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Mississippi Lottery Corporation

A Component Unit of the State of Mississippi

Independent Auditor's Reports and Financial Statements

June 30, 2022 and 2021

Mississippi Lottery Corporation
A Component Unit of the State of Mississippi
June 30, 2022 and 2021

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Independent Auditor's Report

Board of Directors
Mississippi Lottery Corporation
Flowood, Mississippi

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Mississippi Lottery Corporation (the Corporation), a component unit of the State of Mississippi, as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Mississippi Lottery Corporation as of June 30, 2022 and 2021, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 the Financial Statements section of our report. We are required to be independent of the Corporation, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in *Note 10* to the financial statements, during fiscal year 2022, the Corporation adopted Governmental Accounting Standards Board Statement No. 87, *Leases*. 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 Corporation'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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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 judgment 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 judgment 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 Corporation'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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation'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 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 audits 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2022, on our consideration of the Corporation'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 Corporation'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 Corporation's internal control over financial reporting and compliance.

FORVIS,LLP

Jackson, Mississippi
September 21, 2022

Mississippi Lottery Corporation
A Component Unit of the State of Mississippi
Management's Discussion and Analysis
Years Ended June 30, 2022 and 2021

The following discussion and analysis of the Mississippi Lottery Corporation's (the Corporation) financial performance provides an overview of the Corporation's financial activities for the fiscal years ended June 30, 2022 and 2021. Readers are encouraged to consider the information presented here in conjunction with the Corporation's financial statements, which immediately follow this discussion and analysis.

Fiscal Year 2022 Financial Highlights

During fiscal year 2022, the Corporation launched the sale of the Cash 4 draw-style game on January 10, 2022. The Corporation ended its fiscal year 2022 with contributions of \$122.9 million to the State of Mississippi Lottery Proceeds Fund, bringing the total to over \$331.3 million since sales began November 25, 2019. In accordance with the Alyce G. Clarke Mississippi Lottery Law (the Law), the first \$80 million transferred each fiscal year will be used to fund infrastructure projects throughout the state. Proceeds exceeding \$80 million per fiscal year will be transferred into the Education Enhancement Fund for the purposes of funding the Early Childhood Learning Collaborative, the Classroom Supply Fund, and other educational purposes.

Gross ticket sales for the fiscal year 2022 were \$432.9 million. Total actual prizes paid to winners for the year were \$247.2 million. Included in the prizes paid were one \$665 thousand-dollar *Match 5* game winner and one \$1 million-dollar *Mega Millions* game winner.

Management credits its success to the Corporation's focus on its mission to be managed in such a manner that the people of Mississippi benefit from its profits, security, integrity, strategic planning, and effective marketing.

Thirty-four new instant ticket games were introduced during the fiscal year. These new games contributed to the instant product's success by providing players with multiple price points, including the introduction of the first licensed product, "Wheel of Fortune". "Wheel of Fortune" is a \$5 game, with new ways to play along with new ways to win, including winner's choice promotional prizes. "Wheel of Fortune" earned more than \$8 million during the current year.

Gross instant ticket sales for the year were \$340.3 million. Instant tickets accounted for 78.6% of all ticket sales.

The Corporation offers and oversees the following in-state draw-style games:

Cash 3 sales began across the state on September 1, 2020. Sales for the fiscal year were \$19.0 million.

Cash 4 sales began across the state on January 10, 2022. Sales for the fiscal year were \$5.0 million.

Mississippi Match 5 sales began across the state on April 28, 2021. Sales for the fiscal year were \$12.5 million.

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The Corporation participates in the following multi-jurisdictional draw-style games:

Powerball sales for the year were \$36.8 million. Sales increased by \$2.2 million in fiscal year 2022, as compared to 2021. The year-over-year increase can be attributed to larger jackpots.

Mega Millions sales for the year were \$19.3 million. Sales decreased by \$11.8 million in fiscal year 2022, as compared to 2021. The decrease is due primarily to the lack of comparable size jackpots compared to the prior year.

Total draw-style game sales for the year were \$92.6 million, accounting for 21.4% of total ticket sales.

During fiscal year 2022, the Corporation adopted Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. This standard increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The Corporation adopted GASB 87 on a retrospective basis. This restatement had no impact on the previously reported 2021 beginning net position and decreased previously reported 2021 change in net position by \$47,014.

Fiscal Year 2021 Financial Highlights

During fiscal year 2021, the Corporation launched the sale of the following draw-style games - Cash 3 on September 1, 2020 and *Mississippi Match 5* on April 28, 2021. The Corporation ended its fiscal year 2021 with contributions of \$137.7 million to the State of Mississippi Lottery Proceeds Fund, bringing the total to over \$208.4 million since sales began November 25, 2019.

Gross ticket sales for the fiscal year 2021 were \$510.6 million. Total actual prizes paid to winners for the year were \$285.9 million. Included in the prizes paid were one \$1 million-dollar *Mega Millions* game winner and one \$1 million-dollar *Powerball* game winner.

Thirty-five new instant ticket games were introduced during the fiscal year. These new games contributed to the instant product's success by providing players with multiple price points, including the introduction of a \$20 game, new ways to play along with new ways to win. For 2021, the highest earning instant ticket revenue game was "\$100 Million Extravaganza", recording gross sales of \$41,203,880. "\$100 Million Extravaganza" is the Corporation's first \$20 scratch-off game.

Gross instant ticket sales for the year were \$427.5 million. Instant tickets accounted for 83.7% of all ticket sales.

The Corporation offers and oversees the following in-state draw-style games:

Cash 3 sales began across the state on September 1, 2020. Sales for the fiscal year were \$15.4 million.

Mississippi Match 5 sales began across the state on April 28, 2021. Sales for the fiscal year were \$1.9 million.

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The Corporation participates in the following multi-jurisdictional draw-style games:

Powerball sales for the year were \$34.6 million. Sales increased by \$22.8 million in fiscal year 2021, as compared to 2020. The year-over-year increase can be attributed to its first complete fiscal year of sales and to significantly larger jackpots.

Mega Millions sales for the year were \$31.1 million. Sales increased by \$21.0 million in fiscal year 2021, as compared to 2020. The year-over-year increase can be attributed to its first complete fiscal year of sales and to significantly larger jackpots.

Total draw-style game sales for the year were \$83.0 million, accounting for 16.3% of total ticket sales.

Overview of the Financial Statements

The Corporation is accounted for as a business-type activity and is a discretely presented component unit of the State of Mississippi, reporting transactions using the full accrual basis of accounting. This discussion and analysis is intended to serve as an introduction to the Corporation's basic financial statements, along with notes to the financial statements. The basic financial statements include the Corporation's statements of net position on page 14; statements of revenues, expenses, and changes in net position on page 15; and statements of cash flows on page 16.

The statements of net position reflect the Corporation's financial position at June 30, 2022 and 2021.

The statements of revenues, expenses and changes in net position for the years ended June 30, 2022 and 2021 report the revenues and expenses related to lottery operations.

The statements of cash flows for the years ended June 30, 2022 and 2021 report cash inflows and outflows related to lottery operations.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements begin on page 18 of the financial statements.

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Financial Analysis

The Corporation's Net Position

The Corporation's net position is the difference between its assets and liabilities reported in the statements of net position. The Corporation's net position decreased by approximately \$398 thousand as of June 30, 2022, compared to 2021, and the Corporations' net position decreased by approximately \$217 thousand as of June 30, 2021, compared to 2020, as shown in the following table.

	2022	2021*	2020**
Assets			
Current assets	\$ 44,075,794	\$ 49,286,904	\$ 41,273,922
Noncurrent assets	<u>2,912,776</u>	<u>3,500,056</u>	<u>1,806,885</u>
Total assets	<u><u>\$ 46,988,570</u></u>	<u><u>\$ 52,786,960</u></u>	<u><u>\$ 43,080,807</u></u>
Liabilities			
Prizes payable	\$ 34,046,731	\$ 38,700,815	\$ 28,555,549
Other current liabilities	2,180,312	2,050,481	2,021,719
Due to State of Mississippi	7,848,751	8,535,608	10,696,654
Lease liability - current	200,147	189,370	-
Lease liability - noncurrent	<u>1,520,548</u>	<u>1,720,695</u>	<u>-</u>
Total liabilities	<u>45,796,489</u>	<u>51,196,969</u>	<u>41,273,922</u>
Net Position			
Net investment in capital assets	<u>1,192,081</u>	<u>1,589,991</u>	<u>1,806,885</u>
Total net position	<u>1,192,081</u>	<u>1,589,991</u>	<u>1,806,885</u>
Total liabilities and net position	<u><u>\$ 46,988,570</u></u>	<u><u>\$ 52,786,960</u></u>	<u><u>\$ 43,080,807</u></u>

* - Restated for the adoption of GASB 87

** - Not restated for the adoption of GASB 87 to be consistent with the basic financial statement presentation.

2022

Assets

The \$5.8 million decrease in total assets is primarily due to a decrease in lottery ticket revenues resulting in decreased cash and accounts receivable at fiscal year-end. Retailer accounts receivable increased \$93 thousand during fiscal year 2022. Cash decreased \$5.6 million during fiscal year 2022. This decrease is

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related to the cash received from lottery ticket sales that is earmarked for winning prizes payable to players.

As detailed in *Note 3* to the financial statements, capital assets, net of depreciation were \$1.3 million and \$1.6 million at June 30, 2022 and 2021, respectively. And, as noted in *Note 4* to the financial statements, lease assets, net were \$1.6 million and \$1.9 million at June 30, 2022 and 2021, respectively.

Liabilities

Total liabilities decreased \$5.4 million in 2022. The decrease is primarily driven by the decrease in liabilities related to prizes payable to players for both instant and draw-style ticket sales on June 30, 2022. Additionally, the Corporation was set to transfer the net proceeds for June 2022 in the amount of \$7.8 million.

2021

Assets

The \$9.7 million increase in total assets is primarily due to an increase in lottery ticket revenues resulting in increased cash and accounts receivable at fiscal year-end and the addition of lease assets of \$1.9 million as a result of adopting GASB 87. Retailer accounts receivable increased \$724 thousand during fiscal year 2021. Cash increased \$6.8 million during fiscal year 2021.

As detailed in *Note 3* to the financial statements, capital assets, net of depreciation were \$1.6 million and \$1.8 million at June 30, 2021 and 2020, respectively. And, as noted in *Note 4* to the financial statements, lease assets, net, were \$1.9 million and \$0 at June 30, 2021 and 2020, respectively.

Liabilities

The \$9.9 million increase in total liabilities in 2021 was related to prizes payable to players for both instant and draw-style ticket sales at June 30, 2021 and the adoption of GASB 87. Additionally, the Corporation was set to transfer the net proceeds for June 2021 in the amount of \$8.5 million.

Operating Results and Changes in the Corporation's Net Position

In 2022 and 2021, the Corporation's net position decreased by approximately \$397.9 thousand and \$216.9 thousand, respectively, as shown in the following table. In accordance with the Law, capital expenditures are excluded from the calculation of net proceeds. The net position decrease is a result of the continued depreciation of capital expenditures primarily purchased during start-up in the previous fiscal year, along with the continued transfer of the Corporation's net proceeds to the State of Mississippi Lottery Proceeds Fund monthly in accordance with the Law.

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	Year Ended June 30,		
	2022	2021*	2020**
Operating Revenues			
Net ticket sales	\$ 421,890,097	\$ 476,323,747	\$ 311,195,835
Other operating revenues	<u>1,864,743</u>	<u>1,942,335</u>	<u>1,062,562</u>
Total operating revenues	<u>423,754,840</u>	<u>478,266,082</u>	<u>312,258,397</u>
Operating Net Prize Expense	<u>251,256,203</u>	<u>283,492,127</u>	<u>198,262,912</u>
Other Operating Expenses			
Retailer commissions	25,971,314	30,638,526	20,387,909
Gaming vendor fees	13,178,879	15,543,827	10,741,698
Other operating expenses	<u>10,880,072</u>	<u>11,065,174</u>	<u>9,727,522</u>
Total other operating expenses	<u>50,030,265</u>	<u>57,247,527</u>	<u>40,857,129</u>
Operating Income	<u>122,468,372</u>	<u>137,526,428</u>	<u>73,138,356</u>
Nonoperating Revenues (Expenses)			
Payments to State of Mississippi	(122,883,142)	(137,718,154)	(70,703,360)
Interest income	81,581	57,305	109,836
Interest expense	(76,403)	(83,376)	(92,144)
Other revenue	<u>11,682</u>	<u>903</u>	<u>10,124</u>
Total nonoperating expenses	<u>(122,866,282)</u>	<u>(137,743,322)</u>	<u>(70,675,544)</u>
Increase (Decrease) in Net Position (Deficit)	(397,910)	(216,894)	2,462,812
Net Position (Deficit), Beginning of Year	<u>1,589,991</u>	<u>1,806,885</u>	<u>(655,927)</u>
Net Position, End of Year	<u>\$ 1,192,081</u>	<u>\$ 1,589,991</u>	<u>\$ 1,806,885</u>

* - Restated for the adoption of GASB 87

** - Not restated for the adoption of GASB 87 to be consistent with the basic financial statement presentation.

Operating Revenues

Operating revenues consist primarily of ticket sales and fees charged to retailers. Gross ticket sales totaled \$432.9 million, \$510.6 million and \$339.8 million for the years ended June 30, 2022, 2021, and

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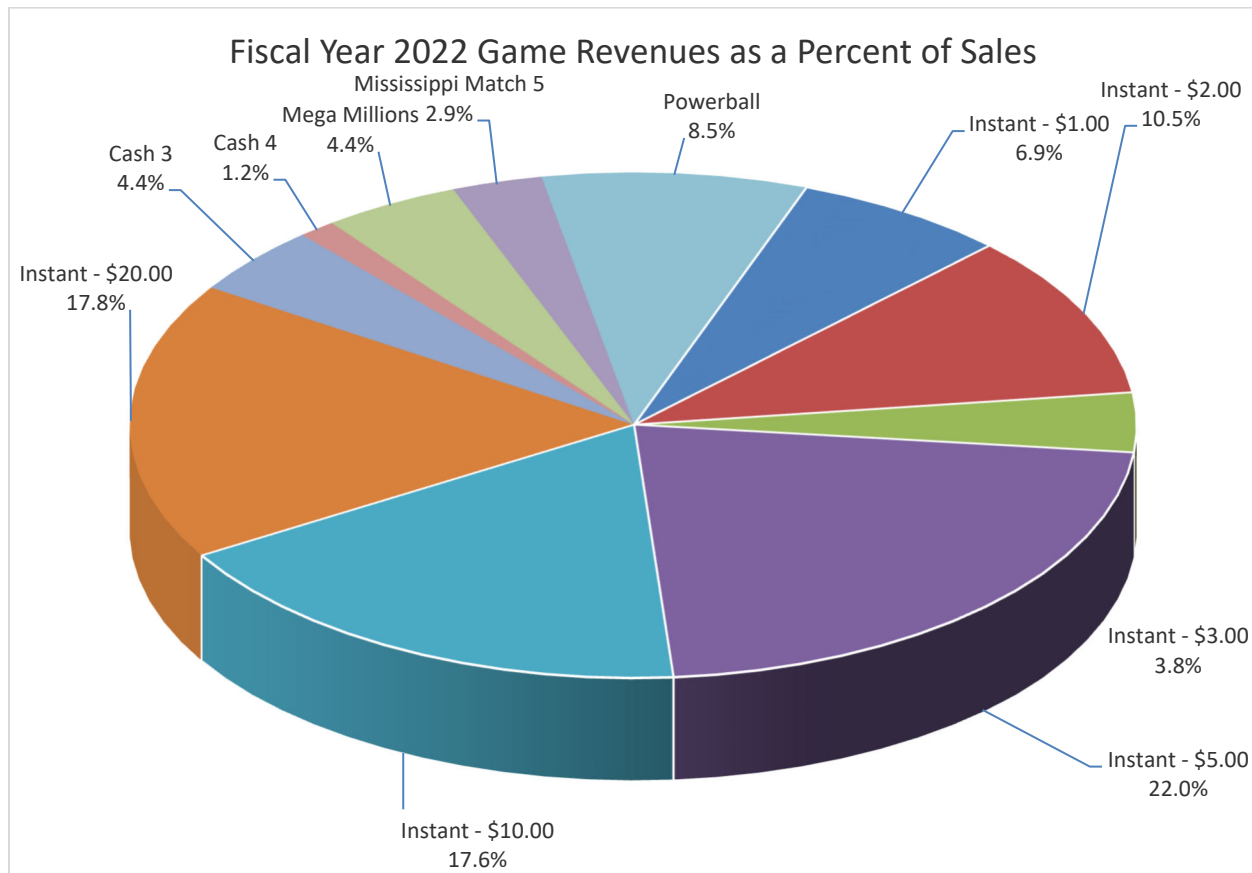
2020, respectively. Gross and net ticket sales for the years ended June 30, 2022, 2021, and 2020 were as follows:

Ticket Sales	2022	2021	2020
\$1 instant tickets	\$ 30,101,200	\$ 60,991,213	\$ 75,307,376
\$2 instant tickets	45,461,250	81,235,586	98,111,896
\$3 instant tickets	16,438,668	18,000,495	3,611,868
\$5 instant tickets	95,091,410	133,307,295	97,705,720
\$10 instant tickets	76,005,990	92,790,360	43,098,280
\$20 instant tickets	77,168,720	41,203,880	-
Total instant ticket sales	<u>340,267,238</u>	<u>427,528,829</u>	<u>317,835,140</u>
Cash 3	18,987,283	15,381,993	-
Cash 4	5,006,712	-	-
Mississippi Match 5	12,503,180	1,934,974	-
Mega Millions	19,324,477	31,107,379	10,109,350
Powerball	36,774,147	34,616,313	11,831,916
Total draw-style game sales	<u>92,595,799</u>	<u>83,040,659</u>	<u>21,941,266</u>
Gross ticket sales	432,863,037	510,569,488	339,776,406
Less tickets provided as prizes	<u>(10,972,940)</u>	<u>(34,245,741)</u>	<u>(28,580,571)</u>
Net ticket sales	<u>\$ 421,890,097</u>	<u>\$ 476,323,747</u>	<u>\$ 311,195,835</u>

The Corporation experienced a decrease in total lottery ticket sales of \$77.7 million, or 15.2% for fiscal year 2022, as compared to fiscal year 2021, due to the inflationary pressures impacting players, and a decrease in comparably sized *Mega Millions* jackpots in 2022, compared to 2021. Instant ticket sales continued to be the Corporation's most popular product contributing 78.6% and 83.7% to total fiscal year sales for 2022 and 2021, respectively. For fiscal year 2022, instant ticket gross sales decreased by \$87.3 million, while draw-style game sales increased by \$9.6 million.

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The graph below summarizes the fiscal year 2022 sales as a percent of total ticket revenues:



Operating Expenses

In 2022, net prizes were \$251.3 million and other operating expenses were \$50.0 million. In 2021, net prizes were \$283.5 million and other operating expenses were \$57.2 million. Operating costs include retailer commissions, marketing and advertising costs, general administrative costs, depreciation, gaming related costs, and vendor fees.

Net prize expense of \$251.3 million relates directly to the proportional sales mix of instant and draw-style games.

For instant tickets, the prize expense is managed through an approved prize structure for each game. The prize structure is established prior to the printing of the instant tickets for each game. Prize expense is recognized based on the established prize structure in relation to ticket sales. Gross prize expense for instant tickets for the current year equaled \$209.4 million.

For draw-style games (Cash 3, Cash 4, *Mississippi Match 5*, *Powerball* and *Mega Millions*), prize expense is recorded based on the respective game rules. Prize expense is a percentage of each drawing's sales

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and is recorded on the day of the draw. Gross prize expense for these draw-style games for fiscal year 2022 was \$46.2 million.

Prize expense is reduced by unclaimed prizes. In 2022, unclaimed prize expense was \$4.4 million and related directly to instant games. Unclaimed prize amounts are adjusted to actual for instant games after the game has closed and the 90-day claim period for prizes has ended. For draw-style games, unclaimed prize amounts are adjusted to actual after the 180-day claim period for each drawing has passed.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of required transfers to the State of Mississippi Lottery Proceeds Fund, as well as interest income and expense.

Monthly, the Corporation is required to transfer their net proceeds to the Lottery Proceeds Fund of the State Treasury. For the fiscal years 2022 and 2021, net transfers of \$122.9 million and \$137.7 million, respectively, were made to the State of Mississippi Lottery Proceeds Fund.

The Law requires the first \$80 million of net proceeds each fiscal year to be used to support the Mississippi State Highway Fund through June 30, 2028. Any proceeds exceeding the \$80 million will be deposited into the Education Enhancement Fund for the purposes of funding the Early Childhood Learning Collaborative, the Classroom Supply Fund, and other educational purposes.

Net Position

In fiscal year 2022, the Corporation's net position decreased by \$398 thousand. In accordance with the Law, capital expenditures are excluded from the calculation of net proceeds. The net position decrease is a result of the continued depreciation of capital expenditures primarily purchased during start-up in the previous fiscal year, the amortization of lease assets, and the continued transfer of the Corporation's net proceeds to the State of Mississippi Lottery Proceeds Fund monthly in accordance with the Law.

Other Economic Factors

Inflationary pressures have also impacted sales. Due to the increasing gas prices and other price increases, players have changed their buying patterns. The long-term impact of inflation on sales cannot yet be determined.

Significant Factors Affecting Next Year

The Corporation's mission is to enable the people of the State of Mississippi to benefit from its profits. The following is presented to inform readers of the financial statements about factors that could potentially affect future results:

- The Corporation will continue to introduce new instant ticket games with varied price points.
- The Corporation will expand its current library of draw-style game offerings.

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- The Corporation will continually review prize payout percentages for instant game products in order to maximize sales, with the goal of ensuring the highest net proceeds are eligible for transfer to the State.
- Current inflationary trends could potentially have a significant impact on sales.

Contact Information

This financial report is designed to provide a general overview of the Corporation's finances for all those with interest. Questions concerning any of the information contained in this report or requests for any additional information should be addressed to the Vice President of Finance at Mississippi Lottery Corporation, Post Office Box 321433, Flowood, MS 39232.

Mississippi Lottery Corporation
A Component Unit of the State of Mississippi
Statements of Net Position
June 30, 2022 and 2021

	2022	2021 (Restated - Note 10)
Assets		
Current Assets		
Cash	\$ 31,354,438	\$ 36,936,352
Retailer accounts receivable, net of allowance for doubtful accounts of \$26,433 and \$5,056 in 2022 and 2021, respectively	11,808,638	11,715,590
Prepaid expenses	220,261	207,070
Other current assets	692,457	427,892
	<u>44,075,794</u>	<u>49,286,904</u>
Noncurrent Assets		
Capital assets, net	1,271,078	1,637,005
Lease assets, net	1,641,698	1,863,051
	<u>\$ 46,988,570</u>	<u>\$ 52,786,960</u>
Liabilities and Net Position		
Current Liabilities		
Prizes payable	\$ 34,046,731	\$ 38,700,815
Accounts payable and accrued expenses	1,230,307	1,128,416
Due to MUSL	391,432	444,007
Unearned revenue	558,573	478,058
Due to State of Mississippi	7,848,751	8,535,608
Lease liability	200,147	189,370
	<u>44,275,941</u>	<u>49,476,274</u>
Noncurrent Liabilities		
Lease liability	1,520,548	1,720,695
	<u>45,796,489</u>	<u>51,196,969</u>
Net Position		
Net investment in capital assets	1,192,081	1,589,991
	<u>1,192,081</u>	<u>1,589,991</u>
	<u>\$ 46,988,570</u>	<u>\$ 52,786,960</u>

Mississippi Lottery Corporation
A Component Unit of the State of Mississippi
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2022 and 2021

	2022	2021 (Restated - Note 10)
Operating Revenues		
Instant ticket sales	\$ 340,267,238	\$ 427,528,829
Draw-style game sales	92,595,799	83,040,659
Gross ticket sales	432,863,037	510,569,488
Less tickets provided as prizes	(10,972,940)	(34,245,741)
Net ticket sales	421,890,097	476,323,747
Other operating revenues	1,864,743	1,942,335
Total operating revenues	423,754,840	478,266,082
Operating Net Prize Expense	251,256,203	283,492,127
Other Operating Expenses		
Retailer commissions	25,971,314	30,638,526
Gaming vendor fees	13,178,879	15,543,827
Salaries and wages	5,206,541	5,398,738
Advertising	3,011,627	3,508,643
Professional fees and services	336,245	484,945
General, administrative, and other operating	912,856	685,366
Contractor fees	113,632	32,861
Other gaming costs	484,038	170,283
Depreciation and amortization	622,598	595,843
Occupancy	9,410	19
Retailer merchandising and marketing	78,626	95,744
Repairs and maintenance	104,499	92,732
Total other operating expenses	50,030,265	57,247,527
Operating Income	122,468,372	137,526,428
Nonoperating Revenues (Expenses)		
Payments to State of Mississippi Highway Fund	(80,000,000)	(80,000,000)
Payments to Education Enhancement Fund	(42,883,142)	(57,718,154)
Interest income	81,581	57,305
Interest expense	(76,403)	(83,376)
Other revenue	11,682	903
Total nonoperating expenses	(122,866,282)	(137,743,322)
Decrease in Net Position	(397,910)	(216,894)
Net Position, Beginning of Year	1,589,991	1,806,885
Net Position, End of Year	\$ 1,192,081	\$ 1,589,991

Mississippi Lottery Corporation
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Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	2022	2021 (Restated - Note 10)
Cash Flows from Operating Activities		
Receipts from and on behalf of retailers	\$ 423,742,307	\$ 477,532,194
Payments to winners	(255,962,862)	(272,902,854)
Payments to suppliers	(44,417,939)	(52,164,753)
Payments to employees	<u>(5,165,593)</u>	<u>(5,350,182)</u>
Net cash provided by operating activities	<u>118,195,913</u>	<u>147,114,405</u>
Cash Flows from Noncapital Financing Activities		
Payments to State of Mississippi Highway Fund	(80,686,857)	(82,161,046)
Payments to Education Enhancement Fund	<u>(42,883,142)</u>	<u>(57,718,154)</u>
Net cash used in noncapital financing activities	<u>(123,569,999)</u>	<u>(139,879,200)</u>
Cash Flows from Capital and Related Financing Activities		
Purchase of property and equipment	(40,432)	(204,611)
Principal payment on lease liability	(189,370)	(174,338)
Interest paid on lease liability	<u>(76,403)</u>	<u>(83,376)</u>
Net cash used in capital and related financing activities	<u>(306,205)</u>	<u>(462,325)</u>
Cash Flows from Investing Activities		
Investment income	81,581	57,305
Other	<u>16,796</u>	<u>903</u>
Net cash provided by investing activities	<u>98,377</u>	<u>58,208</u>
Increase (Decrease) in Cash	(5,581,914)	6,831,088
Cash, Beginning of Year	<u>36,936,352</u>	<u>30,105,264</u>
Cash, End of Year	<u><u>\$ 31,354,438</u></u>	<u><u>\$ 36,936,352</u></u>

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Statements of Cash Flows (Continued)
Years Ended June 30, 2022 and 2021

	2022	2021 (Restated - Note 10)
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 122,468,372	\$ 137,526,428
Depreciation and amortization	622,598	595,843
Changes in operating assets and liabilities		
Retailer accounts receivable, net	(93,048)	(723,513)
Prepaid expenses	(13,191)	(120,851)
Other current assets	(264,565)	(337,530)
Prizes payable	(4,654,084)	10,145,266
Accounts payable and accrued expenses and due to MUSL	49,316	39,137
Unearned revenue	80,515	(10,375)
	<u>\$ 118,195,913</u>	<u>\$ 147,114,405</u>
Net cash provided by operating activities	<u>\$ 118,195,913</u>	<u>\$ 147,114,405</u>

Noncash Investing, Capital and Financing Activities

In connection with the adoption of GASB 87, the Corporation recorded lease assets of \$2,084,403 and lease liabilities of \$2,084,403 as of July 1, 2020.

Mississippi Lottery Corporation
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Notes to Financial Statements
June 30, 2022 and 2021

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

The Alyce G. Clarke Mississippi Lottery Law (the Law), Senate Bill 2001 (First Extraordinary Session 2018) formed the Mississippi Lottery Corporation (the Corporation) to administer the State of Mississippi's lottery. The Corporation's Board of Directors (the Board) governs the Corporation. The Board is comprised of five members appointed by the Governor, with the advice and consent of the Senate, in addition to the Commissioner of the Department of Revenue and the State Treasurer as ex officio members. The Corporation is a component unit of the State of Mississippi (the State).

The Corporation began conducting lottery games on November 25, 2019.

The Corporation accounts for the operations of the lottery in which a statutorily defined amount of the first \$80,000,000 of annual net proceeds (as defined in the Law) shall be used to support the State of Mississippi Highway Fund through June 30, 2028. Beginning July 1, 2028, the statutorily defined amount of the first \$80,000,000 shall be transferred to the State General Fund. Any net proceeds remaining after the statutorily required transfers are transferred to the State's Education Enhancement Fund.

Basis of Accounting and Presentation

The financial statements of the Corporation have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). The basic financial statements provide information about the Corporation's proprietary fund. Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flow takes place.

Enterprise Fund

The Corporation accounts for its operations as an enterprise fund. The intent of the State of Mississippi Legislature is that the Corporation's costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered solely through user charges. The Corporation defines operating revenues as those earned as a direct result of the fund's principal ongoing operations, i.e., the sale of lottery products. Operating expenses include expenses incurred in earning those revenues such as prize payments, the cost of tickets, vendor fees, retailer commissions and other incentives, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of

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Notes to Financial Statements
June 30, 2022 and 2021

the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Corporation considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2022 and 2021, the Corporation held no cash equivalents.

Retailer Accounts Receivable

Retailer accounts receivable consist of amounts due from retailers for gross ticket sales and weekly fees less commissions and prizes paid by the retailers. Lottery proceeds for instant tickets sold by retailers are due and payable to the Corporation upon pack settlement, and lottery proceeds for draw-style game tickets are due and payable at the end of the accounting period in accordance with Section 2.11 of Retailer Rules and Regulations. Lottery proceeds are collected from retailer bank accounts established in a trust. Retailers are invoiced for net proceeds on a weekly basis for all billable activity from Sunday through Saturday of each week.

The Corporation will record a bad debt expense and related allowance for bad debt based on a quarterly review of outstanding retailer accounts receivable as a result of nonpayment. The outstanding balances will not be written off against the allowance account until required retailer bonds are executed, and management determines any remaining balance, if any, for such account is deemed noncollectible. Retailers will be charged NSF fees in accordance with Section 2.12 of Retailer Rules and Regulations.

In accordance with the Law, each retailer is required to post a bond or letter of credit with the Corporation using surety acceptable to the Corporation in an amount not to exceed twice the average lottery ticket sales of the lottery retailer for the period determined by the Corporation within which the lottery retailer is required to remit lottery funds to the Corporation. In accordance with the Corporation Rules and Regulations for 2022 and 2021, the amount of a retailer's initial letter of credit or bond shall be \$8,000 per retailer business location, subject to later adjustment by the Corporation.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

Capital Assets

Capital assets are recorded at cost at the date of acquisition. The Corporation adheres to the state policy of capitalizing equipment only if the cost exceeds \$5,000 and has a useful life in excess of one year. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the Corporation:

Buildings and leasehold improvements	10-25 years
Equipment	3-15 years

Mississippi Lottery Corporation
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Lease Assets

Lease assets are initially recorded at the initial measurement of the lease liability, plus lease payments made at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease, plus initial direct costs that are ancillary to place the asset into service. Lease assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

Unearned Revenue

Unearned revenue represents amounts collected from retailers for draw-style game tickets for Cash 3, Cash 4, *Match 5*, *Mega Millions* and *Powerball* sold in advance of the drawing. These amounts collected are recognized as revenue once the related drawing occurs.

Risk Management

The Corporation is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than workers' compensation and natural disasters. Settled claims have not exceeded this commercial coverage since the Corporation was formed. Settlements for workers' compensation were insignificant in 2022 and 2021.

Net Position

Net position of the Corporation is classified in three components.

- Net investment in capital assets consists of capital assets, including lease assets, net of accumulated depreciation and amortization, less any outstanding debt or liability used to acquire the asset. At June 30, 2022 and 2021, the Corporation had \$1,192,081 and \$1,589,991, respectively, of their cumulative net position included in this category.
- Restricted net position is made up of noncapital assets that must be used for a particular purpose, as specified by legislation, creditors, grantors, or donors external to the Corporation, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. At June 30, 2022 and 2021, the Corporation had no net position included in this category.
- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position. At June 30, 2022 and 2021, the Corporation had no net position included in this category.

Classification of Revenues

The Corporation has classified its revenues as either operating or nonoperating revenues according to the following criteria.

Operating revenues include activities that have the characteristics of exchange transactions, such as

Mississippi Lottery Corporation
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Notes to Financial Statements
June 30, 2022 and 2021

- (1) Instant ticket sales
- (2) Draw-style game sales
- (3) Retailer fees

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as

- (1) Interest income
- (2) Other income

Income Taxes

The Corporation was created by the Mississippi Legislature and is exempt from state and federal income taxes.

Revenue Recognition

The Corporation recognizes revenue for instant games when retailers make them available for sale to the public, as indicated by the retailers' activation of tickets. Certain games include free tickets, which entitle the holder to exchange one instant ticket for another of equal value. The selling price of free tickets reduces instant ticket revenue when the free ticket is claimed by a player.

The Corporation recognizes revenue for terminal-based draw-style games based on the game characteristics. Revenues for draw-style games, whereby the prize expense is only determinable at the time of the related drawing, will be recognized after the tickets are sold to the players and the drawing occurs. Revenue collected from retailers for these games sold in advance of the draw are recorded as unearned revenue and recognized as the draw occurs.

Gaming Vendor Fees

The Corporation has contracted with IGT Corporation (IGT) for the gaming systems and supplies. IGT operates a gaming network in Mississippi that consists of 1,822 and 1,844 instant and draw-style retailer ticket terminals as of June 30, 2022 and 2021, respectively. The contract is for a period continuing seven years after December 1, 2019, and is subject to three, one-year contract extensions. Terms of the contract include a service fee rate of 1.9241% of gross on-line ticket sales revenue less cancelled transactions, plus the retail face value of all instant tickets activated during the week, less the retail face value of instant tickets returned, given as free tickets, returned as defective, reported stolen by a retailer, or issued by the Corporation as a promotion. The contract also includes a service fee rate of 1.4938% of the total face value of all instant tickets activated during the week, less the sum of the total face value of activated tickets returned by retailers during the given week, activated defective tickets, activated tickets reported stolen by retailers, and activated promotional tickets issued by the Corporation during the week. These fees are recorded as gaming vendor fees in the accompanying financial statements.

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Prize Liability and Prize Expense

In accordance with the Law, as nearly as practical, at least 50% of ticket proceeds must be made available as prize money. Gross prize expense for instant ticket sales is recognized based on a predetermined prize structure for each game in accordance with the approved game working papers when tickets are activated for sale. Draw-style games gross prize expense is recognized based on historical payout experience when the drawings occur.

The Corporation recognizes prize expense in the period of related revenue recognition, regardless of when prizes are claimed by the player. All games are accounted for using the accrual basis of accounting. Instant ticket liability and expense are recognized at the point of ticket pack activation based on a predetermined prize payout for each game and are adjusted when the game ends. The Corporation will reconcile prize expense and prizes payable when the game is closed and the claim period has ended. The prize structure is included as part of each instant game's working papers, which is the contractual commitment for the instant vendor to produce the game at a predetermined payout.

The liability and expense for draw-style game prizes are recognized and recorded on the day of the draw. Prize liability for all games is reduced as prizes are paid to winners. The Corporation prize expense is recognized for terminal-based draw-style games at 50% to 55% of net ticket sales, depending on the amount of prize payout allocated for each draw game and estimated unclaimed prizes.

Cash 3, Cash 4, *Match 5*, *Powerball* and *Mega Millions* prize expense is recognized as a percentage of ticket sales in accordance with the game rules and contractual agreement, as applicable (for example, *Powerball* Rule 28 and *Mega Millions* Rule 28).

Unclaimed Prizes

Prizes not claimed within 90 days of the announced end-of-game date for instant games, and within 180 days of the drawing for all terminal-based draw-style games, are forfeited as unclaimed prizes.

The Corporation records actual unclaimed amounts after the expiration of the related claim period. In accordance with the Law, the Corporation allocates the unclaimed prize funds to the pool from which future prizes are to be awarded or used for special prize promotions.

Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties, and other sources will be recorded when it is probable that a liability has been incurred, and the amount of the liability can be reasonably estimated.

Retailer Commissions

Retailers receive a commission of 6.0% on all instant tickets settled and draw-style tickets sold. The commission expense is recorded in the period of related ticket sales or activations. Where a commission has been paid to retailers for deferred ticket sales, this fee is recorded as a prepaid expense until the related revenue is recognized.

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Retailers are also eligible to receive incentive payments in accordance with the following guidelines. The Corporation will pay an incentive of \$25,000 to a retailer in good standing with Corporation that sells a jackpot winning *Powerball* or *Mega Millions* draw-style game play. The Corporation will pay an incentive of \$5,000 to a retailer in good standing with the Corporation who sells a winning draw-style game play (excluding a play described by the previous sentence) when the prize won is equal to or greater than \$1 million. If there are multiple winning plays sold in Mississippi in a single drawing that qualify for any of the incentives described in this section to be paid, the respective incentive will be divided between and among the respective retailers equally, based on the number of winning plays sold by each retailer. The retailer incentive expense is accrued in the same period in which the winning ticket is drawn.

Prize Reserve

As part of the Corporation's agreement with the Multi-State Lottery Association (MUSL), for both the *Powerball* and *Mega Millions* games, a certain percentage of sales must be contributed to MUSL by each member, when required, to bring the set prize and grand prize reserves up to the reserve requirement amounts as determined by MUSL. In accordance with MUSL requirements, during the years ended June 30, 2022 and 2021, a total of \$193,245 and \$311,074, respectively, was transferred from the Corporation to MUSL to cover *Mega Millions* set prize reserves. At June 30, 2022 and 2021, the balance held by MUSL for *Mega Millions* set-aside prize reserve for the Corporation was \$402,864 and \$312,281, respectively. At June 30, 2022, the balance held by MUSL for *Powerball* set-aside prize reserve for the Corporation was \$152,614. There were no amounts transferred, repaid or owed during the year ended June 30, 2021 related to the *Powerball* prize reserve. These reserves are recorded as other current assets in the accompanying statements of net position.

Compensated Absences

Effective October 15, 2019, the Corporation implemented an attendance and leave policy allowing employees to earn paid time off (PTO) during their employment on a calendar-year basis. The Corporation recognizes expense for PTO in the current year and does allow PTO not used in its entirety to be added to the next calendar year. The total maximum balance to be added to an employee's PTO for the next calendar year is 120 hours. Notwithstanding, the maximum number of additional PTO hours will never exceed 120 hours in any one year.

Expense and the related liability are recognized as PTO hours are earned. Compensated absence liabilities are computed using the regular pay rates in effect at the statement of net position date and are reported as accrued expenses in the accompanying statements of net position. Employees are not compensated for any unused PTO upon termination of employment.

Reclassifications

Certain reclassifications have been made to the 2021 financial statements to conform to the 2022 financial statement presentation. These reclassifications had no effect on changes in net position.

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Notes to Financial Statements
June 30, 2022 and 2021

Note 2: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Corporation's deposit policy for custodial credit risk and the Law require compliance with the provisions of Section 27-105-5 Miss. Code Ann. (1972).

The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

At June 30, 2022 and 2021, the carrying amount of the Corporation's deposits was \$31,354,438 and \$36,936,352, respectively, and the bank balances totaled \$31,417,846 and \$37,047,445, respectively. Of the bank balances, \$250,000 was insured by FDIC. At June 30, 2022 and 2021, \$30,982,522 and \$36,619,969, respectively, were collateralized as described above.

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Notes to Financial Statements
June 30, 2022 and 2021

Note 3: Capital Assets

Capital assets activity for the years ended June 30, 2022 and 2021, was:

	2022				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Buildings and leasehold improvements	\$ 674,975	\$ -	\$ -	\$ -	\$ 674,975
Equipment	1,497,653	40,432	(20,457)	-	1,517,628
	<u>2,172,628</u>	<u>40,432</u>	<u>(20,457)</u>	<u>-</u>	<u>2,192,603</u>
Less accumulated depreciation					
Buildings and leasehold improvements	(101,657)	(68,185)	-	-	(169,842)
Equipment	(433,966)	(333,060)	15,343	-	(751,683)
	<u>(535,623)</u>	<u>(401,245)</u>	<u>15,343</u>	<u>-</u>	<u>(921,525)</u>
Capital assets, net	<u>\$ 1,637,005</u>	<u>\$ (360,813)</u>	<u>\$ (5,114)</u>	<u>\$ -</u>	<u>\$ 1,271,078</u>
2021					
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Buildings and leasehold improvements	\$ 674,975	\$ -	\$ -	\$ -	\$ 674,975
Equipment	1,293,042	204,611	-	-	1,497,653
	<u>1,968,017</u>	<u>204,611</u>	<u>-</u>	<u>-</u>	<u>2,172,628</u>
Less accumulated depreciation					
Buildings and leasehold improvements	(33,472)	(68,185)	-	-	(101,657)
Equipment	(127,660)	(306,306)	-	-	(433,966)
	<u>(161,132)</u>	<u>(374,491)</u>	<u>-</u>	<u>-</u>	<u>(535,623)</u>
Capital assets, net	<u>\$ 1,806,885</u>	<u>\$ (169,880)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,637,005</u>

Mississippi Lottery Corporation
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Notes to Financial Statements
June 30, 2022 and 2021

Note 4: Lease Assets

Lease assets activity for the years ended June 30, 2022 and 2021, was:

	2022				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Building and leasehold improvements	\$ 2,084,403	\$ -	\$ -	\$ -	\$ 2,084,403
Less accumulated amortization					
Buildings and leasehold improvements	(221,352)	(221,353)	-	-	(442,705)
Lease assets, net	<u>\$ 1,863,051</u>	<u>\$ (221,353)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,641,698</u>
	2021 (As Restated)				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Building and leasehold improvements	\$ 2,084,403	\$ -	\$ -	\$ -	\$ 2,084,403
Less accumulated amortization					
Buildings and leasehold improvements	-	(221,352)	-	-	(221,352)
Lease assets, net	<u>\$ 2,084,403</u>	<u>\$ (221,352)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,863,051</u>

Note 5: Due to State of Mississippi and Transfers to State of Mississippi

In accordance with Section 26(c) of the Law, all net proceeds of the Corporation are due to the State of Mississippi. The net proceeds amount is defined by the Corporation as total net operating and nonoperating income less additions to property, plant, and equipment, plus depreciation expense. In accordance with the Law, distributions of net proceeds shall be made within 20 days following the close of each calendar month. In accordance with Section 43 of the Law, net proceeds generated by the Corporation shall be paid to the State of Mississippi Highway Fund until June 30, 2028, not to exceed \$80 million per fiscal year. All monies deposited into the Lottery Proceeds Fund over \$80 million per fiscal year shall be transferred into the Education Enhancement Fund for the purposes of funding the Early Childhood Learning Collaborative, the Classroom Supply Fund, and other educational purposes.

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Net proceeds for the years ended June 30, 2022 and 2021 are summarized as follows:

	2022	2021 (Restated - Note 10)
Operating Revenues		
Ticket sales	\$ 432,863,037	\$ 510,569,488
Less tickets provided as prizes	<u>(10,972,940)</u>	<u>(34,245,741)</u>
Net ticket sales	<u>421,890,097</u>	<u>476,323,747</u>
Other operating revenues	<u>1,864,743</u>	<u>1,942,335</u>
Operating Expenses		
Gaming	251,256,203	283,492,127
Operating	<u>50,030,265</u>	<u>57,247,527</u>
Total operating expenses, as defined	<u>301,286,468</u>	<u>340,739,654</u>
Operating Income	122,468,372	137,526,428
Nonoperating Revenues (Expenses)		
Interest income	81,581	57,305
Interest expense	(76,403)	(83,376)
Other revenue	<u>11,682</u>	<u>903</u>
Total nonoperating revenues (expenses)	<u>16,860</u>	<u>(25,168)</u>
Adjustments to Amount Due to State		
Depreciation expense on capital assets	401,245	374,491
Additions to capital assets	(40,432)	(204,611)
Loss on disposal of capital assets	5,114	-
Interest expense related to leases	76,403	83,376
Amortization expense on lease assets	221,353	221,352
Lease payments	<u>(265,773)</u>	<u>(257,714)</u>
	<u>397,910</u>	<u>216,894</u>
Net Proceeds	<u><u>\$ 122,883,142</u></u>	<u><u>\$ 137,718,154</u></u>

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Note 6: Line of Credit

The Corporation has a \$15,000,000 revolving bank line of credit maturing on May 31, 2023. The line is unsecured, with interest payments monthly at a variable rate of 1.65% over an index rate, which was 2.775% at June 30, 2022. There were no funds drawn on the line of credit at June 30, 2022 or 2021.

Note 7: Contingencies

Litigation

In the normal course of business, the Corporation is, from time to time, subject to allegations that may or do result in litigation. The Corporation evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term. No estimate for loss was recorded at June 30, 2022 or 2021.

Note 8: Employee Retirement Plans

The Corporation has two types of defined contribution retirement plans for its employees. The first is a Governmental 401(a) Plan. The second plan is an Eligible Governmental 457 Plan, which permits employees to make additional pretax contributions from their wages up to defined Internal Revenue Service (IRS) limitations. In the 401(a) plan, the Corporation will contribute 100% of each employee's pretax wages that are deferred in the 457 plan up to 4%. The Corporation's contributions are limited to 4% and only to the extent of each individual employee's contributions to the 457 plan up to a total of \$20,500 (\$26,000 for catch-up eligible employees, increased to \$27,000 for calendar year 2022) per employee.

Retirement expense is recorded for the amount of the Corporation's required contributions and administrative fees determined in accordance with the terms of the plans. The Corporation has an appointed investment committee, including the President and an external investment advisor, to administer the plans. Benefit provisions are contained in the plan documents and, where established, can be amended by action of the Corporation's Board of Directors and management. Employee contributions of pretax wages are subject to a maximum set by the IRS.

Contributions made by the Corporation were \$109,033 and \$114,118 during the years ended June 30, 2022 and 2021, respectively.

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Note 9: Lease Liabilities

The Corporation leases office space, the term of which expires December 1, 2029. Variable payments based upon the use of the underlying asset are not included in the lease liability because they are not fixed in substance.

The following is a schedule by year of payments under the leases as of June 30, 2022:

Year Ending June 30	Total to Be Paid	Principal	Interest
2023	\$ 268,975	\$ 200,147	\$ 68,828
2024	268,975	208,153	60,822
2025	268,975	216,479	52,496
2026	273,458	229,621	43,837
2027	276,660	242,008	34,652
2028 - 2030	668,596	624,287	44,309
	<u>\$ 2,025,639</u>	<u>\$ 1,720,695</u>	<u>\$ 304,944</u>

The following is a summary of long-term obligation transactions for the Corporation for the years ended June 30, 2022 and 2021.

2022				
Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
\$ 1,910,065	\$ -	\$ 189,370	\$ 1,720,695	\$ 200,147
2021 (As Restated)				
Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
\$ 2,084,403	\$ -	\$ 174,338	\$ 1,910,065	\$ 189,370

Note 10: Change in Accounting Principle

During fiscal year 2022, the Corporation adopted GASB Statement No. 87, *Leases*. This standard increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The Corporation adopted GASB 87 on a retrospective basis. This restatement had no impact on the previously reported 2021 beginning net position and decreased previously reported 2021 change in net position by \$47,014.



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**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***

Independent Auditor's Report

Board of Directors
Mississippi Lottery Corporation
Flowood, Mississippi

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 Mississippi Lottery Corporation (the Corporation), a component unit of the State of Mississippi, which comprise the statement of net position as of June 30, 2022, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated September 21, 2022, which contained an "emphasis of matter" paragraph regarding a change in accounting principle.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation'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 Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 that a material misstatement of the entity'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 that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on Compliance and Other Matters

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

Purpose of this Report

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 Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

FORVIS,LLP

Jackson, Mississippi
September 21, 2022