

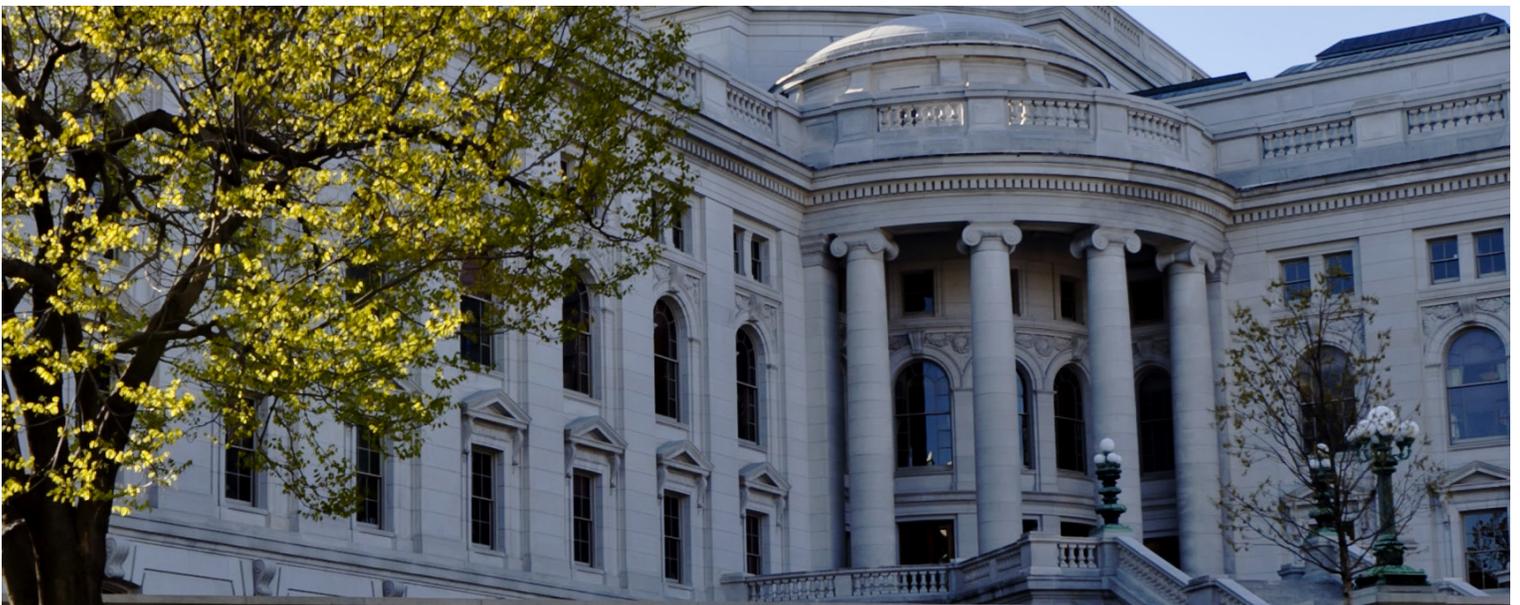


STATE OF WISCONSIN
Legislative Audit Bureau
NONPARTISAN • INDEPENDENT • ACCURATE

Report 22-7
June 2022

Wisconsin Lottery

Fiscal Year 2020-21



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Wisconsin Lottery

Fiscal Year 2020-21



STATE OF WISCONSIN

Legislative Audit Bureau

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June 2022

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STATE OF WISCONSIN

Legislative Audit Bureau

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June 24, 2022

Senator Robert Cowles, Co-chairperson
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Cowles:

As required by s. 13.94 (1) (em), Wis. Stats., we have completed a financial audit of the Wisconsin Lottery, which is administered by the Wisconsin Department of Revenue. We have provided an unmodified opinion on the Wisconsin Lottery's financial statements as of and for the years ended June 30, 2021, and June 30, 2020.

Wisconsin Lottery ticket sales increased from \$725.4 million in fiscal year (FY) 2019-20 to \$894.5 million in FY 2020-21, or by 23.3 percent. This increase is the result of increased sales for both scratch-off and lotto tickets. As ticket sales increase, Wisconsin Lottery expenses also increase. Operating expenses increased from \$542.9 million in FY 2019-20 to \$665.1 million in FY 2020-21, or by 22.5 percent.

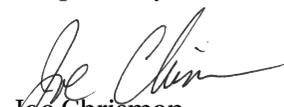
2017 Wisconsin Act 59, the 2017-19 Biennial Budget Act, created a general purpose revenue (GPR) appropriation for the Wisconsin Lottery. The 2019 Wisconsin Act 9, the 2019-21 Biennial Budget Act, provided the Wisconsin Lottery with GPR of \$71.7 million in FY 2019-20 and \$73.1 million in FY 2020-21 for retailer compensation, vendor fees, and certain general program operations.

The Wisconsin Constitution requires that net proceeds from the Wisconsin Lottery be used exclusively for property tax relief for Wisconsin residents. During FY 2020-21, net lottery proceeds used for property tax relief totaled \$236.3 million.

The provision of GPR funding increased net lottery proceeds available for the Lottery and Gaming Tax Credit in FY 2019-20 and FY 2020-21. However, the actual amount distributed for the Lottery and Gaming Tax Credit decreased from \$270.4 million in FY 2019-20 to \$236.3 million in FY 2020-21, or by 12.6 percent, because the estimate of ticket sales used to determine the amount of the credit was less than actual ticket sales. In October 2021, the Wisconsin Department of Administration and the Legislature's Joint Committee on Finance authorized the use of \$343.6 million in net lottery proceeds for the FY 2021-22 Lottery and Gaming Tax Credit.

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

Respectfully submitted,



Joe Chrisman
State Auditor

JC/ES/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 has managed the Wisconsin Lottery. As required by s. 13.94 (1) (em), Wis. Stats., we have completed a financial audit of the Wisconsin Lottery and have provided an unmodified opinion on its financial statements as of and for the years ended June 30, 2021, and June 30, 2020. We reviewed ticket sales, operating expenses, balances related to Wisconsin Lottery's participation in the Multi-State Lottery Association (MUSL), property tax relief funded by net proceeds available from the Wisconsin Lottery, and compliance with selected statutory provisions.

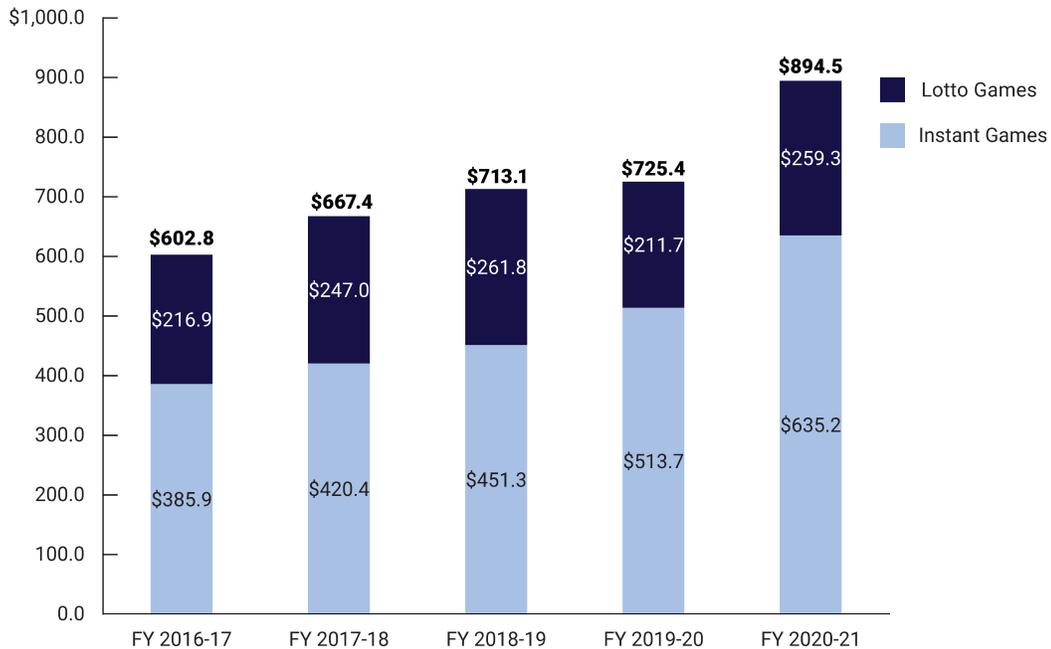
Wisconsin Lottery Ticket Sales

Ticket sales were \$894.5 million in FY 2020-21, which was an increase of 23.3 percent from FY 2019-20.

As shown in Figure 1, the Wisconsin Lottery's ticket sales increased from \$725.4 million in fiscal year (FY) 2019-20 to \$894.5 million in FY 2020-21, or by 23.3 percent. Sales of instant tickets, which are scratch-off and pull-tab tickets, increased by \$121.5 million, or by 23.7 percent. This increase is primarily the result of increased sales of scratch-off tickets that sold for \$10 or more. Lotto ticket sales increased \$47.6 million, or by 22.5 percent, due to increased Powerball and Mega Millions ticket sales resulting from jackpots for those games being higher in FY 2020-21 than in FY 2019-20.

Figure 1

Wisconsin Lottery Ticket Sales
(in millions)



Wisconsin Lottery Operating Expenses

Operating expenses were \$665.1 million in FY 2020-21, or 22.5 percent more than in FY 2019-20.

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 \$542.9 million in FY 2019-20 to \$665.1 million in FY 2020-21, or by 22.5 percent, primarily because expenses for instant and lotto prizes increased as instant and lotto ticket sales increased.

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. The Wisconsin Lottery paid IGT approximately \$18.8 million in FY 2019-20 and \$23.1 million in FY 2020-21. Game development and production expenses generally fluctuate based on changes in ticket sales.

Table 1

Wisconsin Lottery Operating Expenses
(in millions)

Operating Expense Type	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Prize Expenses	\$363.0	\$404.4	\$431.9	\$453.5	\$559.7
Retailer Compensation	41.3	46.5	49.7	50.9	62.8
Game Development and Production	18.9	19.7	20.2	21.5	25.5
Product Information	7.5	8.5	8.5	8.4	8.4
Other ¹	9.6	8.1	10.5	8.6	8.7
Total	\$440.3	\$487.2	\$520.8	\$542.9	\$665.1

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

In FY 2020-21, the Wisconsin Lottery spent \$8.4 million to provide information about its products.

The Wisconsin Constitution prohibits public funds or revenues derived from lottery operations from being spent for promotional advertising and requires that any advertising provide only information about the prize structures and chances of winning. The Wisconsin Lottery's annual product information budget, which is established through the State's biennial budget, was unchanged at \$8.5 million from FY 2019-20 to FY 2020-21. The Wisconsin Lottery spent \$8.4 million to provide information about its products in FY 2020-21.

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.

2017 Wisconsin Act 59, the 2017-19 Biennial Budget Act, created a general purpose revenue (GPR) appropriation for the Wisconsin Lottery. In 2019 Wisconsin Act 9, the Wisconsin Lottery was provided \$71.7 million in GPR in FY 2019-20 and \$73.1 million in GPR in FY 2020-21, including:

- \$48.0 million for retailer compensation expenses;
- \$17.8 million for fees paid to vendors for instant and lotto services; and

- \$7.3 million for general program operation expenses, excluding salaries and product information.

The provision of GPR funding increased net lottery proceeds available for the Lottery and Gaming Tax Credit in FY 2019-20 and FY 2020-21. However, the actual amount distributed for the Lottery and Gaming Tax Credit decreased due to lower anticipated ticket sales. As shown in Table 2, the net lottery proceeds used to fund the Lottery and Gaming Tax Credit decreased from \$270.4 million in FY 2019-20 to \$236.3 million in FY 2020-21, or by 12.6 percent because the estimates 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
2016-17	\$ 183.3
2017-18	170.3
2018-19	234.9
2019-20	270.4
2020-21	236.3
Total	\$1,095.2

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 FY 2020-21, the Wisconsin Lottery has provided \$5.1 billion in property tax relief.

In October 2021, the Department of Administration and the Legislature’s Joint Committee on Finance authorized the use of \$343.6 million in net lottery proceeds for the FY 2021-22 Lottery and Gaming Tax Credit. From its inception in 1988 through FY 2020-21, the Wisconsin Lottery has provided \$5.1 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 2016-17 through FY 2020-21, 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
2016-17	\$363.0	\$602.8	60.2%
2017-18	404.4	667.4	60.6
2018-19	431.9	713.1	60.6
2019-20	453.5	725.4	62.5
2020-21	559.7	894.5	62.6

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 2016-17 through FY 2020-21.

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 2016-17 through FY 2020-21.

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
2016-17	\$36.7	\$602.8	6.1%
2017-18	37.0	667.5	5.5
2018-19	40.2	713.2	5.6
2019-20	39.1	725.5	5.4
2020-21	43.2	894.6	4.8

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 2020-21, the Wisconsin Lottery spent \$54.0 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 \$54.0 million on basic commissions in FY 2020-21, of which \$48.0 million was funded by GPR.

In FY 2020-21, the Wisconsin Lottery spent \$8.8 million in Retailer Performance Program payments.

In addition, s. 565.02 (4) (g), Wis. Stats., authorizes a performance program to provide incentives to retailers and requires that payments not exceed 1.0 percent of gross revenues from the sale of lottery tickets. Table 5 shows the Wisconsin Lottery's performance program payments did not exceed 1.0 percent of gross revenues from the sale of lottery tickets from FY 2016-17 through FY 2020-21. In FY 2020-21, the Wisconsin Lottery spent \$8.8 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
2016-17	\$5.0	\$602.8	0.8%
2017-18	6.5	667.4	1.0
2018-19	6.9	713.1	1.0
2019-20	7.0	725.4	1.0
2020-21	8.8	894.5	1.0

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

The Retailer Performance Program includes sales incentives for retailers that increase ticket sales, a bonus for retailers that sell winning tickets, and short-term incentives for retailers that increase ticket sales of certain games for specific time periods. During FY 2020-21, performance payments for the sales incentives for increasing ticket sales accounted for 77.0 percent of the total incentive payments, winning ticket bonuses accounted for 16.1 percent, and short-term incentives accounted for 6.9 percent. There were five short-term incentives during FY 2020-21. Total payments for each of the five short-term incentives ranged from \$59,800 to \$185,305, and the number of retailers who participated in each of these short-term incentives ranged from 3,196 retailers to all retailers, which was 3,645 retailers as of June 30, 2021.

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

10 › INTRODUCTION

- 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 2019-20 or FY 2020-21.

■ ■ ■ ■



Audit Opinion





STATE OF WISCONSIN
Legislative Audit Bureau

Joe Chrisman
State Auditor

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

Senator Robert Cowles, Co-chairperson
Joint Legislative Audit Committee

Mr. Peter Barca, Secretary
Department of Revenue

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

Report on the Financial Statements

We have audited the accompanying financial statements and the related notes of the Wisconsin Lottery as of and for the years ended June 30, 2021, and June 30, 2020, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

14 › AUDIT OPINION

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

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Wisconsin Lottery as of June 30, 2021, and June 30, 2020, and the respective changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2A to the financial statements, the financial statements referred to in the first paragraph present only the Wisconsin Lottery and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of June 30, 2021, and June 30, 2020, the changes in its financial position, or where applicable, its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information—Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis*, on pages 17 through 27, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, which considers it to be essential for placing the financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information that included inquiries of management about the methods of preparing the information. We further compared the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our 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.

Accompanying Information—Our audits were conducted for the purpose of forming an opinion on the financial statements of the Wisconsin Lottery. Schedules 1 and 2, on pages 58 and 59, respectively, are presented for purposes of additional analysis and are not a required part of the financial statements for the years ended June 30, 2021, and June 30, 2020. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole for the years ended June 30, 2021, and June 30, 2020.

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, 2019, June 30, 2018, and June 30, 2017 (not presented herein), and issued reports thereon dated April 23, 2020 (report 20-4), June 14, 2019 (report 19-10), and August 3, 2018 (report 18-7), which contained unmodified opinions on the respective financial statements of the Wisconsin Lottery. In this report (report 22-7), Schedule 1 on page 58 (for the year ended June 30, 2019) and Schedule 2 on page 59 (for the years ended June 30, 2019,

June 30, 2018, and June 30, 2017) 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, 2019, June 30, 2018, and June 30, 2017. The information has been subjected to the auditing procedures applied in the audits of those financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole for the years ended June 30, 2019, June 30, 2018, and June 30, 2017.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated June 22, 2022, on our consideration of the Department of Revenue's and the Wisconsin Lottery's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, and contracts; and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Department of Revenue's and the Wisconsin Lottery's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be used when considering the Department of Revenue's and the Wisconsin Lottery's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU



June 22, 2022

Management's Discussion and Analysis

Prepared by Wisconsin Lottery Management

This section of the Wisconsin Lottery's (Lottery) financial statements provides the Management's Discussion and Analysis of the Lottery's financial performance for the fiscal years ended June 30, 2021, and June 30, 2020, with comparative information from the fiscal year ended June 30, 2019. This discussion should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes, and this discussion are the responsibility of the Wisconsin Department of Revenue and Lottery management.

Financial Highlights

In 2020, the Department of Employee Trust Funds (ETF), which has program administration and oversight of postemployment benefits, determined that the Supplemental Health Insurance Conversion Credit (SHICC) program was an other postemployment benefits (OPEB). As such, the Lottery has recorded its proportionate share of the net OPEB asset as of June 30, 2021, of \$209,119 compared to June 30, 2020, of \$119,166 as a noncurrent asset. More detail can be found in Note 7 to the financial statements.

Operating Revenues/Program Expenses

The Lottery's operating revenues generated from ticket sales were \$894.5 million in fiscal year (FY) 2020-21 compared to \$725.4 million in FY 2019-20, an increase of 23.3 percent. In FY 2020-21, instant scratch-off tickets had their highest annual sales in Lottery history. The increase can be attributed primarily to the increased sales of higher price point tickets (\$10 and higher) and to strong third and fourth quarters of scratch-off games ticket sales. In FY 2020-21, sales of higher price point tickets increased significantly compared to the previous year (\$10 priced tickets increased

by 37.3 percent, \$20 priced tickets increased by 32.7 percent, and \$30 priced tickets increased by 37.0 percent). In FY 2020-21, sales of higher price point tickets accounted for 61.3 percent of total scratch-off ticket sales. Two large jackpots that occurred during FY 2020-21 resulted in increased sales of lotto tickets. The highest Powerball jackpot was \$731.1 million won on January 20, 2021, and the sales for the last five draws leading up to that jackpot totaled over \$17.4 million. The highest Mega Millions jackpot was \$1.1 billion won on January 22, 2021, and sales for the last five draws leading up to that jackpot totaled \$19.6 million.

Program expenses for FY 2020-21 increased by \$122.1 million, or 22.8 percent, primarily due to increased prize expense and retailer commissions and incentives, which rise with increased sales. Administrative expenses (salaries and fringe benefits and supplies) increased from \$8.6 million in FY 2019-20 to \$8.7 million in FY 2020-21, or by 1.2 percent. Net income before transfers was \$229.4 million for FY 2020-21, compared to \$184.3 million in FY 2019-20, and \$196.0 million in FY 2018-19.

Total statutory administrative expenses were 4.8 percent of gross Lottery revenues in FY 2020-21, well below the statutory maximum of 10.0 percent (s. 25.75 (3) (b), Wis. Stats.). Total statutory administrative expenses, including administrative expenses reported in the financial statements, all program expenses except prizes and retailer compensation, and certain transfers out, were \$43.2 million in FY 2020-21, which was an increase of \$4.1 million from \$39.1 million in FY 2019-20.

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 three components:

- Statement of Net Position—provides detailed information on the nature and amount of the Lottery's assets, deferred outflows, liabilities, deferred inflows, and net position as of June 30, 2021, and June 30, 2020;
- 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 nongaming-related activity for FY 2020-21 and FY 2019-20; 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 2020-21 and FY 2019-20.

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

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

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

Overview of Financial Position

The Statement of Net Position provides detailed information on the Lottery's assets, deferred outflows, liabilities, deferred inflows, and net position at the end of FY 2020-21 and FY 2019-20.

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

Table A

Statement of Net Position (in millions)

	June 30, 2021	Change	June 30, 2020	Change	June 30, 2019
Assets					
Investments	\$ 8.2	\$ (3.7)	\$ 11.9	\$ (3.3)	\$ 15.2
Capital Assets (net of accumulated depreciation)	0.1	0.0	0.1	0.0	0.1
Other Assets	149.2	54.1	95.1	(1.1)	96.2
Total Assets	157.5	50.4	107.1	(4.4)	111.5
Total Deferred Outflows of Resources	3.1	0.7	2.4	(0.4)	2.8
Liabilities					
Current Liabilities	58.0	(11.4)	69.4	13.9	55.5
Noncurrent Liabilities	6.5	(2.4)	8.9	(3.7)	12.6
Total Liabilities	64.5	(13.8)	78.3	10.2	68.1
Total Deferred Inflows of Resources	4.4	1.2	3.2	1.4	1.8
Net Position					
Invested in Capital Assets	0.1	0.0	0.1	0.0	0.1
Restricted for Pensions	1.6	0.7	0.9	0.9	0.0
Restricted for Other Postemployment Benefits	0.2	0.1	0.1	0.1	0.0
Restricted for MUSL Reserves	6.1	(0.3)	6.4	(0.3)	6.7
Restricted for Investment Fair Value Adjustment	0.7	(0.6)	1.3	0.0	1.3
Restricted for Property Tax Relief	83.1	63.9	19.2	(17.1)	36.3
Total Net Position	<u>\$ 91.8</u>	<u>\$ 63.8</u>	<u>\$ 28.0</u>	<u>\$ (16.4)</u>	<u>\$ 44.4</u>

Assets

Lottery's assets consist primarily of cash and cash equivalents, investments for prize annuities, accounts receivable, Multi-State Lottery Association (MUSL) reserve accounts, and due from other state programs.

As shown in Table A, total assets were \$157.5 million at the end of FY 2020-21, compared to \$107.1 million at the end of FY 2019-20, and \$111.5 million at the end of FY 2018-19. Cash and cash equivalents increased by \$59.8 million in FY 2020-21.

Liabilities

At the end of FY 2020-21, the Lottery's total liabilities were \$64.5 million, compared to \$78.3 million at the end of FY 2019-20, and \$68.1 million at the end of FY 2018-19.

Current liabilities consist primarily of accrued prizes payable, annuity prizes payable, and accounts payable due to suppliers. Prizes payable decreased in FY 2020-21 because a cash payout of \$16.7 million from a June 2020 Powerball drawing occurred in FY 2020-21, and because there were no large jackpot amounts payable at the end of the year.

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

Net Position

At the end of FY 2020-21, the Lottery's total net position was \$91.8 million, a \$63.8 million increase from the prior year. The FY 2020-21 change in net position was primarily due to a \$34.1 million decrease in property tax relief and \$45.1 million increase in Net Income Before Transfers. In FY 2020-21, the Lottery had its fourth record sales year in a row that was higher than originally projected. This is the primary reason for the large increase in the restricted for property tax relief net position from FY 2019-20 to FY 2020-21. Total net position at the end of FY 2019-20 was \$28.0 million, a \$16.4 million decrease from FY 2018-19. Total net position was \$44.4 million at the end of FY 2018-19.

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

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

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

The Statement of Revenues, Expenses, and Changes in Net Position provides detailed information on the financial impact of the Lottery's operations for FY 2020-21 and FY 2019-20. Table B presents condensed data for the past three fiscal years.

Table B

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

	FY 2020-21	Change	FY 2019-20	Change	FY 2018-19
Revenues					
Operating Revenues:					
Ticket Sales	\$894.5	\$169.1	\$725.4	\$ 12.3	\$713.1
Retailer Fees and Miscellaneous Revenue	0.4	0.2	0.2	(1.1)	1.3
Nonoperating Revenues:					
Investment Income (Loss)	(0.4)	(2.0)	1.6	(0.8)	2.4
Total Revenues	894.5	167.3	727.2	10.4	716.8
Expenses					
Program Expenses:					
Prize Expenses	559.7	106.2	453.5	21.6	431.9
Retailer Commissions and Incentives	62.8	11.9	50.9	1.2	49.7
Instant and Lotto Vendor Services	23.1	4.3	18.8	0.5	18.3
Other Game-Related Expenses	10.8	(0.3)	11.1	0.7	10.4
Administrative Expenses	8.7	0.1	8.6	(1.9)	10.5
Total Expenses	665.1	122.2	542.9	22.1	520.8
Net Income Before Transfers	229.4	45.1	184.3	(11.7)	196.0
Transfers					
Transfers In—General Fund	71.8	1.0	70.8	30.8	40.0
Transfers Out—Property Tax Relief	(236.3)	34.1	(270.4)	(35.4)	(235.0)
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)	(0.1)	(0.3)
Transfers Out—Lottery Credit Administration	(0.2)	0.0	(0.2)	0.0	(0.2)
Transfers Out—General Fund	(0.1)	0.0	(0.1)	0.3	(0.4)
Change in Net Position	\$ 63.8	\$ 80.2	\$ (16.4)	\$ (16.1)	\$ (0.3)

Revenues

Operating revenues are generated almost entirely from ticket sales. The Lottery had \$894.5 million in ticket sales in FY 2020-21, \$725.4 million in FY 2019-20, and \$713.1 million in FY 2018-19. Table C presents condensed data for the past three fiscal years, comparing ticket sales for each game category.

Table C

Wisconsin Lottery Ticket Sales

(in millions)

	FY 2020-21	Change	FY 2019-20	Change	FY 2018-19
Instant Ticket Sales					
Scratch-off	\$634.7	\$121.7	\$513.0	\$62.7	\$450.3
Pull-tab	0.5	(0.2)	0.7	(0.3)	1.0
Total Instant Ticket Sales	635.2	121.5	513.7	62.4	451.3
Lotto Ticket Sales					
SuperCash!	23.8	0.2	23.6	(1.0)	24.6
Powerball	74.7	21.4	53.3	(31.5)	84.8
Wisconsin's Megabucks	12.0	(9.2)	21.2	6.6	14.6
Wisconsin's Megabucks EZ Match	1.8	(0.5)	2.3	0.4	1.9
Daily Pick 3	28.9	5.0	23.9	0.3	23.6
Daily Pick 4	18.6	3.8	14.8	0.7	14.1
Badger 5	25.0	1.5	23.5	(0.9)	24.4
Mega Millions	58.4	23.8	34.6	(28.7)	63.3
5 Card Cash ¹	0.0	0.0	0.0	(4.7)	4.7
All or Nothing	15.2	1.2	14.0	9.0	5.0
Raffle Games	0.9	0.4	0.5	(0.3)	0.8
Total Lotto Ticket Sales	259.3	47.6	211.7	(50.1)	261.8
Total Ticket Sales	\$894.5	\$169.1	\$725.4	\$12.3	\$713.1

¹ 5 Card Cash ended during FY 2018-19.

Total ticket sales increased by 23.3 percent in FY 2020-21 compared to FY 2019-20, and 1.7 percent from FY 2019-20 compared to FY 2018-19. Instant scratch-off ticket sales increased by \$121.7 million from FY 2019-20 to FY 2020-21 and by \$62.7 million in FY 2018-19. Lotto ticket sales increased by \$47.6 million from FY 2019-20 to FY 2020-21, primarily due to increased Mega Millions and Powerball ticket sales in FY 2020-21. Lotto ticket sales decreased by \$50.1 million from FY 2018-19. Pull-tab sales decreased by \$0.2 million from FY 2019-20 to FY 2020-21 and decreased \$0.3 million from FY 2018-19.

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 2020-21, total operating expenses were \$665.1 million, an increase of \$122.2 million from FY 2019-20 expenses of \$542.9 million, which was an increase of \$22.1 million from FY 2018-19 expenses of \$520.8 million. The fluctuation in expenses is primarily a result of changes in prize expense, which tend to follow changes in sales. Prizes are the Lottery's largest expense. Table D compares ticket prize expense for each lottery game category for the last three fiscal years.

Table D

Wisconsin Lottery Ticket Prize Expenses (in millions)

	FY 2020-21	Change	FY 2019-20	Change	FY 2018-19
Instant Prize Expense					
Scratch-off	\$433.1	\$ 86.2	\$346.9	\$47.3	\$299.6
Pull-tab	0.3	(0.2)	0.5	(0.1)	0.6
Super 2nd Chance ¹	0.3	0.1	0.2	(0.1)	0.3
Total Instant Prize Expense	433.7	86.1	347.6	47.1	300.5
Lotto Prize Expense					
SuperCash!	9.6	(2.6)	12.2	(3.2)	15.4
Powerball	37.0	11.5	25.5	(15.8)	41.3
Wisconsin's Megabucks	6.3	(4.9)	11.2	3.4	7.8
Wisconsin's Megabucks EZ Match	1.1	(0.3)	1.4	0.2	1.2
Daily Pick 3	13.4	1.7	11.7	0.8	10.9
Daily Pick 4	8.7	2.5	6.2	(0.1)	6.3
Badger 5	12.0	0.2	11.8	0.0	11.8
Mega Millions	28.9	11.8	17.1	(13.7)	30.8
5 Card Cash ²	0.0	0.0	0.0	(2.5)	2.5
All or Nothing	8.3	(0.1)	8.4	5.6	2.8
Raffle Games	0.4	0.2	0.2	(0.1)	0.3
Super 2nd Chance ¹	0.3	0.1	0.2	(0.1)	0.3
Total Lotto Prize Expense	126.0	20.1	105.9	(25.5)	131.4
Total Prize Expenses	<u>\$559.7</u>	<u>\$106.2</u>	<u>\$453.5</u>	<u>\$21.6</u>	<u>\$431.9</u>

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

² 5 Card Cash ended during FY 2018-19.

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

Chart A

Lotto Ticket Sales and Prize Expense
(in millions)

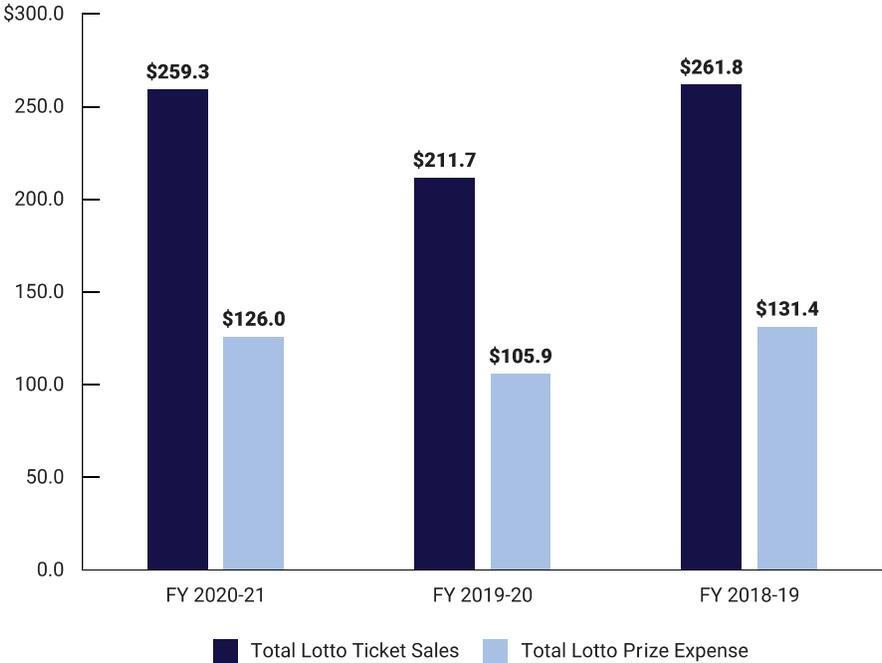
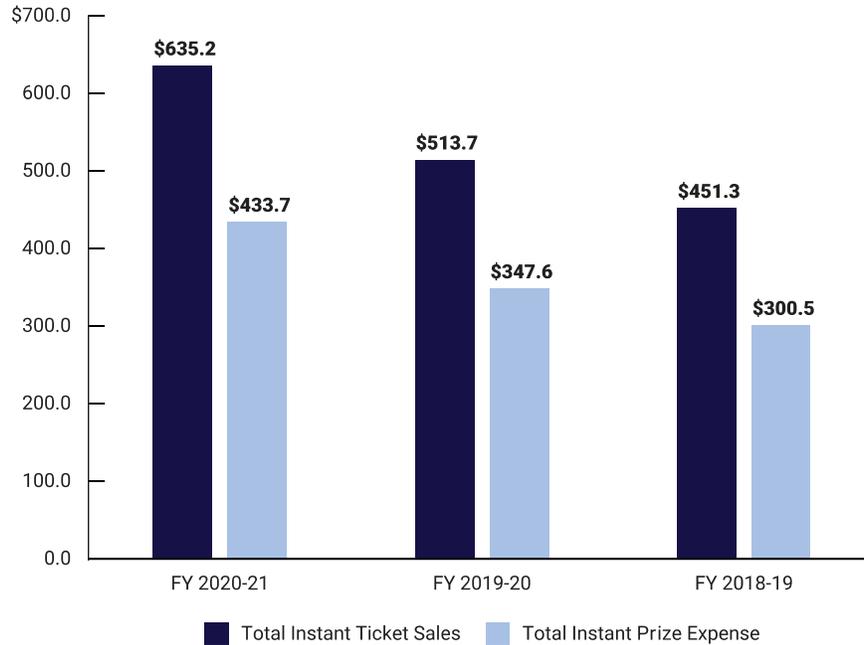


Chart B

Instant Ticket Sales and Prize Expense
(in millions)



Generally, prize expenses are a function of ticket sales. Higher ticket sales result in higher prize expense, while lower sales result in lower prize expense. However, the change in prize expense is not always perfectly proportional to the change in 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 2020-21, ticket sales across all games increased by \$169.1 million, while prize expense increased by \$106.2 million. Most of the growth in sales was driven by scratch-off games, which have a higher overall payout percentage. Lotto ticket sales and the corresponding prize expense increased by 22.5 percent and 19.0 percent, respectively in FY 2020-21. Scratch-off ticket sales increased by 23.7 percent and the corresponding scratch-off prize expense increased by 24.8 percent. Scratch-off game expenses increased at a greater percentage than scratch-off game sales because the growth came from games with higher price point tickets and higher payout percentages. In FY 2019-20, ticket sales increased by \$12.3 million, while prize expense increased by \$21.6 million. Schedule 2, on page 59, shows a multi-year summary of ticket sales and their related prize expenses.

Since retailer commissions and incentives expenses are a function of sales, they typically rise and fall with sales. In FY 2020-21, retailers were paid \$62.8 million in commissions and incentives, up \$11.9 million from the \$50.9 million paid in FY 2019-20. In FY 2018-19, retailer commissions and incentives were \$49.7 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, which has an 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 the Lottery with:

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

In FY 2020-21, payments to IGT were \$23.1 million, compared to \$18.8 million in FY 2019-20, and \$18.3 million in FY 2018-19.

Net Income and Transfer for Property Tax Relief

Net income before transfers was \$229.4 million in FY 2020-21, up from \$184.3 million in FY 2019-20. Net income before transfers was \$196.0 million in FY 2018-19.

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 \$34.1 million, or by 12.6 percent, during FY 2020-21, after increasing by \$35.4 million, or by 15.1 percent, during FY 2019-20.

Factors Impacting Future Results

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

Approximately 51.3 percent of all lotto ticket sales in FY 2020-21 came from two MUSL jackpot games: Mega Millions and Powerball. The sales of these games can be volatile as they are driven by the random occurrence (size and frequency) of large jackpots. For example, Powerball sales significantly decreased in FY 2019-20 by 37.1 percent and increased in FY 2020-21 by 40.2 percent. The volatility of jackpot games makes forecasting ticket sales difficult. The Lottery has established a range to forecast future performance based on past performance. However, that range is broad and jackpot game sales can vary from year-to-year by tens of millions of dollars from estimates. Since lottery tickets are a discretionary purchase, the Lottery's performance is subject to economic conditions and its effect on consumer spending. Some factors influencing consumer spending include unemployment, fuel costs, the cost of essential goods (such as food, clothing, and shelter), and consumer confidence in the economy.

Consumer purchases of discretionary items, including Lottery tickets, generally decline during periods when disposable income is adversely affected or when there is a lack of consumer confidence in the economy. During the public health emergency, the Lottery saw an increase in instant ticket sales resulting from other forms of entertainment being restricted during that time.

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

Table E

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

	FY 2021-22	FY 2022-23
General Program Operations	\$ 0	\$ 0
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—Laurie Grams
MS 6-261
PO Box 8931
Madison, Wisconsin 53708-8931
(608) 266-8469

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

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



Financial Statements

Statement of Net Position

June 30, 2021, and June 30, 2020

	June 30, 2021	June 30, 2020
ASSETS		
Current Assets:		
Cash and Cash Equivalents (Note 3)	\$ 91,282,422	\$ 31,475,485
Investments for Prize Annuities (Note 3)	2,737,838	3,730,703
Accounts Receivable (Note 4)	43,004,285	46,587,048
Due from Other State Programs (Note 4)	5,347,402	8,320,611
Ticket Inventory	633,750	468,374
MUSL Reserve Accounts (Note 5)	732,203	440,696
Prepaid Expenses	381,606	359,982
Total Current Assets	144,119,506	91,382,899
Noncurrent Assets:		
Investments for Prize Annuities (Note 3)	5,439,944	8,193,733
MUSL Reserve Accounts (Note 5)	6,096,168	6,431,453
Net Pension Asset (Note 6)	1,553,124	874,838
Other Postemployment Benefits Asset (Note 7)	209,119	119,166
Capital Assets:		
Equipment	452,958	452,958
Leasehold Improvements	90,288	90,288
Accumulated Depreciation	(456,872)	(429,653)
Total Noncurrent Assets	13,384,729	15,732,783
TOTAL ASSETS	157,504,235	107,115,682
DEFERRED OUTFLOWS OF RESOURCES (Notes 6 and 7)	3,120,784	2,452,441
LIABILITIES		
Current Liabilities:		
Annuity Prizes Payable (Note 8)	2,716,853	3,711,861
Prizes Payable	47,252,852	58,297,566
Accounts Payable	6,523,802	5,774,113
Due to Other State Programs	325,130	138,318
MUSL Payable	514,264	585,121
Unearned Revenue	448,560	694,032
Due to Other Governments	3,187	2,818
Compensated Absences	235,066	243,412
Total Current Liabilities	58,019,714	69,447,241
Noncurrent Liabilities:		
Annuity Prizes Payable (Note 8)	4,719,636	7,013,545
Compensated Absences	558,803	546,751
Other Postemployment Benefits Liability (Note 7)	1,214,844	1,344,951
Total Noncurrent Liabilities	6,493,283	8,905,247
TOTAL LIABILITIES	64,512,997	78,352,488
DEFERRED INFLOWS OF RESOURCES (Notes 6 and 7)	4,356,814	3,225,703
NET POSITION		
Net Position: (Note 10)		
Invested in Capital Assets	86,374	113,592
Restricted for Pensions	1,553,124	874,838
Restricted for Other Postemployment Benefits	209,119	119,166
Restricted for MUSL Reserves	6,096,168	6,431,453
Restricted for Investment Fair Value Adjustment	741,293	1,258,816
Restricted for Property Tax Relief	83,069,130	19,192,067
TOTAL NET POSITION	\$ 91,755,208	\$ 27,989,932

Statement of Revenues, Expenses, and Changes in Net Position for the Years Ended June 30, 2021, and June 30, 2020

	Year Ended June 30, 2021	Year Ended June 30, 2020
OPERATING REVENUES		
Instant Ticket Sales (Net of Allowances of \$12,801,740 and \$12,548,478, respectively)	\$ 635,178,975	\$ 513,741,682
Lotto Ticket Sales (Net of Ticket Discounts of \$0 and \$265,779, respectively)	259,362,390	211,698,030
Retailer Fees	50,926	33,830
Miscellaneous Revenue	308,312	179,675
Total Operating Revenues	894,900,603	725,653,217
OPERATING EXPENSES		
Program Expenses:		
Instant Prize Expense	433,648,797	347,601,836
Lotto Prize Expense	126,042,780	105,920,550
Retailer Commissions and Incentives	62,840,046	50,916,084
Instant and Lotto Vendor Services	23,127,310	18,804,094
Product Information Costs	8,415,498	8,443,164
Instant Ticket Printing Costs	2,313,882	2,658,577
Donated Prize Expense	0	2,818
Total Program Expenses	<u>656,388,313</u>	<u>534,347,123</u>
Administrative Expenses:		
Salaries and Fringe Benefits	5,596,641	6,045,441
Supplies and Services	3,063,895	2,508,372
Depreciation Expense	27,218	27,960
Total Administrative Expenses	<u>8,687,754</u>	<u>8,581,773</u>
Total Operating Expenses	665,076,067	542,928,896
NET OPERATING INCOME	229,824,536	182,724,321
NONOPERATING REVENUES (EXPENSES) AND TRANSFERS		
Investment Income (Loss)	(427,723)	1,563,167
Miscellaneous Revenue (Expense)	1,335	(3,650)
Net Income Before Transfers	229,398,148	184,283,838
Transfers:		
Transfers In—General Fund (Note 12)	71,773,242	70,801,177
Transfers Out—Lottery Proceeds for Property Tax Relief (Note 11)	(236,300,163)	(270,402,070)
Transfers Out—Department of Health and Family Services for Compulsive Gambling Programs	(396,000)	(396,000)
Transfers Out—Wisconsin Department of Justice for Law Enforcement	(449,039)	(424,324)
Transfers Out—Department of Revenue for Lottery Credit Administration	(239,078)	(196,655)
Transfers Out—General Fund	(21,834)	(53,360)
CHANGE IN NET POSITION	63,765,276	(16,387,394)
NET POSITION		
Net Position—Beginning of the Year	27,989,932	44,377,326
Net Position—End of the Year	<u>\$ 91,755,208</u>	<u>\$ 27,989,932</u>

Statement of Cash Flows for the Years Ended June 30, 2021, and June 30, 2020

	Year Ended June 30, 2021	Year Ended June 30, 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Retailers	\$ 895,503,970	\$ 703,451,591
Cash Paid for Prizes	(572,727,122)	(438,574,979)
Cash Paid for Retailer Commissions and Incentives	(61,887,435)	(49,268,162)
Cash Paid/Received for MUSL Reserve Accounts	48,405	212,740
Cash Paid to Employees	(5,985,523)	(6,001,607)
Cash Paid to Suppliers	(33,337,656)	(40,104,203)
Net Cash Provided by Operating Activities	221,614,639	169,715,380
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers Out—Proceeds for Property Tax Credit	(236,300,163)	(270,402,070)
Transfers Out—Proceeds for Law Enforcement	(445,580)	(417,948)
Transfers Out—Proceeds for Lottery Credit Administration	(238,540)	(199,090)
Transfers Out—Proceeds for Compulsive Gambling Programs	(396,000)	(396,000)
Transfers Out—General Fund	(21,834)	(53,360)
Transfers In—General Fund	71,773,242	70,801,177
Net Cash Used by Noncapital Financing Activities	(165,628,875)	(200,667,291)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash Paid for Purchase of Equipment	0	0
Cash Received from Sale of Equipment	0	0
Net Cash Used by Capital and Related Financing Activities	0	0
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	85,173	1,460,962
Cash Received for Redemption of Bonds	3,736,000	3,914,000
Net Cash Provided by Investing Activities	3,821,173	5,374,962
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	59,806,937	(25,576,949)
Cash and Cash Equivalents—Beginning of the Year	31,475,485	57,052,434
Cash and Cash Equivalents—End of the Year	<u>\$ 91,282,422</u>	<u>\$ 31,475,485</u>

Statement of Cash Flows

for the Years Ended June 30, 2021, and June 30, 2020 (continued)

	Year Ended June 30, 2021	Year Ended June 30, 2020
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net Operating Income	\$ 229,824,536	\$ 182,724,321
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:		
Depreciation Expense	27,218	27,960
Cancelled Draft Nonoperating Revenue (Expense)	1,335	(6,468)
Noncash Donated Prize Expense	0	2,818
Changes in Assets, Liabilities, Deferred Outflows, and Deferred Inflows:		
Decrease (Increase) in Accounts Receivable	3,582,763	(15,616,876)
Decrease (Increase) in MUSL Reserve Accounts	48,405	212,740
Decrease (Increase) in Ticket Inventory	(165,377)	419,168
Decrease (Increase) in Prepaid Expenses	(21,623)	53,372
Decrease (Increase) in Net Pension Asset	(678,285)	(874,838)
Decrease (Increase) in Deferred Outflows	(668,344)	316,078
Decrease (Increase) in Net Other Post Employment Benefit Asset	(89,953)	(119,166)
Decrease (Increase) in Due from Other State Programs	2,973,209	(8,320,611)
Increase (Decrease) in Prizes Payable	(14,840,501)	10,296,216
Increase (Decrease) in Unearned Revenue	(245,472)	184,359
Increase (Decrease) in Due to Other State Programs	178,165	(250,233)
Increase (Decrease) in Accounts Payable	754,340	203,694
Increase (Decrease) in MUSL Payable	(70,857)	(227,677)
Increase (Decrease) in Due to Other Governments	369	(100,419)
Increase (Decrease) in Compensated Absences	3,706	59,100
Increase (Decrease) in Other Postemployment Benefits Liability	(130,107)	335,277
Increase (Decrease) in Net Pension Liability	0	(982,623)
Increase (Decrease) in Deferred Inflows	1,131,112	1,379,188
Total Adjustments	(8,209,897)	(13,008,941)
Net Cash Provided by Operating Activities	\$ 221,614,639	\$ 169,715,380
Noncash Activities:		
Increase (Decrease) in Fair Value of Investments	\$ (517,523)	\$ (51,250)
Amortization of Long-Term Annuity Prize Liability	506,869	711,654

Notes to the Financial Statements

1. DESCRIPTION OF THE WISCONSIN LOTTERY

On April 7, 1987, Wisconsin voters authorized a lottery's creation by the passage of a constitutional amendment, with a 65 percent to 35 percent margin. The Wisconsin Constitution requires the net proceeds from the lottery's operations be used for local property tax relief. The Wisconsin Lottery (Lottery) began in December 1987 and sold its first ticket on September 14, 1988. The Lottery is administered by the Lottery Division within the Wisconsin Department of Revenue. During FY 2020-21 and FY 2019-20, the Lottery sold instant games (scratch-off and pull-tab tickets) and lotto games. Lotto games have drawings to determine winning tickets, which include raffle tickets and tickets produced from a terminal located at a Lottery retailer (e.g., Powerball, Badger 5).

Since June 1989, the Lottery has been a member of the Multi-State Lottery Association (MUSL). In FY 2020-21 and FY 2019-20, 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 2020-21 and FY 2019-20, the Lottery sold tickets for the following lotto games:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity and Basis of Presentation

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

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

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

The Statement of Revenues, Expenses, and Changes in Net Position classifies the Lottery's activities as either operating or nonoperating.

Because the Lottery Fund is an enterprise fund (proprietary fund type), it accounts for operations similar to private businesses where operating revenues are derived from exchange transactions, such as sales. Operating expenses include the costs of sales, administrative expenses, and depreciation on capital assets. Certain revenues and expenses not related to the Lottery's primary purpose, such as investment income, are reported as nonoperating revenues and expenses.

C. Cash and Cash Equivalents

Cash and cash equivalents reported on the Statement of Net Position and on the Statement of Cash Flows include cash deposited in the State's bank and the Lottery's pro rata share of the State Investment Fund, a short-term pool of state and local funds managed by the State of Wisconsin Investment Board. Balances pooled in the State Investment Fund are restricted to legally stipulated investments valued consistent with GASB Statement Number 72, *Fair Value Measurement and Application*.

D. Investments for Prize Annuities

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

E. Accounts Receivable

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

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

Due from other state programs represents amounts due to the Lottery Fund from the General 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>
Leasehold Improvements	10 Years
Office Furniture and Security Equipment	10 Years
Printing and Microfilming Equipment	7 Years
Office, Computer, and Data Processing Equipment	5 Years

H. Employee Retirement Benefits/Pensions

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

- measurement of the net pension liability (asset);
- deferred outflows of resources;
- deferred inflows of resources;
- pension expense (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 liability/(asset), 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 ticket sales must be returned in the form of prizes. Winners may claim their prizes for a period of 180 days after the drawing for lotto games or 180 days from the end of a game for instant games. A summary of prize expenses is shown in Schedule 2.

O. Retailer Commissions and Incentives

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

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

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

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

Sales Goal Incentive—under the sales goal component, participating retailers can earn additional commission based on increased sales. Subject to certain restrictions and allowances, retailers can earn up to 2.0 percent of the increase in quarterly sales compared to sales of the previous quarter for instant tickets and certain non-jackpot lotto games

(SuperCash!, Daily Pick 3, Daily Pick 4, Badger 5, and All or Nothing). These payments are made quarterly. Retailers also earn up to 10.0 percent of the increase in annual sales over the previous year. Due to variability of sales of jackpot lotto games (Wisconsin's Megabucks, Mega Millions, and Powerball) and raffle games, sales goals incentive payments for these games are made annually. The annual payments may be limited to ensure total payments do not exceed the statutory cap of 1.0 percent of gross instant and lotto ticket sales.

P. Administrative Expenses

Section 25.75 (3) (b), Wis. Stats., limits the Lottery's statutory administrative expenses to 10.0 percent of gross lottery revenues. Statutory administrative expenses were 4.83 percent for FY 2020-21. A summary of statutory administrative expenses and related calculations of the administrative expense limit is included in Schedule 1.

Q. Disbursement of Lottery Proceeds for Property Tax Relief

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

R. Use of Estimates

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

3. CASH AND INVESTMENTS

The Lottery's cash and cash equivalents balance consists of cash deposited in the State's bank and shares in the State Investment Fund, a short-term pool of state and local funds managed by the State of Wisconsin Investment Board with oversight by its Board of Trustees. The State Investment Fund is not registered with the U.S. Securities and Exchange Commission. The carrying amount of Lottery's shares in the State Investment Fund, which approximates fair value, was \$91.1 million as of June 30, 2021, and \$30.3 million as of June 30, 2020.

The types of securities in which the State Investment Fund may invest are stated in ss. 25.17 (3) (b), (ba), (bd), and (dg), Wis. Stats., and include direct obligations of the U.S. or its agencies, corporations wholly owned by the U.S. or chartered by an act of Congress, securities guaranteed by the U.S., unsecured notes of financial and industrial issuers, direct obligations of or guaranteed by the government of Canada, certificates of deposit issued by banks in the U.S. and solvent financial

institutions in Wisconsin, and bankers acceptances. The Investment Board's trustees may specifically approve other prudent legal investments.

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

Credit Risk—is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. While the Lottery does not have a formal policy on its investments for prize annuities, it follows MUSL's policy requiring all investments for prize annuities to be in the form of securities backed by the full faith and credit of the U.S. government or its agencies, which are not considered to have credit risk. All the Lottery's total investments for prize annuities balance as of June 30, 2021, and June 30, 2020, 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 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, 2021, and June 30, 2020:

<u>Maturity</u>	<u>Fair Value as of June 30, 2021</u>	<u>Fair Value as of June 30, 2020</u>
Less than 1 year	\$2,737,838	\$ 3,730,703
1 to 5 years	4,052,947	6,436,172
6 to 10 years	1,043,074	1,293,769
More than 10 years	<u>343,923</u>	<u>463,792</u>
Total	<u>\$8,177,782</u>	<u>\$11,924,436</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 31 days as of June 30, 2020, to 74 days as of June 30, 2021.

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, 2021

<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	\$8,177,782	\$ 0	\$ 0
State Investment Fund	<u>0</u>	<u>0</u>	<u>0</u>	<u>91,092,000</u>
Total Investments at Fair Value	<u>\$ 0</u>	<u>\$8,177,782</u>	<u>\$ 0</u>	<u>\$91,092,000</u>

As of June 30, 2020

<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	\$11,924,436	\$ 0	\$ 0
State Investment Fund	<u>0</u>	<u>0</u>	<u>0</u>	<u>30,334,000</u>
Total Investments at Fair Value	<u>\$ 0</u>	<u>\$11,924,436</u>	<u>\$ 0</u>	<u>\$30,334,000</u>

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, 2021. 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, 2021. The report is located at <https://www.swib.state.wi.us/publications>.

4. ACCOUNTS RECEIVABLE

Accounts receivable balances are disaggregated as follows:

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Accounts Receivable:		
Retailers:		
Ticket Sales and Contract Fees	\$75,725,088	\$73,280,367
Commissions and Incentives	(10,768,356)	(9,621,795)
Ticket Redemptions	(13,533,446)	(11,738,633)
Allowance for Returns	(9,080,466)	(5,455,439)
MUSL Receivable	616,136	0
Miscellaneous	<u>45,329</u>	<u>122,548</u>
Total Accounts Receivable	<u>\$43,004,285</u>	<u>\$46,587,048</u>
Total Due from Other State Programs:		
Transfer from General Fund	<u>\$ 5,347,402</u>	<u>\$ 8,320,611</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, 2021, 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, 2021, and June 30, 2020, as audited by other auditors.

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Total Assets	<u>\$848,609,729</u>	<u>\$534,266,383</u>
Total Liabilities	\$836,395,871	\$519,555,696
Total Unrestricted Net Assets	<u>12,213,858</u>	<u>14,710,687</u>
Total Liabilities and Net Assets	<u>\$848,609,729</u>	<u>\$534,266,383</u>
Total Revenues	\$ 1,324,240	\$ 7,523,146
Total Expenses	(4,832,262)	(5,981,537)
Other Changes in Net Assets	<u>1,011,193</u>	<u>(7,800,000)</u>
Increase (Decrease) in Unrestricted Net Assets	<u>\$ (2,496,829)</u>	<u>\$ (6,258,391)</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, 2021</u>	<u>June 30, 2020</u>
Powerball Set Prize Reserve Account	\$1,074,929	\$1,029,043
Powerball Prize Reserve Account	2,478,208	2,936,489
Mega Millions Prize Reserve Account	2,543,031	2,465,921
Unreserved Account	<u>732,203</u>	<u>440,696</u>
Total MUSL Accounts	<u>\$6,828,371</u>	<u>\$6,872,149</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 \$260,649 for calendar year 2019 and \$294,545 for calendar year 2020.

As of June 30, 2021, the Lottery reported a net pension asset of \$1,553,124 for its proportionate share of the net pension asset, compared to the net pension asset of \$874,838 as of June 30, 2020. The net pension liability (asset) as of June 30, 2021, was measured as of December 31, 2020, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2019, rolled forward to December 31, 2020. 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, 2020, the Lottery's proportion was 0.02 percent, compared to 0.03 percent as of December 31, 2019.

The Lottery recognized pension expense/(revenue) reported in the Salaries and Fringe Benefits account of \$279,464 and \$284,003 for the fiscal years ended June 30, 2020, and June 30, 2021, respectively.

As of June 30, 2021, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflows and Deferred Inflows of Resources Related to Pensions

<u>Fiscal Year 2021</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Pension Experience	\$2,550,059	\$ (667,414)
Change of Pension Assumptions	67,841	-
Net Differences Between Projected and Actual Earnings on Pension Plan Investments	-	(3,108,120)
Changes in Proportion and Differences Between Actual and Proportionate Share of Contributions	16,988	(4,616)
Pension Contributions Subsequent to the Measurement Date	<u>9,969</u>	<u>-</u>
Total	<u>\$2,644,857</u>	<u>\$(3,780,150)</u>
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>Fiscal Year 2020</u>		
Differences Between Expected and Actual Pension Experience	\$ 1,784,340	\$ (924,938)
Change of Pension Assumptions	93,458	-
Net Differences Between Projected and Actual Earnings on Pension Plan Investments	-	(1,788,481)
Changes in Proportion and Differences Between Actual and Proportionate Share of Contributions	8,773	(6,500)
Pension Contributions Subsequent to the Measurement Date	<u>125,094</u>	<u>-</u>
Total	<u>\$ 2,011,665</u>	<u>\$(2,719,919)</u>

7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Other postemployment benefits are benefits other than pensions that state and local governments provide to their retired employees. Under Wisconsin Statutes Chapter 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, 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 post-retirement benefit. During the reporting period, the State Retiree Life Insurance program recognized \$4,302 in contributions from the Lottery.

As of June 30, 2021, the Lottery reported a liability of \$757,727 for its proportionate share of the net OPEB liability compared to \$746,266 as of June 30, 2020. The net OPEB liability was measured as of December 31, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2020, and rolled forward to December 31, 2020. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The Lottery's proportion of the net OPEB liability was based on its share of contributions to the OPEB plan relative to the contributions of all participating employers. As of December 31, 2020, the Lottery's proportion was 0.19 percent, which was a decrease of 0.05 percent from its proportion measured as of December 31, 2019.

The Lottery recognized OPEB expense/(revenue) for the State Retiree Life Insurance program reported in the Salaries and Fringe Benefits account of \$19,490 and (\$63,199) for the fiscal years ended June 30, 2020, and June 30, 2021, respectively. The credit for fiscal year June 30, 2021 is primarily due to the deferred outflow change in assumptions. As of June 30, 2021, 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 2021</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ -	\$ (28,965)
Changes of Assumptions	315,747	(68,337)
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	13,581	-
Change in Proportionate Share	8,584	(7,221)
Employer's Contribution Subsequent to the Measurement Date	<u>-</u>	<u>-</u>
Total	<u>\$337,912</u>	<u>\$(104,523)</u>
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>Fiscal Year 2020</u>		
Differences Between Expected and Actual Experience	\$ -	\$ (24,953)
Changes of Assumptions	247,984	(80,647)
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	13,717	-
Change in Proportionate Share	10,127	(7,500)
Employer's Contribution Subsequent to the Measurement Date	<u>-</u>	<u>-</u>
Total	<u>\$271,828</u>	<u>\$(113,100)</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 \$597 to \$1,436 for single coverage and \$1,455 to \$3,553 for family coverage. The employers do not directly pay any portion of the premium for participating retirees.

To determine the total OPEB liability for the program, the actuary performed an actuarial valuation as of January 1, 2019, and adjusted for changes such as interest earned, contributions paid, and benefits paid through June 30, 2020. 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, 2021, the Lottery reported a liability of \$457,117 for its proportionate share of the total OPEB liability compared to \$598,686 as of June 30, 2020.

The Lottery recognized OPEB expense/(revenue) for the State Retiree Health Insurance program reported in the Salaries and Fringe Benefits account of (\$33,274) and (\$100,573) for the fiscal years ended June 30, 2020, and June 30, 2021, respectively.

As of June 30, 2021, 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		
<u>Fiscal Year 2021</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 47,789	\$ (28,884)
Changes of Assumptions	41,143	(236,941)
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	-	-
Change in Proportionate Share	822	(16,400)
Employer's Contribution Subsequent to the Measurement Date	<u>33,768</u>	<u>-</u>
Total	<u>\$123,522</u>	<u>\$(282,225)</u>
<u>Fiscal Year 2020</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 52,510	\$ (3,200)
Changes of Assumptions	45,198	(251,208)
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	-	-
Change in Proportionate Share	911	(11,745)
Employer's Contribution Subsequent to the Measurement Date	<u>49,828</u>	<u>-</u>
Total	<u>\$148,447</u>	<u>\$(266,153)</u>

C. Supplemental Health Insurance Conversion Credit Program

The SHICC program was established by s. 40.95, Wis. Stats., and is defined in the state compensation plan by s. 230.12 (9), Wis. Stats. The SHICC program allows members with more than 15 years of eligible service to convert unused sick leave balances into credits to pay for post-retirement health insurance premiums. The SHICC benefit provides a limited match of the members credits earned through the Accumulated Sick Leave Conversion Credit (ASLCC) program. ASLCC program credits are computed at the time of retirement, layoff, or death by multiplying the number of hours of unused sick leave by the highest hourly pay rate at which the employee accrued sick leave that is eligible for conversion. Employment category and number of years of service are also factored into the calculation. The SHICC program also includes a provision for the restoration of 500 hours of credits upon retirement, layoff, or death provided at least 500 hours 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, 2020. During the reporting period, the SHICC program recognized \$10,790 in contributions from the Lottery.

As of June 30, 2021, the Lottery reported an asset of \$209,119 for its proportionate share of the net OPEB asset compared to \$119,166 as of June 30, 2020. The June 30, 2021 net OPEB asset was measured as of December 31, 2020, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2020. As of December 31, 2020, the Lottery's proportion was 0.17 percent, which was a decrease of 0.02 percent as of December 31, 2019.

The Lottery recognized OPEB expense/(revenue) for the SHICC program reported in the Salaries and Fringe Benefits account of (\$13,137) and (\$20,558) for fiscal years ended June 30, 2020, and June 30, 2021, respectively.

As of June 30, 2021, 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 2021</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ -	\$ (104,301)
Changes of Assumptions	14,092	-
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	-	(85,188)
Change in Proportionate Share	-	(428)
Employer's Contribution Subsequent to the Measurement Date	<u>400</u>	<u>-</u>
Total	<u>\$14,492</u>	<u>\$(189,917)</u>
<u>Fiscal Year 2020</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ -	\$ (80,559)
Changes of Assumptions	15,452	-
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	-	(45,835)
Change in Proportionate Share	-	(136)
Employer's Contribution Subsequent to the Measurement Date	<u>5,049</u>	<u>-</u>
Total	<u>\$20,501</u>	<u>\$(126,530)</u>

8. ANNUITY PRIZES PAYABLE

The Lottery has an unconditional obligation to pay all prize winners the future value of their prizes. The present value of future jackpot prize payment obligations is included in the financial statements as "Annuity Prizes Payable." To finance the annuity prize payments, the Lottery purchases, or has acquired from MUSL, investments scheduled to mature near the time prize payments become payable to the winners. For information on the investments for prize annuities, see Note 3. Each year, an adjustment to the Annuity Prizes Payable account is made using the effective interest method. The amortization of annuity adjustment was \$506,869 for FY 2020-21 and \$711,654 for FY 2019-20.

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, 2021</u>
2022	\$2,739,037
2023	2,387,660
2024	1,050,649
2025	321,704
2026	334,258
Following Years	<u>1,572,271</u>
Total Future Prize Payments	8,405,579
Less: Present Value Adjustment	<u>(969,090)</u>
Present Value of Future Prize Payments	<u>\$7,436,489</u>

Annuity prizes payable activity for the fiscal years ended June 30, 2021, and June 30, 2020, 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>
2020-21	\$10,725,406	\$506,869	\$(3,795,786)	\$ 7,436,489	\$ 2,716,853
2019-20	14,070,966	711,654	(4,057,214)	10,725,406	3,711,861

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 its option to renew this contract, which now has an expiration date of October 31, 2022. This is the second of the five one-year renewals.

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

In addition, the Lottery purchased ticket printing services of approximately \$2.1 million in FY 2020-21 and approximately \$1.9 million in FY 2019-20.

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, 2023. This is the first one-year renewal. The Lottery purchased \$0 in ticket printing services for pull-tabs in FY 2020-21 compared to \$27,145 in FY 2019-20.

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 percent of instant scratch-off ticket printing, warehousing, distribution, and telemarketing services. Net vendor service payments to IGT were approximately \$23.1 million in FY 2020-21 and approximately \$18.8 million in FY 2019-20.

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 previously contracted with Hoffman York Inc., in FY 2020-21 and FY 2019-2020. Payments to Hoffman York Inc., were approximately \$7.8 million during FY 2020-21 and \$8.3 million during FY 2019-20, while total spending on product information costs was approximately \$8.4 million during FY 2020-21 and \$8.4 million during FY 2019-20.

10. RESTRICTED NET POSITION

The Lottery had a net position invested in capital assets of \$86,374 as of June 30, 2021, and \$113,592 as of June 30, 2020.

The Lottery had a restricted net position for pensions of \$1,553,124 as of June 30, 2021, and \$874,838 as of June 30, 2020, because it reported a net pension asset. Amounts restricted for pensions can be primarily attributed to adjustments required by governmental accounting standards for the WRS.

The Lottery had a restricted net position for OPEB of \$209,119 as of June 30, 2021, and \$119,166 as of June 30, 2020. Amounts restricted for OPEBs can be primarily attributed to adjustments required by governmental accounting standards.

The Lottery also had a restricted net position related to MUSL reserves, as described in Note 5. The restricted net position related to the MUSL reserves was \$6,096,168 as of June 30, 2021, and \$6,431,453 as of June 30, 2020.

The Lottery also had a restricted net position for investment fair value adjustments of \$741,293 as of June 30, 2021, and \$1,258,816 as of June 30, 2020. 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 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 \$83,069,130 as of June 30, 2021, and \$19,192,067 as of June 30, 2020.

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 2020-21 was \$236,300,163 compared to \$270,402,070 for FY 2019-20.

12. TRANSFERS IN FROM GENERAL FUND

2019 Wisconsin Act 9 directed a transfer of \$73.1 million in FY 2020-21 compared to \$71.7 million in FY 2019-20 of general purpose revenue from the General Fund to the Lottery Fund. This transfer was to be applied towards retailer commissions, vendor fees and certain general program operations. The actual transfer amount to Lottery was \$71.8 million in FY 2020-21 compared to \$70.8 million in FY 2019-20.

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Supplementary Schedules

Statutorily Defined Lottery Administrative Expenses for the Years Ended June 30, 2021, June 30, 2020, and June 30, 2019

	Year Ended June 30, 2021	Year Ended June 30, 2020	Year Ended June 30, 2019
ADMINISTRATIVE EXPENSES			
Instant and Lotto Vendor Services	\$ 23,127,310	\$ 18,804,094	\$ 18,290,471
Product Information Costs	8,415,498	8,443,164	8,467,617
Instant Ticket Printing Costs	2,313,882	2,658,577	1,906,778
Salaries and Fringe Benefits	5,596,641	6,045,441	5,663,494
Supplies and Services	3,063,895	2,508,372	4,809,574
Depreciation Expense	27,218	27,960	28,862
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	239,078	196,655	224,430
Transfers Out—General Fund	21,834	53,360	399,270
Total Administrative Expenses as Determined in Accordance with s. 25.75 (3) (b), Wis. Stats.	<u>\$ 43,201,356</u>	<u>\$ 39,133,623</u>	<u>\$ 40,186,496</u>
Gross Lottery Revenues per s. 25.75 (1) (b), Wis. Stats.	\$ 894,592,291	\$ 725,473,542	\$ 713,189,448
Administrative Expenses as a Percentage of Gross Lottery Revenues	4.83%	5.39%	5.63%

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

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

Summary of Prize Expenses for the Years Ended June 30, 2017, through June 30, 2021

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

	Fiscal Year 2020-21		
	Prize Expense	Ticket Sales	Prize Expense as a Percentage of Sales
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		
	Prize Expense	Ticket Sales	Prize Expense as a Percentage of Sales
Instant Games	\$ 347,601,836	\$ 513,741,682	67.7%
Lotto Games	105,920,550	211,698,030	50.0
Total for Fiscal Year	\$ 453,522,386	\$ 725,439,712	62.5

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

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

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

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



STATE OF WISCONSIN
Legislative Audit Bureau

Report 22-7

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

Senator Robert Cowles, Co-chairperson
Joint Legislative Audit Committee

Mr. Peter Barca, Secretary
Department of Revenue

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

We have audited the financial statements and the related notes of the Wisconsin Lottery as of and for the years ended June 30, 2021, and June 30, 2020, and have issued our report thereon dated June 22, 2022. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, which is issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent misstatements, or to detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the Wisconsin Lottery financial statements will not be prevented, or that a material misstatement will not be detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material

weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of This Report

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

LEGISLATIVE AUDIT BUREAU



June 22, 2022