



STATE OF WISCONSIN

Legislative Audit Bureau

NONPARTISAN • INDEPENDENT • ACCURATE

Report 24-9
July 2024

Wisconsin Lottery Fiscal Year 2022-23



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Wisconsin Lottery

Fiscal Year 2022-23



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Legislative Audit Bureau

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

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STATE OF WISCONSIN

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Joe Chrisman
State Auditor

22 East Mifflin Street, Suite 500
Madison, Wisconsin 53703

Main: (608) 266-2818
Hotline: 1-877-FRAUD-17

www.legis.wisconsin.gov/lab
AskLAB@legis.wisconsin.gov

July 30, 2024

Senator Eric Wimberger and
Representative Robert Wittke, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Wimberger and Representative Wittke:

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 (DOR). We have provided unmodified opinions on the Wisconsin Lottery's financial statements as of and for the years ended June 30, 2023, and June 30, 2022.

Wisconsin Lottery ticket sales increased from \$887.8 million in fiscal year (FY) 2021-22 to \$981.7 million in FY 2022-23, or by 10.6 percent. This increase is the result of increased sales for lotto and instant games. As ticket sales increase, Wisconsin Lottery expenses also increase. Operating expenses increased from \$661.7 million in FY 2021-22 to \$724.2 million in FY 2022-23, or by 9.4 percent.

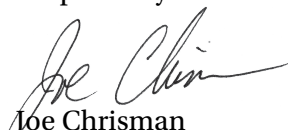
2021 Wisconsin Act 58, the 2021-23 Biennial Budget Act, provided the Wisconsin Lottery with general purpose revenue (GPR) of \$72.9 million in FY 2022-23 and \$72.9 million in FY 2021-22 for retailer compensation and vendor fees.

The Wisconsin Constitution requires that net proceeds from the Wisconsin Lottery be used exclusively for property tax relief for Wisconsin residents. During FY 2022-23, net lottery proceeds used for property tax relief totaled \$319.7 million.

The provision of GPR funding increased net lottery proceeds available for the Lottery and Gaming Tax Credit in FY 2021-22 and FY 2022-23. However, the actual amount distributed for the Lottery and Gaming Tax Credit decreased from \$340.2 million in FY 2021-22 to \$319.7 million in FY 2022-23, or by 6.0 percent, because the estimate of ticket sales used to determine the amount of the credit was less than actual ticket sales. In October 2023, the Wisconsin Department of Administration and the Legislature's Joint Committee on Finance authorized the use of \$362.4 million in net lottery proceeds for the FY 2023-24 Lottery and Gaming Tax Credit.

The Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which is required by *Government Auditing Standards*, begins on page 63.

Respectfully submitted,



Joe Chrisman
State Auditor

JC/BG/ag

Introduction

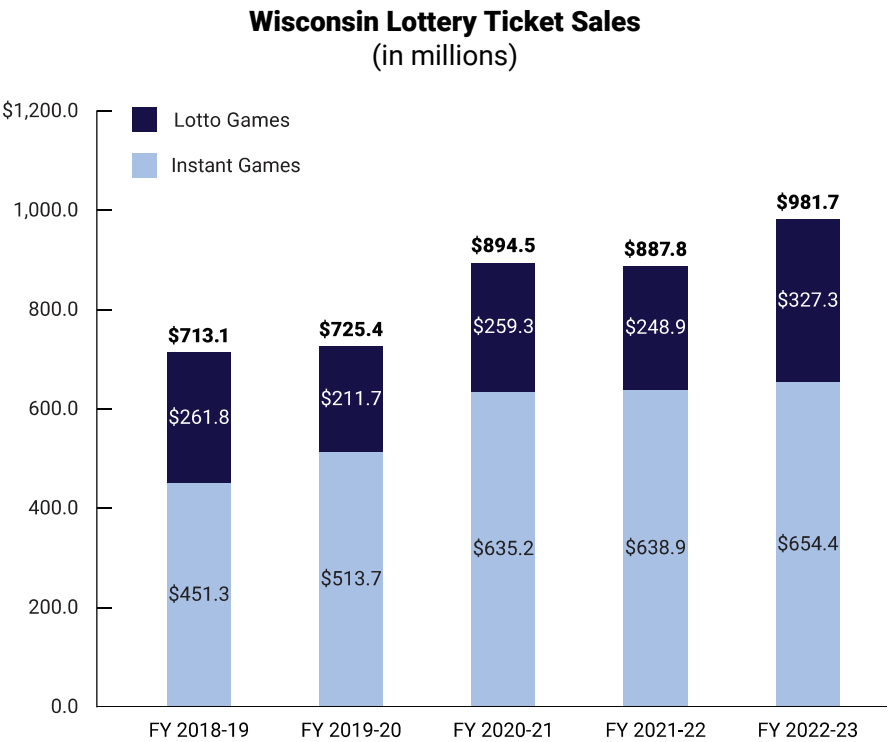
The Wisconsin Lottery began operations in September 1988 after Wisconsin voters adopted a constitutional amendment in 1987 that allowed the Legislature to create a state lottery with net proceeds to be distributed for property tax relief. Since 1995, the Department of Revenue (DOR) has managed the Wisconsin Lottery. The financial activity of the Wisconsin Lottery is reported in financial statements prepared by DOR using generally accepted accounting principles (GAAP) prescribed by the Governmental Accounting Standards Board (GASB).

Wisconsin Lottery Ticket Sales

Ticket sales were \$981.7 million in FY 2022-23, which was an increase of 10.6 percent from FY 2021-22.

As shown in Figure 1, the Wisconsin Lottery's ticket sales increased from \$887.8 million in fiscal year (FY) 2021-22 to \$981.7 million in FY 2022-23, or by 10.6 percent. Sales of instant tickets, which are scratch-off and pull-tab tickets, increased by \$15.5 million, or 2.4 percent. Sales of lotto tickets, which are tickets for lotto games, including Mega Millions, Powerball, Badger 4, Daily Pick 3, and Daily Pick 4, increased by \$78.4 million, or 31.5 percent. This was primarily due to increased Mega Millions and Powerball ticket sales in FY 2022-23 as compared to FY 2021-22.

Figure 1



Wisconsin Lottery Operating Expenses

Operating expenses were \$724.2 million in FY 2022-23, or 9.4 percent more than in FY 2021-22.

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 \$661.7 million in FY 2021-22 to \$724.2 million in FY 2022-23, or by 9.4 percent, primarily because expenses for prizes increase with overall ticket sales increases.

Game development and production expenses include donated prize expense, instant game ticket printing costs, and instant and lotto vendor services, which consist of payments to IGT Global Solutions Corporation (IGT). IGT 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 \$24.1 million in FY 2021-22 and \$25.9 million in FY 2022-23.

Table 1

Wisconsin Lottery Operating Expenses
(in millions)

| Operating Expense Type | FY 2018-19 | FY 2019-20 | FY 2020-21 | FY 2021-22 | FY 2022-23 |
|---------------------------------|----------------|----------------|----------------------------|----------------|----------------------------|
| Prize Expenses | \$431.9 | \$453.5 | \$559.7 | \$557.1 | \$607.8 |
| Retailer Compensation | 49.7 | 50.9 | 62.8 | 59.7 | 68.8 |
| Game Development and Production | 20.2 | 21.5 | 25.4 | 27.0 | 28.6 |
| Product Information | 8.5 | 8.4 | 8.4 | 8.5 | 8.5 |
| Other ¹ | 10.5 | 8.6 | 8.7 | 9.4 | 10.4 |
| Total | \$520.8 | \$542.9 | \$665.1² | \$661.7 | \$724.2² |

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

² Rounded for consistency with financial statements.

In FY 2022-23, the Wisconsin Lottery spent \$8.5 million to provide information about its products.

The Wisconsin Constitution prohibits public funds or revenues derived from lottery operations from being spent for promotional advertising and requires that any advertising provide only information about the prize structures and chances of winning. The Wisconsin Lottery's annual product information budget, which is established through the State's biennial budget, was unchanged at \$8.5 million from FY 2021-22 to FY 2022-23. The Wisconsin Lottery spent \$8.5 million to provide information about its products in FY 2022-23.

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.

During FY 2022-23, the Wisconsin Lottery received GPR totaling \$72.9 million to fund retailer compensation and vendor fees.

2021 Wisconsin Act 58, the 2021-23 Biennial Budget Act, provided the Wisconsin Lottery with general purpose revenue (GPR) of \$72.9 million in FY 2022-23 and \$72.9 million in FY 2021-22 for retailer compensation and vendor fees.

The provision of GPR funding increased net lottery proceeds available for the Lottery and Gaming Tax Credit in FY 2021-22 and FY 2022-23. However, the actual amount distributed for the Lottery and Gaming Tax Credit decreased due to lower than anticipated ticket sales. As shown in Table 2, the net lottery proceeds used to fund the Lottery and Gaming

Tax Credit decreased from \$340.2 million in FY 2021-22 to \$319.7 million in FY 2022-23, or by 6.0 percent, because the estimate of ticket sales used to determine the amount of the credit was less than actual ticket sales.

Table 2

Property Tax Relief¹
(in millions)

| Fiscal Year | Lottery and Gaming Tax Credit |
|--------------|----------------------------------|
| 2018-19 | \$ 234.9 |
| 2019-20 | 270.4 |
| 2020-21 | 236.3 |
| 2021-22 | 340.2 |
| 2022-23 | 319.7 |
| Total | \$1,401.5 |

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

From its inception in 1988 through June 30, 2023, the Wisconsin Lottery has provided \$5.8 billion in property tax relief.

In October 2023, the Wisconsin Department of Administration and the Legislature’s Joint Committee on Finance authorized the use of \$362.4 million in net lottery proceeds for the FY 2023-24 Lottery and Gaming Tax Credit. From its inception in 1988 through June 30, 2023, the Wisconsin Lottery has provided \$5.8 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 2018-19 through FY 2022-23, 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 |
|-------------|---------------------------------|-------------------------------|--|
| 2018-19 | \$431.9 | \$713.1 | 60.6% |
| 2019-20 | 453.5 | 725.4 | 62.5 |
| 2020-21 | 559.7 | 894.5 | 62.6 |
| 2021-22 | 557.1 | 887.8 | 62.8 |
| 2022-23 | 607.8 | 981.7 | 61.9 |

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 2018-19
through FY 2022-23.***

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 2018-19 through FY 2022-23.

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 |
|-------------|--|--|-----------------------------------|
| 2018-19 | \$40.2 | \$713.2 | 5.6% |
| 2019-20 | 39.1 | 725.5 | 5.4 |
| 2020-21 | 43.2 | 894.6 | 4.8 |
| 2021-22 | 45.7 | 887.9 | 5.2 |
| 2022-23 | 48.4 | 981.7 | 4.9 |

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 2022-23, the Wisconsin Lottery spent \$58.8 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 \$58.8 million on basic commissions in FY 2022-23, of which \$52.0 million was funded by GPR.

In FY 2022-23, the Wisconsin Lottery spent \$9.6 million on 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 2018-19 through FY 2022-23. In FY 2022-23, the Wisconsin Lottery spent \$9.6 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 |
|-------------|---|----------------------------|--|
| 2018-19 | \$6.9 | \$713.1 | 1.0% |
| 2019-20 | 7.0 | 725.4 | 1.0 |
| 2020-21 | 8.8 | 894.5 | 1.0 |
| 2021-22 | 5.9 | 887.8 | 0.7 |
| 2022-23 | 9.6 | 981.7 | 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 meet specific goals during limited time periods. During FY 2022-23, performance payments for the sales incentives for increasing ticket sales accounted for 77.8 percent of the total incentive payments, winning ticket bonuses accounted for 15.5 percent, and short-term incentives accounted for 6.7 percent. There were six short-term incentives during FY 2022-23. Total payments for each of the six short-term incentives ranged from \$1,774 to \$186,124. The number of retailers who participated in each of these short-term incentives ranged from 2,979 retailers to all retailers, which was 3,633 retailers as of June 30, 2023.

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, under s. 20.505 (8) (g) Wis. Stats.

No unencumbered balances were available to be transferred to the Wisconsin Lottery in FY 2021-22 or FY 2022-23.

Audit Results

We provided unmodified opinions on the Wisconsin Lottery's financial statements as of and for the years ended June 30, 2023, and June 30, 2022.

As required by Wisconsin Statutes, we have completed an audit of the financial statements and related notes of the Wisconsin Lottery and have provided unmodified opinions on its financial statements as of and for the years ended June 30, 2023, and June 30, 2022. To complete our audit of the financial statements, we reviewed DOR's internal controls over financial reporting; tested financial transactions; reviewed the financial statements, notes, required supplementary information, and other information that were prepared by DOR management; and reviewed compliance with selected statutory provisions.

We also issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which is required by *Government Auditing Standards* and begins on page 63.

Under s. 565.37 (3), Wis. Stats., the Wisconsin Lottery is required to provide quarterly reporting to the Legislature on its operations. In report 23-9, we reported that the Wisconsin Lottery did not demonstrate that it fulfilled its statutory requirement to report to the Legislature for the quarter ended September 2022 and recommended that DOR consistently file each statutorily required report in a timely manner. In our current audit, we found that DOR submitted the September 2022, December 2022, and March 2023 quarterly reports in June 2023 and the June 2023 quarterly report in September 2023. The first three quarterly reports for FY 2023-24 were submitted within 31 days after the end of the quarter. DOR should continue to file each statutorily required report in a timely manner.

■ ■ ■ ■

Audit Opinion



STATE OF WISCONSIN

Legislative Audit Bureau

Joe Chrisman
State Auditor

22 East Mifflin Street, Suite 500
Madison, Wisconsin 53703

Main: (608) 266-2818
Hotline: 1-877-FRAUD-17

www.legis.wisconsin.gov/lab
AskLAB@legis.wisconsin.gov

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

Senator Eric Wimberger and
Representative Robert Wittke, Co-chairpersons
Joint Legislative Audit Committee

Mr. David Casey, Secretary
Department of Revenue

Ms. Cindy Polzin, Administrator
Division of Lottery
Department of Revenue

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements and the related notes of the Wisconsin Lottery, administered by the State of Wisconsin Department of Revenue (DOR), as of and for the years ended June 30, 2023, and June 30, 2022, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Wisconsin Lottery as of June 30, 2023, and June 30, 2022, 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.

Basis for Opinions

We conducted our audit 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section. We are required to be independent of DOR and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2023, and June 30, 2022, the changes in its financial position or, where applicable, its cash flows for the year then ended, in accordance with

accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance. Therefore, reasonable assurance is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we exercised professional judgement and maintained professional skepticism throughout the audit. We also identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, and designed and performed audit procedures responsive to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

In addition, we obtained an understanding of internal control relevant to the audit in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of DOR's internal control. Accordingly, no such opinion is expressed. We also evaluated the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, and evaluated the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 28, be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board (GASB), which considers it to be essential for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements. 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, 2023, and June 30, 2022. 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, Schedules 1 and 2 are fairly stated in all material respects in relation to the financial statements as a whole for the years ended June 30, 2023, and June 30, 2022.

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, 2021, June 30, 2020, and June 30, 2019 (not presented herein), and issued reports thereon dated June 24, 2022 (report 22-7), June 28, 2021 (report 21-10), and April 23, 2020 (report 20-4), which all contained unmodified opinions on the respective financial statements of the Wisconsin Lottery. In this report (report 24-9), Schedule 1 on page 58 (for the year ended June 30, 2021) and Schedule 2 on page 59 (for the years ended June 30, 2021, June 30, 2020, and June 30, 2019) 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, 2021, June 30, 2020, and June 30, 2019. 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, Schedules 1 and 2 are fairly stated in all material respects in relation to the financial statements as a whole for the years ended June 30, 2021, June 30, 2020, and June 30, 2019.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated July 26, 2024, which begins on page 63, on our consideration of DOR's internal control over financial reporting; our testing of its compliance with certain provisions of laws, regulations, and contracts; and other matters. Report 24-9 is available on our website at www.legis.wisconsin.gov/lab. 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 DOR'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 in considering DOR's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU

Legislative Audit Bureau

July 26, 2024

Management's Discussion and Analysis

Prepared by Wisconsin Lottery Management

This section of the Wisconsin Lottery's (Lottery's) financial statements provides the Management's Discussion and Analysis of the Lottery's financial performance for the fiscal years ended June 30, 2023, and June 30, 2022, with comparative information from the fiscal year ended June 30, 2021. 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

Lottery's ticket sales were \$981.7 million in fiscal year (FY) 2022-23, which is the highest overall ticket sales in the history of the Wisconsin Lottery. More details about ticket sales can be found below and in Table C.

Operating Revenues/Program Expenses

The Lottery's operating revenues generated from all ticket sales were \$981.7 million in FY 2022-23 compared to \$887.8 million in FY 2021-22, an increase of \$93.9 million, or 10.6 percent. In FY 2022-23, instant tickets had another high year of annual sales in Lottery history; the overall increase of \$15.5 million, or 2.4 percent, can be attributed in part to the increased sales of \$15 and \$20 tickets. The addition of a \$50 ticket in September 2022 also aided in generating significant incremental sales; this price point accounts for 6.4 percent of scratch game sales on average. Sales of lower priced games, particularly \$5 and lower, continue to trend down year over year. Lotto ticket sales increased by \$78.4 million, or 31.5 percent, mostly attributable to three jackpot products: Powerball, Mega Millions, and Megabucks. On November 7, 2022, the

Powerball jackpot rolled to an all-time high of \$2.0 billion. Weekly sales for this game reached as high as \$21.6 million. Mega Millions had two separate billion-dollar jackpot runs in FY 2022-23 and finished the fiscal year with \$82.7 million in sales, more than doubling the sales from FY 2021-22. Megabucks, a game with a starting jackpot of \$1 million, began the fiscal year with a \$5.6 million jackpot, which rolled to a high of \$15.1 million in January 2023. Consequently, the game finished FY 2022-23 with a 36.9 percent increase in sales compared to FY 2021-22.

Program expenses for FY 2022-23 increased \$61.4 million, or 9.4 percent, primarily due to increased prize expense and retailer commissions and incentives for lotto games. Administrative expenses, including salaries, fringe benefits, and supplies, were \$10.4 million in FY 2022-23 compared to \$9.4 million in FY 2021-22, which equates to an 11.2 percent increase. Net income before transfers was \$263.3 million in FY 2022-23, compared to \$225.9 million in FY 2021-22 and \$229.4 million in FY 2020-21.

Total statutory administrative expenses were 4.9 percent of gross Lottery revenues in FY 2022-23, well below the statutory maximum of 10.0 percent as limited by 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 \$48.4 million in FY 2022-23, which was an increase of \$2.7 million compared to \$45.7 million in FY 2021-22.

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 regarding the nature and amount of the Lottery's assets, deferred outflows, liabilities, deferred inflows, and net position as of June 30, 2023, and June 30, 2022;
- 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 2022-23 and FY 2021-22; 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 2022-23 and FY 2021-22.

The Lottery's financial position and financial health can be assessed by comparing 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 regarding the Lottery's assets, deferred outflows, liabilities, deferred inflows, and net position at the end of FY 2022-23 and FY 2021-22.

Table A presents condensed data for the current fiscal year and two previous 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, 2023 | Change | June 30, 2022 | Change | June 30, 2021 |
|--|---------------------------|---------------------------|-------------------------|-----------------|---------------|
| Assets | | | | | |
| Cash and Cash Equivalents | \$ 72.2 | \$ 21.3 | \$ 50.9 | \$ (40.4) | \$ 91.3 |
| Investments | 2.4 | (2.8) | 5.2 | (3.0) | 8.2 |
| Capital Assets (net of accumulated depreciation) | 0.1 | 0.0 | 0.1 | 0.0 | 0.1 |
| Other Assets | 56.9 | (5.9) | 62.8 | 4.9 | 57.9 |
| Total Assets | 131.6 | 12.6 | 119.0 | (38.5) | 157.5 |
| Total Deferred Outflows of Resources | 4.7 | 1.2 | 3.5 | 0.4 | 3.1 |
| Liabilities | | | | | |
| Current Liabilities | 62.2 | (3.3) | 65.5 ¹ | 7.5 | 58.0 |
| Noncurrent Liabilities | 5.5 | 2.1 | 3.4 | (3.1) | 6.5 |
| Total Liabilities | 67.7¹ | (1.2) | 68.9¹ | 4.4 | 64.5 |
| Total Deferred Inflows of Resources | 4.4 | (0.2) | 4.6 | 0.2 | 4.4 |
| Net Position | | | | | |
| Invested in Capital Assets | 0.1 | 0.0 | 0.1 | 0.0 | 0.1 |
| Restricted for Pensions | 0.0 | (0.3) | 0.3 | (1.3) | 1.6 |
| Restricted for Other Postemployment Benefits | 0.1 | 0.1 | 0.0 | (0.2) | 0.2 |
| Restricted for Multi-State Lottery Association Reserves | 5.9 ¹ | (0.2) ¹ | 6.1 | 0.0 | 6.1 |
| Restricted for Investment Fair Value Adjustment | 0.1 | (0.1) | 0.2 | (0.5) | 0.7 |
| Restricted for Property Tax Relief | 58.0 | 15.7 | 42.3 | (40.8) | 83.1 |
| Total Net Position | \$64.2¹ | \$15.2¹ | \$49.0 | \$(42.8) | \$91.8 |

¹ Rounded for integrity of totals.

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 shown in Table A, total assets were \$131.6 million at the end of FY 2022-23, compared to \$119.0 million at the end of FY 2021-22, and \$157.5 million at the end of FY 2020-21. Cash and cash equivalents increased by \$21.3 million in FY 2022-23. This puts FY 2022-23 cash and cash equivalents more in line with pre-FY 2021-22 values.

Liabilities

At the end of FY 2022-23, the Lottery's total liabilities were \$67.7 million, compared to \$68.9 million at the end of FY 2021-22 and \$64.5 million at the end of FY 2020-21.

Current liabilities consist primarily of accrued prizes payable, accounts payable due to suppliers, and annuity prizes payable. The FY 2022-23 decrease is caused primarily by the decreases in accounts payable due to suppliers and annuity prizes payable offset by the increase in prizes payable. The balance is consistent with prior years, and at the end of the year there were no large jackpot amounts payable.

Noncurrent liabilities consist primarily of annuity prizes payable more than a year beyond the date of the Statement of Net Position, net pension liability, and other postemployment benefits (OPEB). 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 2022-23, the Lottery's total net position was \$64.2 million, a \$15.2 million increase from the prior year. The FY 2022-23 change in net position was primarily due to an increase of \$37.5 million in the Net Income Before Transfers and a decrease of \$20.5 million in property tax relief. Total net position at the end of FY 2021-22 was \$49.0 million, a \$42.8 million decrease from FY 2020-21. Total net position was \$91.8 million at the end of FY 2020-21.

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 for uses 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 regarding the financial impact of the Lottery's operations for FY 2022-23 and FY 2021-22. Table B presents condensed data for the current fiscal year and two previous fiscal years.

Table B

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

| | FY 2022-23 | Change | FY 2021-22 | Change | FY 2020-21 |
|--|---------------------------|---------------|------------------------------|-------------------|----------------|
| Revenues | | | | | |
| Operating Revenues: | | | | | |
| Ticket Sales | \$981.7 | \$ 93.9 | \$887.8 | \$ (6.7) | \$894.5 |
| Retailer Fees and Miscellaneous Revenue | 0.2 | 0.0 | 0.2 | (0.2) | 0.4 |
| Nonoperating Revenues: | | | | | |
| Investment Income (Loss) | 5.7 | 6.1 | (0.4) | 0.0 | (0.4) |
| Total Revenues | 987.6 | 100.0 | 887.6 | (6.9) | 894.5 |
| Expenses | | | | | |
| Program Expenses: | | | | | |
| Prize Expenses | 607.8 | 50.7 | 557.1 | (2.6) | 559.7 |
| Retailer Commissions and Incentives | 68.8 | 9.1 | 59.7 | (3.2) | 62.9 |
| Instant and Lotto Vendor Services | 25.9 | 1.8 | 24.1 | 1.0 | 23.1 |
| Other Game-Related Expenses | 11.3 | (0.1) | 11.4 | 0.7 | 10.7 |
| Administrative Expenses | 10.4 | 1.0 | 9.4 | 0.7 | 8.7 |
| Total Expenses | 724.2 | 62.5 | 661.7 | (3.4) | 665.1 |
| Net Income Before Transfers | 263.4 | 37.5 | 225.9 | (3.5) | 229.4 |
| Transfers | | | | | |
| Transfers In—General Fund | 72.9 | 0.0 | 72.9 | 1.1 | 71.8 |
| Transfers Out—Property Tax Relief | (319.7) | 20.5 | (340.2) | (103.9) | (236.3) |
| Transfers Out—Compulsive Gambling Programs | (0.4) | 0.0 | (0.4) | 0.0 | (0.4) |
| Transfers Out—Law Enforcement | (0.4) | 0.0 | (0.4) | 0.0 | (0.4) |
| Transfers Out—Lottery Credit Administration | (0.3) | 0.0 | (0.3) | (0.1) | (0.2) |
| Transfers Out—General Fund | (0.2) | 0.0 | (0.2) | (0.1) | (0.1) |
| Change in Net Position | \$15.2¹ | \$58.0 | \$ (42.8)¹ | \$ (106.5) | \$ 63.8 |

¹ Rounded for consistency with financial statements.

Revenues

Operating revenues are generated almost entirely from ticket sales. The Lottery had \$981.7 million in ticket sales in FY 2022-23, \$887.8 million in FY 2021-22, and \$894.5 million in FY 2020-21.

Table C presents condensed data for the current fiscal year and two previous fiscal years, comparing ticket sales for each game category.

Table C

Wisconsin Lottery Ticket Sales
(in millions)

| | FY 2022-23 | Change | FY 2021-22 | Change | FY 2020-21 |
|--------------------------------|-----------------------|----------------------|-----------------------|-----------------------|-----------------------|
| Instant Ticket Sales | | | | | |
| Scratch-off | \$653.0 | \$15.2 | \$637.8 | \$ 3.1 | \$634.7 |
| Pull-tab | 1.4 | 0.3 | 1.1 | 0.6 | 0.5 |
| Total Instant Ticket Sales | 654.4 | 15.5 | 638.9 | 3.7 | 635.2 |
| Lotto Ticket Sales | | | | | |
| SuperCash! | 22.2 | (0.8) | 23.0 | (0.8) | 23.8 |
| Powerball | 107.5 | 18.8 | 88.7 | 14.0 | 74.7 |
| Wisconsin's Megabucks | 21.3 | 5.8 | 15.5 | 3.5 | 12.0 |
| Wisconsin's Megabucks EZ Match | 2.5 | 0.4 | 2.1 | 0.3 | 1.8 |
| Daily Pick 3 | 26.7 | (1.1) | 27.8 | (1.1) | 28.9 |
| Daily Pick 4 | 18.1 | (1.0) | 19.1 | 0.5 | 18.6 |
| Badger 5 | 26.1 | 3.2 | 22.9 | (2.1) | 25.0 |
| Fast Play | 7.3 | 7.3 | 0.0 | 0.0 | 0.0 |
| Mega Millions | 82.7 | 46.7 | 36.0 | (22.4) | 58.4 |
| All or Nothing | 11.8 | (1.0) | 12.8 | (2.4) | 15.2 |
| Raffle Games | 1.1 | 0.1 | 1.0 | 0.1 | 0.9 |
| Total Lotto Ticket Sales | 327.3 | 78.4 | 248.9 | (10.4) | 259.3 |
| Total Ticket Sales | <u>\$981.7</u> | <u>\$93.9</u> | <u>\$887.8</u> | <u>\$(6.7)</u> | <u>\$894.5</u> |

Total ticket sales increased by \$93.9 million in FY 2022-23 compared to FY 2021-22, and decreased by \$6.7 million in FY 2021-22 compared to FY 2020-21. Instant ticket sales increased by \$15.5 million in FY 2022-23 compared to FY 2021-22, and increased by \$3.7 million in FY 2021-22 compared to FY 2020-21. Lotto ticket sales increased by \$78.4 million in FY 2022-23 compared to FY 2021-22, primarily due to increased Mega Millions and Powerball ticket sales in FY 2022-23. Lotto ticket sales decreased by \$10.4 million in FY 2021-22 compared to FY 2020-21. Pull-tab sales increased by \$0.3 million in FY 2022-23 compared to FY 2021-22, and increased by \$0.6 million in FY 2021-22 compared to FY 2020-21.

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 2022-23, total operating expenses were \$724.2 million, an increase of \$62.5 million compared to FY 2021-22

expenses of \$661.7 million, which was a decrease of \$3.4 million compared to FY 2020-21 expenses of \$665.1 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 current fiscal year and two previous fiscal years.

Table D
Wisconsin Lottery Ticket Prize Expenses
(in millions)

| | FY 2022-23 | Change | FY 2021-22 | Change | FY 2020-21 |
|--------------------------------|-----------------------|--------------------|-----------------------|-----------------------|-----------------------|
| Instant Prize Expense | | | | | |
| Scratch-off | \$444.1 | \$10.4 | \$433.7 | \$ 0.6 | \$433.1 |
| Pull-tab | 0.8 | 0.1 | 0.7 | 0.4 | 0.3 |
| Super 2nd Chance ¹ | 0.3 | 0.0 | 0.3 | 0.0 | 0.3 |
| Total Instant Prize Expense | 445.2 | 10.5 | 434.7 | 1.0 | 433.7 |
| Lotto Prize Expense | | | | | |
| SuperCash! | 12.1 | 0.4 | 11.7 | 2.1 | 9.6 |
| Powerball | 51.9 | 9.3 | 42.6 | 5.6 | 37.0 |
| Wisconsin's Megabucks | 11.1 | 3.3 | 7.8 | 1.5 | 6.3 |
| Wisconsin's Megabucks EZ Match | 1.5 | 0.2 | 1.3 | 0.2 | 1.1 |
| Daily Pick 3 | 12.7 | 0.1 | 12.6 | (0.8) | 13.4 |
| Daily Pick 4 | 7.5 | (2.9) | 10.4 | 1.7 | 8.7 |
| Badger 5 | 12.7 | 1.7 | 11.0 | (1.0) | 12.0 |
| Fast Play | 5.2 | 5.2 | 0.0 | 0.0 | 0.0 |
| Mega Millions | 40.5 | 23.1 | 17.4 | (11.5) | 28.9 |
| All or Nothing | 6.5 | (0.3) | 6.8 | (1.5) | 8.3 |
| Raffle Games | 0.6 | 0.1 | 0.5 | 0.1 | 0.4 |
| Super 2nd Chance ¹ | 0.3 | 0.0 | 0.3 | 0.0 | 0.3 |
| Total Lotto Prize Expense | 162.6 | 40.2 | 122.4 | (3.6) | 126.0 |
| Total Prize Expenses | <u>\$607.8</u> | <u>50.7</u> | <u>\$557.1</u> | <u>\$(2.6)</u> | <u>\$559.7</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.

Chart A and Chart B compare ticket sales and prize expense for each lottery game category, lotto and instant games, respectively, for the current fiscal year and two previous 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

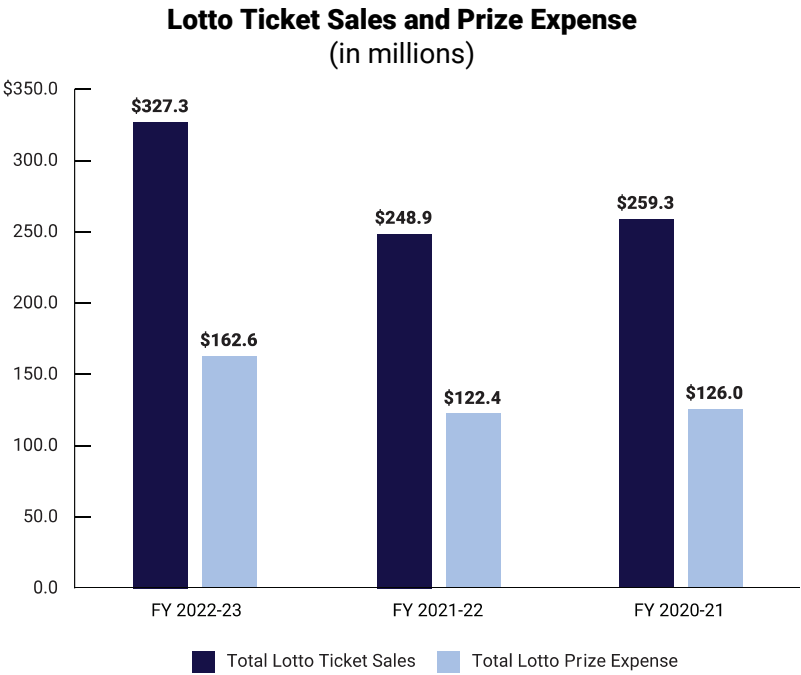
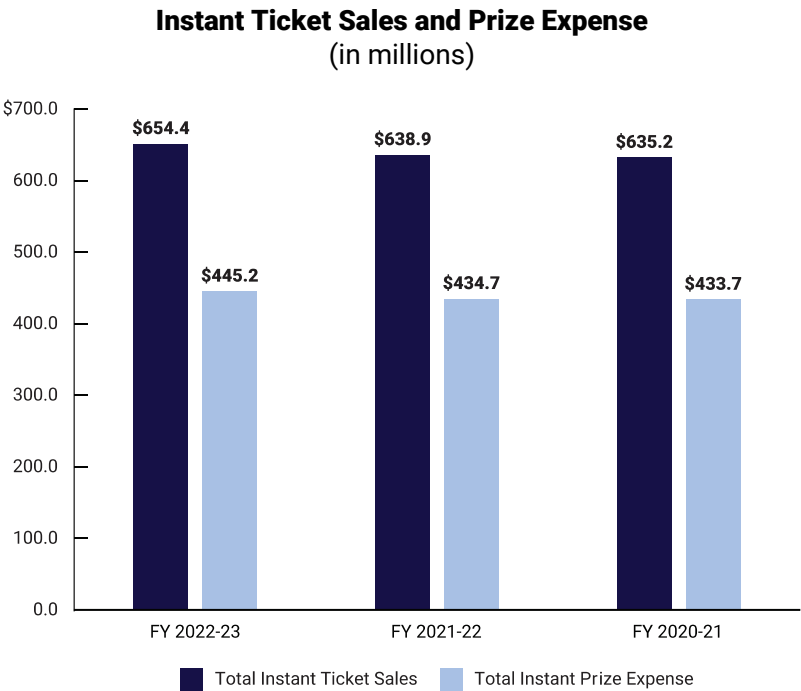


Chart B



Generally, prize expenses are a function of ticket sales. Higher ticket sales result in higher prize expenses, while lower sales result in lower prize expenses. However, the change in prize expenses 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 2022-23, ticket sales across all games increased by \$93.9 million, while prize expense increased by \$50.7 million. Overall ticket sales increased for both instant and lotto ticket sales. Since the instant tickets have a higher overall payout percentage, prize expenses remained proportionally higher. Lotto ticket sales and the corresponding prize expenses increased by 31.5 percent and 32.8 percent, respectively, in FY 2022-23; instant ticket sales increased by 2.4 percent and the corresponding instant ticket prize expense increased by 2.4 percent. Schedule 2, on page 59, shows a multiyear 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 2022-23, retailers were paid \$68.8 million in commissions and incentives, up \$9.1 million from the \$59.7 million paid in FY 2021-22. In FY 2020-21, retailer commissions and incentives were \$62.9 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 2.58 percent of weekly net sales. This contract is eligible for up to three one-year renewals. 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 2022-23, payments to IGT were \$25.9 million, compared to \$24.1 million in FY 2021-22, and \$23.1 million in FY 2020-21.

Net Income and Transfer for Property Tax Relief

Net income before transfers was \$263.3 million in FY 2022-23, up from \$225.9 million in FY 2021-22. Net income before transfers was \$229.4 million in FY 2020-21.

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 decreased by \$20.5 million, or by 6.0 percent, during FY 2022-23, after increasing by \$103.9 million, or 44.0 percent, during FY 2021-22.

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 in meeting the consumer demand with lotto games and introducing new instant ticket sales. As new instant scratch-off games with higher price points are added to meet consumer demand, that demand will continue to build. 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 58.1 percent of all lotto ticket sales in FY 2022-23 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, relating to both size and frequency, of large jackpots. 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. However, during the public health emergency, the Lottery saw an increase in instant ticket sales likely resulting from other forms of entertainment being restricted during that time.

2021 Wisconsin Act 58 decreased the previous \$73.1 million general purpose revenue (GPR) funding in FY 2020-21 for the Lottery to \$72.9 million for FY 2021-22 and FY 2022-23. The total 2021-2023 biennium GPR funding is shown in Table E.

Table E

Lottery General Purpose Revenue FY 2021-22 and FY 2022-23

| | FY 2021-22 | FY 2022-23 |
|--------------------------|---------------------|---------------------|
| Retailer Compensation | \$ 52,046,700 | \$ 51,999,600 |
| Vendor Fees | 20,828,300 | 20,875,400 |
| Total GPR Funding | \$72,875,000 | \$72,875,000 |

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—Peggy Steeno
MS 6-261
PO Box 8931
Madison, Wisconsin 53708-8931
(608) 266-0424

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

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Financial Statements

Statement of Net Position

June 30, 2023, and June 30, 2022

| | June 30, 2023 | June 30, 2022 |
|---|----------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents (Note 3) | \$ 72,241,849 | \$ 50,919,036 |
| Investments for Prize Annuities (Note 3) | 608,415 | 2,801,341 |
| Accounts Receivable (Note 4) | 43,255,480 | 49,116,137 |
| Due from Other State Programs (Note 4) | 5,117,843 | 5,291,198 |
| Ticket Inventory | 735,176 | 679,689 |
| MUSL Reserve Accounts (Note 5) | 798,712 | 783,764 |
| Prepaid Expenses | 829,419 | 436,494 |
| Total Current Assets | 123,586,894 | 110,027,659 |
| Noncurrent Assets: | | |
| Investments for Prize Annuities (Note 3) | 1,824,490 | 2,447,804 |
| MUSL Reserve Accounts (Note 5) | 5,988,242 | 6,098,571 |
| Net Pension Asset (Note 6) | 0 | 294,351 |
| Other Postemployment Benefits Asset (Note 7) | 83,175 | 33,432 |
| Capital Assets, Net of Accumulated Depreciation | 77,107 | 65,806 |
| Total Noncurrent Assets | 7,973,014 | 8,939,964 |
| TOTAL ASSETS | 131,559,908 | 118,967,623 |
| DEFERRED OUTFLOWS OF RESOURCES | 4,721,010 | 3,462,381 |
| LIABILITIES | | |
| Current Liabilities: | | |
| Annuity Prizes Payable (Note 8) | 1,050,079 | 2,365,978 |
| Prizes Payable | 55,185,716 | 53,656,586 |
| Accounts Payable | 2,722,903 | 6,564,243 |
| Due to Other State Programs | 324,075 | 205,556 |
| MUSL Payable | 1,662,481 | 1,562,146 |
| Unearned Revenue | 918,873 | 810,896 |
| Due to Other Governments | 35,817 | 37,075 |
| Compensated Absences | 253,764 | 241,787 |
| Total Current Liabilities | 62,153,708 | 65,444,267 |
| Noncurrent Liabilities: | | |
| Annuity Prizes Payable (Note 8) | 1,760,397 | 2,634,045 |
| Compensated Absences | 667,481 | 568,668 |
| Net Pension Liability (Note 6) | 1,555,977 | 0 |
| Other Postemployment Benefits (Note 7) | 1,498,308 | 188,946 |
| Total Noncurrent Liabilities | 5,482,163 | 3,391,659 |
| TOTAL LIABILITIES | 67,635,871 | 68,835,926 |
| DEFERRED INFLOWS OF RESOURCES | 4,423,758 | 4,560,816 |
| NET POSITION (Note 10) | | |
| Invested in Capital Assets | 77,107 | 65,806 |
| Restricted for Pensions | 0 | 294,351 |
| Restricted for Other Postemployment Benefits | 83,175 | 33,432 |
| Restricted for MUSL Reserves | 5,988,242 | 6,098,571 |
| Restricted for Investment Fair Value Adjustment | 60,962 | 249,123 |
| Restricted for Property Tax Relief | 58,011,803 | 42,291,979 |
| TOTAL NET POSITION | \$ 64,221,289 | \$ 49,033,262 |

Statement of Revenues, Expenses, and Changes in Net Position for the Years Ended June 30, 2023, and June 30, 2022

| | Year Ended June 30, 2023 | Year Ended June 30, 2022 |
|---|-----------------------------|-----------------------------|
| OPERATING REVENUES | | |
| Instant Ticket Sales (net of allowances of \$8,960,755 and \$10,018,748, respectively) | \$ 654,378,868 | \$ 638,905,267 |
| Lotto Ticket Sales (net of ticket discounts of \$700,400 and \$0, respectively) | 327,288,769 | 248,915,588 |
| Retailer Fees | 44,370 | 66,909 |
| Miscellaneous Revenue | 130,412 | 116,346 |
| Total Operating Revenues | 981,842,419 | 888,004,110 |
| OPERATING EXPENSES | | |
| Program Expenses: | | |
| Instant Prize Expense | 445,210,142 | 434,711,984 |
| Lotto Prize Expense | 162,618,698 | 122,403,339 |
| Retailer Commissions and Incentives | 68,799,160 | 59,748,170 |
| Instant and Lotto Vendor Services | 25,856,393 | 24,070,948 |
| Product Information Costs | 8,489,523 | 8,490,009 |
| Instant Printing Ticket Costs | 2,779,740 | 2,919,004 |
| Donated Prize Expense | 3,009 | 3,508 |
| Total Program Expenses | 713,756,665 | 652,346,962 |
| Administrative Expenses: | | |
| Salaries and Fringe Benefits | 8,297,027 | 6,591,601 |
| Supplies and Services | 2,112,674 | 2,766,685 |
| Depreciation Expense | 21,905 | 26,114 |
| Total Administrative Expenses | 10,431,606 | 9,384,400 |
| Total Operating Expenses | 724,188,271 | 661,731,362 |
| NET OPERATING INCOME | 257,654,148 | 226,272,748 |
| NONOPERATING REVENUES (EXPENSES) AND OPERATING TRANSFERS | | |
| Investment Income (Loss) | 5,650,044 | (357,455) |
| Gain (Loss)—Disposal Fixed Assets | 0 | 46 |
| Miscellaneous Revenue (Expense) | (12,835) | (11,810) |
| Net Income Before Transfers | 263,291,357 | 225,903,529 |
| Operating Transfers: | | |
| Transfers In—General Fund (Note 12) | 72,875,000 | 72,881,403 |
| Transfers Out—Lottery Proceeds for Property Tax Relief (Note 11) | (319,654,242) | (340,194,610) |
| Transfers Out—Department of Health and Family Services for Compulsive Gambling Programs | (396,000) | (396,000) |
| Transfers Out—Department of Justice for Law Enforcement | (442,206) | (444,778) |
| Transfers Out—Department of Revenue for Lottery Credit Administration | (307,361) | (286,286) |
| Transfers Out—General Fund | (178,521) | (185,204) |
| CHANGES IN NET POSITION | 15,188,027 | (42,721,946) |
| NET POSITION | | |
| Total Net Position—Beginning of Year | 49,033,262 | 91,755,208 |
| Total Net Position—End of Year | <u>\$ 64,221,289</u> | <u>\$ 49,033,262</u> |

Statement of Cash Flows for the Years Ended June 30, 2023, and June 30, 2022

| | Year Ended June 30, 2023 | Year Ended June 30, 2022 |
|--|-----------------------------|-----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash Received from Retailers | \$ 992,428,215 | \$ 884,049,024 |
| Cash Paid for Prizes | (616,445,788) | (552,105,013) |
| Cash Paid for Retailer Commissions and Incentives | (65,586,511) | (61,920,527) |
| Cash Paid/Received for MUSL Reserve Accounts | 94,782 | (50,548) |
| Cash Paid to Employees | (6,500,656) | (6,289,861) |
| Cash Paid to Suppliers | (43,201,945) | (38,280,571) |
| Net Cash Provided by Operating Activities | 260,788,097 | 225,402,504 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Transfers Out—Proceeds for Property Tax Credit | (319,654,242) | (340,194,610) |
| Transfers Out—Proceeds for Law Enforcement | (436,043) | (450,995) |
| Transfers Out—Proceeds for Lottery Credit Administration | (308,227) | (286,134) |
| Transfers Out—Proceeds for Compulsive Gambling Programs | (396,000) | (396,000) |
| Transfers Out—General Fund | (178,521) | (185,204) |
| Transfers In—General Fund | 72,875,000 | 72,881,403 |
| Net Cash Provided from Noncapital Financing Activities | (248,098,033) | (268,631,540) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Cash Paid for Purchase of Equipment | (33,206) | (5,500) |
| Net Cash Provided by Capital and Related Financing Activities | (33,206) | (5,500) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest Received | 5,838,955 | 131,300 |
| Cash Received for Redemption of Bonds | 2,827,000 | 2,739,849 |
| Net Cash Provided by Investing Activities | 8,665,955 | 2,871,149 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 21,322,813 | (40,363,386) |
| Cash and Cash Equivalents—Beginning of the Year | 50,919,036 | 91,282,422 |
| Cash and Cash Equivalents—End of Year | <u>\$ 72,241,849</u> | <u>\$ 50,919,036</u> |

Statement of Cash Flows for the Years Ended June 30, 2023, and June 30, 2022 (continued)

| | Year Ended June 30, 2023 | Year Ended June 30, 2022 |
|--|-----------------------------|-----------------------------|
| RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATIONS | | |
| Net Operating Income | \$ 257,654,148 | \$ 226,272,748 |
| Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities: | | |
| Depreciation Expense | 21,905 | 26,114 |
| Cancelled Draft Nonoperating Revenue | (15,844) | (15,391) |
| Donated Prize Expense | 3,009 | 3,507 |
| Changes in Assets and Liabilities: | | |
| Decrease (Increase) in Accounts Receivables | 5,860,657 | (6,111,853) |
| Decrease (Increase) in MUSL Reserves | 94,782 | (50,548) |
| Decrease (Increase) in Ticket Inventory | (55,488) | (45,939) |
| Decrease (Increase) in Prepaid Expenses | (392,924) | (54,889) |
| Decrease (Increase) in Net Pension Asset | 294,351 | 1,258,773 |
| Decrease (Increase) in Deferred Outflows | (1,258,628) | (341,598) |
| Decrease (Increase) in Net Other Postemployment Benefits Asset | (49,744) | 175,687 |
| Decrease (Increase) in Due from Other State Programs | 173,354 | 56,204 |
| Increase (Decrease) in Prizes Payable | (859,489) | 3,663,960 |
| Increase (Decrease) in Unearned Revenue | 107,977 | 362,336 |
| Increase (Decrease) in Due to Other State Programs | 121,003 | (113,125) |
| Increase (Decrease) in Accounts Payable | (3,849,121) | 40,058 |
| Increase (Decrease) in MUSL Payable | 100,335 | 1,047,882 |
| Increase (Decrease) in Due to Other Governments | (1,257) | 33,888 |
| Increase (Decrease) in Compensated Absences | 110,790 | 16,586 |
| Increase (Decrease) in Other Postemployment Benefits Liability | 1,309,362 | (1,025,898) |
| Increase (Decrease) in Net Pension Liability | 1,555,976 | |
| Increase (Decrease) in Deferred Inflows | (137,057) | 204,002 |
| Total Adjustments | 3,133,949 | (870,244) |
| Net Cash Provided by Operating Activities | \$ 260,788,097 | \$ 225,402,504 |
| Noncash Investing, Capital, and Financing Activities: | | |
| Increase (Decrease) in Fair Value of Investments | \$ (188,312) | \$ (492,170) |
| Amortization of Long-Term Annuity Prize Liability | 199,072 | 303,308 |

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 fiscal year (FY) 2022-23 and FY 2021-22, the Lottery sold instant games (scratch-off and pull-tab tickets) and lotto games. Lotto games, with the exception of FastPlay, have drawings to determine winning tickets. Lotto games 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 2022-23 and FY 2021-22, 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 2022-23 and FY 2021-22, 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 |
| All or Nothing | April 7, 2019 |
| Fast Play | April 23, 2023 |

In FY 2021-22, the Lottery added an additional drawing day for Powerball, for a total of three draws per week. In FY 2022-23, Lottery added a new lotto game titled Fast Play in April 2023.

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 decreased in FY 2021-22 from \$5.35 million to \$5.29 million, and decreased in FY 2022-23 from

\$5.29 million to \$5.12 million, as the result of changes to 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 12.

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> |
|---|-----------------------|
| 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 (revenue);
- 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/(revenue); 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 goal 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, All or Nothing, and FastPlay). 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 goal 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 4.93 percent for FY 2022-23. 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 the 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 \$69.5 million as of June 30, 2023, and \$50.0 million as of June 30, 2022.

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 State of Wisconsin

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, 2023, and June 30, 2022, 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, 2023, and June 30, 2022:

| <u>Maturity</u> | <u>Fair Value as of June 30, 2023</u> | <u>Fair Value as of June 30, 2022</u> |
|--------------------|---|---|
| Less than 1 year | \$ 608,415 | \$2,801,341 |
| 1 to 5 years | 1,201,571 | 1,499,055 |
| 6 to 10 years | 480,037 | 722,720 |
| More than 10 years | <u>143,033</u> | <u>226,181</u> |
| Total | <u>\$2,433,056</u> | <u>\$5,249,297</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 23 days as of June 30, 2022, to 28 days as of June 30, 2023.

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:

As of June 30, 2023

| <u>Investments</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>NAV</u> |
|---------------------------------------|----------------|--------------------|----------------|---------------------|
| U.S. Government and Agency Securities | \$ 0 | \$2,433,056 | \$ 0 | \$ 0 |
| State Investment Fund | <u>0</u> | <u>0</u> | <u>0</u> | <u>69,483,000</u> |
| Total Investments at Fair Value | <u>\$ 0</u> | <u>\$2,433,056</u> | <u>\$ 0</u> | <u>\$69,483,000</u> |

As of June 30, 2022

| <u>Investments</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>NAV</u> |
|---------------------------------------|----------------|--------------------|----------------|---------------------|
| U.S. Government and Agency Securities | \$ 0 | \$5,249,297 | \$ 0 | \$ 0 |
| State Investment Fund | <u>0</u> | <u>0</u> | <u>0</u> | <u>49,965,000</u> |
| Total Investments at Fair Value | <u>\$ 0</u> | <u>\$5,249,297</u> | <u>\$ 0</u> | <u>\$49,965,000</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, 2023. 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, 2023. The report is located at <https://www.swib.state.wi.us/state-investment-fund>.

4. ACCOUNTS RECEIVABLE

Accounts receivable balances are disaggregated as follows:

| | <u>June 30, 2023</u> | <u>June 30, 2022</u> |
|--------------------------------------|----------------------|----------------------|
| Accounts Receivable: | | |
| Retailers: | | |
| Ticket Sales and Contract Fees | \$66,020,225 | \$80,996,719 |
| Commissions and Incentives | (11,486,175) | (8,967,961) |
| Ticket Redemptions | (6,055,694) | (13,891,444) |
| Allowance for Returns | (5,229,696) | (9,028,121) |
| MUSL Receivable | 0 | 0 |
| Miscellaneous | <u>6,820</u> | <u>6,944</u> |
| Total Accounts Receivable | <u>\$43,255,480</u> | <u>\$49,116,137</u> |
| Total Due from Other State Programs: | | |
| Transfer from General Fund | <u>\$ 5,117,843</u> | <u>\$ 5,291,198</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, 2023, 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 with the assistance of 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, 2023, and June 30, 2022, as audited by other auditors.

| | <u>June 30, 2023</u> | <u>June 30, 2022</u> |
|---|----------------------|-----------------------|
| Total Assets | <u>\$857,187,900</u> | <u>\$766,593,202</u> |
| Total Liabilities | \$822,534,235 | \$756,515,807 |
| Total Unrestricted Net Assets | <u>34,653,665</u> | <u>10,077,395</u> |
| Total Liabilities and Net Assets | <u>\$857,187,900</u> | <u>\$766,593,202</u> |
| Total Revenues | \$ 30,929,482 | \$ 3,442,103 |
| Total Expenses | (6,353,212) | (5,578,566) |
| Other Changes in Net Assets | <u>0</u> | <u>0</u> |
| Increase (Decrease) in Unrestricted Net Assets | <u>\$ 24,576,270</u> | <u>\$ (2,136,463)</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, 2023</u> | <u>June 30, 2022</u> |
|-------------------------------------|----------------------|----------------------|
| Powerball Set Prize Reserve Account | \$1,088,305 | \$1,116,840 |
| Powerball Prize Reserve Account | 2,503,101 | 2,568,733 |
| Mega Millions Prize Reserve Account | 2,396,836 | 2,412,997 |
| Unreserved Account | <u>798,712</u> | <u>783,764</u> |
| Total MUSL Accounts | <u>\$6,786,954</u> | <u>\$6,882,334</u> |

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 Annual Comprehensive Financial Report (ACFR), located at <https://doa.wi.gov/Pages/StateFinances/ACFR.aspx>. ETF also issues a standalone ACFR, located at <https://etf.wi.gov/about-etf/reports-and-studies/financial-reports-and-statements>. 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 \$300,453 for calendar year 2022 and \$285,794 for calendar year 2021.

As of June 30, 2023, the Lottery reported a net pension liability of \$1,555,977 for its proportionate share of the net pension liability, compared to the net pension asset of \$294,351 as of June 30, 2022. The net pension liability (asset) as of June 30, 2023, was measured as of December 31, 2022, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2021, rolled forward to December 31, 2022. 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, 2022, the Lottery's proportion was 0.029 percent, compared to 0.004 percent as of December 31, 2021.

The Lottery recognized pension expense/(revenue) reported in the Salaries and Fringe Benefits account of \$287,808 and \$298,826 for the fiscal years ended June 30, 2023, and June 30, 2022, respectively.

As of June 30, 2023, 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 | | |
|---|---|--|
| | Deferred Outflows of <u>Resources</u> | Deferred Inflows of <u>Resources</u> |
| <u>Fiscal Year 2023</u> | | |
| Differences Between Expected and Actual Pension Experience | \$1,425,595 | \$ (3,616,720) |
| Change of Pension Assumptions | (9,731) | – |
| Net Differences Between Projected and Actual Earnings on Pension Plan Investments | 2,643,245 | – |
| Changes in Proportion and Differences Between Actual and Proportionate Share of Contributions | 13,634 | (18,791) |
| Pension Contributions Subsequent to the Measurement Date | <u>191,540</u> | <u>–</u> |
| Total | <u>\$4,264,283</u> | <u>\$ (3,635,511)</u> |
| | | |
| | Deferred Outflows of <u>Resources</u> | Deferred Inflows of <u>Resources</u> |
| <u>Fiscal Year 2022</u> | | |
| Differences Between Expected and Actual Pension Experience | \$2,699,740 | \$ (631,520) |
| Change of Pension Assumptions | 117,650 | – |
| Net Differences Between Projected and Actual Earnings on Pension Plan Investments | – | (3,343,950) |
| Changes in Proportion and Differences Between Actual and Proportionate Share of Contributions | 16,325 | (5,139) |
| Pension Contributions Subsequent to the Measurement Date | <u>166,547</u> | <u>–</u> |
| Total | <u>\$3,000,262</u> | <u>\$ (3,980,609)</u> |

7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Other postemployment benefits (OPEB) 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 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 ACFR, located at <https://doa.wi.gov/Pages/StateFinances/ACFR.aspx>.

ETF also issues a standalone ACFR, a separate 2022 Retiree Life Insurance, and a 2022 SHICC Financial Report, located 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 postretirement benefit. During the reporting period, the State Retiree Life Insurance program recognized \$7,092 in contributions from the Lottery.

As of June 30, 2023, the Lottery reported a liability of \$795,480 for its proportionate share of the net OPEB liability compared to \$127,188 as of June 30, 2022. The net OPEB liability was measured as of December 31, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2022, and rolled forward to December 31, 2022. 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, 2022, the Lottery's proportion was 0.26 percent, which was an increase of 0.23 percent from its proportion measured as of December 31, 2021, which was 0.03 percent.

The Lottery recognized OPEB expense/(revenue) for the State Retiree Life Insurance program reported in the Salaries and Fringe Benefits account of \$1,104,020 and (\$629,460) for the fiscal years ended June 30, 2023, and June 30, 2022, respectively. The expense for fiscal year June 30, 2023, is significant and primarily due to the increase in the Lottery proportionate share. As of June 30, 2023, the Lottery reported deferred outflows of resources and deferred inflows of resources related to the State Retiree Life Insurance program from the following sources:

**Deferred Outflows and Deferred Inflows of Resources
Related to State Retiree Life Insurance**

| <u>Fiscal Year 2023</u> | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|--|---|
| Differences Between Expected and Actual Experience | \$ (272) | \$ (26,285) |
| Changes of Assumptions | 229,899 | (406,148) |
| Net Difference Between Projected and Actual Earnings on OPEB Plan Investments | 12,075 | — |
| Change in Proportionate Share | 5,088 | (17,774) |
| Employer's Contribution Subsequent to the Measurement Date | <u>—</u> | <u>—</u> |
| Total | <u>\$246,790</u> | <u>\$(450,207)</u> |
| | | |
| <u>Fiscal Year 2022</u> | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
| Differences Between Expected and Actual Experience | \$ 365 | \$ (28,277) |
| Changes of Assumptions | 310,167 | (66,646) |
| Net Difference Between Projected and Actual Earnings on OPEB Plan Investments | 13,530 | — |
| Change in Proportionate Share | 10,204 | (7,033) |
| Employer's Contribution Subsequent to the Measurement Date | <u>—</u> | <u>—</u> |
| Total | <u>\$334,266</u> | <u>\$(101,956)</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 \$618 to \$1,470 for single coverage and \$1,509 to \$3,641 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, 2021, and adjusted for changes such as interest earned, contributions paid, and benefits paid through June 30, 2022. 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, 2023, the Lottery reported a liability of \$702,828 for its

proportionate share of the total OPEB liability compared to \$61,758 as of June 30, 2022.

The Lottery recognized OPEB expense/(revenue) for the State Retiree Health Insurance program reported in the Salaries and Fringe Benefits account of (\$603,284) and (\$372,587) for the fiscal years ended June 30, 2023, and June 30, 2022, respectively.

As of June 30, 2023, the Lottery reported deferred outflows of resources and deferred inflows of resources related to the State Retiree Health Insurance program from the following sources:

| Deferred Outflows and Deferred Inflows of Resources Related to State Retiree Health Insurance | | |
|--|--------------------------------------|-------------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| <u>Fiscal Year 2023</u> | | |
| Differences Between Expected and Actual Experience | \$ 39,203 | \$ (24,287) |
| Changes of Assumptions | 35,279 | (221,226) |
| Net Difference Between Projected and Actual Earnings on OPEB Plan Investments | — | — |
| Change in Proportionate Share | 622 | (21,121) |
| Employer's Contribution Subsequent to the Measurement Date | <u>47,841</u> | <u>—</u> |
| Total | <u>\$122,945</u> | <u>\$(266,634)</u> |
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| <u>Fiscal Year 2022</u> | | |
| Differences Between Expected and Actual Experience | \$ 54,559 | \$ (28,560) |
| Changes of Assumptions | 40,725 | (237,394) |
| Net Difference Between Projected and Actual Earnings on OPEB Plan Investments | — | — |
| Change in Proportionate Share | 1,271 | (16,207) |
| Employer's Contribution Subsequent to the Measurement Date | <u>4,131</u> | <u>—</u> |
| Total | <u>\$100,686</u> | <u>\$(282,161)</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 postretirement 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 of 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, 2022. During the reporting period, the SHICC program recognized \$8,779 in contributions from the Lottery.

As of June 30, 2023, the Lottery reported an asset of \$83,175 for its proportionate share of the net OPEB asset compared to \$33,432 as of June 30, 2022. The June 30, 2023, net OPEB asset was measured as of December 31, 2022, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2022. As of December 31, 2022 the Lottery's proportion was 0.2 percent compared to 0.02 as of December 31, 2021.

The Lottery recognized OPEB expense/(revenue) for the SHICC program reported in the Salaries and Fringe Benefits account of (\$234,251) and \$169,186 for fiscal years ended June 30, 2023, and June 30, 2022, respectively.

As of June 30, 2023, the Lottery reported deferred outflows of resources and deferred inflows of resources related to the SHICC program from the following sources:

**Deferred Outflows and Deferred Inflows of Resources
Related to the Supplemental Health Insurance Conversion Credit**

| <u>Fiscal Year 2023</u> | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|--|---|
| Differences Between Expected and Actual Experience | \$ - | \$(115,150) |
| Changes of Assumptions | 12,418 | - |
| Net Difference Between Projected and Actual Earnings on OPEB Plan Investments | 69,598 | 44,973 |
| Change in Proportionate Share | 4 | (1,230) |
| Employer's Contribution Subsequent to the Measurement Date | <u>4,972</u> | <u>-</u> |
| Total | <u>\$86,992</u> | <u>\$(71,407)</u> |
| | | |
| <u>Fiscal Year 2022</u> | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
| Differences Between Expected and Actual Experience | \$ - | \$(104,915) |
| Changes of Assumptions | 24,607 | - |
| Net Difference Between Projected and Actual Earnings on OPEB Plan Investments | - | (90,755) |
| Change in Proportionate Share | 267 | (420) |
| Employer's Contribution Subsequent to the Measurement Date | <u>2,293</u> | <u>-</u> |
| Total | <u>\$27,167</u> | <u>\$(196,090)</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 \$199,072 for FY 2022-23 and \$303,308 for FY 2021-22.

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, 2023</u> |
|--|--|
| 2024 | \$1,050,649 |
| 2025 | 321,704 |
| 2026 | 334,258 |
| 2027 | 346,898 |
| 2028 | 360,625 |
| Following Years | <u>864,748</u> |
| Total Future Prize Payments | 3,278,882 |
| Less: Present Value Adjustment | <u>(468,406)</u> |
| Present Value of Future Prize Payments | <u>\$2,810,476</u> |

Annuity prizes payable activity for the fiscal years ended June 30, 2023, and June 30, 2022, 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> |
|------------------------|------------------------------|------------------|------------------|---------------------------|--------------------------------|
| 2022-23 | \$5,000,023 | \$199,072 | \$(2,388,619) | \$2,810,476 | \$1,050,079 |
| 2021-22 | 7,436,489 | 303,308 | (2,739,774) | 5,000,023 | 2,365,978 |

9. 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 all of its options to renew this contract, which now has an expiration date of October 31, 2025.

Scratch-off ticket printing services are also 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 renewals, two of which have been executed. The contract currently expires in May 2026.

The Lottery purchased ticket printing services of approximately \$2.1 million in FY 2022-23 and approximately \$2.8 million in FY 2021-22. The larger amount for FY 2021-22 included \$987,848, accrued in FY 2021-22, and paid in FY 2022-23, to IGT, per the Primary/Secondary Print Allocation clause under Category 2: Instant Ticket Printing in Amendment No. 1 to the Contract for Lottery Gaming System, Instant Scratch Tickets, Warehousing, Distribution and Telemarketing Services for the Wisconsin Lottery. Per the contract,

the Allocation Measurement Period is every (2) fiscal year periods of the contract; specifically, this payment was for tickets printed during FY 2020-21 and FY 2021-22. The payment was due because the range of 68 percent - 72 percent of Wisconsin Lottery's net instant ticket sales for all instant tickets printed, under the contract by IGT and its applicable subcontractor, was exceeded. Over the course of this Allocation Measurement Period, 81.24 percent of Wisconsin Lottery's net instant ticket sales for all instant tickets, based on the calculation dictated in the contract, were printed by IGT and their applicable subcontractor.

B. Pull-tab Tickets

The Lottery entered into a one-year contract with Pollard Banknote Ltd. for pull-tab ticket printing services that expired on February 28, 2022, but included five one-year renewal options. The Lottery exercised its right to renew this contract, which now has an expiration date of February 28, 2025, including the third of the one-year renewals. The Lottery purchased approximately \$13,139 in ticket printing services for pull-tabs in FY 2022-23 compared to \$0 in FY 2021-22.

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.

The contract requires the Lottery to pay IGT 2.58 percent of weekly net sales. In addition, the new contract includes the lottery gaming system, 70.0 percent of instant scratch-off ticket printing, warehousing, distribution, and telemarketing services. Net vendor service payments to IGT were approximately \$25.9 million in FY 2022-23 and approximately \$24.1 million in FY 2021-22.

D. Product Information Costs

The Lottery awarded a contract with The Hiebing Group Inc. on May 18, 2021, to provide information advertising services. The Lottery signed a two-year contract with The Hiebing Group Inc. starting July 1, 2021, through June 30, 2023, with an option to renew for four additional one-year periods. The Lottery is currently in the second one-year renewal period, with an expiration date of June 30, 2025. Payments to The Hiebing Group Inc. were approximately \$8.0 million in FY 2022-23 compared to approximately \$8.1 million in FY 2021-22, while total spending on product information costs was approximately \$8.5 million during FY 2022-23 compared to approximately \$8.5 million in FY 2021-22.

10. RESTRICTED NET POSITION

The Lottery had a net position invested in capital assets of \$77,107 as of June 30, 2023, and \$65,806 as of June 30, 2022.

The Lottery did not have a restricted net position for pensions as of June 30, 2023, because it reported a net pension liability of \$1,555,977 as of June 30, 2023. However the Lottery did have a restricted net pension for pensions of \$294,351 as of June 30, 2022, since it reported a net pension asset as of June 30, 2022. Amounts restricted for pensions are primarily attributed to adjustments required by governmental accounting standards for the WRS.

The Lottery had a restricted net position for OPEB of \$83,175 as of June 30, 2023, and \$33,432 as of June 30, 2022. Amounts restricted for OPEBs are 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 \$5,988,242 as of June 30, 2023, and \$6,098,571 as of June 30, 2022.

The Lottery also had a restricted net position for investment fair value adjustments of \$60,962 as of June 30, 2023, and \$249,123 as of June 30, 2022. 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 \$58,011,803 as of June 30, 2023, and \$42,291,979 as of June 30, 2022.

11. 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 2022-23 was \$319,654,242 compared to \$340,194,610 for FY 2021-22.

12. TRANSFERS IN FROM GENERAL FUND

2021 Wisconsin Act 58 directed a transfer of \$72.9 million in FY 2022-23 and a transfer of \$72.9 million in FY 2021-22 of GPR from the General Fund to the Lottery Fund. This transfer was to be applied towards retailer commissions, and vendor fees. The actual transfer amount to Lottery was approximately \$72.9 million in FY 2022-23 and approximately \$72.9 million in FY 2021-22.

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Supplementary Schedules

Statutorily Defined Lottery Administrative Expenses for the Years Ended June 30, 2023, June 30, 2022, and June 30, 2021

| | Year Ended June 30, 2023 | Year Ended June 30, 2022 | Year Ended June 30, 2021 |
|---|-----------------------------|-----------------------------|-----------------------------|
| ADMINISTRATIVE EXPENSES | | | |
| Instant and Lotto Vendor Services | \$ 25,856,393 | \$ 24,070,948 | \$ 23,127,310 |
| Product Information Costs | 8,489,523 | 8,490,009 | 8,415,498 |
| Instant Ticket Printing Costs | 2,779,740 | 2,919,004 | 2,313,882 |
| Salaries and Fringe Benefits | 8,297,027 | 6,591,601 | 5,596,641 |
| Supplies and Services | 2,112,674 | 2,766,685 | 3,063,895 |
| Depreciation Expense | 21,905 | 26,114 | 27,218 |
| 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 | 307,361 | 286,286 | 239,078 |
| Transfers Out—General Fund | 178,521 | 185,204 | 21,834 |
| Total Administrative Expenses as Determined in Accordance with s. 25.75 (3) (b), Wis. Stats. | <u>\$ 48,439,144</u> | <u>\$ 45,731,851</u> | <u>\$ 43,201,356</u> |
| Gross Lottery Revenues per s. 25.75 (1) (b), Wis. Stats. | <u>\$ 981,712,007</u> | <u>\$ 887,887,764</u> | <u>\$ 894,592,291</u> |
| Administrative Expenses as a Percentage of Gross Lottery Revenues | 4.93% | 5.15% | 4.83% |

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

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

Summary of Prize Expenses for the Years Ended June 30, 2019, through June 30, 2023

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

| Fiscal Year 2022-23 | | | |
|----------------------------|--------------------------|-------------------------|---|
| | <u>Prize Expense</u> | <u>Ticket Sales</u> | <u>Prize Expense as a Percentage of Sales</u> |
| Instant Games | \$ 445,210,142 | \$ 654,378,868 | 68.0% |
| Lotto Games | 162,618,698 | 327,288,769 | 49.7 |
| Total for Fiscal Year | \$ 607,828,840 | \$ 981,667,637 | 61.9 |

| Fiscal Year 2021-22 | | | |
|----------------------------|--------------------------|-------------------------|---|
| | <u>Prize Expense</u> | <u>Ticket Sales</u> | <u>Prize Expense as a Percentage of Sales</u> |
| Instant Games | \$ 434,711,984 | \$ 638,905,267 | 68.0% |
| Lotto Games | 122,403,339 | 248,915,588 | 49.2 |
| Total for Fiscal Year | \$ 557,115,323 | \$ 887,820,855 | 62.8 |

| Fiscal Year 2020-21 | | | |
|----------------------------|--------------------------|-------------------------|---|
| | <u>Prize Expense</u> | <u>Ticket Sales</u> | <u>Prize Expense as a Percentage of Sales</u> |
| Instant Games | \$ 433,648,797 | \$ 635,178,975 | 68.3% |
| Lotto Games | 126,042,780 | 259,362,390 | 48.6 |
| Total for Fiscal Year | \$ 559,691,577 | \$ 894,541,365 | 62.6 |

| Fiscal Year 2019-20 | | | |
|----------------------------|--------------------------|-------------------------|---|
| | <u>Prize Expense</u> | <u>Ticket Sales</u> | <u>Prize Expense as a Percentage of Sales</u> |
| 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 | | | |
|----------------------------|--------------------------|-------------------------|---|
| | <u>Prize Expense</u> | <u>Ticket Sales</u> | <u>Prize Expense as a Percentage of Sales</u> |
| 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 |

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



Legislative Audit Bureau

Joe Chrisman
State Auditor22 East Mifflin Street, Suite 500
Madison, Wisconsin 53703Main: (608) 266-2818
Hotline: 1-877-FRAUD-17www.legis.wisconsin.gov/lab
AskLAB@legis.wisconsin.gov**Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters**

Senator Eric Wimberger and
Representative Robert Wittke, Co-chairpersons
Joint Legislative Audit Committee

Mr. David Casey, 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, administered by the State of Wisconsin Department of Revenue (DOR), as of and for the years ended June 30, 2023, and June 30, 2022, and have issued our report thereon dated July 26, 2024. 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.

Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audits of the financial statements, we considered DOR's internal control as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DOR's internal control. Accordingly, we do not express an opinion on the effectiveness of DOR'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 or significant deficiencies may exist that have not been identified.

Report on 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 direct and 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 DOR'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 DOR's internal control or on compliance. Accordingly, this report is not suitable for any other purpose.

LEGISLATIVE AUDIT BUREAU



July 26, 2024