lottery's primary purpose, such as investment income, are reported as nonoperating revenues and expenses.

C. Cash and Cash Equivalents

Cash and cash equivalents reported on the Statement of Net Position and on the Statement of Cash Flows include cash deposited in the State's bank and the Lottery's pro rata share of the State Investment Fund, 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 72, *Fair Value Measurement and Application*.

D. Investments for Prize Annuities

Investments for prize annuities consist entirely of securities backed by the full faith and credit of the U.S. government or its agencies. The securities finance jackpot prizes that are payable as annuities over a 20-, 25-, or 30-year period and are scheduled to mature near the time prize payments become payable to winners. Lottery investments are reported at fair value consistent with the provisions of GASB Statement Number 72, *Fair Value Measurement and Application*. Increases or decreases in fair value are recognized as investment income or loss, respectively.

E. Accounts Receivable

Accounts receivable balances primarily represent amounts due from Lottery retailers. Receivables are recorded when the Lottery sells instant tickets to retailers. The receivable balance is shown net of amounts due to retailers. These amounts include commissions, performance incentives, winning ticket incentives, and ticket redemption amounts. Payments for instant ticket orders are due 21 days after activation, except for nonprofit organizations, where payments are due on delivery. Receivables are recorded for lotto games when retailers sell lotto tickets and have payments due within a week. The Lottery collects receivables weekly from retailer deposit accounts.

To receive a refund, retailers must return unsold instant scratch-off tickets to the Lottery any time before the game's end date. Therefore, receivables and cash collected in advance of these tickets being sold represent a contingent liability of the Lottery. A sales allowance estimate is made for the portion of the tickets that may be returned based on historical information on unsold tickets retailers returned and is reported as a reduction of the receivable balance. For more information on accounts receivable, see Note 4.

The Due from Other State Programs increased in FY 2019-20 from \$0 to \$8.3 million primarily as a result of transfers of general purpose revenue (GPR) from the General Fund to the Lottery Fund. For more information on Due from Other State Programs, see Note 4. For more information on General Fund transfers, see Note 14.

F. Ticket Inventory

A portion of the instant scratch-off ticket printing services is included in the lottery gaming system contract with IGT Global Solutions Corporation (IGT), effective May 14, 2017. Under the contract, IGT accepts ownership of tickets printed after May 14, 2017, for both IGT and Pollard Banknote. The Lottery maintains ownership of tickets printed by any other vendor. Only the tickets owned by the Lottery are included in the ticket inventory balance. This balance consists of ticket printing costs and related royalty fees for instant ticket 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 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.

G. Capital Assets

Tangible assets purchased for \$5,000 or more and intangible assets with a cost or value greater than \$1.0 million 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

H. Employee Retirement Benefits/Pensions

The following are determined on the same basis as they are reported by the Wisconsin Retirement System (WRS):

- measurement of the net pension liability (asset);
- deferred outflows of resources;
- deferred inflows of resources;
- pension expense;
- information about the fiduciary net position of the WRS; and

- additions to or deductions from the fiduciary net position.

For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. For more information on deferred outflows and inflows of resources related to employee retirement benefits/pensions, see Note 6.

I. Other Postemployment Benefits (OPEB)

The fiduciary net position of the State Retiree Life Insurance Fund (SRLIF), the State Retiree Health Insurance Fund (SRHIF), and the Supplemental Health Insurance Conversion Credit (SHICC) program was determined using the flow of economic resources measurement focus and the accrual basis of accounting. This includes for purposes of measuring the net OPEB asset/liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information on the fiduciary net position of the SRLIF, SRHIF, and SHICC, and additions to/deductions from the fiduciary net position, which were determined in the same way as they are for the SRLIF, SRHIF, and SHICC. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. For more information on deferred outflows and inflows of resources related to OPEB, see Note 7.

J. Prizes Payable and Annuity Prizes Payable

For lotto games, a liability is recognized when the drawing is held. For instant ticket games, a liability is recognized when tickets are sold to retailers. For more information on annuity prizes payable, see Note 8.

K. Unearned Revenue

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

L. Compensated Absences

Consistent with the compensated absences reporting standards of GASB Statement Number 16, *Accounting for Compensated Absences*, an accrual for certain salary-related payments associated with annual leave and an accrual for a certain portion of sick leave is included in the compensated absences liability at year-end. The Lottery's compensated absence liability consists of accumulated unpaid annual leave, personal holiday hours, and Saturday/legal holiday hours earned and vested as of June 30.

M. Ticket Sales Revenue

Ticket sales are made to the public through licensed retailers.

Instant scratch-off ticket revenues are recognized when tickets are sold to the retailers. Lottery retailers may 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.

Revenues for pull-tab games are recognized when tickets are sold to retailers. Lottery retailers must return full packs of unsold tickets for a full refund. However, pull-tab ticket sales are not reduced using a sales allowance estimate as historically the amounts are insignificant.

Ticket revenues for lotto games are recognized when the related drawings are held. The 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.

N. Prize Expenses

Under s. 25.75 (3) (a), Wis. Stats., at least 50 percent of Lottery sales must be returned in the form of prizes. Winners may claim their prizes for a period of 180 days after the drawing for lotto games, or 180 days from the end of a game for instant games. A summary of prize expenses is shown in Schedule 2.

O. Retailer Commissions and Incentives

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.

In addition to the retailer commissions, the Lottery administers an incentive program for retailers meeting certain performance goals the Lottery identified. This program began on January 1, 2000. Retailers must be in good standing and sell instant tickets to participate in the program. It has three components: winning ticket, short-term incentive, and a sales goals incentive. The total compensation provided to all retailers under the program's components may not exceed 1.0 percent of gross revenues from the sale of lotto and instant tickets.

Winning Ticket—under the winning ticket component, participating retailers that sell a winning instant 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. If there is a pari-mutuel drawing with a large jackpot shared by multiple winning tickets, retailers can earn total compensation of up to a maximum of \$300,000. Winning ticket incentive payments are made weekly.

Short-term Incentive—under the short-term component, incentives are offered throughout the year for predefined periods and focus on supporting one product or category of ticket products. Each incentive has a predetermined goal the lottery retailer must achieve to receive additional compensation. Each short-term incentive's aggregate payment amount to retailers is limited to \$300,000.

Sales Goal Incentive—under the sales goal component, participating retailers can earn additional commission based on increased sales. Subject to certain restrictions and allowances, retailers can earn up to 2.0 percent of the increase in quarterly sales compared to sales of the previous quarter for instant tickets and certain non-jackpot lotto games (SuperCash!, Daily Pick 3, Daily Pick 4, Badger 5, 5 Card Cash, and All or Nothing). These payments are made quarterly. Retailers also earn up to 10.0 percent of the increase in annual sales over the previous year. Due to 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 total payments do not exceed the statutory cap of 1.0 percent of gross instant and lotto ticket sales.

P. Administrative Expenses

Section 25.75 (3) (b), Wis. Stats., limits the Lottery’s statutory administrative expenses to 10.0 percent of gross lottery revenues. Statutory administrative expenses were 5.39 percent for FY 2019-20. A summary of statutory administrative expenses and related calculations of the administrative expense limit is included in Schedule 1.

Q. Disbursement of Lottery Proceeds for Property Tax Relief

The Wisconsin Department of Revenue disburses net lottery proceeds through the Lottery and Gaming Tax Credit. The Wisconsin Department of Administration, with the assistance of Lottery, and with the approval of the Legislature’s Joint Committee on Finance, determines the annual amount available for distribution as the Lottery and Gaming Tax Credit in a given fiscal year. However, the amount to be disbursed is determined by November, well before the end of the fiscal year. The credit is based on the prior year’s balance carryover and estimated proceeds for the current year.

R. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclose contingent assets and liabilities as of the dates of the financial statements, and affect the reported amounts of revenues and expenses during the reporting periods. Accordingly, actual results could differ from those estimates.

3. CASH AND INVESTMENTS

The Lottery’s cash and cash equivalents balance consists of cash deposited in the State’s bank and shares in the State Investment Fund, a short-term pool of state and local funds managed by the State of Wisconsin Investment Board with oversight by its Board of Trustees. The State Investment Fund is not registered with the U.S. Securities and Exchange Commission. The carrying amount of shares in the State Investment Fund, which approximates fair value, was \$30.3 million as of June 30, 2020, and \$57.2 million as of June 30, 2019.

The types of securities in which the State Investment Fund may invest are stated in ss. 25.17 (3) (b), (ba), (bd), and (dg), Wis. Stats., and include direct obligations of the U.S. or its agencies, corporations wholly owned by the U.S. or chartered by an act of Congress, securities guaranteed by the U.S., 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 U.S. and solvent financial institutions in Wisconsin, and bankers acceptances. The Investment Board's trustees may specifically approve other prudent legal investments.

The Lottery manages its investments for prize annuities separately from the cash and investment activities of the State Investment Fund. The Lottery's investments were purchased to finance jackpot prizes payable as annuities over a 20-, 25-, or 30-year period and consist entirely of securities backed by the full faith and credit of the U.S. government or its agencies. These investments are held by the Lottery and are scheduled to mature near the time prize payments become payable to winners.

Credit Risk—is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. While the Lottery does not have a formal policy on its investments for prize annuities, it follows MUSL's policy requiring all investments for prize annuities to be in the form of securities backed by the full faith and credit of the U.S. government or its agencies, which are not considered to have credit risk. All the Lottery's total investments for prize annuities balance as of June 30, 2020, and June 30, 2019, consist of these types of securities.

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

Interest Rate Risk—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 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 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, 2020, and June 30, 2019:

<u>Maturity</u>	<u>Fair Value as of June 30, 2020</u>	<u>Fair Value as of June 30, 2019</u>
Less than 1 year	\$ 3,730,703	\$ 3,878,588
1 to 5 years	6,436,172	9,466,928
6 to 10 years	1,293,769	1,305,973
More than 10 years	<u>463,792</u>	<u>526,543</u>
Total	<u>\$11,924,436</u>	<u>\$15,178,032</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 does not exceed one year. The weighted average maturity of the State Investment Fund increased from 16 days as of June 30, 2019, to 31 days as of June 30, 2020.

Fair Value Measurements—Lottery investments are reported at fair value as defined by GASB Statement Number 72, *Fair Value Measurement and Application* and are categorized based on the investment valuation hierarchy established by GASB.

The hierarchy is based on the valuation inputs used to measure the fair value of the assets:

- Level 1 inputs—are quoted prices in active markets for identical assets.
- Level 2 inputs—are significant other observable inputs.
- Level 3 inputs—are significant unobservable inputs.

The Lottery had the following recurring fair value measurements:

<u>As of June 30, 2020</u>				
<u>Investments</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>
U.S. Government and Agency Securities State Investment Fund	\$ 0	\$11,924,436	\$ 0	\$ 0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>30,334,000</u>
Total Investments at Fair Value	<u>\$ 0</u>	<u>\$11,924,436</u>	<u>\$ 0</u>	<u>\$30,334,000</u>
<u>As of June 30, 2019</u>				
<u>Investments</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>
U.S. Government and Agency Securities State Investment Fund	\$ 0	\$15,178,032	\$ 0	\$ 0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>57,222,000</u>
Total Investments at Fair Value	<u>\$ 0</u>	<u>\$15,178,032</u>	<u>\$ 0</u>	<u>\$57,222,000</u>

Debt securities are categorized as Level 2 and are valued by third-party pricing services using the matrix-pricing technique that values securities based on their relationship to quoted market prices for securities with similar interest rates, maturities, and credit ratings.

The fair value of investments in the State Investment Fund is based on net asset value (NAV) per share (or its equivalent) as of June 30, 2020. This is a commingled fund with the objective of safety of principal and liquidity while earning a competitive money market rate of return. The valuation of the underlying investments of the State Investment Fund depends on asset class and maturity date. Repurchase agreements and non-negotiable certificates of deposit are valued at cost. All other short-term debt investments with remaining maturities of up to

90 days are valued at amortized cost. Finally, all other short-term investments with remaining maturities of over 90 days are valued at fair value by third-party pricing services using a matrix-pricing technique. There are no unfunded commitments relating to the State Investment Fund, and shares of the State Investment Fund can be fully redeemed at any time with no notice or other restrictions. For more information on the investments in the State Investment Fund, review the separately issued *State Investment Fund Annual Financial Report* for the fiscal year ended June 30, 2020. The report is located at <https://www.swib.state.wi.us/publications>.

4. ACCOUNTS RECEIVABLE

Accounts receivable balances are disaggregated as follows:

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Accounts Receivable:		
Retailers:		
Ticket Sales and Contract Fees	\$73,280,367	\$46,931,398
Commissions and Incentives	(9,621,795)	(7,672,359)
Ticket Redemptions	(11,738,633)	(6,627,584)
Allowance for Returns	(5,455,439)	(2,289,957)
MUSL Receivable	0	583,591
Miscellaneous	<u>122,548</u>	<u>45,082</u>
Total Accounts Receivable	<u>\$46,587,048</u>	<u>\$30,970,171</u>
Due from Other State Programs:		
Transfer from General Fund	\$ <u>8,320,611</u>	\$ <u>0</u>
Total Due from Other State Programs	<u>\$ 8,320,611</u>	<u>\$ 0</u>

5. MULTI-STATE LOTTERY ASSOCIATION

A. Joint Venture Association

The Lottery is a member of MUSL, a nonprofit, government-benefit voluntary association. As of June 30, 2020, MUSL had 38 member lotteries from 35 states, the District of Columbia, the U.S. Virgin Islands, and Puerto Rico. MUSL is owned and operated by the member lotteries, which sell one or more games administered by MUSL. It 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 Lottery participates in two multijurisdictional lotto 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, 2020, and June 30, 2019, as audited by other auditors.

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Total Assets	<u>\$534,266,383</u>	<u>\$507,711,452</u>
Total Liabilities	\$519,555,696	\$486,742,374
Total Unrestricted Net Assets	<u>14,710,687</u>	<u>20,969,078</u>
Total Liabilities and Net Assets	<u>\$534,266,383</u>	<u>\$507,711,452</u>
Total Revenues	\$ 7,523,146	\$ 18,637,167
Total Expenses	(5,981,537)	(6,716,528)
Other Changes in Net Assets	<u>(7,800,000)</u>	<u>0</u>
Increase (Decrease) in Unrestricted Net Assets	<u>\$ (6,258,391)</u>	<u>\$ 11,920,639</u>

For complete separate financial statements for MUSL, contact:

Multi-State Lottery Association
 Attention: Bret Toyne
 8101 Birchwood Court, Suite R
 Johnston, Iowa 50131

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.

Participating lotteries do not have rights to balances in the prize pool. Therefore, these funds are not reported as assets on the 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 Lottery reports the total of its MUSL Prize Reserve Accounts as a restricted noncurrent asset (MUSL Reserve Accounts—Noncurrent).

In addition, the Lottery has an Unreserved Account, which accumulates interest. All administrative expenses are reduced from the Unreserved Account. Member lotteries may withdraw Unreserved Accounts at any time. The 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 Account balances are made up of the following:

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Powerball Set Prize Reserve Account	\$1,029,043	\$1,234,715
Powerball Prize Reserve Account	2,936,489	2,696,327
Mega Millions Prize Reserve Account	2,465,921	2,671,400
Designated for Patent Acquisition	0	41,751
Unreserved Account	<u>440,696</u>	<u>287,241</u>
Total MUSL Accounts	<u>\$6,872,149</u>	<u>\$6,931,434</u>

In FY 2012-13, the 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 Lottery recorded this amount as a restricted noncurrent asset (MUSL Reserve Accounts—Noncurrent). At the end of FY 2019-20, the Lottery did not have any remaining share of this cost to pay.

6. EMPLOYEE RETIREMENT PLAN

The Lottery's permanent employees are participants in the WRS, which is administered by the Wisconsin Department of Employee Trust Funds (ETF), under the direction of the ETF Board. The WRS is a cost-sharing multiple-employer defined benefit pension plan administered through a trust. WRS benefits, required contributions, and other plan provisions are established by ch. 40 of the Wisconsin Statutes. Eligible state and local government public employees are entitled to a retirement benefit based on the higher calculation of a formula benefit or a money purchase benefit. The formula benefit is calculated based on a formula factor, the employee's final average earnings, and creditable service. The money purchase benefit is based on the employee's contributions plus matching employer's contributions, with interest.

Additional information about the WRS is included in the State of Wisconsin Comprehensive Annual Financial Report, located at <https://doa.wi.gov/Pages/StateFinances/ComprehensiveAnnualFinancialReportCAFR.aspx>.

ETF also issues a standalone Comprehensive Annual Financial Report, located at <http://etf.wi.gov/publications/cafr.htm>.

Required contributions are determined by an annual actuarial valuation. The employee required contribution is one-half of the actuarially determined contribution rate for general category employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement. The WRS recognized employer contributions from the Lottery of \$282,401 for calendar year 2018 and \$260,649 for calendar year 2019.

As of June 30, 2020, the Lottery reported a net pension asset of \$874,838 for its proportionate share of the net pension asset, compared to the net pension liability of \$982,623 as of June 30, 2019. The net pension liability (asset) as of June 30, 2020, was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2018, rolled forward to December 31, 2019. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The Lottery's proportion of the net pension liability (asset) was based on the Lottery's share of contributions to the pension plan relative to the contributions of all participating employers. As of December 31, 2019, the Lottery's proportion was 0.03 percent, no change from the previous year.

The Lottery recognized pension expense reported in the Salaries and Fringe Benefits account of \$290,996 and \$279,464 for the fiscal years ended June 30, 2019, and June 30, 2020, respectively.

As of June 30, 2020, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflows and Deferred Inflows of Resources Related to Pensions

<u>Fiscal Year 2020</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Pension Experience	\$ 1,784,340	\$ (924,938)
Change of Pension Assumptions	93,458	-
Net Differences Between Projected and Actual Earnings on Pension Plan Investments	-	(1,788,481)
Changes in Proportion and Differences Between Actual and Proportionate Share of Contributions	8,773	(6,500)
Pension Contributions Subsequent to the Measurement Date	<u>125,094</u>	<u>-</u>
Total	<u>\$2,011,665</u>	<u>\$(2,719,919)</u>
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>Fiscal Year 2019</u>		
Differences Between Expected and Actual Pension Experience	\$ 873,033	\$(1,418,454)
Change of Pension Assumptions	187,461	-
Net Differences Between Projected and Actual Earnings on Pension Plan Investments	1,435,054	-
Changes in Proportion and Differences Between Actual and Proportionate Share of Contributions	12,711	(9,477)
Pension Contributions Subsequent to the Measurement Date	<u>149,717</u>	<u>-</u>
Total	<u>\$2,657,976</u>	<u>\$(1,427,931)</u>

7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Other postemployment benefits are benefits other than pensions that state and local governments provide to their retired employees. Under Wisconsin Statutes ch. 40, ETF and the Group Insurance Board (GIB) have statutory authority for program administration and oversight of postemployment benefits. ETF administers postemployment benefit plans other than pension plans for State employees, including the State Retiree Life Insurance program, State Retiree Health Insurance program, and Supplemental Health Insurance Conversion Credit (SHICC) program. Lottery employees are employees of the State.

Additional information on other postemployment benefits provided to State employees is included in the State of Wisconsin Comprehensive Annual Financial Report, located at <https://doa.wi.gov/Pages/StateFinances/ComprehensiveAnnualFinancialReportCAFR.aspx>.

ETF also issues a standalone Comprehensive Annual Financial Report, located at <http://etf.wi.gov/publications/cafr.htm>.

Additionally, ETF issued standalone financial reports for the Retiree Life Insurance program and the SHICC program, which can be found at <https://etf.wi.gov/about-etf/reports-and-studies/financial-reports-and-statements>.

A. State Retiree Life Insurance Program

This program provides postemployment life insurance coverage to all eligible retired Lottery employees. GIB approves contribution rates annually, based on recommendations from the insurance carrier. Recommended rates are based on an annual valuation, taking into consideration a present value estimate of future benefits and future contributions. A portion of employer contributions made during a member's working lifetime funds a post-retirement benefit. During the reporting period, the State Retiree Life Insurance program recognized \$4,997 in contributions from the Lottery.

As of June 30, 2020, the Lottery reported a liability of \$746,266 for its proportionate share of the net OPEB liability compared to \$513,945 as of June 30, 2019. The net OPEB liability was measured as of December 31, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2019, and rolled forward to December 31, 2019. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The Lottery's proportion of the net OPEB liability was based on its share of contributions to the OPEB plan relative to the contributions of all participating employers. As of December 31, 2019, the Lottery's proportion was 0.24 percent, which was a decrease of 0.02 percent from its proportion measured as of December 31, 2018.

The Lottery recognized OPEB expense for the State Retiree Life Insurance program reported in the Salaries and Fringe Benefits account of \$46,366 and \$19,490 for the fiscal years ended June 30, 2019, and June 30, 2020, respectively.

As of June 30, 2020, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

Outflows and Deferred Inflows of Resources Related to State Retiree Life Insurance		
<u>Fiscal Year 2020</u>	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	\$ (24,953)
Changes of Assumptions	247,984	(80,647)
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	13,717	-
Change in Proportionate Share	10,127	(7,500)
Employer's Contribution Subsequent to the Measurement Date	-	-
Total	<u>\$271,828</u>	<u>\$(113,100)</u>
<u>Fiscal Year 2019</u>	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	\$ (22,996)
Changes of Assumptions	48,288	(96,364)
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	10,912	-
Change in Proportionate Share	12,053	(5,996)
Employer's Contribution Subsequent to the Measurement Date	-	-
Total	<u>\$71,253</u>	<u>\$(125,356)</u>

B. State Retiree Health Insurance Program

This program provides postemployment health insurance coverage to all eligible retired employees of the Lottery. Contribution requirements are established and may be amended by GIB. Premiums for non-Medicare retirees are based on an effective rate structure for the health care service provider selected. Monthly rates range from \$537 to \$1,311 for single coverage and \$1,536 to \$3,810 for family coverage. The employers do not directly pay any portion of the premium for participating retirees.

To determine the total OPEB liability for the program, the actuary performed an actuarial valuation as of January 1, 2019, and adjusted for changes such as interest earned, contributions paid, and benefits paid through June 30, 2019. The actuarial valuation was based on the plan of retiree benefits and was made for purposes of fulfilling GASB accounting standards, which require recognition of the employer cost of

postemployment benefits over an employee's career. The total cost of providing postemployment benefits is projected, considering relevant assumptions, then discounted to determine the total OPEB liability. As of June 30, 2020, the Lottery reported a liability of \$598,686 for its proportionate share of the total OPEB liability compared to \$495,730 as of June 30, 2019.

The Lottery recognized OPEB expense for the State Retiree Health Insurance program reported in the Salaries and Fringe Benefits account of \$91,553 and \$21,016 for the fiscal years ended June 30, 2019, and June 30, 2020, respectively.

As of June 30, 2020, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

Deferred Outflows and Deferred Inflows of Resources Related to State Retiree Health Insurance		
<u>Fiscal Year 2020</u>	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 52,510	\$ (3,200)
Changes of Assumptions	45,198	(251,208)
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	-	-
Change in Proportionate Share	911	(11,745)
Employer's Contribution Subsequent to the Measurement Date	<u>49,828</u>	<u>-</u>
Total	<u>\$148,447</u>	<u>\$(266,153)</u>
<u>Fiscal Year 2019</u>	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 699	\$ (3,542)
Changes of Assumptions	-	(281,231)
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	-	-
Change in Proportionate Share	1,020	(8,453)
Employer's Contribution Subsequent to the Measurement Date	<u>37,570</u>	<u>-</u>
Total	<u>\$39,289</u>	<u>\$(293,226)</u>

C. Supplemental Health Insurance Conversion Credit Program

The SHICC program was established by s. 40.95, Wis. Stats., and is defined in the state compensation plan by s. 230.12 (9), Wis. Stats. The SHICC program allows members with more than 15 years of eligible service to convert unused sick leave balances into credits to pay for post-retirement health insurance premiums. The SHICC benefit provides a limited match of the members credits earned through the Accumulated Sick Leave Conversion Credit (ASLCC) program. ASLCC program credits are computed at the time of retirement, layoff, or death by multiplying the number of hours of unused sick leave by the highest hourly pay rate at which the employee accrued sick leave that is eligible for conversion. Employment category and number of years of service are also factored into the calculation. The SHICC program also includes a provision for the restoration of 500 hours of credits upon retirement, layoff or death provided at least 500 hours or accrued sick leave were used for a single injury or illness during the three years immediately preceding the retirement, layoff or death while in state service.

The ETF Board approves contribution rates annually, based on recommendations from the actuary. Recommended rates are based on an annual valuation, taking into consideration an estimate of the present value of future benefits and the present value of future contributions, in accordance with s. 40.05 (4) (by), Wis Stats. Employer contributions made during a member's working lifetime funds a post-retirement benefit. Employers are required to pay the contributions based upon a percentage of active member earnings as of December 31, 2019. During the reporting period, the SHICC recognized \$11,280 in contributions from the Lottery.

In 2020, ETF determined the SHICC program to be an OPEB. As of June 30, 2020, the Lottery reported an asset of \$119,166 for the proportionate share of the total OPEB asset for fiscal year ended June 30, 2020. The June 30, 2020 net OPEB asset was measured as of December 31, 2019, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2019. As of December 31, 2019, the Lottery's proportion was 0.17 percent.

The Lottery recognized OPEB expense for the SHICC program reported in the Salaries and Fringe Benefits account of \$8,088 for fiscal year ended June 30, 2020.

As of June 30, 2020, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

Outflows and Deferred Inflows of Resources Related to the Supplemental Health Insurance Conversion Credit		
<u>Fiscal Year 2020</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ -	\$ (80,559)
Changes of Assumptions	15,452	-
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	-	(45,835)
Change in Proportionate Share	-	(136)
Employer's Contribution Subsequent to the Measurement Date	<u>5,049</u>	<u>-</u>
Total	<u>\$20,501</u>	<u>\$(126,530)</u>

8. ANNUITY PRIZES PAYABLE

The 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 Lottery purchases, or has acquired from MUSL, investments scheduled to mature near the time prize payments become payable to the winners. For information on the investments for prize annuities, see Note 3. Each year, an adjustment to the Annuity Prizes Payable account is made using the effective interest method. The amortization of annuity adjustment was \$711,654 for FY 2019-20 and \$952,821 for FY 2018-19.

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

<u>Fiscal Year Ended June 30</u>	<u>Future Payments as of June 30, 2020</u>
2021	\$ 3,795,557
2022	2,739,037
2023	2,387,660
2024	1,050,649
2025	321,704
Following Years	<u>1,906,529</u>
Total Future Prize Payments	12,201,136
Less: Present Value Adjustment	<u>(1,475,730)</u>
Present Value of Future Prize Payments	<u>\$10,725,406</u>

Annuity prizes payable activity for the fiscal years ended June 30, 2020, and June 30, 2019, 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>
2019-20	\$14,070,966	\$711,654	\$(4,057,214)	\$10,725,406	\$3,711,861
2018-19	17,685,145	952,821	(4,567,000)	14,070,966	4,027,792

9. INSTANT AND LOTTO TICKET SALES

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

	<u>FY 2019-20</u>	<u>FY 2018-19</u>
Instant Ticket Sales:		
Scratch-off	\$512,986,222	\$450,364,292
Pull-tab	<u>755,460</u>	<u>978,975</u>
Total Instant Ticket Sales	<u>\$513,741,682</u>	<u>\$451,343,267</u>
Lotto Ticket Sales:		
SuperCash!	\$ 23,588,717	\$ 24,574,345
Powerball	53,257,279	84,789,329
Wisconsin’s Megabucks	21,243,688	14,572,207
Wisconsin’s Megabucks EZ Match	2,314,778	1,938,294
Daily Pick 3	23,879,008	23,575,461
Daily Pick 4	14,789,892	14,117,357
Badger 5	23,468,826	24,366,719
Mega Millions	34,647,608	63,320,243
5 Card Cash ¹	0	4,737,352
All or Nothing ¹	13,995,066	5,038,390
Raffle Games	518,176	766,260
General Sales and Discounts	<u>(5,008)</u>	<u>(6,450)</u>
Total Lotto Ticket Sales	<u>\$211,698,030</u>	<u>\$261,789,507</u>

¹ 5 Card Cash ended during FY 2018-19 and All or Nothing began during FY 2018-19.

10. INSTANT AND LOTTO PRIZE EXPENSE

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

	<u>FY 2019-20</u>	<u>FY 2018-19</u>
Instant Prize Expense:		
Scratch-off	\$346,925,054	\$299,660,079
Pull-tab	472,782	613,439
Super 2nd Chance ¹	<u>204,000</u>	<u>259,000</u>
Total Instant Prize Expense	<u>\$347,601,836</u>	<u>\$300,532,518</u>
Lotto Prize Expense:		
SuperCash!	\$ 12,166,446	\$ 15,363,120
Powerball	25,478,284	41,283,657
Wisconsin's Megabucks	11,176,756	7,788,393
Wisconsin's Megabucks EZ Match	1,405,128	1,173,287
Daily Pick 3	11,696,660	10,925,780
Daily Pick 4	6,241,200	6,347,700
Badger 5	11,803,244	11,761,164
Mega Millions	17,161,106	30,822,356
5 Card Cash ²	(18,678)	2,536,942
All or Nothing ²	8,355,516	2,803,700
Raffle Games	250,888	348,230
Super 2nd Chance ¹	<u>204,000</u>	<u>259,000</u>
Total Lotto Prize Expense	<u>\$105,920,550</u>	<u>\$131,413,329</u>

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

² 5 Card Cash ended during FY 2018-19 and All or Nothing began during FY 2018-19.

11. CONTRACTUAL OBLIGATIONS**A. Scratch-off Tickets**

The Lottery completed a request for bid and awarded a contract for scratch-off ticket printing services to Scientific Games for the period November 1, 2015, through October 31, 2020, with the option to renew up to five additional one-year periods. The Lottery exercised its option to renew this contract, which now has an expiration date of October 31, 2022. This is the second of the five one-year renewals.

In addition, scratch-off ticket printing services are included in the lottery gaming system contract with IGT and any applicable subcontractor, which became effective on May 14, 2017. The contract term is for seven years with an option to renew for up to three additional one-year periods.

In addition, the Lottery purchased ticket printing services of approximately \$1.9 million in FY 2019-20 and approximately \$1.6 million in FY 2018-19.

B. Pull-tab Tickets

The Lottery entered into a two-year contract with Pollard Banknote Ltd. for pull-tab ticket printing services that expired on February 28, 2017 but included four one-year renewal options. The Lottery exercised its right to renew this contract, which now has an expiration date of February 28, 2021. This is the last of the four one-year renewals. The Lottery purchased approximately \$27,145 in ticket printing services for pull-tabs in FY 2019-20 compared to \$37,609 in FY 2018-19.

C. Gaming System Vendor

On February 16, 2016, the Lottery entered into a contract with IGT for an integrated gaming computer system, which was implemented on May 14, 2017. The initial term of this contract is for seven years from the operational start date, with the option to renew up to three additional one-year periods. During FY 2018-19, the Lottery exercised its option to renew this contract, which has an expiration date of May 13, 2025, as of June 30, 2020. This is the first of the three one-year renewals.

The contract requires the Lottery to pay IGT 2.57 percent of weekly net sales. In addition, the new contract includes the lottery gaming system, 70 percent of instant scratch-off ticket printing, warehousing, distribution, and telemarketing services. Net vendor service payments to IGT were approximately \$18.8 million in FY 2019-20 and approximately \$18.3 million in FY 2018-19.

D. Product Information Costs

The Lottery primarily contracts with HY Connect to provide informational advertising services. The Lottery signed a two-year contract with HY Connect starting July 12, 2015, through June 30, 2017, with an option to renew for four additional one-year periods. The Lottery exercised its right to renew this contract, which has an expiration date of June 30, 2021. Payments to HY Connect were approximately \$8.3 million during FY 2019-20 and \$8.2 million during FY 2018-19, while total spending on product information costs was approximately \$8.4 million during FY 2019-20 and \$8.5 million during FY 2018-19.

12. RESTRICTED NET POSITION

The Lottery had a net position invested in capital assets of \$113,592 as of June 30, 2020, and \$141,552 as of June 30, 2019.

The Lottery had a restricted net position for pensions of \$874,838 as of June 30, 2020, and did not report restricted net position for pensions as of June 30, 2019, because it reported a net pension liability. Amounts restricted for pensions can be primarily attributed to adjustments required by governmental accounting standards for the WRS.

The Lottery had a restricted net position for OPEB of \$119,166 as of June 30, 2020, and did not report restricted net position for the OPEB as of June 30, 2019, because ETF first determined the SHICC program to be an OPEB in 2020. Amounts restricted for OPEBs can be primarily attributed to adjustments required by governmental accounting standards.

The Lottery also had a restricted net position related to MUSL reserves, as described in Note 5. The restricted net position related to the MUSL reserves was \$6,431,453 as of June 30, 2020, and \$6,644,193 as of June 30, 2019.

The Lottery also had a restricted net position for investment fair value adjustments of \$1,258,816 as of June 30, 2020, and \$1,310,067 as of June 30, 2019. The 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 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 Lottery to be used to provide local property tax relief. 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 \$19,192,067 as of June 30, 2020, and \$36,281,514 as of June 30, 2019.

13. DISTRIBUTION OF NET PROCEEDS

Net proceeds from the Lottery and other gaming-related proceeds were used for the Lottery and Gaming Tax Credit, as described in Note 2Q. The total Lottery and Gaming Tax Credit for FY 2019-20 was \$270,402,070 compared to \$234,879,988 for FY 2018-19.

14. TRANSFERS IN FROM GENERAL FUND

2017 Wisconsin Act 59 directed a transfer of \$40.0 million in FY 2018-19 of GPR from the General Fund to the Lottery Fund. This transfer was to be applied towards the Retailer Commissions and Incentives account.

2019 Wisconsin Act 9 directed a transfer of \$71.7 million in FY 2019-20 of general purpose revenue from the General Fund to the Lottery Fund. This transfer was to be applied towards retailer commissions, vendor fees and certain general program operations. The actual transfer amount to Lottery was \$70.8 million in FY 2019-20.

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Supplementary Schedules

Statutorily Defined Lottery Administrative Expenses for the Years Ended June 30, 2020, June 30, 2019, and June 30, 2018

	Year Ended June 30, 2020	Year Ended June 30, 2019	Restated Year Ended June 30, 2018
ADMINISTRATIVE EXPENSES			
Instant and Lotto Vendor Services	\$ 18,804,094	\$ 18,290,471	\$ 17,196,328
Product Information Costs	8,443,164	8,467,617	8,484,215
Instant Ticket Printing Costs	2,658,577	1,906,778	2,527,750
Instant Ticket Delivery Costs	0	0	0
Salaries and Fringe Benefits	6,045,441	5,663,494	5,466,208
Supplies and Services	2,508,372	4,809,574	2,568,434
Depreciation Expense	27,960	28,862	29,224
Transfers Out—Department of Health and Family Services for Compulsive Gambling Programs	396,000	396,000	396,000
Transfers Out—Department of Revenue for Lottery Credit Administration	196,655	224,430	226,065
Transfers Out—General Fund	53,360	399,270	126,588
Total Administrative Expenses as Determined in Accordance with s. 25.75 (3) (b), Wis. Stats.	<u>\$ 39,133,623</u>	<u>\$ 40,186,496</u>	<u>\$ 37,020,812</u>
Gross Lottery Revenues per s. 25.75 (1) (b), Wis. Stats.	\$ 725,473,542	\$ 713,189,448	\$ 667,452,910
Administrative Expenses as a Percentage of Gross Lottery Revenues	5.39%	5.63%	5.55%

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 Wisconsin Department of Justice for law enforcement.

Note: The above amounts are based on the accrual basis of accounting.

Summary of Prize Expenses for the Years Ended June 30, 2016, through June 30, 2020

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

Fiscal Year 2019-20			
	Prize Expense	Ticket Sales	Prize Expense as a Percentage of Sales
Instant Games	\$ 347,601,836	\$ 513,741,682	67.7%
Lotto Games	105,920,550	211,698,030	50.0
Total for Fiscal Year	\$ 453,522,386	\$ 725,439,712	62.5

Fiscal Year 2018-19			
	Prize Expense	Ticket Sales	Prize Expense as a Percentage of Sales
Instant Games	\$ 300,532,518	\$ 451,343,267	66.6%
Lotto Games	131,413,329	261,789,507	50.2
Total for Fiscal Year	\$ 431,945,847	\$ 713,132,774	60.6

Fiscal Year 2017-18			
	Prize Expense	Ticket Sales	Prize Expense as a Percentage of Sales
Instant Games	\$ 282,121,683	\$ 420,434,815	67.1%
Lotto Games	122,325,292	246,957,605	49.5
Total for Fiscal Year	\$ 404,446,975	\$ 667,392,420	60.6

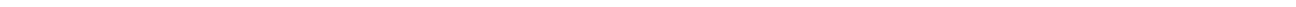
Fiscal Year 2016-17			
	Prize Expense	Ticket Sales	Prize Expense as a Percentage of Sales
Instant Games	\$ 255,812,830	\$ 385,866,619	66.3%
Lotto Games	107,152,950	216,906,158	49.4
Total for Fiscal Year	\$ 362,965,780	\$ 602,772,777	60.2

Fiscal Year 2015-16			
	Prize Expense	Ticket Sales	Prize Expense as a Percentage of Sales
Instant Games	\$ 249,991,398	\$ 379,930,973	65.8%
Lotto Games	122,567,099	247,233,964	49.6
Total for Fiscal Year	\$ 372,558,497	\$ 627,164,937	59.4

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' structure because of unclaimed winning tickets and deposits in reserve accounts.



Auditor's Report





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Report 21-10

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. Peter Barca, Secretary
Department of Revenue

Ms. Cindy Polzin, Administrator
Division of Lottery
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, 2020, and June 30, 2019, and have issued our report thereon dated June 28, 2021. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, which is issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent misstatements, or to detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the Wisconsin Lottery 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, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Wisconsin Lottery 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 material effect on the financial statements. 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*.

Purpose of This Report

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

LEGISLATIVE AUDIT BUREAU



Joe Chrisman
State Auditor

June 28, 2021