



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

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FOR RELEASE

March 8, 2024

Auditor of State Rob Sand today released an audit report on the Iowa Lottery Authority for the year ended June 30, 2023. The Iowa Lottery Authority oversees the marketing of lottery games and performs the administrative duties necessary to maximize the amount of money deposited to the State General Fund. Total operating revenues for the year ended June 30, 2023 increased 11.29% over the prior year.

Comparative operating data is as follows:

| | Year Ended June 30, 2023 | Year Ended June 30, 2022 | % Increase (Decrease) |
|--|--------------------------------|--------------------------------|-----------------------------|
| Revenues: | | | |
| Scratch ticket sales | \$ 293,580,116 | 293,126,549 | 0.15% |
| Instaplay sales | 31,817,614 | 23,436,815 | 35.76% |
| Pick 3 sales | 9,128,652 | 9,265,786 | (1.48%) |
| Pick 4 sales | 5,798,109 | 5,602,823 | 3.49% |
| Powerball sales | 65,632,085 | 53,076,000 | 23.66% |
| Mega Millions sales | 43,758,227 | 20,375,167 | 114.76% |
| Lucky for Life sales | 8,419,258 | 8,071,004 | 4.31% |
| Lotto America sales | 10,387,460 | 7,011,217 | 48.15% |
| Pull-tab sales | 13,011,623 | 12,698,408 | 2.47% |
| Other | 29,049 | 26,383 | 10.10% |
| Total operating revenues | 481,562,193 | 432,690,152 | 11.29% |
| Prize expense | 305,254,192 | 274,214,108 | 11.32% |
| Other expense | 67,267,970 | 59,472,764 | 13.11% |
| Proceeds deposited to the State's General Fund | 105,718,373 | 95,251,422 | 10.99% |
| Proceeds deposited to the Veteran's Trust Fund | 2,500,000 | 2,500,000 | 0.00% |
| Proceeds deposited to the Public Safety Survivor Benefits Fund | 100,000 | 100,000 | 0.00% |
| Proceeds deposited to the DOC Survivor Benefits Fund | 100,000 | 100,000 | 0.00% |

An analysis of prizes awarded for the year ended June 30, 2023 is as follows:

| | | |
|-----------------------|---|-----------------------------|
| Scratch ticket prizes | = | 68% of Scratch ticket sales |
| Instaplay prizes | = | 75% of Instaplay sales |
| Pick 3 prizes | = | 60% of Pick 3 sales |
| Pick 4 prizes | = | 65% of Pick 4 sales |
| Powerball prizes | = | 50% of Powerball sales |
| Mega Millions prizes | = | 50% of Mega Millions sales |
| Lucky for Life prizes | = | 59% of Lucky for Life sales |
| Lotto America prizes | = | 50% of Lotto America sales |
| Pull-tab prizes | = | 63% of Pull-tab sales |

The Iowa Lottery Authority spent \$9,235,256 on advertising production and media purchases for the year ended June 30, 2023, representing 1.92% of revenue. Iowa law allows the Iowa Lottery Authority to spend up to 4% of revenue for the marketing of lottery games.

AUDIT FINDINGS:

Sand reported one finding related to the Iowa Lottery Authority. The finding is on page 58 of this report. Sand recommended the Authority establish policies and procedures to ensure additional oversight be performed to monitor compliance with Iowa Code Chapter 68B – Government Ethics and Lobbying. The Authority’s response to this recommendation is included in the report.

Management of the Iowa Lottery Authority has a fiduciary responsibility to provide oversight of the Authority’s operations and financial transactions. Oversight is typically defined as the “watchful and responsible care” management exercises in its fiduciary capacity.

A copy of the audit report is available for review on the Auditor of State’s website at [Audit Reports – Auditor of State](#).

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IOWA LOTTERY AUTHORITY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2023



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006
Telephone (515) 281-5834 Facsimile (515) 281-6518

December 22, 2023

Iowa Lottery Authority
Des Moines, Iowa

To the Members of the Iowa Lottery Authority:

I am pleased to submit to you the financial and compliance audit report for the Iowa Lottery Authority for the year ended June 30, 2023. The audit was performed pursuant to Chapter 99G.40(5) of the Code of Iowa and in accordance with U.S. auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of the Iowa Lottery Authority throughout the audit. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand".

Rob Sand
Auditor of State

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Iowa Lottery Authority



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STATE OF IOWA**

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Independent Auditor's Report

To the Board Members of the Iowa Lottery Authority:

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Iowa Lottery Authority, a component unit of the State of Iowa, as of and for the year ended June 30, 2023, and the related Notes to Financial Statements, which collectively comprise the Iowa Lottery Authority's basic financial statements listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Iowa Lottery Authority as of June 30, 2023 and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report. We are required to be independent of the Iowa Lottery Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matters

As discussed in Note 1, the financial statements of the Iowa Lottery Authority are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the component unit of the State of Iowa that is attributable to the transactions of the Iowa Lottery Authority. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2023, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Also, as discussed in Note 11 to the financial statements, the Iowa Lottery Authority adopted new accounting guidance related to Governmental Accounting Standards Board Statement No. 96, Subscription-Based Information Technology Arrangements. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Iowa Lottery Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and Government Auditing Standards, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Iowa Lottery Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Iowa Lottery Authority's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of the Lottery's Proportionate Share of the Net Pension Liability, the Schedule of the Lottery's Contributions and the Schedule of Changes in the Lottery's Total OPEB Liability, Related Ratios and Notes on pages 8 through 11 and 38 through 46 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Iowa Lottery Authority's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the five years ended June 30, 2022 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplementary information in Schedules 1 through 5 is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 22, 2023 on our consideration of the Iowa Lottery Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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 results of that testing and not to provide an opinion on the effectiveness of the Authority'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 in considering the Iowa Lottery Authority's internal control over financial reporting and compliance.


Ernest H. Ruben, Jr., CPA
Deputy Auditor of State

December 22, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Iowa Lottery Authority (Lottery) provides this Management's Discussion and Analysis of the Lottery's annual financial statements. This narrative overview and analysis of the financial activities of the Lottery is for the fiscal year ended June 30, 2023. We encourage readers to consider this information in conjunction with the Lottery's financial statements, which follow this section.

2023 FINANCIAL HIGHLIGHTS

- The Lottery implemented Governmental Accounting Standards Board Statement (GASBS) No. 96, Subscription-Based Information Technology Arrangements (SBITAs), during fiscal year 2023. The implementation of this standard had no effect on the beginning net position.
- The Lottery raised \$108.4 million in proceeds for state programs in fiscal year 2023, the highest proceeds amount for the Lottery since its start in 1985.
- Lottery sales totaled \$481.5 million in fiscal year 2023, an increase of \$48.8 million over the prior year's sales of \$432.7 million.
- Prizes to players totaled \$305.3 million for the Lottery during the fiscal year.
- Sales of scratch tickets totaled \$293.6 million in fiscal year 2023.
- Since the Lottery's inception in 1985, its players have won more than \$5.5 billion in prizes while the Lottery has raised more than \$2.3 billion for state programs.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the Lottery's basic financial statements and provides an analytical overview of the Lottery's financial activities.

The Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows provide information about the activities of the Lottery as a whole and present an overall view of the Lottery's finances.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a Schedule of the Lottery's Proportionate Share of the Net Pension Liability and a Schedule of Lottery Contributions and related notes, as well as presenting a Schedule of Changes in the Lottery's Total OPEB Liability, Related Ratios and Notes.

Supplementary Information provides detailed information about the Lottery and includes the following: Schedule 1 provides detailed information about other operating expenses by object; Schedule 2 shows a comparison of revenues, expenses and changes in net position of the current year to the prior year; and Schedule 3 provides an analysis of net position. In addition, Schedule 4 presents revenues by game over the past six years while Schedule 5 presents prize payouts by game over the past six years.

REPORTING THE LOTTERY AS A WHOLE

One of the most important questions asked about the Lottery's finances is, "Is the Lottery as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Lottery as a whole and its activities in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The Lottery's financial statements include the following statements:

The Statement of Net Position presents all of the Lottery's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as "net position". Per Section 99G.39 of the Code of Iowa, two million five hundred thousand dollars in lottery revenues are to be deposited each fiscal year to the Iowa Veteran's Trust Fund and one hundred thousand dollars in lottery revenues are to be deposited each fiscal year to the Public Safety Survivor Benefits Fund and the Department of Corrections Survivor Benefits Fund, prior to the deposit of lottery revenues in the State General Fund. In addition, Sections 99G.2 and 99G.40 of the Code of Iowa require net proceeds of lottery games be deposited to the State's General Fund on a quarterly basis. However, the Lottery may retain an amount sufficient to cover anticipated administrative expenses for a period of 21 (twenty-one) days. Net position is calculated as the sum of cash retained for vehicle purchases, ticket inventories, net investment in capital assets and deferred outflows of resources, netted against the net pension liability, the other post-employment benefit liability and deferred inflows of resources.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Lottery's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the event or change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal years. Both ticket sales and related proceeds deposited to the State serve as useful indicators of the Lottery's future ability to provide a steady, reliable stream of revenue to the State.

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where cash came from, what was cash used for and what was the change in cash and cash equivalents during the fiscal year.

FINANCIAL ANALYSIS

The Lottery's assets totaled \$52.7 million at the end of fiscal year 2023 compared to \$52.3 million at the end of the previous year, an increase of \$0.4 million. The change in assets was primarily due to: (a) a decrease of \$2.5 million in accounts receivable due to fewer days of accruals for sales activity at the end of fiscal year 2023 compared to fiscal year 2022 and (b) an increase of \$0.6 million in ticket inventories, (c) an increase of \$0.2 million in prize reserves, and (d) an increase of \$2.1 million in cash.

Current liabilities decreased \$0.4 million during fiscal year 2023, primarily due to (a) a \$0.9 million decrease in the amount of proceeds to be deposited to the State General Fund for the fourth quarter, (b) a \$0.4 million increase in lotto prizes payable, (c) an increase of \$0.5 million in InstaPlay prizes payable and (d) a decrease of \$0.4 million in other payables due.

Net investment in capital and lease assets decreased \$0.1 million from fiscal year 2022. Unrestricted net position represents assets used to meet the Lottery's ongoing obligations to vendors and creditors. Unrestricted net position increased \$1.4 million compared to the previous fiscal year.

| | Net Position | |
|--|---------------------|-------------------|
| | June 30, | |
| | 2023 | 2022 |
| Current assets | \$ 37,382,742 | 37,150,666 |
| Prize reserve | 4,975,966 | 4,771,772 |
| Investment in prize annuities | 774,253 | 834,623 |
| Capital assets: | | |
| Capital assets, net | 7,036,593 | 7,120,640 |
| Lease assets, net | 2,537,145 | 2,386,291 |
| Total assets | 52,706,699 | 52,263,992 |
| Deferred outflows of resources | 1,200,817 | 1,287,088 |
| Current liabilities | 32,279,165 | 32,709,255 |
| Long-term accounts payable and accruals | 94,965 | 67,273 |
| Long-term lease liability | 1,992,562 | 1,912,076 |
| Prize reserve | 4,975,966 | 4,771,772 |
| Other long-term liabilities | 5,588,545 | 2,210,710 |
| Long-term annuity prizes payable | 774,253 | 834,623 |
| Total liabilities | 45,705,456 | 42,505,709 |
| Deferred inflows of resources | 1,293,226 | 5,477,029 |
| Net position: | | |
| Net investment in capital and lease assets | 7,031,274 | 7,120,640 |
| Unrestricted | (122,440) | (1,552,298) |
| Total net position | \$ 6,908,834 | 5,568,342 |

The next schedule highlights the activity for fiscal year 2023 compared to fiscal year 2022.

| | Changes in Net Position | |
|---|-------------------------|---------------------|
| | Year ended June 30, | |
| | 2023 | 2022 |
| Operating revenues: | | |
| Ticket sales | \$ 481,533,144 | 432,663,769 |
| Application fees | 5,750 | 5,300 |
| Other | 23,299 | 21,083 |
| Total operating revenues | 481,562,193 | 432,690,152 |
| Operating expenses: | | |
| Prizes | 305,254,192 | 274,214,108 |
| Other operating expenses | 67,267,970 | 59,472,764 |
| Total operating expenses | 372,522,162 | 333,686,872 |
| Operating income | 109,040,031 | 99,003,280 |
| Non-operating revenues (expenses): | | |
| Proceeds to state causes | (108,418,373) | (97,951,422) |
| Interest income | 757,312 | 87,823 |
| Interest expense | (33,724) | (19,546) |
| Gain (loss) on disposal of capital assets | (4,754) | 46,657 |
| Net non-operating expenses | (107,699,539) | (97,836,488) |
| Changes in net position | 1,340,492 | 1,166,792 |
| Net position beginning of year | 5,568,342 | 4,401,550 |
| Net position end of year | \$ 6,908,834 | 5,568,342 |

Lottery sales for fiscal year 2023 were up approximately 11.3%, totaling \$481.5 million compared to \$432.7 million for fiscal year 2022. Scratch tickets generated \$293.6 million in sales, an increase of \$0.5 million from the previous year's \$293.1 million in sales. Lotto game sales (Pick 3, Pick 4, Powerball, Mega Millions, Lucky for Life and Lotto America) increased \$39.7 million mainly due to record jackpots in both Mega Millions and Powerball. Mega Millions had two jackpots during the fiscal year that exceeded \$1 billion, and Powerball experienced the largest jackpot in U.S. history of \$2.04 billion in November 2022. Instaplay sales increased \$8.4 million over the previous fiscal year due to the introduction of two \$30 Instaplay tickets in October 2022 as well as the size of the progressive jackpots. Pull-tab sales increased \$0.3 million over the prior fiscal year.

Prize expense is the largest operating expense and accounted for 63.4% of sales. Overall, prize expense increased 11.3% in fiscal year 2023 due to increased sales. The Lottery's other operating expenses, excluding prize expense, were up 13.1% in the current fiscal year. The largest operating expense is retailer compensation expense, which accounted for 6.5% of all sales. Retailers earned a total of \$31.3 million in commissions during fiscal year 2023, an increase of 10.8% from the previous year. This total includes incentive compensation paid to retailers during periods of high jackpot runs as well as bonus payments to retailers that sell jackpot-winning tickets in Powerball, Mega Millions, Lotto America and Lucky for Life and tickets winning prizes of at least \$100,000 in any lotto game.

Overall, the Lottery's proceeds for State programs increased 10.7% in fiscal year 2023, totaling \$108.4 million compared to \$98.0 million a year earlier. Proceeds deposited to the State's General Fund for fiscal year 2023 were \$105.7 million compared to the previous year's total of \$95.3 million. Proceeds deposited to the Iowa Veteran's Trust Fund totaled \$2.5 million in the current and prior fiscal years in accordance with Section 99G.39 of the Code of Iowa. Proceeds of \$0.1 million were deposited to each the Public Safety Survivor Benefits Fund and the Department of Corrections Survivor Benefits Fund in the current and prior fiscal years in accordance with Section 99G.39 of the Code of Iowa.

CAPITAL ASSETS, LEASE ASSETS, AND DEBT ADMINISTRATION

At June 30, 2023 the Lottery had \$14.1 million invested in capital assets, including leased assets, less accumulated depreciation/amortization of \$4.5 million, leaving a net book value of approximately \$9.6 million. Additional information about the Lottery's capital assets is presented in Note 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

During the 2023 legislative session, the General Assembly passed, and Governor Reynolds signed into law, SF514 which implemented the state realignment plan. As a result of this legislation, as of July 1, 2024, the Iowa Lottery Authority transitioned from being a separate independent authority of the State of Iowa to a separate division under the Iowa Department of Revenue. As such, the Iowa Lottery's budget is now reported to the Director of the Department of Revenue and included in that Department's overall budget for the year.

The Lottery's management considered many factors when establishing the fiscal year 2024 budget. These factors include fuel prices, competition from other sources and concentration of retailers. The Lottery is committed to providing budgeted proceeds totaling \$74.9 million to State programs in fiscal year 2024.

CONTACTING THE LOTTERY'S FINANCIAL MANAGEMENT

This financial report is designed to present users with a general overview of the Lottery's finances and demonstrate the Lottery's accountability for the funds generated. If you have questions about the report or need additional financial information, please contact the Finance Department, Iowa Lottery Headquarters, 13001 University Avenue, Clive, Iowa 50325.

Iowa Lottery Authority

Basic Financial Statements

Iowa Lottery Authority
Statement of Net Position
June 30, 2023

| | |
|---|----------------------------|
| Assets | |
| Current assets: | |
| Cash | \$ 27,827,366 |
| Restricted assets - cash | 756,137 |
| Prepaid expense | 184,318 |
| Interest receivable | 56,907 |
| Accounts receivable | 4,591,424 |
| Ticket inventories | 3,908,532 |
| Investment in prize annuities | <u>58,058</u> |
| Total current assets | <u>37,382,742</u> |
| Noncurrent assets: | |
| Prize reserve | 4,975,966 |
| Investment in prize annuities | 774,253 |
| Capital assets: | |
| Capital assets, net | 7,036,593 |
| Lease assets, net | <u>2,537,145</u> |
| Total noncurrent assets | <u>15,323,957</u> |
| Total assets | <u>52,706,699</u> |
| Deferred Outflows of Resources | |
| OPEB related deferred outflows | 356,000 |
| Pension related deferred outflows | <u>844,817</u> |
| Total Deferred Outflows of Resources | <u>1,200,817</u> |
| Liabilities | |
| Current liabilities: | |
| Lotto prizes payable | 4,455,118 |
| Instaplay prizes payable | 561,859 |
| Annuity prizes payable | 58,058 |
| Accounts payable and accruals | 25,011,531 |
| Lease liability | 549,902 |
| Unearned revenue | 469,225 |
| Salary and benefits payable | 313,749 |
| Compensated absences and OPEB | <u>859,723</u> |
| Total current liabilities | <u>32,279,165</u> |
| Long-term liabilities: | |
| Accounts payable and accruals | 94,965 |
| Lease liability | 1,992,562 |
| Compensated absences and OPEB | 2,062,527 |
| Net pension liability | 3,526,018 |
| Prize reserve | 4,975,966 |
| Annuity prizes payable | <u>774,253</u> |
| Total long-term liabilities | <u>13,426,291</u> |
| Total liabilities | <u>45,705,456</u> |
| Deferred Inflows of Resources | |
| OPEB related deferred inflows | 556,000 |
| Pension related deferred inflows | <u>737,226</u> |
| Total Deferred Inflows of Resources | <u>1,293,226</u> |
| Net Position | |
| Net investment in capital and lease assets | 7,031,274 |
| Unrestricted | <u>(122,440)</u> |
| Total net position | <u>\$ 6,908,834</u> |

See notes to financial statements.

Iowa Lottery Authority
Statement of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2023

| | |
|--|----------------------|
| Operating revenues: | |
| Sales: | |
| Scratch ticket | \$ 293,580,116 |
| Instaplay | 31,817,614 |
| Pick 3 | 9,128,652 |
| Pick 4 | 5,798,109 |
| Powerball | 65,632,085 |
| Mega Millions | 43,758,227 |
| Lucky for Life | 8,419,258 |
| Lotto America | 10,387,460 |
| Pull-tab | <u>13,011,623</u> |
| Total sales | 481,533,144 |
| Application fees | 5,750 |
| Other | <u>23,299</u> |
| Total operating revenues | <u>481,562,193</u> |
| Operating expenses: | |
| Prizes: | |
| Scratch ticket | 199,208,532 |
| Instaplay | 23,769,641 |
| Pick 3 | 5,477,191 |
| Pick 4 | 3,769,003 |
| Powerball | 32,734,985 |
| Mega Millions | 21,963,857 |
| Lucky for Life | 5,003,860 |
| Lotto America | 5,193,730 |
| Pull-tab | <u>8,133,393</u> |
| Total prizes | 305,254,192 |
| Retailer compensation | 31,307,795 |
| Advertising production and media purchases | 9,235,256 |
| Retailer lottery system/terminal communications | 8,191,177 |
| Scratch/pull-tab ticket expense | 3,496,322 |
| Vending machines & maintenance/ticket dispensers | 497,403 |
| Courier delivery of tickets | 1,321,114 |
| Other operating expenses | <u>13,218,903</u> |
| Total operating expenses | <u>372,522,162</u> |
| Operating income | <u>109,040,031</u> |
| Non-operating revenues (expenses): | |
| Proceeds to state causes | (108,418,373) |
| Interest income | 757,312 |
| Interest expense | (33,724) |
| Gain (loss) on disposal of capital assets | <u>(4,754)</u> |
| Net non-operating expenses | <u>(107,699,539)</u> |
| Change in net position | 1,340,492 |
| Net position beginning of year | <u>5,568,342</u> |
| Net position end of year | <u>\$ 6,908,834</u> |

See notes to financial statements.

Iowa Lottery Authority

Iowa Lottery Authority
Statement of Cash Flows
Year ended June 30, 2023

| | |
|---|-----------------------|
| Cash flows from operating activities: | |
| Cash received from customers | \$ 484,060,692 |
| Cash paid for prizes | (304,539,855) |
| Cash paid to retailers | (31,295,295) |
| Cash paid to suppliers for goods and services | (26,204,792) |
| Cash paid to employees for services | (10,574,854) |
| Other operating revenues | <u>29,049</u> |
| Net cash provided by operating activities | <u>111,474,945</u> |
| Cash flows from non-capital financing activities: | |
| Proceeds provided to the State | <u>(109,308,968)</u> |
| Cash flows from capital and related financing activities: | |
| Acquisition of capital assets | (440,934) |
| Proceeds from sale of capital assets | 37,457 |
| Principal paid on leases | (541,697) |
| Interest paid on leases | <u>(33,724)</u> |
| Net cash used for capital and related financing activities | <u>(978,898)</u> |
| Cash flows from investing activities: | |
| Interest income | 733,335 |
| Annuity payments received | <u>177,000</u> |
| Net cash provided by investing activities | <u>910,335</u> |
| Net increase in cash | 2,097,414 |
| Cash beginning of year | <u>26,486,089</u> |
| Cash end of year | <u>\$ 28,583,503</u> |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | <u>\$ 109,040,031</u> |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 482,770 |
| Amortization | 548,185 |
| Change in assets and liabilities: | |
| Prepaid expense | 52,779 |
| Accounts receivable | 2,462,376 |
| Ticket inventories | (626,390) |
| Accounts payable and accruals | (417,721) |
| Prizes payable | 855,316 |
| Unearned revenue | 65,172 |
| Compensated absences | (185,891) |
| Salary and benefits payable | 135,966 |
| Pension liability and related deferrals | (848,648) |
| OPEB liability and related deferrals | 88,000 |
| Prize annuities | <u>(177,000)</u> |
| Total adjustments | <u>2,434,914</u> |
| Net cash provided by operating activities | <u>\$ 111,474,945</u> |
| Noncash capital financing activities: | |
| Assets acquired under lease | <u>\$ 699,039</u> |

See notes to financial statements.

Iowa Lottery Authority

Notes to Financial Statements

June 30, 2023

(1) Summary of Significant Accounting Policies

The Iowa Lottery Authority was created by the 2003 Iowa Legislature as the successor to the Lottery Division of the Iowa Department of Revenue and Finance.

The Iowa Lottery Authority (Lottery), a component unit of the State of Iowa, is a public instrumentality of the State of Iowa with comprehensive and extensive powers to operate a state lottery. The Lottery has the responsibility to operate and manage lottery games in a manner to provide continuing entertainment to the public, maximize revenues and deposit the net proceeds to the General Fund of the State of Iowa and ensure the Lottery is operated with integrity and dignity and free from political influence. The Lottery oversees the marketing of lottery games and performs the administrative procedures necessary to ensure the most efficient and effective operation possible.

The head of the Lottery is a Chief Executive Officer appointed by the Governor. The Governor also appoints the Iowa Lottery Authority Board, consisting of five members.

The Board and Chief Executive Officer have joint responsibility for entering into major contracts, procuring the printing of scratch and pull-tab tickets and for the purchase or lease of equipment or services essential to the operation of a lottery game.

The Board must promulgate rules regarding the following:

- (a) Types, prize structure and price of lottery games.
- (b) Retailer licensing requirements, fees, incentives, locations and compensation.
- (c) Method of selecting winning tickets or shares, manner of prize payment, method of ticket validation, preliminary drawings and jackpot events, ticket printing and purchasing.

The organizational structure of the Lottery consists of five sections: Security, Finance, Systems, Sales and Marketing, and External Relations.

The financial statements of the Lottery have been prepared in conformity with U.S. generally accepted accounting principles as applied to governmental units. The more significant of the Lottery's accounting policies are described below.

A. Reporting Entity

For financial reporting purposes, the Lottery has included all funds. The Lottery has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Lottery are such that exclusion would cause the Lottery's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Lottery to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Lottery. The Lottery has no component units which meet the Governmental Accounting Standards Board criteria.

B. Fund Accounting

The Lottery is reported for accounting purposes as an Enterprise Fund. The operations of the fund are accounted for with self-balancing accounts which comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues and expenses. Enterprise Funds are used to report activities for which fees are charged to external users for goods or services.

C. Measurement Focus

Enterprise Funds are accounted for on a cost of services or “capital maintenance” measurement focus. This means all assets, deferred outflows of resources, liabilities, and deferred inflows of resources, whether current or non-current, associated with their activity are included in the Statement of Net Position, with the difference reported as net position. Enterprise Fund operating statements present increases (revenues) and decreases (expenses) in total net position.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Enterprise Fund is accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

The Lottery distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an Enterprise Fund’s principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

E. Budgets and Budgetary Accounting

Budgetary control is exercised over the Lottery by the Board and Chief Executive Officer through the budgetary process prescribed in Chapter 99G of the Code of Iowa.

F. Revenue Recognition

Sales of scratch, pull-tab, instaplay and lotto tickets are made to the public through licensed retailers. Scratch ticket sales are recognized when the retailer settles a pack of tickets. Revenues for pull-tab games are recognized upon the sale of tickets to the retailers. Instaplay ticket sales are recognized when the retailer sells the ticket to the player. Revenues for lotto games are recognized as the drawings are held. Unearned revenue represents lotto tickets sold for future prize drawings.

G. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

The following accounting policies are followed in preparing the basic financial statements:

Cash, Pooled Investments and Cash Equivalents

Generally, all cash is held on deposit with the Treasurer of State and is invested by that office. Interest on funds held by the State Treasurer is credited to the Lottery as received.

The Lottery also earned interest on the prize reserve maintained by the Multi-State Lottery Association (MUSL).

Restricted Assets – Cash

The Lottery retains cash for the purpose of purchasing replacement vehicles. Also included are annuity payments received by the Lottery during the fiscal year which are not owed to jackpot winners until the next fiscal year and cash deposits required from certain retailers.

Investments

Investments are reported at fair value. Insurance annuities are valued on the basis of future installment payments and are discounted using established annuity contract interest rates.

Ticket Inventories

Inventories consist of scratch tickets held by retailers which have not settled, scratch and pull-tab tickets held by the Lottery's sales representatives and scratch and pull-tab tickets stored in the main or regional warehouses for games in progress or new games. Inventories are carried at cost using the specific identification method. Tickets are charged to scratch/pull-tab ticket expense when sold or voided. Unsold tickets are expensed upon the end or cancellation of a lottery game.

Prize Reserve

The Lottery makes weekly payments to the MUSL. Such payments are for the purpose of funding jackpot prizes and funding an errors and omissions reserve.

Capital Assets

Capital assets, which include buildings, vehicles and equipment, are defined by the Lottery as assets with an initial individual cost of more than \$50,000 for buildings and \$5,000 for vehicles and equipment and an estimated useful life in excess of three years and assets purchased through special financing arrangements. Such assets are recorded at historical cost.

The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciation is computed using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|---------------|--------------|
| Buildings | 50 |
| Equipment | 5 - 25 |
| Vehicles | 3 - 4 |

Leases

The Lottery is the lessee for noncancellable leases of equipment and office space. The Lottery has recognized an intangible right-to-use lease asset (lease asset) and a lease liability in the government-wide financial statements. The Lottery recognizes lease assets and liabilities with an initial, individual value of \$50,000 or more.

At the commencement of a lease, the Lottery initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life. Useful lives for leases are the same as capital assets, the measurement of which is discussed under "Capital Assets" above.

Key estimates and judgments related to leases include how the Lottery determines the discount rate it uses to discount the expected lease payments to present value, lease term and lease payments.

The Lottery uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Lottery uses its estimated incremental borrowing rate as the discount rate for leases.

The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and a purchase option price that the Lottery is reasonably certain to exercise.

The Lottery monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with noncurrent assets and lease liabilities are reported with current and long-term liabilities on the Statement of Net Position.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position applicable to a future year(s) which will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension and OPEB expense and contributions from the Lottery after the measurement date but before the end of the Lottery's reporting period.

Prize Liabilities

The prize liabilities for the Pick 3, Pick 4, and Lucky for Life games are determined and recognized daily after the drawings are held. The prize liabilities for Powerball, Mega Millions, and Lotto America are determined and recognized after the jackpot drawings are held. The prize liabilities for Instaplay games are recognized daily when the tickets are sold. Prizes for the Pick 3 and Pick 4 games may be claimed up to 90 days after the drawings are held. Prizes for Powerball, Mega Millions, Lotto America and Lucky for Life may be claimed up to 365 days after the drawings are held. Beginning April 2023, prizes in these games may be claimed up to 180 days after drawings are held. Prizes for Instaplay must be claimed within 90 days from date of purchase.

Lotto games are drawn on the following schedule:

| <u>Game</u> | <u>Drawn</u> |
|----------------|---------------|
| Pick 3 | Twice daily |
| Pick 4 | Twice daily |
| Powerball | Mon, Wed, Sat |
| Mega Millions | Tues, Fri |
| Lucky for Life | Daily |
| Lotto America | Mon, Wed, Sat |

Compensated Absences and Other Postemployment Benefits (OPEB)

Employees accumulate a limited amount of earned but unused vacation and sick leave for subsequent use, for payment of the employer portion of insurance premiums upon retirement or for payment upon termination, death or retirement. The liabilities recorded for compensated absences are based on current rates of pay and current insurance rates.

The State of Iowa provides access to postretirement medical benefits to all retirees as required by Chapter 509A.13 of the Code of Iowa. Although the retirees generally must pay 100% of the premium, GASB Statement No. 75 requires employers recognize the implicit rate subsidy in postretirement medical plans provided by governmental employers.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. 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.

Total OPEB Liability

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information has been determined based on the Lottery's proportionate share of the State of Iowa's actuarial information. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position applicable to a future year(s) which will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of the unamortized portion of the net difference between projected and actual earnings on IPERS' plan investments and the unrecognized items not yet credited to pension and OPEB expense.

(2) Deposits and Investments

The Lottery's deposits with the Office of the Treasurer of State throughout the period and at June 30, 2023 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa.

The Lottery held investments totaling \$832,311 for the purpose of paying installment prizes. The Lottery may invest in financial instruments carrying the full faith and credit of the U.S. government or insurance annuities.

The Lottery is responsible for investing in insurance annuities. The Lottery had investments in insurance annuities totaling \$832,311 which are not subject to credit risk categorization.

The Lottery uses the fair value hierarchy established by generally accepted accounting principles based on the valuation inputs used to measure the fair value of the asset. 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 fair value measurements, categorized by level of the fair value hierarchy, for the investments at June 30, 2023 are as follows:

| <u>Investment Type</u> | <u>Significant Unobservable Inputs (Level 3)</u> |
|------------------------|--|
| Fixed: | |
| Other fixed income | <u>\$ 832,311</u> |

(3) Investment in Prize Annuities and Annuity Prizes Payable

Investments totaling \$832,311 are held by the Lottery for the purpose of paying installment prizes which have already been won but will not be fully paid until 2040. Annuity liabilities to fund jackpot winners are valued at an amount equal to the carrying values of the respective assets held to fund the annuity obligations. The following is a schedule of future payments:

| Year ending June 30, | Current | Long-term | Total |
|---------------------------|-----------|-----------|---------|
| 2024 | \$ 50,000 | - | 50,000 |
| 2025 | - | 50,000 | 50,000 |
| 2026 | - | 50,000 | 50,000 |
| 2027 | - | 50,000 | 50,000 |
| 2028 | - | 50,000 | 50,000 |
| 2029-2033 | - | 250,000 | 250,000 |
| 2034-2038 | - | 200,000 | 200,000 |
| 2039-2040 | - | 50,000 | 50,000 |
| Total future value | 50,000 | 700,000 | 750,000 |
| Add: unamortized premium | 8,058 | 74,253 | 82,311 |
| Present value of payments | \$ 58,058 | 774,253 | 832,311 |

(4) Capital Assets

Capital assets activity for the year ended June 30, 2023 was as follows:

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year |
|--|---------------------------------|-----------|-----------|---------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,592,000 | - | - | 1,592,000 |
| Capital assets being depreciated: | | | | |
| Buildings | 4,515,908 | - | - | 4,515,908 |
| Equipment | 2,985,215 | 163,949 | 57,541 | 3,091,623 |
| Vehicles | 1,180,246 | 276,985 | 89,827 | 1,367,404 |
| Total capital assets being depreciated | 8,681,369 | 440,934 | 147,368 | 8,974,935 |
| Less accumulated depreciation for: | | | | |
| Buildings | 650,877 | 109,314 | - | 760,191 |
| Equipment | 1,853,760 | 189,245 | 46,105 | 1,996,900 |
| Vehicles | 648,092 | 184,211 | 59,052 | 773,251 |
| Total accumulated depreciation | 3,152,729 | 482,770 | 105,157 | 3,530,342 |
| Total capital assets being depreciated, net | 5,528,640 | (41,836) | 42,211 | 5,444,593 |
| Capital assets, net | \$ 7,120,640 | (41,836) | 42,211 | 7,036,593 |

Lease assets activity for the year ended June 30, 2023 was as follows:

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year |
|--|---------------------------------|-----------|-----------|---------------------------|
| Lease assets being amortized: | | | | |
| Buildings | \$ 961,070 | 553,189 | - | 1,514,259 |
| Equipment | 1,854,587 | 145,850 | - | 2,000,437 |
| Total lease assets being amortized | 2,815,657 | 699,039 | - | 3,514,696 |
| Less accumulated amortization for: | | | | |
| Buildings | 112,918 | 197,731 | - | 310,649 |
| Equipment | 316,448 | 350,454 | - | 666,902 |
| Total accumulated amortization | 429,366 | 548,185 | - | 977,551 |
| Total lease assets being amortized, net | 2,386,291 | 150,854 | - | 2,537,145 |
| Lease assets, net | \$ 2,386,291 | 150,854 | - | 2,537,145 |

(5) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2023 are summarized as follows:

| | Balance June 30, 2022 | Additions | Deletions | Balance June 30, 2023 | Due Within One Year |
|--------------------------------------|--------------------------|-----------|-----------|--------------------------|------------------------|
| Lease liability | \$ 2,385,122 | 699,039 | 541,697 | 2,542,464 | 549,902 |
| Compensated absences | 1,954,141 | 834,498 | 1,020,389 | 1,768,250 | 798,907 |
| Total OPEB liability | 1,212,000 | - | 58,000 | 1,154,000 | 60,816 |
| Termination benefits for retirees | 113,848 | 107,572 | 54,661 | 166,759 | 71,794 |
| Net pension liability | 131,134 | 3,394,884 | - | 3,526,018 | - |
| Total | \$ 5,796,245 | 5,035,993 | 1,674,747 | 9,157,491 | 1,481,419 |

Lease Liability

The Lottery has entered into multiple agreements to lease certain office space and equipment. The lease agreements qualify as leases under GASB 87 and, therefore, have been recorded at the present value of the future minimum lease payments as of their inception using an implicit discount rate of 1.08% for leases effective prior to July 1, 2022 and 1.76% for leases effective during fiscal year 2023. The details of the lease agreements follow:

| Effective Date | Description | Term | Initial Liability | Payment Per Month | Liability at June 30, 2023 |
|-------------------|-------------------------|----------|----------------------|----------------------|-------------------------------|
| July 1, 2021 | Static billboards | 5 yrs | \$ 1,342,596 | \$21,209* | \$ 813,562 |
| July 1, 2021 | Office space | 5 yrs | 341,148 | \$5,838 | 206,708 |
| August 21, 2021 | Vending machines/kiosks | 5 yrs | 185,826 | \$3,180 | 115,671 |
| October 1, 2021 | Office space | 8 yrs | 215,510 | \$2,342 | 169,792 |
| December 1, 2021 | Office space | 9.58 yrs | 404,412 | \$3,700 | 340,142 |
| March 1, 2022 | Static billboards | 10 yrs | 315,635 | \$3,335 | 266,201 |
| July 1, 2022 | Warehouse space | 9 yrs | 553,189 | \$5,214 to \$5,716 | 499,100 |
| September 1, 2022 | Static billboards | 10 yrs | 145,850 | \$981 to \$1,639 | 131,288 |
| | | | | | \$ 2,542,464 |

* - payment every 4 weeks

A schedule of lease principal and interest payments to maturity follows:

| Year Ending June 30, | Principal | Interest | Amount |
|----------------------------|--------------|----------|-----------|
| 2024 | \$ 549,902 | 28,797 | 578,699 |
| 2025 | 556,365 | 22,334 | 578,699 |
| 2026 | 562,905 | 15,794 | 578,699 |
| 2027 | 183,271 | 11,061 | 194,332 |
| 2028 | 171,721 | 8,633 | 180,354 |
| 2029-2033 | 518,300 | 12,242 | 530,542 |
| Total | \$ 2,542,464 | 98,861 | 2,641,325 |

Subscription Liability

A subscription-based information technology arrangement (SBITA) is defined as a contractual agreement that conveys control of the right to use another party's information technology software, alone or in combination with tangible capital assets (the underlying information technology assets), as specified in the contract for a minimum contractual period greater than one year, in an exchange or exchange-like transaction.

On July 11, 2021, the Iowa Lottery Authority entered into a subscription-based information technology arrangement for the Computer Gaming System (CGS) and related products and services. The agreement requires variable payments based on a percentage of weekly sales of games with an initial term of 10 years with the option to extend for up to five additional years. The baseline rate of payment is 1.7497% of sales for the first 10 years and if the renewal period is exercised, the rate of payment decreases to 1.225% for the following 2 years and to 1.1% of sales for the remaining 3 years. The Iowa Lottery also has the option to utilize sixty "PlayCentral 54" kiosks for 0.0551% of total lottery sales for the duration of the term of the agreement. In accordance with GASB Statement No. 96, variable payments based on future performance of a government (i.e., sales) should not be included in the measurement of the subscription liability, therefore no liability is reported under this agreement. During the year ended June 30, 2023, the Iowa Lottery Authority paid a total of \$7.9 million on this agreement.

Sick Leave Insurance Program (SLIP) – The Sick Leave Insurance Program is a voluntary termination benefit program. The program is an opportunity for employees who are retirement-eligible to use the value of their unused sick leave to pay the employer share of the monthly premium of the state's group health insurance plan after retirement. A SLIP liability is reported for both current, active Lottery employees and retirees. The SLIP liability for current, active employees is included in compensated absences and the liability for retirees is included in accounts payable and accruals.

Upon retirement, employees shall first receive a cash payment for accumulated, unused sick leave converted at the employee’s current regular hourly rate of pay, up to \$2,000, payable with the final payroll warrant that includes the employee’s retirement date. The value of the remaining balance of the accrued sick leave will be converted based upon the original balance (before the cash payment). The remainder of the sick leave value is calculated as follows, based on the number of sick leave hours the employee had before the cash payment:

| If the sick leave balance is: | The conversion rate is: |
|--------------------------------------|--------------------------------|
| Zero to 750 hours | 60% of the value |
| Over 750 hours to 1,500 hours | 80% of the value |
| Over 1,500 hours | 100% of the value |

The final calculated dollar value was credited to the employee’s SLIP account. Each month, the Lottery pays 100% of the employer share of the selected state group health insurance premium from the retiree’s SLIP account. The retiree is responsible for any additional premiums associated with the employee/retiree share.

The Lottery will continue to pay the employer’s share of the health insurance premium each month until the converted value of the employee’s sick leave balance is exhausted, the employee is eligible for Medicare, the employee waives the benefit, or the employee dies, whichever comes first. The retired employees may stay with the same health insurance program as when employed or switch down at any time without underwriting. The converted value of the sick leave can only be applied to the employer’s share of health insurance premium payments. It has no cash value and is not transferable to another use or to an heir.

If a retired employee who has utilized this benefit returns to permanent State employment, all remaining balances in the SLIP account will be forfeited.

All SLIP program benefits are financed on a pay-as-you-go basis. Amounts due for this program have been recorded as a liability in the financial statements.

For the year ended June 30, 2023, eight employees have retired and received benefits totaling \$54,661 under the SLIP program.

Other Postemployment Benefits (OPEB)

Plan Description – The Lottery’s employees are provided with OPEB through the State of Iowa OPEB Plan – a cost-sharing, multiple-employer defined benefit OPEB plan administered by the State of Iowa (State OPEB Plan). The State of Iowa provides access to postretirement medical benefits to all retirees as required by Chapter 509A.13 of the Code of Iowa. Although the retirees generally must pay 100% of the premium rate, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75), requires that employers recognize the Implicit Rate Subsidy that exists in postretirement medical plans provided by governmental employers.

Implicit Rate Subsidy refers to the concept that retirees under the age of 65 (i.e., not eligible for Medicare) generate higher claims on average than active participants. When a medical plan is self-insured or fully insured through a third-party administrator, a premium is usually determined by analyzing the claims of the entire population in the plan and adjusting for administrative costs. The resulting premium is called a blended premium because it blends the claims of active and retired participants. Since individuals generally have more and higher claims as they get older, the blended premium paid for retirees is lower than their expected claims. Another way of considering this is that if the retirees were removed from the plan, the premium for the active group would be lower; therefore, the retirees' premiums are being subsidized by the active group. Since the employer generally pays a large portion or all of the premiums for the active group, this subsidy creates a liability for the employer. The difference between the expected claims for the retiree group and the blended premium is called the Implicit Rate Subsidy.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

Plan Membership – There are 161 active and 1 retired participants in the plan.

Plan Benefits – The State OPEB Plan currently offers 3 plans which are available to participants: the Iowa Choice Plan, the National Choice Plan and the SPOC (State Police Officer's Council) Plan.

The contribution requirements of the plan participants are established and may be amended by the State Legislature. The State currently finances the retiree benefit plan on a pay-as-you-go basis.

OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – At June 30, 2023, the Lottery reported a liability of \$1,154,000 for its proportionate share of the total OPEB liability. The total OPEB liability was measured as of June 30, 2023 and was determined by an actuarial valuation performed as of January 1, 2022 and rolled forward to June 30, 2023 using generally accepted actuarial principles. The Lottery's proportion of the total OPEB liability was based on the ratio of the Lottery's active employees in relation to all active employees of the State OPEB Plan. At June 30, 2023, the Lottery's proportion was 0.560%.

For the year ended June 30, 2023, the Lottery recognized OPEB expense of \$88,000. At June 30, 2023, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 280,000 | 46,000 |
| Changes in proportion and differences in the Lottery's contributions and the Lottery's proportionate share of contributions | 26,000 | 79,000 |
| Changes in assumptions | 50,000 | 431,000 |
| Total | <u>\$ 356,000</u> | <u>556,000</u> |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Year Ending June 30, | Amount |
|----------------------------|---------------------|
| 2024 | \$ (20,000) |
| 2025 | (20,000) |
| 2026 | (22,000) |
| 2027 | (29,000) |
| 2028 | (28,000) |
| Thereafter | (81,000) |
| | <u>\$ (200,000)</u> |

Actuarial Assumptions – The total OPEB liability in the June 30, 2023 measurement was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement:

| | |
|-----------------------------|--|
| Rate of inflation | 2.60% |
| Discount rate | 3.65% |
| Healthcare cost trend rates | -2.80% to -3.60% initial, decreasing to 4.5% ultimate. |

The discount rate was based on the 20-year Bond Buyer GO Index as of the end of June 2023.

The majority of State of Iowa employees are participants in the Iowa Public Employees' Retirement System (IPERS). For this reason, the individual salary increases, the mortality rates, withdrawal, retirement and age of spouse assumptions are based on the assumptions used for the IPERS' actuarial valuation report as of June 30, 2023. The plan participation and coverage election at retirement assumptions are based upon the recent experience of the State of Iowa Postretirement Medical Plan.

Changes in the Total OPEB Liability follows:

| | <u>Total OPEB Liability</u> |
|--|---------------------------------|
| Total OPEB liability beginning of year | <u>\$ 1,212,000</u> |
| Changes for the year: | |
| Service cost | 88,000 |
| Interest | 46,000 |
| Changes in assumptions | (166,000) |
| Benefit payments | <u>(26,000)</u> |
| Net changes | <u>(58,000)</u> |
| Total OPEB liability end of year | <u>\$ 1,154,000</u> |

Sensitivity of the Lottery’s Total OPEB Liability to Changes in the Discount Rate – The proportionate share of the total OPEB liability was calculated using a discount rate of 3.65%, as well as a discount rate that is 1 percentage point lower (2.65%) or 1 percentage higher (4.65%) than the current discount rate. The sensitivity of the proportionate share of the total OPEB liability to changes in the discount rate is presented below:

| | 1% Decrease (2.65%) | Discount Rate (3.65%) | 1% Increase (4.65%) |
|----------------------|---------------------------|-----------------------------|---------------------------|
| Total OPEB liability | \$ 1,231,000 | 1,154,000 | 1,081,000 |

Sensitivity of the Lottery’s Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – The proportionate share of the total OPEB liability was calculated using a healthcare cost trend rate of 6.75% to 7.75% as well as a healthcare cost trend rate that is 1 percentage point lower (5.75%-6.75%) or 1 percentage higher (7.75%-8.75%) than the current healthcare cost trend rate. The sensitivity of the proportionate share of the total OPEB liability to changes in the healthcare cost trend rate is presented below:

| | 1% Decrease (-3.80% to -4.60%) | Healthcare Cost Trend Rate (-2.80% to -3.60%) | 1% Increase (-1.80% to -2.60%) |
|----------------------|--------------------------------------|--|--------------------------------------|
| Total OPEB liability | \$ 1,028,000 | 1,154,000 | 1,303,000 |

Payables to the OPEB Plan – There were no amounts due to the defined benefit State OPEB Plan at June 30, 2023.

(6) Pension Plan

Plan Description – IPERS membership is mandatory for employees of the Lottery, except for those covered by another retirement system. Employees of the Lottery are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees’ Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member’s years of service plus the member’s age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member’s first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member’s monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member’s highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2023, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the Lottery contributed 9.44% of covered payroll, for a total rate of 15.73%.

The Lottery's contributions to IPERS for the year ended June 30, 2023 totaled \$683,840.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2023, the Lottery reported a liability of \$3,526,018 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Lottery's proportion of the net pension liability was based on the Lottery's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2022, the Lottery's proportion was 0.093327%, which was an increase of 0.131312% from its proportion measured as of June 30, 2021.

For the year ended June 30, 2023, the Lottery recognized pension expense of \$848,648. At June 30, 2023, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 156,308 | 48,299 |
| Changes of assumptions | 2,992 | 84 |
| Net difference between projected and actual earnings on IPERS' investments | - | 377,449 |
| Changes in proportion and differences between Lottery contributions and its proportionate share of contributions | 1,677 | 311,394 |
| Lottery contributions subsequent to the measurement date | 683,840 | - |
| Total | <u>\$ 844,817</u> | <u>737,226</u> |

\$683,840 reported as deferred outflows of resources related to pensions resulting from the Lottery's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ending June 30, | Amount |
|----------------------------|---------------------|
| 2023 | \$ (444,959) |
| 2024 | (339,626) |
| 2025 | (509,118) |
| 2026 | 727,880 |
| 2027 | (10,426) |
| Total | <u>\$ (576,249)</u> |

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

| | |
|--|---|
| Rate of inflation (effective June 30, 2017) | 2.60% per annum. |
| Rates of salary increase (effective June 30, 2017) | 3.25 to 16.25% average, including inflation. Rates vary by membership group. |
| Long-term investment rate of return (effective June 30, 2017) | 7.00% compounded annually, net of investment expense, including inflation. |
| Wage growth (effective June 30, 2017) | 3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation. |

The actuarial assumptions used in the June 30, 2022 valuation were based on the results of a quadrennial experience study covering the period of July 1, 2017 through June 30, 2021.

Mortality rates used in the 2022 valuation were based on the PubG-2010 mortality tables with future mortality improvements modeled using Scale MP-2021.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

| Asset Class | Asset Allocation | Long-Term Expected Real Rate of Return |
|--------------------------|------------------|--|
| Domestic equity | 22.0% | 3.57% |
| International equity | 17.5 | 4.79 |
| Global smart beta equity | 6.0 | 4.16 |
| Core plus fixed income | 20.0 | 1.66 |
| Public credit | 4.0 | 3.77 |
| Cash | 1.0 | 0.77 |
| Private equity | 13.0 | 7.57 |
| Private real assets | 8.5 | 3.55 |
| Private credit | 8.0 | 3.63 |
| Total | <u>100.0%</u> | |

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Lottery will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Lottery’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Lottery’s proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Lottery’s proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

| | 1% Decrease (6.00%) | Discount Rate (7.00%) | 1% Increase (8.00%) |
|--|---------------------------|-----------------------------|---------------------------|
| Lottery's proportionate share of the net pension liability | \$ 6,569,396 | 3,526,018 | 843,966 |

IPERS’ Fiduciary Net Position – Detailed information about IPERS’ fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS’ website at www.ipers.org.

Payables to IPERS – All legally required employer contributions and legally required employee contributions which had been withheld from employee wages were remitted by the Lottery to IPERS by June 30, 2023.

(7) Payment of Prizes

Scratch ticket prize expense is comprised of actual winning tickets validated for payment by any retailer or by the Lottery.

Instaplay ticket prize expense is comprised of actual winning tickets sold by any retailer or by the Lottery.

The Powerball prize expense is comprised of two different prize structures. One prize structure is winners who match 3, 4 or 5 of 5 numbers or none, 1, 2, 3 or 4 of 5 numbers plus the Powerball number. The second prize structure involves a jackpot which increases from drawing to drawing until the jackpot is won. The jackpot is won when 5 of 5 numbers, plus the Powerball number, are matched.

The Mega Millions prize expense is comprised of two different prize structures. One prize structure is winners who match 3, 4 or 5 of 5 numbers or none, 1, 2, 3 or 4 of 5 numbers plus the Megaball number. The second prize structure involves a jackpot which increases from drawing to drawing until the jackpot is won. The jackpot is won when 5 of 5 numbers, plus the Megaball number, are matched.

Pull-tab prize expense is comprised of actual winning tickets, up to and including \$600, included in packs delivered to retailers and actual winning tickets over \$600 paid by the Lottery.

The Pick 3 prize expense is comprised of winners who match either 2 or 3 of 3 numbers. A player may win from \$30 to \$3,000 depending on the play type selected and the play amount. Play types are Straight, Box, Straight/Box, Front Pair or Back Pair and require the player to match all numbers in the exact order drawn, match all three numbers in any order, match either exact and/or any order, first two numbers or last two numbers in exact order, respectively.

The Pick 4 prize expense is comprised of winners who match either 2 or 4 of 4 numbers. A player may win from \$30 to \$30,000 depending on the play type selected and the play amount. Play types are Straight, Box, Straight/Box, Front Pair or Back Pair and require the player to match all numbers in the exact order drawn, match all four numbers in any order, match either exact and/or any order, first two numbers or last two numbers in exact order, respectively.

The Lotto America prize expense is comprised of two different prize structures. One prize structure is winners who match 3, 4 or 5 of 5 numbers or none, 1, 2, 3 or 4 of 5 numbers plus the Star Ball number. The second prize structure involves a jackpot which increases from drawing to drawing until the jackpot is won. The jackpot is won when 5 of 5 numbers, plus the Star Ball number, are matched.

The Lucky for Life prize expense is comprised of three different prize structures. One prize structure is winners who match 2, 3 or 4 of 5 numbers or none, 1, 2, 3 or 4 of 5 numbers plus the Lucky Ball number. The game's second prize structure of \$25,000 a year for life is won by matching 5 of 5 numbers without the Lucky Ball. The third prize structure involves a top prize of \$1,000 per day for life and is won by matching 5 of 5 numbers, plus the Lucky Ball number.

(8) Scratch Ticket Packs

The Lottery issues scratch ticket packs to retailers on an ongoing basis. The retailer or District Sales Representative must activate the pack on the system before the pack may be sold to the public. The retailer may not be billed for these packs until a pack is activated and settled on the system. A pack may be settled in one of four ways: 1) 70% of the low-tier tickets in the pack have been validated, 2) 45 days have elapsed from the date the pack was activated, 3) the pack has been settled at delivery or settled manually through the terminal or 4) 21 days have elapsed from the date the pack was activated regardless of validations. As of June 30, 2023, the Lottery had 55,651 packs at retailers which have not yet settled. The receivable and the related unearned revenue of \$8,251,038 calculated as shown below, have not been included in the Lottery's financial statements since the sales associated with these packs have not been recognized.

| | |
|--|---------------------|
| Unsettled packs | \$ 18,527,200 |
| Less: | |
| Retailer compensation | 1,281,823 |
| Low-tier prize expense | <u>8,994,339</u> |
| Potential receivable and unearned amount | <u>\$ 8,251,038</u> |

(9) Lotto America/Powerball

U.S. Treasury zero coupon bonds are purchased by the Multi-State Lottery Association (MUSL) to provide payments corresponding to the Lottery's obligation to Lotto America/Powerball prize winners. MUSL holds these bonds and will cash the bonds when due and wire the money to the Lottery's account on or before the anniversary date of the jackpot.

At June 30, 2023, MUSL held zero coupon bonds for the Lottery to fund future installment payments aggregating \$724,946. The current value of those bonds totaled \$698,200.

(10) Risk Management

State employee benefits for health, dental, long-term disability and life insurance coverage are insured through commercial insurers. There were no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage for the past three fiscal years.

The State of Iowa self-insures on behalf of its agencies for losses related to workers' compensation, its motor vehicle fleet, property damage and torts. A contingent fund exists under Section 29C.20 of the Code of Iowa to provide compensation for loss or damage to state property (casualty losses).

Upon advice of legal counsel, the Lottery has purchased commercial insurance for certain risks.

(11) Accounting Change

Governmental Accounting Standards Board Statement No. 96, Subscription-Based Information Technology Arrangements, was implemented during fiscal year 2023. GASB 96 requires the reporting of certain assets and liabilities which were previously not reported. The result of these changes had no effect on the beginning net position.

(12) Subsequent Event

During the 2023 legislative session, SF 514 and SF 513 were passed by the Legislature and signed by the Governor. Both bills dealt with alignment of state government, strategically aligning executive branch structure, operations, and personnel to elevate service, improve efficiency, and reduce the total number of cabinet-level departments from 37 to 16. The Iowa Lottery Authority will no longer be a separate Authority but will be combined with the Iowa Department of Revenue as of July 1, 2023.

Required Supplementary Information

Iowa Lottery Authority

Schedule of the Lottery's Proportionate Share of the Net Pension Liability (Asset)

Iowa Public Employees' Retirement System
For the Last Nine Years*
(In Thousands)

Required Supplementary Information

| | 2023 | 2022 | 2021 | 2020 |
|---|-----------|----------------|-----------|-----------|
| Lottery's proportion of the net pension liability/asset | 0.093327% | (0.037985)% ** | 0.092957% | 0.095416% |
| Lottery's proportionate share of the net pension liability | \$ 3,526 | 131 | 6,530 | 5,525 |
| Lottery's covered payroll | \$ 7,405 | 7,511 | 7,352 | 7,235 |
| Lottery's proportionate share of the net pension liability as a percentage of its covered payroll | 47.62% | 1.74% | 88.82% | 76.36% |
| IPERS' net position as a percentage of the total pension liability | 91.40% | 100.81% | 82.90% | 85.45% |

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

** Overall State of Iowa plan net pension asset

See accompanying independent auditor's report.

| 2019 | 2018 | 2017 | 2016 | 2015 |
|-----------|-----------|-----------|-----------|-----------|
| 0.099722% | 0.098281% | 0.097838% | 0.100528% | 0.102815% |
| 6,311 | 6,547 | 6,157 | 4,967 | 4,078 |
| 7,469 | 7,346 | 6,809 | 6,932 | 6,753 |
| 84.50% | 89.12% | 90.42% | 71.65% | 60.39% |
| 83.62% | 82.21% | 81.82% | 85.19% | 87.61% |

Iowa Lottery Authority
Schedule of Lottery Contributions
Iowa Public Employees' Retirement System
For the Last Ten Years
(In Thousands)

Required Supplementary Information

| | 2023 | 2022 | 2021 | 2020 |
|---|--------------|--------------|--------------|--------------|
| Statutorily required contribution | \$ 684 | 699 | 709 | 694 |
| Contributions in relation to the statutorily required contribution | <u>(684)</u> | <u>(699)</u> | <u>(709)</u> | <u>(694)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Lottery's covered payroll | \$ 7,246 | 7,405 | 7,511 | 7,352 |
| Contributions as a percentage of covered payroll | 9.44% | 9.44% | 9.44% | 9.44% |

See accompanying independent auditor's report.

| 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|-------|-------|-------|-------|-------|-------|
| 683 | 667 | 656 | 608 | 619 | 603 |
| (683) | (667) | (656) | (608) | (619) | (603) |
| - | - | - | - | - | - |
| 7,235 | 7,469 | 7,346 | 6,809 | 6,932 | 6,753 |
| 9.44% | 8.93% | 8.93% | 8.93% | 8.93% | 8.93% |

Iowa Lottery Authority

Iowa Lottery Authority

Notes to Required Supplementary Information – Pension Liability

Year ended June 30, 2023

Changes of benefit terms:

There are no significant changes in benefit terms.

Changes of assumptions:

The 2022 valuation incorporated the following refinements after a quadrennial experience study:

- Changed mortality assumptions to the PubG-2010 mortality tables with mortality improvements modeled using Scale MP-2021.
- Adjusted retirement rates for Regular members.
- Lowered disability rates for Regular members.
- Adjusted termination rates for all membership groups.

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

Iowa Lottery Authority
 Schedule of Changes in the Lottery's
 Total OPEB Liability and Related Ratios

For the Last Six Years
 Required Supplementary Information

| | 2023 | 2022 | 2021 | 2020 |
|--|--------------|-----------|-----------|-----------|
| Service cost | \$ 88,000 | 94,000 | 91,000 | 74,000 |
| Interest cost | 46,000 | 26,000 | 26,000 | 40,000 |
| Difference between expected and actual experiences | - | - | - | - |
| Changes in assumptions | (166,000) | 7,000 | (111,000) | (2,000) |
| Benefit payments | (26,000) | (43,000) | (41,000) | (69,000) |
| Net change in total OPEB liability | (58,000) | 84,000 | (35,000) | 43,000 |
| Total OPEB liability beginning of year | 1,212,000 | 1,128,000 | 1,163,000 | 1,120,000 |
| Total OPEB liability end of year | \$ 1,154,000 | 1,212,000 | 1,128,000 | 1,163,000 |
| Covered-employee payroll | \$ 7,677,087 | 7,684,248 | 7,727,117 | 7,532,000 |
| Total OPEB liability as a percentage of covered-employee payroll | 15.0% | 15.8% | 14.6% | 15.4% |

See accompanying independent auditor's report.

| <u>2019</u> | <u>2018</u> |
|------------------|------------------|
| 69,000 | 76,000 |
| 42,000 | 38,000 |
| - | 70,000 |
| (2,000) | 16,000 |
| <u>(70,000)</u> | <u>(54,000)</u> |
| 39,000 | 146,000 |
| <u>1,081,000</u> | <u>935,000</u> |
| <u>1,120,000</u> | <u>1,081,000</u> |
| 7,376,000 | 7,584,000 |
| 15.2% | 14.3% |

Iowa Lottery Authority

Notes to Required Supplementary Information – OPEB Liability

Year ended June 30, 2023

Changes in benefit terms:

There were no significant changes in benefit terms.

Changes in assumptions:

The 2023 valuation implemented the following refinements as a result of a new actuarial opinion dated June 30, 2023:

- Changed mortality assumptions to the SOA Public Plan 2010 tables.

Changes in assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period.

| | |
|---------------------------|-------|
| Year ended June 30, 2023: | 3.65% |
| Year ended June 30, 2022: | 3.54% |
| Year ended June 30, 2021: | 2.16% |
| Year ended June 30, 2020: | 2.21% |
| Year ended June 30, 2019: | 3.50% |
| Year ended June 30, 2018: | 3.87% |

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Supplementary Information

Schedule 1

Iowa Lottery Authority
Other Operating Expenses
Year ended June 30, 2023

| | |
|---------------------------------|----------------------|
| Salary and benefits | \$ 9,764,281 |
| Travel | 322,051 |
| Supplies | 125,172 |
| Printing | 3,173 |
| Postage | 7,582 |
| Communications | 193,849 |
| Rentals | 112,216 |
| Utilities | 106,350 |
| Professional fees | 258,286 |
| Outside services and repair | 268,178 |
| Non-capitalized equipment | 306,259 |
| Data processing | 153,058 |
| Reimbursement to state agencies | 504,191 |
| Depreciation | 482,770 |
| Amortization | 548,185 |
| Other | 63,302 |
| Total | <u>\$ 13,218,903</u> |

See accompanying independent auditor's report.

Iowa Lottery Authority
Revenues, Expenses and Changes in Net Position
Years ended June 30, 2023 and 2022

| | 2023 | 2022 | Increase (Decrease) |
|--|----------------|----------------|------------------------|
| Operating revenues: | | | |
| Sales: | | | |
| Scratch ticket | \$ 293,580,116 | \$ 293,126,549 | 453,567 |
| Instaplay | 31,817,614 | 23,436,815 | 8,380,799 |
| Pick 3 | 9,128,652 | 9,265,786 | (137,134) |
| Pick 4 | 5,798,109 | 5,602,823 | 195,286 |
| Powerball | 65,632,085 | 53,076,000 | 12,556,085 |
| Mega Millions | 43,758,227 | 20,375,167 | 23,383,060 |
| Lucky for Life | 8,419,258 | 8,071,004 | 348,254 |
| Lotto America | 10,387,460 | 7,011,217 | 3,376,243 |
| Pull-tab | 13,011,623 | 12,698,408 | 313,215 |
| Total sales | 481,533,144 | 432,663,769 | 48,869,375 |
| Application fees | 5,750 | 5,300 | 450 |
| Other | 23,299 | 21,083 | 2,216 |
| Total operating revenues | 481,562,193 | 432,690,152 | 48,872,041 |
| Operating expenses: | | | |
| Prizes: | | | |
| Scratch ticket | 199,208,532 | 195,258,147 | 3,950,385 |
| Instaplay | 23,769,641 | 17,081,836 | 6,687,805 |
| Pick 3 | 5,477,191 | 5,559,472 | (82,281) |
| Pick 4 | 3,769,003 | 3,361,694 | 407,309 |
| Powerball | 32,734,985 | 26,546,085 | 6,188,900 |
| Mega Millions | 21,963,857 | 10,185,739 | 11,778,118 |
| Lucky for Life | 5,003,860 | 4,793,210 | 210,650 |
| Lotto America | 5,193,730 | 3,505,608 | 1,688,122 |
| Pull-tab | 8,133,393 | 7,922,317 | 211,076 |
| Total prizes | 305,254,192 | 274,214,108 | 31,040,084 |
| Retailer compensation | 31,307,795 | 28,255,266 | 3,052,529 |
| Advertising production and media purchases | 9,235,256 | 8,393,217 | 842,039 |
| Retailer lottery system/terminal communications | 8,191,177 | 5,335,129 | 2,856,048 |
| Scratch/pull-tab ticket expense | 3,496,322 | 3,288,224 | 208,098 |
| Vending machines & maintenance/ticket dispensers | 497,403 | 487,152 | 10,251 |
| Courier delivery of tickets | 1,321,114 | 1,045,771 | 275,343 |
| Other operating expenses | 13,218,903 | 12,668,005 | 550,898 |
| Total operating expenses | 372,522,162 | 333,686,872 | 38,835,290 |
| Operating income | 109,040,031 | 99,003,280 | 10,036,751 |
| Non-operating revenues (expenses): | | | |
| Proceeds to the State's General Fund | (105,718,373) | (95,251,422) | 10,466,951 |
| Proceeds to the Veteran's Trust Fund | (2,500,000) | (2,500,000) | - |
| Proceeds to the Public Safety Survivor Benefits Fund | (100,000) | (100,000) | - |
| Proceeds to the DOC Survivor Benefits Fund | (100,000) | (100,000) | - |
| Interest income | 757,312 | 87,823 | (669,489) |
| Interest expense | (33,724) | (19,546) | 14,178 |
| Gain (loss) on disposal of capital assets | (4,754) | 46,657 | 51,411 |
| Net non-operating expenses | (107,699,539) | (97,836,488) | 9,863,051 |
| Changes in net position | 1,340,492 | 1,166,792 | 173,700 |
| Net position beginning of year | 5,568,342 | 4,401,550 | 1,166,792 |
| Net position end of year | \$ 6,908,834 | 5,568,342 | 1,340,492 |

See accompanying independent auditor's report.

Iowa Lottery Authority

Iowa Lottery Authority

Analysis of Net Position

June 30, 2023

| | | |
|--|----|------------------|
| Cash retained for vehicle purchases | \$ | 736,136 |
| Ticket inventories | | 3,908,532 |
| Capital assets (excluding leased assets) | | 7,036,593 |
| OPEB liability | | (1,154,000) |
| Net pension liability | | (3,526,018) |
| OPEB related deferred outflows | | 356,000 |
| Pension related deferred outflows | | 844,817 |
| OPEB related deferred inflows | | (556,000) |
| Pension related deferred inflows | | <u>(737,226)</u> |
| Total | \$ | <u>6,908,834</u> |

See accompanying independent auditor's report.

Iowa Lottery Authority

Revenue by Game

For the Last Six Years

| Games | Year ended | | |
|----------------|-----------------------|--------------------|--------------------|
| | 2018 | 2019 | 2020 |
| Scratch ticket | \$ 244,260,964 | 250,642,094 | 262,447,704 |
| Instaplay | 9,733,769 | 11,876,560 | 16,279,705 |
| Pick 3 | 7,705,163 | 7,871,469 | 8,502,502 |
| Pick 4 | 4,341,103 | 4,292,190 | 4,950,001 |
| Powerball | 58,471,047 | 54,833,068 | 36,428,043 |
| Mega Millions | 21,293,740 | 36,322,749 | 20,433,854 |
| Hot Lotto | 3,761,425 | - | - |
| Lucky for Life | 5,600,490 | 5,427,678 | 5,335,530 |
| Lotto America | 4,872,494 | 8,753,137 | 6,751,811 |
| Pull-tab | 10,916,692 | 10,876,605 | 10,824,344 |
| Total | <u>\$ 370,956,887</u> | <u>390,895,550</u> | <u>371,953,494</u> |

See accompanying independent auditor's report.

| June 30, | | |
|-------------|-------------|-------------|
| 2021 | 2022 | 2023 |
| 316,934,651 | 293,126,549 | 293,580,116 |
| 23,478,424 | 23,436,815 | 31,817,614 |
| 9,540,165 | 9,265,786 | 9,128,652 |
| 5,470,758 | 5,602,823 | 5,798,109 |
| 43,419,695 | 53,076,000 | 65,632,085 |
| 28,980,779 | 20,375,167 | 43,758,227 |
| - | - | - |
| 5,555,026 | 8,071,004 | 8,419,258 |
| 6,441,090 | 7,011,217 | 10,387,460 |
| 12,771,423 | 12,698,408 | 13,011,623 |
| 452,592,011 | 432,663,769 | 481,533,144 |

Iowa Lottery Authority

Iowa Lottery Authority
 Analysis of Prize Payout
 For the Last Six Years

| Games | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|----------------|------|------|------|------|------|------|
| Scratch ticket | 66% | 67% | 67% | 67% | 67% | 68% |
| Instaplay | 65% | 70% | 72% | 73% | 73% | 75% |
| Pick 3 | 59% | 59% | 60% | 60% | 60% | 60% |
| Pick 4 | 58% | 59% | 65% | 60% | 60% | 65% |
| Powerball | 49% | 46% | 50% | 50% | 50% | 50% |
| Mega Millions | 51% | 51% | 50% | 50% | 50% | 50% |
| Hot Lotto | 47% | - | - | - | - | - |
| Lucky for Life | 59% | 57% | 59% | 64% | 59% | 59% |
| Lotto America | 50% | 49% | 50% | 50% | 50% | 50% |
| Pull-tab | 63% | 63% | 62% | 62% | 62% | 63% |

See accompanying independent auditor's report.



**OFFICE OF AUDITOR OF STATE
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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board Members of the Iowa Lottery Authority:

We have 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, issued by the Comptroller General of the United States, the financial statements of the Iowa Lottery Authority, a component unit of the State of Iowa, as of and for the year ended June 30, 2023, and the related Notes to Financial Statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 22, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Iowa Lottery Authority's internal control over financial reporting (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 Iowa Lottery Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Iowa Lottery Authority'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 or 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 a material misstatement of the Authority's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Iowa Lottery Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters which are required to be reported under Government Auditing Standards. However, we noted a certain immaterial instance of non-compliance or other matters which is described in the Schedule of Findings.

Comments involving statutory and other legal matters about the Iowa Lottery Authority's operations for the year ended June 30, 2023 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Authority. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

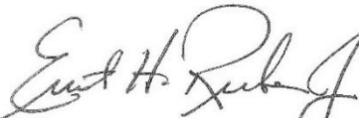
Iowa Lottery Authority's Response to the Finding

Government Auditing Standards require the auditor to perform limited procedures on the Iowa Lottery Authority's response to the finding identified in our audit and described in the accompanying Schedule of Findings. Iowa Lottery Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Iowa Lottery Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Iowa Lottery Authority during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


Ernest H. Ruben, Jr., CPA
Deputy Auditor of State

December 22, 2023

Iowa Lottery Authority
Schedule of Findings
Year ended June 30, 2023

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCY:

No matters were noted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Other Findings Related to Required Statutory Reporting:

Restricted Donor Activity – Per Chapter 68B.22 of the Code of Iowa, public officials, public employees or that person’s immediate family member shall not, directly or indirectly, accept or receive any gift from a restricted donor. A restricted donor per Chapter 68B.2(24)(a) is a person who “is or is seeking to be a party to any one or any combination of sales, purchases, leases, or contracts to, from, or with the agency in which the donee holds office or is employed.” Nonmonetary items with a value of three dollars or less that are received from any one donor during one calendar day are allowable.

The Iowa Lottery has an agreement with the Iowa State Fair for a “Day of Fair Sponsorship” which includes various marketing benefits, including an exhibitor booth, concert tickets and fair admission tickets. In most cases, the Iowa Lottery awards these tickets to lottery players as prizes. However, included in the agreement are 8 exclusive early admittance admission tickets with a reserved table the day of the Corndog Kickoff. These tickets were gifted to Iowa Lottery upper management/marketing employees and their spouses. Tickets to the Corndog Kickoff provide the person entry to the event, food and drinks (including alcohol) with a cost in excess of \$3.

Recommendation – The Lottery should consult with Iowa Ethics and Campaign Disclosure Board to ensure the Iowa gift law is adequately communicated and understood by all staff. In addition, the Lottery should establish policies and procedures regarding proper uses of these types of items and ensure additional oversight be performed to monitor compliance.

Response – The Lottery disagrees that its sponsorship of the Corndog Kickoff at the Iowa State Fair is legally problematic under Iowa Code section 68B.22. Nevertheless, the Lottery accepts the recommendation to consult the Iowa Ethics and Campaign Disclosure Board and intends to do so. For future events that involve Lottery sponsorship and require some Lottery personnel to be present as part of their work duties, the Lottery will not authorize attendance using Lottery-obtained tickets or admissions by people who are not Lottery employees (except for players who win tickets or admissions through prize giveaways).

Conclusion – Response acknowledged. The Auditor of State's Office contacted the Iowa Ethics and Campaign Disclosure Board who agreed the Iowa Lottery Authority should consult with their office when issues such as this arise.

Iowa Lottery Authority

Staff

This audit was performed by:

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