



**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

FINANCIAL AUDIT

For the Year Ended June 30, 2023

Performed as Special Assistant Auditors for the
Auditor General, State of Illinois

SIKICH.COM

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
STATE LOTTERY FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2023

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STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
FINANCIAL AUDIT
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DEPARTMENT OFFICIALS

Director	Mr. Harold Mays
Chief of Staff	Mr. Scott Gillard
Chief Financial Officer (Acting) (10/07/23 – Present)	Ms. Amber Chappell
Chief Financial Officer (10/01/23 – 10/06/23)	Vacant
Chief Financial Officer (07/01/22 – 09/30/23)	Ms. Carol Radwine
General Counsel	Mr. Cornell Wilson
Chief Operations Officer	Mr. Matthew Bell
Chief Transformation Officer	Mr. Joseph Logue
Chief Internal Auditor	Mr. Darick Clark

LOTTERY CONTROL BOARD OFFICER

Chair	Ms. Dianna Sheehan
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LOTTERY CONTROL BOARD MEMBERS

Member	Ms. Sarah Alter
Member	Ms. Alejandra Garza
Member	Ms. Dianna Sheehan
Member	Vacant
Member	Vacant

DEPARTMENT OFFICES

The Department's primary administrative offices are located at:

122 S. Michigan Avenue, 19th Floor
Chicago, Illinois 60603

404 N. 5th Street
Springfield, Illinois 62702

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
 STATE LOTTERY FUND
 FINANCIAL AUDIT
 For the Year Ended June 30, 2023

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the State Lottery Fund was performed by Sikich LLP.

Based on their audit, the auditors expressed an unmodified opinion on the financial statements of the State Lottery Fund.

SUMMARY OF FINDINGS

Number of	<u>Current Report</u>	<u>Prior Report</u>
Findings	0	2
Repeated Findings	0	2
Prior Findings Implemented or Not Repeated	2	4

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>	<u>Finding Type</u>
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Current Findings

None noted.

Prior Findings Not Repeated

A	50	2022/ 2021	Inadequate Controls over SOC Report Reviews
B	50	2022/ 2020	Inadequate Controls over Census Data

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
STATE LOTTERY FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2023

EXIT CONFERENCE

The Department waived an exit conference in correspondence from Darick Clark, Chief Internal Auditor, on January 12, 2024.

3051 Hollis Dr., 3rd Floor
Springfield, IL 62704
217.793.3363

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INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Lottery Control Board
State of Illinois, Department of the Lottery

Report on the Audit of the Financial Statements

Opinion

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the State Lottery Fund of the State of Illinois, Department of the Lottery (Department), as of and for the year ended June 30, 2023, and the related notes to the 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 respective financial position of the State Lottery Fund of the Department as of June 30, 2023, and the respective changes in financial position and 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 the Financial Statements section of our report. We are required to be independent of the Department, and to meet our 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 2 to the financial statements, the financial statements present only the State Lottery Fund and do not purport to, and do not, present fairly the financial position of either the State of Illinois or the Department as of June 30, 2023, the changes in its financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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 purpose of expressing an opinion on the effectiveness of the Department'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.

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

Management has omitted the management's discussion and analysis, pension-related, and other postemployment benefit-related required supplementary information that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements of the State Lottery Fund. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements of the State Lottery Fund of the Department in an appropriate operational, economic, or historical context. Our opinion on the financial statements of the State Lottery Fund is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the financial statements of the State Lottery Fund. The accompanying supplementary information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements of the State Lottery Fund. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements of the State Lottery Fund. The information has been subjected to the auditing procedures applied in the audit of the financial statements of the State Lottery Fund and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements of the State Lottery Fund or to the financial statements of the State Lottery Fund themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements of the State Lottery Fund as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Department officials page but does not include the financial statements and our auditor's report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2024, on our consideration of the Department's internal control over financial reporting of the State Lottery Fund 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 Department'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 Department's internal control over financial reporting and compliance.

Restricted Use of this Auditor's Report

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, the Lottery Control Board, and the Department's management, and is not intended to be and should not be used by anyone other than these specified parties.

SIGNED ORIGINAL ON FILE

Springfield, Illinois
January 19, 2024

FINANCIAL STATEMENTS

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
State Lottery Fund
Statement of Net Position (Deficit)
June 30, 2023
(in thousands of dollars)

Assets and Deferred Outflows of Resources

Current assets:	
Cash and cash equivalents	\$ 15,329
Cash equity in State Treasury	83,714
Investments, short-term	25,698
Accounts receivable, net of allowance of \$32,784	45,378
Other receivables	32
Due from other State funds	27
Prepaid expenses	51
Total current assets	<u>170,229</u>
Noncurrent assets:	
Investments	202,111
Capital assets being depreciated, net	19
Total noncurrent assets	<u>202,130</u>
Total assets	<u>372,359</u>
Deferred outflows of resources:	
Deferred outflows of resources - pension	10,865
Deferred outflows of resources - OPEB	11,106
Total deferred outflows of resources	<u>21,971</u>
Total assets and deferred outflows of resources	<u>394,330</u>

This statement is continued on the following page.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
State Lottery Fund
Statement of Net Position (Deficit) (Continued)
June 30, 2023
(in thousands of dollars)

Liabilities and Deferred Inflows of Resources

Current liabilities:	
Prizes payable	\$ 80,288
Accounts payable and accrued liabilities	2,199
Due to other Government – Federal	63
Due to other State funds	15,037
Unearned revenue	2,076
Leases payable	19
Other liabilities	578
Current portion of long-term annuity prizes payable	24,969
Current portion of OPEB liability	1,098
Total current liabilities	126,327
Noncurrent liabilities:	
Noncurrent portion of long-term annuity prizes payable	215,933
Net pension liability	73,372
Noncurrent portion of OPEB liability	21,875
Noncurrent other	948
Total noncurrent liabilities	312,128
Total liabilities	438,455
Deferred inflows of resources:	
Deferred inflows of resources - pension	8,310
Deferred inflows of resources - OPEB	31,282
Total deferred inflows of resources	39,592
Total liabilities and deferred inflows of resources	478,047
Net Position (Deficit)	
Unrestricted	(83,717)
Total net position (deficit)	\$ (83,717)

The accompanying notes to the financial statements are an integral part of these statements.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
State Lottery Fund
Statement of Revenues, Expenses, and Changes in Net Position (Deficit)
Year Ended June 30, 2023
(in thousands of dollars)

	Total
Operating revenues:	
Charges for sales and services	\$ 3,609,258
Other	4,844
Total operating revenues	3,614,102
Operating expenses:	
Cost of sales and services	173,806
Prizes and claims	2,364,897
General and administrative	193,736
Depreciation	33
Total operating expenses	2,732,472
Operating income	881,630
Nonoperating revenues (expenses):	
Investment income	(4,540)
Interest income	203
Interest expense	(8,205)
Other	659
Total nonoperating revenues (expenses), net	(11,883)
Change in net position (deficit) before transfers	869,747
Transfers to other State funds	(881,636)
Change in net position (deficit)	(11,889)
Net position (deficit), July 1, 2022	(71,828)
Net position (deficit), June 30, 2023	\$ (83,717)

The accompanying notes to the financial statements are an integral part of these statements.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
State Lottery Fund
Statement of Cash Flows
Year Ended June 30, 2023
(in thousands of dollars)

Cash flows from operating activities:	
Cash received from sales and services	\$ 3,601,949
Cash receipts from other operating activities	7,212
Cash payments for commissions and bonuses	(173,806)
Cash payments to employees for services	(22,588)
Cash payments for general and administrative expenses	(151,859)
Cash payments for lottery prizes	(2,350,668)
Cash payments for other operating activities	(81)
Net cash provided by operating activities	<u>910,159</u>
Cash flows from noncapital financing activities:	
Cash transfers – out to other funds	<u>(872,452)</u>
Net cash used in noncapital financing activities	<u>(872,452)</u>
Cash flows from capital and related financing activities:	
Principal payments under lease obligation	(27)
Interest payments under lease obligation	(1)
Net cash used in capital and related financing activities	<u>(28)</u>
Cash flows from investing activities:	
Interest and dividends on investments	191
Purchase of investments	(13,144)
Proceeds from investment maturities	27,185
Cash paid for long-term annuity prizes payable	(26,538)
Net cash used in investing activities	<u>(12,306)</u>
Net increase in cash and cash equivalents	25,373
Cash and cash equivalents at beginning of year	73,670
Cash and cash equivalents at end of year	<u>\$ 99,043</u>
Reconciliation of cash and cash equivalents to the statement of net position (deficit):	
Total cash and cash equivalents per the statement of net position (deficit)	\$ 15,329
Add cash equity in State Treasury	83,714
Cash and cash equivalents at end of year	<u>\$ 99,043</u>

This statement is continued on the following page.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
State Lottery Fund
Statement of Cash Flows (Continued)
Year Ended June 30, 2023
(in thousands of dollars)

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 881,630
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	33
Provision for uncollectible accounts	1,457
Changes in assets and liabilities:	
Decrease in accounts receivable	21,252
Decrease in due from other funds	544
Increase in deferred outflows of resources	(3,567)
Decrease in prepaid expenses	43
Increase in prizes payable	1,085
Increase in accounts payable and accrued liabilities	323
Increase in intergovernmental payables	27
Increase in due to other State funds	72
Increase in unearned revenues	411
Increase in other liabilities	195
Increase in long-term annuity prizes payable	13,144
Increase in deferred inflows of resources	15,191
Decrease in net pension liability	(2,528)
Decrease in OPEB liability	(19,153)
Net cash provided by operating activities	<u>\$ 910,159</u>
Noncash investing, capital and financing activities:	
Cost of capital asset acquisitions financed by leases	\$ (32)
Decrease in fair value of investments	(12,751)
Interest accreted on investments	8,204
Interest accreted on long-term annuity prizes payable	(8,204)
Use of resources to pay long-term annuity prizes payable	(862)

The accompanying notes to the financial statements are an integral part of these statements.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
STATE LOTTERY FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

(1) Organization

The Department of the Lottery (the Department) is a part of the executive branch of government of the State of Illinois (State) and operates under a budget approved by the General Assembly in which resources primarily from the State Lottery Fund (Fund) are appropriated for the use of the Department. Activities of the Department are subject to the authority of the Office of the Governor, the State's chief executive officer, and other departments of the executive and legislative branches of government (such as the Department of Central Management Services, the Governor's Office of Management and Budget, the State Treasurer's Office, and the State Comptroller's Office) as defined by the Illinois General Assembly. All funds appropriated to the Department and all other cash received are under the custody and control of the State Treasurer, with the exception of all locally-held funds authorized by State law.

The Department is organized to provide for administering and overseeing the operations of the Illinois Lottery with the assistance of a private manager under a management agreement. The Department's mission is to maximize revenue to the State to benefit schools and specialty causes in an ethical and responsible manner.

(2) Summary of Significant Accounting Policies

The financial statements of the Department have been prepared in accordance with U.S. generally accepted accounting principles (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

(a) Financial Reporting Entity

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- 1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- 2) Fiscal dependency on the primary government.

Based upon the required criteria, the Department has no component units and is not a component unit of any other entity. However, because the Department is not legally separate from the State, the financial statements of the Department are included in the financial statements of the State. The State's Annual Comprehensive Financial Report (ACFR) may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1871, or by accessing its website at www.illinoiscomptroller.gov.

(b) Basis of Accounting and Presentation

The financial statements of the Fund are intended to present the financial position, changes in financial position, and cash flows of only that portion of the activities of the State that are attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State or the Department as of June 30, 2023, and each entity's respective changes in financial position and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
STATE LOTTERY FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

As a proprietary fund, the Fund's 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 liabilities are incurred, regardless of when the related cash flow takes place.

The Department accounts for operations of the Illinois Lottery in which net income is used for the support of the State's Common School Fund. Certain ticket proceeds are dedicated for other State funds prior to the determination of the net income available for transfers to the Common School Fund.

(c) Cash and Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments readily convertible to cash with maturities of less than 90 days at time of purchase. Cash and cash equivalents include cash on hand and cash in banks for locally held funds.

(d) Investments

Investments are reported at fair value. Additional disclosures surrounding the measurement of these investments are in Note 4. The Department holds investments pursuant to statutory authority for locally held funds.

(e) Fair Value of Financial Instruments

The Department follows guidance for fair value measurements that defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability on the measurement date. The guidance establishes a hierarchy of inputs used to measure fair value that prioritizes the inputs into three categories that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the measurement date.

Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data. These inputs are either directly or indirectly observable as of the measurement date.

Level 3 – Unobservable inputs for the asset or liability as of the measurement date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the valuation methodologies used to measure the Department's financial instruments at fair value. There have been no changes in the valuation methodologies used at June 30, 2023, when compared to June 30, 2022.

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STATE LOTTERY FUND
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U.S. Treasury bonds—U.S. Treasury bonds are valued using a matrix pricing technique which is used to value securities based on the securities' relationship to benchmark quoted prices. These assets are classified as Level 2 assets.

(f) Allowances and Provisions

The allowance for doubtful accounts at June 30, 2023, is based on an analysis of the historical collection experience for accounts receivable, which considers the age of the receivable and current economic conditions.

(g) Interfund Transactions

The Department has the following types of interfund transactions between the Fund and other State funds:

Services provided and used—Sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the Statement of Net Position (Deficit).

Transfers—Flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported after nonoperating revenues and expenses.

(h) Capital Assets

Capital assets, which consist of equipment and automobiles, are reported at historical cost. Contributed assets are reported at acquisition value at the time received. Capital assets are depreciated using the straight-line method. The capitalization threshold for capital assets is \$5,000 and the estimated useful lives range from 5 to 15 years.

(i) Compensated Absences

The liability for compensated absences reported in the Statement of Net Position (Deficit) consists of unpaid, accumulated vacation and sick leave balances for Department employees. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g., Social Security and Medicare tax).

Legislation that became effective January 1, 1998, capped the paid sick leave for all State Employees' Retirement System (SERS) members at December 31, 1997. Employees continue to accrue twelve sick days per year but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between January 1, 1984, and December 31, 1997, (with a 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997, will be converted to service time for purposes of calculating employee pension benefits.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
STATE LOTTERY FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

(j) Net Position (Deficit)

In the Statement of Net Position (Deficit), equity is displayed in three components as applicable:

Invested in Capital Assets – This consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of borrowings attributable to the acquisition of those assets. There is no invested in capital assets net position (deficit) as of June 30, 2023.

Restricted – This consists of net position (deficit) that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State’s policy to use restricted resources first, then unrestricted resources when they are needed. There is no restricted net position (deficit) as of June 30, 2023.

Unrestricted – This consists of net position (deficit) that does not meet the definition of “restricted” or “invested in capital assets.”

(k) Classification of Revenues and Expenses

The Department classifies its revenues and expenses as either operating or nonoperating in the Statement of Revenues, Expenses, and Changes in Net Position (Deficit) according to the following criteria:

Revenue

Operating revenues, such as sale of lottery tickets, result from exchange transactions associated with the principal activity of the fund. Nonoperating revenues, such as investment income, result from nonexchange transactions or ancillary activities.

Expenses

All expenses are classified as operating, except for interest expense and losses on disposal of capital assets which are classified as nonoperating.

(l) Lottery Revenue

Draw Games

Revenue from ticket sales for draw based games, such as Mega Millions, Powerball, and Lotto, is recognized when the related drawing takes place. Receipts from subscription sales and other ticket sales for future drawings are recorded as unearned revenue and will not be recognized as revenue until the related drawing takes place. Revenue from ticket sales of Fast Play games is recognized immediately upon ticket sale.

Instant Games

Tickets are available for sale upon being activated at the retailer locations. Revenue from instant games is recognized based on the dollar value of the total books of tickets settled. Books are not paid for in advance but are generally settled after majority of the book has been sold. Books are settled in one of three ways, whichever occurs first:

- 1) 90 days have passed since the book was activated,
- 2) 90% of low tier prizes have been collected, or
- 3) the book is manually settled by the retailer or Lottery Sales Representative.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
STATE LOTTERY FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Settled instant ticket books equate to the dollar value of the book less any returned tickets for those unsold.

(m) Prizes and Claims

Draw Games

Prize expense for draw based games, such as Mega Millions, Powerball, and Lotto, is recognized when the draw occurs and is recorded as the amount of prize liability incurred for the respective draw. Prize expense for Fast Play is recognized immediately upon ticket sale and is recorded as the amount of prize liability incurred for the respective ticket. Prize expense and prizes payable are subsequently reduced for prizes that are unclaimed at the end of the redemption period. Additionally, for Mega Millions, Powerball, and Lotto, prize expense includes an accrual for an amount equivalent to the present value of the advertised jackpot as of the end of the reporting period.

Instant Games

Prize expense is accrued for instant game sales at a percentage equivalent to the total prizes included in all tickets printed for each game based upon the settled books. Prize expense and prizes payable are reduced for an estimate of prizes that will go unclaimed and are increased if amounts claimed exceed the amounts accrued (i.e., early redemption expense). Instant games are closed at the end of the final redemption period and any remaining net payable accrued in prior periods is reversed and recorded as a reduction to prize expense.

(n) Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(o) Pension

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense associated with the Department's contribution requirements, information about the fiduciary net position of the State Employees Retirement System (SERS) and additions to/deductions from the SERS' fiduciary net position have been determined on the same basis as they are reported within the separately issued SERS financial statements. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with terms of the plan. Investments are reported at fair value.

The net pension liability is calculated as the difference between the actuarially calculated value of the projected benefit payments attributed to past periods of service and the plans' fiduciary net position. The total pension expense is comprised of the service cost or actuarial present value of projected benefit payments attributed to the valuation year, interest on the total pension liability, plan administrative expenses, current year benefit changes, and other changes in plan fiduciary net position less employee contributions and projected earnings on plan investments. Additionally, the total pension expense includes the annual recognition of outflows and inflows of resources due to pension assets and liabilities.

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(p) Post-Employment Benefits Other Than Pensions (OPEB)

The Department provides health, dental, vision and life insurance benefits for certain retirees and their dependents through the State Employees' Group Insurance Program (SEGIP). The total OPEB liability, deferred outflows of resources, deferred inflows of resources, and expense associated with the program have been determined through an actuarial valuation using certain actuarial assumptions as applicable to the current measurement period.

For purposes of measuring the OPEB liability, deferred outflows of resources, deferred inflows of resources, and expense associated with the Department's contribution requirements, information about fiduciary net position of the SEGIP OPEB plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported within the separately issued plan financial statements. For this purpose, benefit payments are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

(q) New Accounting Pronouncements

Effective for the year ending June 30, 2023, the Department adopted GASB Statement No. 91, *Conduit Debt Obligations*, which provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The implementation of this statement had no impact on the Department's financial statements.

Effective for the year ending June 30, 2023, the Department adopted GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which improves financial reporting by addressing issues related to public-private and public-public partnership arrangements. The implementation of this statement had no impact on the Department's financial statements.

Effective for the year ending June 30, 2023, the Department adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, which provides guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users. The implementation of this statement had no impact on the Department's financial statements.

Effective for the year ending June 30, 2023, the Department adopted the applicable portion of GASB Statement No. 99, *Omnibus 2022*, which enhances comparability in accounting and financial reporting and improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements, and accounting and financial reporting for financial guarantees. The implementation of this statement had no impact on the Department's financial statements.

(r) Future Adoption of GASB Statements

Effective for the year ending June 30, 2024, the Department will adopt the applicable portion of GASB Statement No. 99, *Omnibus 2022*, which enhances comparability in accounting and financial reporting and improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements, and accounting and financial reporting for financial guarantees.

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Effective for the year ending June 30, 2024, the Department will adopt GASB Statement No. 100, *Accounting Changes and Error Corrections – an Amendment to GASB Statement No. 62*, which defines *accounting changes* as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. This statement also addresses corrections of errors in previously issued financial statements.

Effective for the year ending June 30, 2025, the Department will adopt GASB Statement No.101, *Compensated Absences*, which updates the recognition and measurement guidance for compensated absences by aligning this guidance under a unified model and by amending certain previously required disclosures.

The Department has not yet determined the impact, if any, on its financial statements as a result of adopting these statements.

(3) Deposits and Investments

The State Treasurer is the custodian of the Department’s deposits and investments for funds maintained in the State Treasury. These amounts are classified as “Cash equity in State Treasury” on the Statement of Net Position (Deficit). The Department independently manages deposits and investments maintained outside the State Treasury.

(a) Deposits

Deposits in the custody of the State Treasurer of approximately \$83.7 million as of June 30, 2023, are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Department does not own individual securities. Details on the nature of these deposits and investments are available within the State’s ACFR.

Bank deposits for the locally held funds held outside of the State Treasury of approximately \$15.3 million as of June 30, 2023, are held in Federal Deposit Insurance Corporation (FDIC) insured depository institutions. The Department has an agreement under which one of these institutions insures balances in excess of FDIC insurance limits from loss by pledging securities as collateral. PNC Bank holds the collateral in the Illinois Lottery’s name. The collateral amount exceeded the deposited amount of \$7.5 million at June 30, 2023. The Department has not incurred any losses on deposits exceeding the value of pledged securities and considers the risk minimal.

(b) Investments

As of June 30, 2023, the Department had the following investments outside of the State Treasury:

	Fair value (thousands)	Weighted Average Maturity (years)
U.S. Treasury bonds	\$ 227,809	6.021
Total	\$ 227,809	

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Interest Rate Risk: The Department does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: The Department is limited to investing in direct obligations of the United States of America or backed by the full faith and credit of the United States of America. The Department's investments in annuities are not rated.

Custodial credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, the Department will not be able to recover the value of investment or collateral securities in the possession of an outside party. The Department does not have a formal policy for custodial credit risk of investments held outside of the State Treasury nor is there a policy at the State level. The total balance of the Department's investments held outside of the State Treasury was held by the counterparty, in the Department's name, at June 30, 2023. These investments were held in U.S. Treasury obligations. Please see Note 4 for additional information concerning the Department's investments.

(4) Fair Value Measurements

The following table presents assets (amounts expressed in thousands) measured at fair value on a recurring basis at June 30, 2023:

	<u>Fair</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level				
U.S. Treasury bonds	\$ 227,809	\$ —	\$ 227,809	\$ —
Total investments by fair value level	<u>\$ 227,809</u>	<u>\$ —</u>	<u>\$ 227,809</u>	<u>\$ —</u>

(5) Interfund Balance and Activity

(a) Balance Due from/to Other Funds

The following balance (amounts expressed in thousands) at June 30, 2023, represents amounts due from other State funds.

<u>Fund</u>	<u>Due from</u>		<u>Description/Purpose</u>
	<u>Other</u>	<u>2023</u>	
Lottery	<u>State Funds</u>		
	Alcoholism and Substance Abuse	\$ 15	Due from the Alcoholism and Substance Abuse Fund for problem gambler services.
	Federal Title III Social Security and Employment Service	12	Due from the Federal Title III Social Security and Employment Service Fund for shared costs of the legislative liason.
		<u>\$ 27</u>	

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The following balance (amounts expressed in thousands) at June 30, 2023, represents amounts due to other State funds, and is expected to be repaid within one year.

Fund	Due to		Description/Purpose
	Other State Funds	2023	
Lottery	Common School (see Note 13)	\$ 12,492	Due to other State Funds for allocation of lottery proceeds and for administrative expenses.
	Other State funds	2,545	
		<u>\$ 15,037</u>	

(b) Transfers to Other Funds

The Department reports transfers out in the Statement of Revenues, Expenses, and Changes in Net Position (Deficit), for the amounts required by statute to be transferred to the Common School Fund and other State funds for lottery games designated for special purposes. The following balances (amounts expressed in thousands) for the year ended June 30, 2023, represent amounts transferred to other State funds:

Fund	Transfers Out To		Description/Purpose
	Other State Funds	2023	
Lottery	Common School (see Note 13)	\$ 872,492	Transfers to Common School and other State funds pursuant to statutory requirements.
	Other State funds	9,144	
		<u>\$ 881,636</u>	

The 9,144 (amounts expressed in thousands) was transferred to Other State funds as follows:

Multiple Sclerosis Research Fund	\$ 1,162
Special Olympics Illinois and Special Children's Charities Fund	1,255
Illinois Veterans Assistance Fund	1,365
Criminal Justice Information Projects Fund	1,081
Homelessness Prevention Revenue Fund	1,319
Alzheimer's Awareness Fund	1,105
Quality of Life Endowment Fund	1,092
Carolyn Adams Ticket for the Cure Grant Fund	743
Unclaimed Property Fund	22
Total	<u>\$ 9,144</u>

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(6) Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2023, was as follows:

	Balance June 30, 2022	Additions	Deletions	Net Transfers	Balance June 30, 2023
Capital assets being depreciated:					
Equipment	\$ 385	\$ —	\$ —	\$ —	\$ 385
Leased equipment	42	32	42	—	32
Total capital assets being depreciated	<u>427</u>	<u>32</u>	<u>42</u>	<u>—</u>	<u>417</u>
Less accumulated depreciation for:					
Equipment	379	5	—	—	384
Leased equipment	28	28	42	—	14
Total accumulated depreciation	<u>407</u>	<u>33</u>	<u>42</u>	<u>—</u>	<u>398</u>
Total capital assets, net	<u>\$ 20</u>	<u>\$ (1)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 19</u>

(7) Long-Term Obligations

(a) Changes in Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2023, were as follows:

	Balance June 30, 2022	Additions	Deletions	Balance June 30, 2023	Amounts Due within one year
Leases payable	\$ 14	32	\$ 27	\$ 19	\$ 19
Compensated absences	924	1,465	1,401	988	40
Obligations to Lottery prize winners – annuities	246,738	13,144	18,980	240,902	24,969
Net pension liability	75,900	—	2,528	73,372	—
OPEB liability	42,126	—	19,153	22,973	1,098
Total long-term obligations	<u>\$ 365,702</u>	<u>\$ 14,641</u>	<u>\$ 42,089</u>	<u>\$ 338,254</u>	<u>\$ 26,126</u>

(b) Obligations to Lottery Prize Winners

The Department has obligations to certain lottery prize winners for awards payable in annual installments ranging from 20 years to the life of the prize winner, with the first payment made shortly after the claim is presented for payment. The remaining 19, or more, years are funded by the purchase of annuities presented above in Note 7(a) and are reduced as the related annuities mature and subsequent payment is made to the prize winner.

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Effective July 30, 1985, the Illinois Lottery Law (20 ILCS 1605/27) provides that the State Treasurer, with the consent of the Director of the Lottery, may contract to invest in securities, which provide payments corresponding to the Department's obligation to these winners. The Department has provided for other payments corresponding to the Department's obligation to other prize winners through the purchase of direct obligations of the federal government, primarily in the form of United States Treasury zero coupon bonds. As established by State law, such securities shall be maintained separate and apart from all public money or funds of the State. These investments are purchased in amounts to provide for annual annuity payments to the prize winner(s) of each qualifying individual drawing.

The fair value of the investments approximated \$227.8 million at June 30, 2023. Interest rates range from 0.456% to 12.864% and prizes payable are scheduled annually through 2053 as follows (amounts expressed in thousands):

<u>Fiscal Year</u>	<u>Current</u>	<u>Long-term</u>	<u>Total</u>
2024	\$ 27,200	\$ -	\$ 27,200
2025	-	27,250	27,250
2026	-	25,481	25,481
2027	-	22,862	22,862
2028	-	20,727	20,727
2029-2053	-	172,049	172,049
Total future prizes	27,200	268,369	295,569
Adjustments to present value	<u>(2,231)</u>	<u>(52,436)</u>	<u>(54,667)</u>
Present value of future prizes	24,969	215,933	240,902
Adjustments to fair value	<u>729</u>	<u>(13,822)</u>	<u>(13,093)</u>
Fair value of future prizes at June 30, 2023	<u>\$ 25,698</u>	<u>\$ 202,111</u>	<u>\$ 227,809</u>

The amortized discount on the prizes payable reflects the interest rates earned by the investments held to fund the related liabilities. The amortization of discount is recorded as interest expense in the Statement of Revenues, Expenses, and Changes in Net Position (Deficit) and amounted to approximately \$8.2 million for the year ended June 30, 2023.

(c) Leases Payable

The Department has entered into a non-cancelable lease agreement for office equipment, with a remaining lease term of less than one year. Although lease terms vary, certain leases are renewable subject to the appropriation by the General Assembly. If renewal is reasonably assured, leases requiring appropriation by the General Assembly are considered non-cancelable leases for financial reporting purposes. The renewal and termination options are not included in the right-to-use asset or lease liability balance until they are reasonably certain of exercise. The department's non-cancelable lease contains fixed lease payments and does not contain variable lease payments.

At June 30, 2023, right-to-use assets under the non-cancelable lease amounted to \$32 thousand, and the related accumulated depreciation amounted to \$14 thousand.

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Future minimum commitments for non-cancelable leases recorded in the Department's Statement of Net Position (Deficit) as of June 30, 2023, are as follows (amounts expressed in thousands):

Fiscal Year	Principal	Interest
2024	\$ 19	\$ —
Total minimum lease payments	\$ 19	\$ —

(8) Pension Plan

Plan Description. Substantially all of the Department's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a single-employer defined benefit pension trust fund in the State of Illinois reporting entity. SERS is governed by article 14 of the Illinois Pension Code (40 ILCS 5/1, et al.). The plan consists of two tiers of contribution requirements and benefit levels based on when an employee was hired.

Members who first become an employee and participate under any of the State's retirement plans on or after January 1, 2011, are members of Tier 2, while Tier 1 consists of employees hired before January 1, 2011, or those who have service credit prior to January 1, 2011. The provisions below apply to both Tier 1 and 2 members, except where noted. The SERS issues a separate ACFR available at www.srs.illinois.gov or that may be obtained by writing to the SERS, 2101 South Veterans Parkway, P.O. Box 19255, Springfield, Illinois, 62794-9255.

Benefit Provisions. SERS provides retirement benefits based on the member's final average compensation and the number of years of service credit that have been established. The retirement benefit formula available to general State employees that are covered under the Federal Social Security Act is 1.67% for each year of service and for noncovered employees it is 2.2% for each year of service. The maximum retirement annuity payable is 75% of final average compensation for regular employees and 80% for alternative formula employees. The minimum monthly retirement annuity payable is \$15 for each year of covered service and \$25 for each year of noncovered service.

Members in SERS under the Tier 1 and Tier 2 receive the following levels of benefits based on the respective age and years of service credits.

Regular Formula Tier 1	Regular Formula Tier 2
<p>A member must have a minimum of eight years of service credit and may retire at:</p> <ul style="list-style-type: none"> • Age 60, with eight years of service credit. • Any age, when the member's age (years & whole months) plus years of service credit (years & whole months) equal 85 years (1,020 months) (Rule of 85) with eight years of credited service. • Between ages 55-60 with 25-30 years of service credit (reduced 1/2 of 1% for each month under age 60). 	<p>A member must have a minimum of 10 years of credited service and may retire at:</p> <ul style="list-style-type: none"> • Age 67, with 10 years of credited service. • Between ages 62-67 with 10 years of credited service (reduced 1/2 of 1% for each month under age 67).

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<p>The retirement benefit is based on final average compensation and credited service. Final average compensation is the 48 highest consecutive months of service within the last 120 months of service.</p> <p>Under the Rule of 85, a member is eligible for the first 3% increase on January 1 following the first full year of retirement, even if the member is not age 60. If the member retires at age 60 or older, he/she will receive a 3% pension increase every year on January 1, following the first full year of retirement.</p>	<p>The retirement benefit is based on final average compensation and credited service. For regular formula employees, final average compensation is the average of the 96 highest consecutive months of service within the last 120 months of service. The retirement benefit is calculated on a maximum salary of \$106,800. This amount increases annually by 3% or one-half of the Consumer Price Index, whichever is less.</p>
<p>If the member retires before age 60 with a reduced retirement benefit, he/she will receive a 3% pension increase every January 1 after the member turns age 60 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.</p>	<p>If the member retires at age 67 or older, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every year on January 1, following the first full year of retirement. The calendar year 2022 rate is \$119,892.</p> <p>If the member retires before age 67 with a reduced retirement benefit, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every January 1 after the member turns age 67 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.</p>

Additionally, the Plan provides an alternative retirement formula for State employees in high-risk jobs, such as State police, fire fighters, and security employees. Employees qualifying for benefits under the alternative formula may retire at an earlier age depending on membership in Tier 1 or Tier 2. The retirement formula is 2.5% for each year of covered service and 3.0% for each year of non-covered service. The maximum retirement annuity payable is 80% of final average compensation as calculated under the alternative formula.

SERS also provides occupational and nonoccupational (including temporary) disability benefits. To be eligible for nonoccupational (including temporary) disability benefits, an employee must have at least 18 months of credited service with the System. The nonoccupational (including temporary) disability benefit is equal to 50% of the monthly rate of compensation of the employee on the date of removal from the payroll. Occupational disability benefits are provided when the member becomes disabled as a direct result of injuries or diseases arising out of and in the course of State employment. The monthly benefit is equal to 75% of the monthly rate of compensation on the date of removal from the payroll. This benefit amount is reduced by workers' compensation or payments under the Occupational Diseases Act.

Occupational and nonoccupational death benefits are also available through the System. Certain nonoccupational death benefits vest after 18 months of credited service. Occupational death benefits are provided from the date of employment.

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Contributions. Contribution requirements of active employees and the State are established in accordance with Chapter 40, section 5/14-133 of the Illinois Compiled Statutes. Member contributions are based on fixed percentages of covered payroll ranging between 4.00% and 12.50%. Employee contributions are fully refundable, without interest, upon withdrawal from State employment. Tier 1 members contribute based on total annual compensation. Tier 2 members contribute based on an annual compensation rate not to exceed \$106,800 with limitations for future years increased by the lessor of 3% or one-half of the annual percentage increase in the Consumer Price Index. For 2023, this amount was \$123,489.

The State is required to make payment for the required departmental employer contributions, all allowances, annuities, any benefits granted under Chapter 40, Article 5/14 of the ILCS and all administrative expenses of the System to the extent specified in the ILCS. State law provides that the employer contribution rate be determined based upon the results of each annual actuarial valuation.

For Fiscal Year 2023, the required employer contributions were computed in accordance with the State's funding plan. This funding legislation provides for a systematic 50-year funding plan with an ultimate goal to achieve 90% funding of the plan's liabilities. In addition, the funding plan provided for a 15-year phase-in period to allow the State to adapt to the increased financial commitment. Since the 15-year phase-in period ended June 30, 2010, the State's contribution will remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved. For Fiscal Year 2023, the employer contribution rate was 53.258%. The Department's contribution amount for Fiscal Year 2023 was \$6.537 million.

Pension Liability, Deferred Outflows of Resources, Deferred Inflows of Resources and Expense Related to Pensions. At June 30, 2023, the Department reported a liability of \$73.4 million for its proportionate share of the State's net pension liability for SERS on the Department's Statement of Net Position (Deficit). The net pension liability was measured as of June 30, 2022 (current year measurement date), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Department's portion of the net pension liability was based on the Department's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2022. As of the current year measurement date of June 30, 2022, the Department's proportion was 0.2269%, which was a decrease of 0.0024% from its proportion measured as of the prior year measurement date of June 30, 2021.

At June 30, 2022, the fiduciary net position of SERS was \$22,224.5 million and the net pension liability was \$32,336.9 million.

For the year ended June 30, 2023, the Department recognized pension expense of \$3.094 million. At June 30, 2023, the Department reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2022, from the following sources (amounts expressed in thousands):

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 826	\$ 8
Changes of assumptions	1,905	6,283
Net difference between projected and actual investment earnings on pension plan investments	1,410	-
Changes in proportion	187	2,019
Department contributions subsequent to the measurement date	6,537	-
Total	<u>\$ 10,865</u>	<u>\$ 8,310</u>

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The Department reported \$6.537 million of deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date. These will be recognized as a reduction of the net pension liability in the year ended June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense (credit) as follows (amounts expressed in thousands):

Year ended June 30,

2024	\$	(1,356)
2025		(1,197)
2026		(1,881)
2027		451
Total	\$	(3,983)

Actuarial Methods and Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2022, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.25%

Investment Rate of Return: 6.75%, net of pension plan investment expense, including inflation.

Projected salary increases: 2.50% - 7.41%, salary increase rates based on age related productivity and merit rates plus inflation.

Post-retirement benefit increases of 3.00%, compounded, for Tier 1 and the lesser of 3.00% or one-half of the annual increase in the Consumer Price Index for Tier 2.

Retirement Age: Experience-based table of rates specific to the type of eligibility condition. Table was last updated for the June 30, 2022, valuation pursuant to an experience study of the period July 2018 – June 2021.

Mortality: Pub-2010 General and Public Safety Healthy Retiree mortality tables, sex distinct, with rates projected to 2021 generational mortality improvement factors were updated to projection scale MP-2021.

The actuarial assumptions used to calculate the total pension liability as of the current year measurement date are consistent with the actuarial assumptions used to calculate the total pension liability as of the prior year measurement date except for the following prior year assumptions:

Projected salary increases: 2.75% - 7.17%, salary increase rates based on age related productivity and merit rates plus inflation.

Retirement Age: Experience-based table of rates specific to the type of eligibility condition. Table was last updated for the June 30, 2021, valuation pursuant to an experience study of the period July 2015 – June 2018.

Mortality: Pub-2010 General and Public Safety Healthy Retiree mortality tables, sex distinct, with rates projected to 2018 generational mortality improvement factors were updated to projection scale MP-2018.

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The long-term expected real rate of return on pension plan investments is determined using the best estimates of geometric real rates of return for each major asset class. These returns 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. For each major asset class that is included in SERS' target asset allocation, calculated as of the measurement date of June 30, 2022, the best estimates of geometric real rates of return are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	23.0%	4.6%
Developed Foreign Equity	13.0%	4.9%
Emerging Market Equity	8.0%	5.9%
Private Equity	9.0%	6.9%
Intermediate Investment Grade Bonds	15.0%	-0.5%
Long-term Government Bonds	5.0%	0.3%
TIPS	3.0%	-0.5%
High Yield and Bank Loans	2.0%	1.9%
Opportunistic Debt	9.0%	4.4%
Emerging Market Debt	0.0%	0.0%
Real Estate	10.0%	3.3%
Infrastructure	3.0%	6.8%
Total	100%	

Discount Rate. A discount rate of 6.58% was used to measure the total pension liability as of the measurement date of June 30, 2022, as compared to a discount rate of 6.20% used to measure the total pension liability as of the prior year measurement date. The June 30, 2022, single blended discount rate was based on the expected rate of return on pension plan investments of 6.75% and a municipal bond rate of 3.69%, based on an index of 20-year general obligation bonds with an average AA credit rating as published by the Federal Reserve.

The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the statutory contributions and the member rate. Based on these assumptions, the pension plan's fiduciary net position and future contributions will be sufficient to finance the benefit payments through the year 2076. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2076, and the municipal bond rate was applied to all benefit payments after that date.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The Department's proportionate share of net pension liability for the plan was calculated using the stated discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one-percentage point lower or one-percentage point higher than the current rate as shown below (amounts expressed in thousands):

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	1% Decrease 5.58%	Discount Rate 6.58%	1% Increase 7.58%
Department's proportionate share of the net pension liability	\$ 89,271	\$ 73,372	\$ 60,224

Payables to the Pension Plan. At June 30, 2023, the Department reported a payable of \$452 thousand to SERS for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2023.

(9) Post-Employment Benefits Other Than Pensions (OPEB)

Plan Description. The State Employees Group Insurance Act of 1971 (Act), as amended, authorizes the State Employees Group Insurance Program (SEGIP) to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all of the Department's full-time employees are members of SEGIP. Members receiving monthly benefits from the General Assembly Retirement System (GARS), Judges Retirement System (JRS), State Employees' Retirement System of Illinois (SERS), Teachers' Retirement System (TRS), and State Universities Retirement System (SURS) are eligible for these OPEB. The eligibility provisions for each of the retirement systems are defined within the State's ACFR.

The Department of Central Management Services administers these benefits for annuitants with the assistance of the public retirement systems sponsored by the State (GARS, JRS, SERS, TRS and SURS). The State recognizes SEGIP OPEB benefits as a single-employer defined benefit plan. The plan does not issue a stand-alone financial report.

Benefits Provided. The health, dental, and vision benefits provided to, and contribution amounts required from annuitants are the result of collective bargaining between the State and the various unions representing the State's and the university component units' employees in accordance with limitations established in the Act. Therefore, the benefits provided, and contribution amounts are subject to periodic change. Coverage through SEGIP becomes secondary to Medicare after Medicare eligibility has been reached.

Members must enroll in Medicare Parts A and B to receive the subsidized SEGIP premium available to Medicare eligible participants. The Act requires the State to provide life insurance benefits for annuitants equal to their annual salary as of the last day of employment until age 60, at which time, the benefit amount becomes \$5,000.

Funding Policy and Annual Other Postemployment Benefit Cost. OPEB offered through SEGIP are financed through a combination of retiree premiums, State contributions and Federal government subsidies from the Medicare Part D program. Contributions are deposited in the Health Insurance Reserve Fund, which covers both active State employees and retirement members. Annuitants may be required to contribute towards health and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute toward health and vision benefits.

For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health and vision benefits.

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All annuitants are required to pay for dental benefits regardless of retirement date. The Director of Central Management Services shall, on an annual basis, determine the amount the State shall contribute toward the basic program of group health benefits. State contributions are made primarily from the General Revenue Fund on a pay-as-you-go basis. No assets are accumulated or dedicated to funding the retiree health insurance benefit and a separate trust has not been established for the funding of OPEB.

For Fiscal Year 2023, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was \$12,635.22 (\$6,989.76 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and \$14,646.00 (\$5,882.40 if Medicare eligible) if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

Total OPEB Liability, Deferred Outflows of Resources, Deferred Inflows of Resources and Expense Related to OPEB. The total OPEB liability, as reported at June 30, 2023, was measured as of June 30, 2022, with an actuarial valuation as of June 30, 2021. At June 30, 2023, the Department recorded a liability of \$22.973 million for its proportionate share of the State's total OPEB liability. The Department's portion of the OPEB liability was based on the Department's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2022. As of the current year measurement date of June 30, 2022, the Department's proportion was 0.1345%, which was an increase of 0.0123% from its proportion measured as of the prior year measurement date of June 30, 2021.

The Department recognized a credit to OPEB expense for the year ended June 30, 2023, of \$5.514 million. At June 30, 2023, the Department reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2022, from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 235	\$ 6,282
Changes of assumptions	567	22,502
Changes in proportion and differences between employer contributions and proportionate share of contributions	9,206	2,498
Department contributions subsequent to the measurement date	1,098	-
Total	\$ 11,106	\$ 31,282

The \$1.098 million reported as deferred outflows of resources related to OPEB resulting from Department contributions subsequent to the measurement date will be recognized as a reduction to the OPEB liability in the year ended June 30, 2024. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (amounts expressed in thousands):

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Year ended June 30,

2024	\$ (5,873)
2025	(6,154)
2026	(4,652)
2027	(3,640)
2028	(955)
Total	<u>\$ (21,274)</u>

Actuarial Methods and Assumptions. The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified. The actuarial valuation for the SEGIP was based on GARS, JRS, SERS, TRS, and SURS active, inactive, and retiree data as of June 30, 2021, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2021.

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry Age Normal
Actuarial assumptions:	
Inflation Rate	2.25%
Projected Salary Increases*	2.50% - 12.75%

Healthcare Cost Trend Rate:

Medical and RX Pre-Medicare - QCHP**	Trend rates start at 8.00% in 2024, decreasing by 0.25% per year to an ultimate trend rate of 4.25% in year 2039.
Post-Medicare - MAPD***	Trend rates are 0.00% in years 2024 to 2028, 19.42% from 2029 to 2033, then 5.77% in 2034 decreasing ratably to an ultimate trend rate of 4.25% in 2039.

Retirees' share of benefit-related costs

Healthcare premium rates for members depend on the date of retirement and the years of service earned at retirement. Members who retired before January 1, 1998, are eligible for single coverage at no cost to the member. Members who retire after January 1, 1998, are eligible for single coverage provided they pay a portion of the premium equal to 5 percent for each year of service under 20 years. Eligible dependents receive coverage provided they pay 100 percent of the required dependent premium. Premiums for plan year 2022 and 2023 are based on actual premiums. Premiums after 2023 were projected based on the same healthcare cost trend rates applied to per capita claim costs.

* Dependent upon service and participation in the respective retirement systems. Includes inflation rate listed.

** Quality Care Health Plan

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*** Medicare Advantage Prescription Drug

The above actuarial assumptions were used to calculate the OPEB liability as of the current year measurement date and are consistent with the actuarial assumptions used to calculate the OPEB liability as of the prior year measurement date except for the following:

Healthcare Cost Trend Rate:

Medical and Rx (Pre-Medicare & Post-Medicare)	1.80% grading up 6.20% in the first year to 8.00%, then grading down 0.25% per year to an ultimate trend of 4.25% in year 2038. There is no additional trend rate adjustment due to the repeal of the Excise Tax.
Medical and Rx (Post-Medicare)	-7.56% grading up 15.56% in the first year to 8.00%, then grading down 0.25% per year to an ultimate trend of 4.25% in year 2038.
Dental and Vision	3.75% grading up 0.25% in the first year to 4.00% through 2038.

Additionally, the demographic assumptions used in this OPEB valuation are identical to those used in the June 30, 2021, valuations for GARS, JRS, SERS, TRS, and SURS as follows:

Retirement age experience study [^]	Mortality ^{^^}
GARS July 2018 - June 2021	Pub-2010 Above-Median Income General Healthy Retiree Mortality tables, sex distinct, scaling factors of 99% for males and females, and the MP-2018 two-dimensional generational mortality improvement scales
JRS July 2018 - June 2021	Pub-2010 Above-Median Income General Healthy Retiree Mortality tables, sex distinct, scaling factors of 102% for males and 98% for females, and the MP-2018 two-dimensional generational mortality improvement scales
SERS July 2018 - June 2021	Pub-2010 General and Public Safety Healthy Retiree mortality tables, sex distinct, with rates projected to 2018 generational mortality improvement factors were updated to projection scale MP-2018
TRS July 2017 - June 2020	Pub-2010 adjusted for TRS experience for future mortality improvements on a fully generational basis using projection table MP-2020
SURS July 2017 - June 2020	Rates based on Pub-2010 Healthy Retiree Mortality tables and the most recent MP-2020 projection scale. Teachers table was used for Academic members and General Employees table was used for Non-Academic members

[^] The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined.

^{^^} Mortality rates are based on mortality tables published by the Society of Actuaries' Retirement Plans Experience Committee.

Discount Rate. Retirees contribute a percentage of the premium rate based on service at retirement. The State contributes additional amounts to cover claims and expenses in excess of retiree contributions. Because plan benefits are financed on a pay-as-you-go basis, the single discount rate is based on a tax-exempt municipal bond rate index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. A single discount rate of 1.92% at June 30, 2021, and 3.69% at June 30, 2022, was used to measure the total OPEB liability.

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Sensitivity of Total OPEB Liability to Changes in the Single Discount Rate. The following presents the Department's total OPEB liability, calculated using a Single Discount Rate of 3.69%, as well as what the Department's total OPEB liability would be if it were calculated using a Single Discount rate that is one percentage point higher (4.69%) or lower (2.69%) than the current rate (amounts expressed in thousands):

	<u>1% Decrease (2.69%)</u>	<u>Current Single Discount Rate Assumption (3.69%)</u>	<u>1% Increase (4.69%)</u>
Department's proportionate share of total OPEB liability	\$ 25,346	\$ 22,973	\$ 20,405

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate. The following presents the Department's total OPEB liability, calculated using the healthcare cost trend rates as well as what the Department's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point higher or lower, than the current healthcare cost trend rates (amounts in table expressed in thousands). The key trend rates are 8.00% in 2024 decreasing to an ultimate trend rate of 4.25% in 2039.

	<u>1% Decrease**</u>	<u>Current Healthcare Cost Trend Rates Assumption*</u>	<u>1% Increase***</u>
Department's proportionate share of total OPEB liability	\$ 19,890	\$ 22,973	\$ 26,098

* Current healthcare trend rates - Pre-Medicare per capita costs: 6.08% in 2023, 8.00% in 2024, decreasing by 0.25% per year to an ultimate rate of 4.25% in 2039. Post-Medicare per capita costs: 2.78% in 2023, 0.00% in 2024 to 2028, 19.42% from 2029 to 2033, 5.77% in 2034 decreasing ratably to an ultimate trend rate of 4.25% in 2039.

** One percentage point decrease in current healthcare trend rates - Pre-Medicare per capita costs: 5.08% in 2023, 7.00% in 2024, decreasing by 0.25% per year to an ultimate rate of 3.25% in 2039. Post-Medicare per capita costs: 1.78% in 2023, 0.00% in 2024 to 2028, 18.42% from 2029 to 2033, 4.77% in 2034 decreasing ratably to an ultimate trend rate of 3.25% in 2039.

*** One percentage point increase in current healthcare trend rates - Pre-Medicare per capita costs: 7.08% in 2023, 9.00% in 2024, decreasing by 0.25% per year to an ultimate rate of 5.25% in 2039. Post-Medicare per capita costs: 3.78% in 2023, 1.00% in 2024 to 2028, 20.42% from 2029 to 2033, 6.77% in 2034 decreasing ratably to an ultimate trend rate of 5.25% in 2039.

(10) Risk Management

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers' compensation; and natural disasters. In addition, the Department is exposed to various risks of loss related to employee health and dental insurance programs as described in the ACFR. The State retains the risk of loss (i.e., self-insured) for these risks.

The Department's risk management activities are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the General Fund of the State. The claims are not considered to be a liability of the Department and, accordingly, these claims have not been reported in the Department's financial statements for the year ended June 30, 2023.

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(11) Private Management Agreement

On October 13, 2017, the State (acting through the Department) and in compliance with the Illinois Lottery Law (20 ILCS 1605/9.1) entered into a 10-year private management agreement (PMA) with Camelot Illinois, LLC (Camelot), for the purpose of providing specified lottery management services to the State. The effective date of the contract is October 13, 2017, and the term includes a period for transitioning from Northstar Lottery Group, LLC to Camelot. The contract with Northstar, ended on January 1, 2018, and Camelot commenced its management contract obligations on January 2, 2018.

Under the terms of the agreement, the compensation to be paid under the PMA is comprised of operating expenses and incentive compensation payments. Operating expenses of Camelot are comprised of Management Fee and Operating Allowance, as outlined in the PMA. Incentive compensation is only earned if net income exceeds minimum net income targets as defined in the agreement and is subject to annual adjustments. For the year ended June 30, 2023, total compensation for operating expenses to Camelot under the PMA was \$150.4 million, which are included in general and administrative expenses. This amount was paid in full with no balance due as of June 30, 2023. Incentive compensation earned during the year was \$25.0 million, which is also included in general and administrative expenses and was due to Camelot as of June 30, 2023.

The Department has recorded a receivable from Camelot at June 30, 2023, in the amount of \$14.8 million. This amount is comprised of an excess advance for estimated operating expenses paid during Fiscal Year 2023 in the amount of \$39.8 million, which has been reconciled to actual operating expenses incurred by Camelot during the year in accordance with the PMA. The receivable amount is net of incentive compensation earned.

In accordance with terms provided in the PMA, Camelot has asserted an Adverse Action due to the proliferation of video gaming terminals (VGT) throughout the State. Separately, the Department has asserted a Beneficial Action due to the passage of Public Act 101-0035. Each of these actions, if accepted in their current form, would have an impact on Camelot's annual Net Income Targets (NITs) per Schedule 10.1 of the PMA. The Adverse Action could result in decreased NITs. The Beneficial Action could result in increased NITs. The Department has been working with Camelot to resolve these matters via mediation per PMA Section 20.1.2 with the intent of avoiding any litigation proceedings. Should these matters need to be litigated, the Department anticipates costs will be immaterial and the adjusted NITs will have a minimal, if any, impact to the Fund's financial statements. As of June 30, 2023, the matters are at an impasse.

Camelot is a wholly owned subsidiary of Camelot Global Services (North America) Inc. (CGSNA), which is a wholly owned subsidiary of Camelot Global Services Limited (CGSL) whose parent is Camelot Global Lottery Solutions Limited (CGLSL). On August 1, 2023, Camelot, CGSNA, and CGLSL changed names to Allwyn Illinois LLC, Allwyn North America Inc., and Allwyn Lottery Solutions Limited, respectively. Allwyn Illinois LLC is a wholly owned subsidiary of Allwyn North America Inc. whose parent company is Allwyn U.S. Holdings Inc. This acquisition had no impact on the Department's financial statements.

(12) Commitments and Contingencies

(a) Lease Commitments

The Department leases certain facilities and equipment necessary for operations, primarily from other State agencies. The majority of the Department's leases are month-to-month leases. Total short-term lease costs for the year ended June 30, 2023, amounted to \$423 thousand. Information regarding the Department's non-cancelable lease is included in Note 7(c).

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(b) Litigation

The Department is routinely involved in a number of legal proceedings and claims that cover a wide range of matters.

The Department does not believe the outcome of these matters will have any material adverse effect on the financial position or results of operations of the Department.

(13) Legislative Changes

As part of Public Act 102-0699, legislative changes were made to the Illinois Lottery Law (20 ILCS 1605/9.1, 9.2, and 9.3) effective April 19, 2022. As part of these changes, section 9.2 provided the Department the ability to reconcile historical cash deficits in the State Lottery Fund and overpayments to the Common School Fund by offsetting cash transfers to the Common School Fund in the amount of \$133.968 million in Fiscal Year 2023. This offset enabled the Department to satisfy a long-term amount due to the Capital Projects Fund of \$89.045 million. The reconciliation was completed in March 2023, resulting in the Department cash transferring \$726 million to the Common School Fund and \$89.045 million to the Capital Projects Fund. In addition, section 9.3 changed the flow of the Department's proceeds from lottery tickets and shares sold and sports wagering on July 1, 2022. On and after this date, these future proceeds, after the payment of prizes, retailer bonuses, and costs incurred in the operation and administration of the Lottery and the Department's sports wagering program, will be directed to the Common School Fund. The Department is statutorily mandated to transfer estimated net proceeds to the Common School Fund monthly. The estimated net proceeds transferred monthly are to be reconciled to actual proceeds upon completion of the applicable annual fiscal year audit. If actual net proceeds are more than estimated net proceeds, the remaining amount shall be transferred to the Common School Fund. If actual net proceeds are less than estimated net proceeds, the excess amount shall offset estimated net lottery proceeds the following fiscal year. At June 30, 2023, the Department recorded a due to other State funds in the amount of \$12.492 million for the Common School Fund. Interfund balance activity is further described in Note 5(a) and (b).

During the legislative processes of Public Act 102-0699 some language from section 9.1(o)(4) was stricken that required clarification as to where the Department is required to deposit the remaining proceeds for Fiscal Year 2022 as priority order (4) no longer specifies. Prior to Public Act 102-0699, the Department was required to deposit the remaining proceeds after payments of (1) prizes and retailer bonuses; (2) expenses incurred in the operation of the Lottery; and (3) payments to the Common School Fund, in the Capital Projects Fund by September 30 the following Fiscal Year. Part of Public Act 102-1115, which became effective on January 9, 2023, amended section 9.1(o)(4) clarifying the remaining proceeds to be deposited in the Capital Projects Fund. The Department deposited the remaining Fiscal Year 2022 proceeds of \$48.749 million on January 19, 2023.

(14) Subsequent Events

The Department is not aware of any additional facts, decision, or conditions that might be expected to have a significant effect on the financial position or results of operation during this and future fiscal years.

SUPPLEMENTARY INFORMATION

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
Combining Schedule of Net Position (Deficit) - State Lottery Fund
June 30, 2023
(in thousands of dollars)

Assets and Deferred Outflows of Resources	State Lottery (Collapsed)	Deferred Prize Winners (Collapsed)	Lottery Security Deposits (1309)	Eliminations	Total State Lottery Fund
Current assets:					
Cash and cash equivalents	\$ 14,798	\$ -	\$ 531	\$ -	\$ 15,329
Cash equity in State Treasury	79,525	4,189	-	-	83,714
Investments, short-term	-	25,698	-	-	25,698
Accounts receivable, net of allowance of \$32,784	45,378	-	-	-	45,378
Other receivables	-	32	-	-	32
Due from other Department funds	-	-	7	(7)	-
Due from other State funds	27	-	-	-	27
Prepaid expenses	51	-	-	-	51
Total current assets	<u>139,779</u>	<u>29,919</u>	<u>538</u>	<u>(7)</u>	<u>170,229</u>
Noncurrent assets:					
Investments	-	202,111	-	-	202,111
Capital assets being depreciated, net	19	-	-	-	19
Total noncurrent assets	<u>19</u>	<u>202,111</u>	<u>-</u>	<u>-</u>	<u>202,130</u>
Total assets	<u>139,798</u>	<u>232,030</u>	<u>538</u>	<u>(7)</u>	<u>372,359</u>
Deferred outflows of resources:					
Deferred outflows of resources - pension	10,865	-	-	-	10,865
Deferred outflows of resources - OPEB	11,106	-	-	-	11,106
Total deferred outflows of resources	<u>21,971</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,971</u>
Total assets and deferred outflows of resources	<u>161,769</u>	<u>232,030</u>	<u>538</u>	<u>(7)</u>	<u>394,330</u>
Liabilities and Deferred Inflows of Resources					
Current liabilities:					
Prizes payable	80,288	-	-	-	80,288
Accounts payable and accrued liabilities	2,199	-	-	-	2,199
Due to other Government – Federal	63	-	-	-	63
Due to other Department funds	7	-	-	(7)	-
Due to other State funds	15,037	-	-	-	15,037
Unearned revenue	2,076	-	-	-	2,076
Leases payable	19	-	-	-	19
Other liabilities	40	-	538	-	578
Current portion of long-term annuity prizes payable	-	24,969	-	-	24,969
Current portion of OPEB liability	1,098	-	-	-	1,098
Total current liabilities	<u>100,827</u>	<u>24,969</u>	<u>538</u>	<u>(7)</u>	<u>126,327</u>
Noncurrent liabilities:					
Noncurrent portion of long-term annuity prizes payable	-	215,933	-	-	215,933
Net pension liability	73,372	-	-	-	73,372
Noncurrent portion of OPEB liability	21,875	-	-	-	21,875
Noncurrent other	948	-	-	-	948
Total noncurrent liabilities	<u>96,195</u>	<u>215,933</u>	<u>-</u>	<u>-</u>	<u>312,128</u>
Total liabilities	<u>197,022</u>	<u>240,902</u>	<u>538</u>	<u>(7)</u>	<u>438,455</u>
Deferred inflows of resources:					
Deferred inflows of resources - pension	8,310	-	-	-	8,310
Deferred inflows of resources - OPEB	31,282	-	-	-	31,282
Total deferred inflows of resources	<u>39,592</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,592</u>
Total liabilities and deferred inflows of resources	<u>236,614</u>	<u>240,902</u>	<u>538</u>	<u>(7)</u>	<u>478,047</u>
Net Position (Deficit)					
Unrestricted	(74,845)	(8,872)	-	-	(83,717)
Total net position (deficit)	<u>\$ (74,845)</u>	<u>\$ (8,872)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (83,717)</u>

See independent auditor's report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
**Combining Schedule of Accounts - Schedule of Net Position (Deficit) -
State Lottery Fund (Collapsed)**
June 30, 2023
(in thousands of dollars)

Assets and Deferred Outflows of Resources	State Lottery (0711)	Lottery Prize Payment Fund (1279)	Agent Sales Sweep Account Fund (1373)	Lottery Sales Account Fund (1321)	Eliminations	Total State Lottery (Collapsed)
Current assets:						
Cash and cash equivalents	\$ -	\$ 7,276	\$ 7,454	\$ 68	\$ -	\$ 14,798
Cash equity in State Treasury	79,525	-	-	-	-	79,525
Accounts receivable, net of allowance of \$32,784	45,378	-	-	-	-	45,378
Due from other Department funds	14,838	-	-	-	(14,838)	-
Due from other State funds	27	-	-	-	-	27
Prepaid expenses	-	51	-	-	-	51
Total current assets	<u>139,768</u>	<u>7,327</u>	<u>7,454</u>	<u>68</u>	<u>(14,838)</u>	<u>139,779</u>
Noncurrent assets:						
Capital assets being depreciated, net	19	-	-	-	-	19
Total noncurrent assets	<u>19</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19</u>
Total assets	<u>139,787</u>	<u>7,327</u>	<u>7,454</u>	<u>68</u>	<u>(14,838)</u>	<u>139,798</u>
Deferred outflows of resources:						
Deferred outflows of resources - pension	10,865	-	-	-	-	10,865
Deferred outflows of resources - OPEB	11,106	-	-	-	-	11,106
Total deferred outflows of resources	<u>21,971</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,971</u>
Total assets and deferred outflows of resources	<u>161,758</u>	<u>7,327</u>	<u>7,454</u>	<u>68</u>	<u>(14,838)</u>	<u>161,769</u>
Liabilities and Deferred Inflows of Resources						
Current liabilities:						
Prizes payable	80,288	-	-	-	-	80,288
Accounts payable and accrued liabilities	2,188	11	-	-	-	2,199
Due to other Government – Federal	63	-	-	-	-	63
Due to other Department funds	7	7,316	7,454	68	(14,838)	7
Due to other State funds	15,037	-	-	-	-	15,037
Unearned revenue	2,076	-	-	-	-	2,076
Leases payable	19	-	-	-	-	19
Other liabilities	40	-	-	-	-	40
Current portion of OPEB liability	1,098	-	-	-	-	1,098
Total current liabilities	<u>100,816</u>	<u>7,327</u>	<u>7,454</u>	<u>68</u>	<u>(14,838)</u>	<u>100,827</u>
Noncurrent liabilities:						
Net pension liability	73,372	-	-	-	-	73,372
Noncurrent portion of OPEB liability	21,875	-	-	-	-	21,875
Noncurrent other	948	-	-	-	-	948
Total noncurrent liabilities	<u>96,195</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>96,195</u>
Total liabilities	<u>197,011</u>	<u>7,327</u>	<u>7,454</u>	<u>68</u>	<u>(14,838)</u>	<u>197,022</u>
Deferred inflows of resources:						
Deferred inflows of resources - pension	8,310	-	-	-	-	8,310
Deferred inflows of resources - OPEB	31,282	-	-	-	-	31,282
Total deferred inflows of resources	<u>39,592</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,592</u>
Total liabilities and deferred inflows of resources	<u>236,603</u>	<u>7,327</u>	<u>7,454</u>	<u>68</u>	<u>(14,838)</u>	<u>236,614</u>
Net Position (Deficit)						
Unrestricted	(74,845)	-	-	-	-	(74,845)
Total net position (deficit)	<u>\$ (74,845)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (74,845)</u>

See independent auditor's report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
**Combining Schedule of Accounts - Schedule of Net Position (Deficit) -
Deferred Prize Winners Fund (Collapsed)**
June 30, 2023
(in thousands of dollars)

Assets and Deferred Outflows of Resources	Deferred Prize Winners (0978)	Deferred Lottery Prize Winners Trust Fund (2978)	Eliminations	Total Deferred Prize Winners (Collapsed)
Current assets:				
Cash equity in State Treasury	\$ 4,189	\$ -	\$ -	\$ 4,189
Investments, short-term	-	25,698	-	25,698
Other receivables	32	-	-	32
Due from other Department funds	25,698	-	(25,698)	-
Total current assets	<u>29,919</u>	<u>25,698</u>	<u>(25,698)</u>	<u>29,919</u>
Noncurrent assets:				
Investments	-	202,111	-	202,111
Due from other Department funds	202,111	-	(202,111)	-
Total noncurrent assets	<u>202,111</u>	<u>202,111</u>	<u>(202,111)</u>	<u>202,111</u>
Total assets	<u>232,030</u>	<u>227,809</u>	<u>(227,809)</u>	<u>232,030</u>
Total assets and deferred outflows of resources	<u>232,030</u>	<u>227,809</u>	<u>(227,809)</u>	<u>232,030</u>
Liabilities and Deferred Inflows of Resources				
Current liabilities:				
Due to other Department funds	-	25,698	(25,698)	-
Current portion of long-term annuity prizes payable	24,969	-	-	24,969
Total current liabilities	<u>24,969</u>	<u>25,698</u>	<u>(25,698)</u>	<u>24,969</u>
Noncurrent liabilities:				
Noncurrent portion of long-term annuity prizes payable	215,933	-	-	215,933
Due to other Department funds	-	202,111	(202,111)	-
Total noncurrent liabilities	<u>215,933</u>	<u>202,111</u>	<u>(202,111)</u>	<u>215,933</u>
Total liabilities	<u>240,902</u>	<u>227,809</u>	<u>(227,809)</u>	<u>240,902</u>
Total liabilities and deferred inflows of resources	<u>240,902</u>	<u>227,809</u>	<u>(227,809)</u>	<u>240,902</u>
Net Position (Deficit)				
Unrestricted	(8,872)	-	-	(8,872)
Total net position (deficit)	<u>\$ (8,872)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (8,872)</u>

See independent auditor's report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
**Combining Schedule of Revenues, Expenses, and Changes in Net Position (Deficit) -
State Lottery Fund**
Year Ended June 30, 2023
(in thousands of dollars)

	State Lottery (Collapsed)	Deferred Prize Winners (Collapsed)	Lottery Security Deposits (1309)	Eliminations	Total State Lottery Fund
Operating revenues:					
Charges for sales and services	\$ 3,609,258	\$ -	\$ -	\$ -	\$ 3,609,258
Other	4,844	-	-	-	4,844
Total operating revenues	<u>3,614,102</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,614,102</u>
Operating expenses:					
Cost of sales and services	173,806	-	-	-	173,806
Prizes and claims	2,364,897	-	-	-	2,364,897
General and administrative	193,736	-	-	-	193,736
Depreciation	33	-	-	-	33
Total operating expenses	<u>2,732,472</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,732,472</u>
Operating income	<u>881,630</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>881,630</u>
Nonoperating revenues (expenses):					
Investment income	7	(4,547)	-	-	(4,540)
Interest income	-	203	-	-	203
Interest expense	(1)	(8,204)	-	-	(8,205)
Other	-	659	-	-	659
Total nonoperating revenues (expenses), net	<u>6</u>	<u>(11,889)</u>	<u>-</u>	<u>-</u>	<u>(11,883)</u>
Change in net position (deficit) before transfers	881,636	(11,889)	-	-	869,747
Transfers to other State funds	<u>(881,636)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(881,636)</u>
Change in net position (deficit)	-	(11,889)	-	-	(11,889)
Net position (deficit), July 1, 2022	<u>(74,845)</u>	<u>3,017</u>	<u>-</u>	<u>-</u>	<u>(71,828)</u>
Net position (deficit), June 30, 2023	<u><u>\$ (74,845)</u></u>	<u><u>\$ (8,872)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (83,717)</u></u>

See independent auditor's report

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
**Combining Schedule of Accounts - Schedule of Revenues, Expenses, and Changes in Net Position (Deficit) -
State Lottery Fund (Collapsed)**
Year Ended June 30, 2023
(in thousands of dollars)

	State Lottery (0711)	Lottery Prize Payment Fund (1279)	Agent Sales Sweep Account Fund (1373)	Lottery Sales Account Fund (1321)	Eliminations	Total State Lottery (Collapsed)
Operating revenues:						
Charges for sales and services	\$ 6,894	\$ -	\$ 3,601,033	\$ 1,331	\$ -	\$ 3,609,258
Other	419	686	3,739	-	-	4,844
Total operating revenues	<u>7,313</u>	<u>686</u>	<u>3,604,772</u>	<u>1,331</u>	<u>-</u>	<u>3,614,102</u>
Operating expenses:						
Cost of sales and services	1,608	-	172,198	-	-	173,806
Prizes and claims	366,197	123,596	1,875,104	-	-	2,364,897
General and administrative	193,413	166	156	1	-	193,736
Depreciation	33	-	-	-	-	33
Total operating expenses	<u>561,251</u>	<u>123,762</u>	<u>2,047,458</u>	<u>1</u>	<u>-</u>	<u>2,732,472</u>
Operating income	<u>(553,938)</u>	<u>(123,076)</u>	<u>1,557,314</u>	<u>1,330</u>	<u>-</u>	<u>881,630</u>
Nonoperating revenues (expenses):						
Investment income	7	-	-	-	-	7
Interest income	-	-	-	-	-	-
Interest expense	(1)	-	-	-	-	(1)
Total nonoperating revenues (expenses), net	<u>6</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6</u>
Change in net position (deficit) before transfers	<u>(553,932)</u>	<u>(123,076)</u>	<u>1,557,314</u>	<u>1,330</u>	<u>-</u>	<u>881,636</u>
Transfers from other State funds	1,558,654	123,076	-	10	(1,681,740)	-
Transfers to other State funds	<u>(1,004,722)</u>	<u>-</u>	<u>(1,557,314)</u>	<u>(1,340)</u>	<u>1,681,740</u>	<u>(881,636)</u>
Change in net position (deficit)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net position (deficit), July 1, 2022	<u>(74,845)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(74,845)</u>
Net position (deficit), July 1, 2023	<u>\$ (74,845)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (74,845)</u>

See independent auditor's report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
**Combining Schedule of Accounts - Schedule of Revenues, Expenses, and Changes in Net Position (Deficit) -
Deferred Prize Winners Fund (Collapsed)**
Year Ended June 30, 2023
(in thousands of dollars)

	Deferred Prize Winners (0978)	Deferred Lottery Prize Winners Trust Fund (2978)	Eliminations	Total Deferred Prize Winners (Collapsed)
Operating revenues:				
Charges for sales and services	\$ -	\$ -	\$ -	\$ -
Other	-	-	-	-
Total operating revenues	-	-	-	-
Operating expenses:				
Cost of sales and services	-	-	-	-
Prizes and claims	-	-	-	-
General and administrative	-	-	-	-
Depreciation	-	-	-	-
Total operating expenses	-	-	-	-
Operating income	-	-	-	-
Nonoperating revenues (expenses):				
Investment income	-	(4,547)	-	(4,547)
Interest income	203	-	-	203
Interest expense	(8,204)	-	-	(8,204)
Other	659	-	-	659
Total nonoperating revenues (expenses), net	(7,342)	(4,547)	-	(11,889)
Change in net position (deficit) before transfers	(7,342)	(4,547)	-	(11,889)
Transfers from other State funds	(4,547)	-	4,547	-
Transfers to other State funds	-	4,547	(4,547)	-
Change in net position (deficit)	(11,889)	-	-	(11,889)
Net position (deficit), July 1, 2022	3,017	-	-	3,017
Net position (deficit), June 30, 2023	<u>\$ (8,872)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (8,872)</u>

See independent auditor's report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
Combining Schedule of Cash Flows - State Lottery Fund
Year Ended June 30, 2023
(in thousands of dollars)

	State Lottery (Collapsed)	Deferred Prize Winners (Collapsed)	Lottery Security Deposits (1309)	Eliminations	Total State Lottery Fund
Cash flows from operating activities:					
Cash received from sales and services	\$ 3,601,949	\$ -	\$ -	\$ -	\$ 3,601,949
Cash receipts from other operating activities	7,007	13,144	205	(13,144)	7,212
Cash payments for commissions and bonuses	(173,806)	-	-	-	(173,806)
Cash payments to employees for services	(22,588)	-	-	-	(22,588)
Cash payments for general and administrative expenses	(151,859)	-	-	-	(151,859)
Cash payments for lottery prizes	(2,363,812)	-	-	13,144	(2,350,668)
Cash payments for other operating activities	-	-	(81)	-	(81)
Net cash provided by operating activities	<u>896,891</u>	<u>13,144</u>	<u>124</u>	<u>-</u>	<u>910,159</u>
Cash flows from noncapital financing activities:					
Cash transfers – out to other funds	(872,452)	-	-	-	(872,452)
Net cash used in noncapital financing activities	<u>(872,452)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(872,452)</u>
Cash flows from capital and related financing activities:					
Principal payments under lease obligation	(27)	-	-	-	(27)
Interest payments under lease obligation	(1)	-	-	-	(1)
Net cash used in capital and related financing activities	<u>(28)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(28)</u>
Cash flows from investing activities:					
Interest and dividends on investments	7	184	-	-	191
Purchase of investments	-	(13,144)	-	-	(13,144)
Proceeds from investment maturities	-	27,185	-	-	27,185
Cash paid for long-term annuity prizes payable	-	(26,538)	-	-	(26,538)
Net cash used in investing activities	<u>7</u>	<u>(12,313)</u>	<u>-</u>	<u>-</u>	<u>(12,306)</u>
Net increase (decrease) in cash and cash equivalents	24,418	831	124	-	25,373
Cash and cash equivalents at beginning of year	69,905	3,358	407	-	73,670
Cash and cash equivalents at end of year	<u>\$ 94,323</u>	<u>\$ 4,189</u>	<u>\$ 531</u>	<u>\$ -</u>	<u>\$ 99,043</u>
Reconciliation of cash and cash equivalents to the statement of net position (deficit):					
Total cash and cash equivalents per the statement of net position (deficit)	\$ 14,798	\$ -	\$ 531	\$ -	\$ 15,329
Add cash equity in State Treasury	79,525	4,189	-	-	83,714
Cash and cash equivalents at end of year	<u>\$ 94,323</u>	<u>\$ 4,189</u>	<u>\$ 531</u>	<u>\$ -</u>	<u>\$ 99,043</u>

This schedule is continued on the following page.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
Combining Schedule of Cash Flows - State Lottery Fund (Continued)
Year Ended June 30, 2023
(in thousands of dollars)

	<u>State Lottery (Collapsed)</u>	<u>Deferred Prize Winners (Collapsed)</u>	<u>Lottery Security Deposits (1309)</u>	<u>Eliminations</u>	<u>Total State Lottery Fund</u>
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	\$ 881,630	\$ -	\$ -	\$ -	\$ 881,630
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	33	-	-	-	33
Provision for uncollectible accounts	1,457	-	-	-	1,457
Changes in assets and liabilities:					
Decrease in accounts receivable	21,252	-	-	-	21,252
(Increase) Decrease in due from other funds	544	-	(7)	7	544
Increase in deferred outflows of resources	(3,567)	-	-	-	(3,567)
Decrease in prepaid expenses	43	-	-	-	43
Increase in prizes payable	1,085	-	-	-	1,085
Increase in accounts payable and accrued liabilities	323	-	-	-	323
Increase in intergovernmental payables	27	-	-	-	27
Increase in due to other State funds	79	-	-	(7)	72
Increase in unearned revenues	411	-	-	-	411
Increase in other liabilities	64	-	131	-	195
Increase in long-term annuity prizes payable	-	13,144	-	-	13,144
Increase in deferred inflows of resources	15,191	-	-	-	15,191
Decrease in net pension liability	(2,528)	-	-	-	(2,528)
Decrease in OPEB liability	(19,153)	-	-	-	(19,153)
Net cash provided by operating activities	<u>\$ 896,891</u>	<u>\$ 13,144</u>	<u>\$ 124</u>	<u>\$ -</u>	<u>\$ 910,159</u>
Noncash investing, capital and financing activities:					
Cost of capital asset acquisitions financed by leases	\$ (32)	\$ -	\$ -	\$ -	\$ (32)
Decrease in fair value of investments	-	(12,751)	-	-	(12,751)
Interest accreted on investments	-	8,204	-	-	8,204
Interest accreted on long-term annuity prizes payable	-	(8,204)	-	-	(8,204)
Use of resources to pay long-term annuity prizes payable	-	(862)	-	-	(862)

See independent auditor's report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
**Combining Schedule of Accounts - Schedule of Cash Flows -
State Lottery Fund (Collapsed)**
Year Ended June 30, 2023
(in thousands of dollars)

	State Lottery (0711)	Lottery Prize Payment Fund (1279)	Agent Sales Sweep Account Fund (1373)	Lottery Sales Account Fund (1321)	Eliminations	Total State Lottery Fund (Collapsed)
Cash flows from operating activities:						
Cash received from sales and services	\$ (483)	\$ -	\$ 3,601,033	\$ 1,399	\$ -	\$ 3,601,949
Cash receipts from other operating activities	3,261	7	3,739	-	-	7,007
Cash payments for commissions and bonuses	(1,608)	-	(172,198)	-	-	(173,806)
Cash payments to employees for services	(22,588)	-	-	-	-	(22,588)
Cash payments for general and administrative expenses	(147,644)	(166)	(4,048)	(1)	-	(151,859)
Cash payments for lottery prizes	(365,155)	(123,553)	(1,875,104)	-	-	(2,363,812)
Cash payments for other operating activities	-	-	-	-	-	-
Net cash provided by operating activities	<u>(534,217)</u>	<u>(123,712)</u>	<u>1,553,422</u>	<u>1,398</u>	<u>-</u>	<u>896,891</u>
Cash flows from noncapital financing activities:						
Cash transfers – in from other funds	1,558,654	123,076	-	10	(1,681,740)	-
Cash transfers – out to other funds	(995,538)	-	(1,557,314)	(1,340)	1,681,740	(872,452)
Net cash used in noncapital financing activities	<u>563,116</u>	<u>123,076</u>	<u>(1,557,314)</u>	<u>(1,330)</u>	<u>-</u>	<u>(872,452)</u>
Cash flows from capital and related financing activities:						
Principal payments under lease obligation	(27)	-	-	-	-	(27)
Interest payments under lease obligation	(1)	-	-	-	-	(1)
Net cash used in capital and related financing activities	<u>(28)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(28)</u>
Cash flows from investing activities:						
Interest and dividends on investments	7	-	-	-	-	7
Net cash used in investing activities	<u>7</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7</u>
Net increase in cash and cash equivalents	28,878	(636)	(3,892)	68	-	24,418
Cash and cash equivalents at beginning of year	50,647	7,912	11,346	-	-	69,905
Cash and cash equivalents at end of year	<u>\$ 79,525</u>	<u>\$ 7,276</u>	<u>\$ 7,454</u>	<u>\$ 68</u>	<u>\$ -</u>	<u>\$ 94,323</u>
Reconciliation of cash and cash equivalents to the statement of net position (deficit):						
Total cash and cash equivalents per the statement of net position (deficit)	\$ -	\$ 7,276	\$ 7,454	\$ 68	\$ -	\$ 14,798
Add cash equity in State Treasury	79,525	-	-	-	-	79,525
Cash and cash equivalents at end of year	<u>\$ 79,525</u>	<u>\$ 7,276</u>	<u>\$ 7,454</u>	<u>\$ 68</u>	<u>\$ -</u>	<u>\$ 94,323</u>

This schedule is continued on the following page.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
**Combining Schedule of Accounts - Schedule of Cash Flows -
State Lottery Fund (Collapsed) (Continued)**
Year Ended June 30, 2023
(in thousands of dollars)

	<u>State Lottery (0711)</u>	<u>Lottery Prize Payment Fund (1279)</u>	<u>Agent Sales Sweep Account Fund (1373)</u>	<u>Lottery Sales Account Fund (1321)</u>	<u>Eliminations</u>	<u>Total State Lottery (Collapsed)</u>
Reconciliation of operating income to net cash provided by operating activities:						
Operating income	\$ (553,938)	\$ (123,076)	\$ 1,557,314	\$ 1,330	\$ -	\$ 881,630
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	33	-	-	-	-	33
Provision for uncollectible accounts	1,457	-	-	-	-	1,457
Changes in assets and liabilities:						
Decrease in accounts receivable	21,252	-	-	-	-	21,252
Decrease in due from other funds	544	-	-	-	-	544
Increase in deferred outflows of resources	(3,567)	-	-	-	-	(3,567)
Decrease in prepaid expenses	-	43	-	-	-	43
Increase in prizes payable	1,085	-	-	-	-	1,085
Increase in accounts payable and accrued liabilities	323	-	-	-	-	323
Increase in intergovernmental payables	27	-	-	-	-	27
Increase (Decrease) in due to other State funds	4,582	(679)	(3,892)	68	-	79
Increase in unearned revenues	411	-	-	-	-	411
Increase in other liabilities	64	-	-	-	-	64
Increase in deferred inflows of resources	15,191	-	-	-	-	15,191
Decrease in net pension liability	(2,528)	-	-	-	-	(2,528)
Decrease in OPEB liability	(19,153)	-	-	-	-	(19,153)
Net cash provided by operating activities	<u>\$ (534,217)</u>	<u>\$ (123,712)</u>	<u>\$ 1,553,422</u>	<u>\$ 1,398</u>	<u>\$ -</u>	<u>\$ 896,891</u>
Noncash investing, capital and financing activities:						
Cost of capital asset acquisitions financed by leases	\$ (32)	\$ -	\$ -	\$ -	\$ -	\$ (32)
Decrease in fair value of investments	-	-	-	-	-	-
Interest accreted on investments	-	-	-	-	-	-
Interest accreted on long-term annuity prizes payable	-	-	-	-	-	-
Use of resources to pay long-term annuity prizes payable	-	-	-	-	-	-

See independent auditor's report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
**Combining Schedule of Accounts - Schedule of Cash Flows -
Deferred Prize Winners Fund (Collapsed)**
Year Ended June 30, 2023
(in thousands of dollars)

	Deferred Prize Winners (0978)	Deferred Lottery Prize Winners Trust Fund (2978)	Eliminations	Total Deferred Prize Winners (Collapsed)
Cash flows from operating activities:				
Cash received from sales and services	\$ -	\$ -	\$ -	\$ -
Cash receipts from other operating activities	13,144	-	-	13,144
Cash payments for commissions and bonuses	-	-	-	-
Cash payments to employees for services	-	-	-	-
Cash payments for general and administrative expenses	-	-	-	-
Cash payments for lottery prizes	-	-	-	-
Cash payments for other operating activities	-	-	-	-
Net cash provided by operating activities	<u>13,144</u>	<u>-</u>	<u>-</u>	<u>13,144</u>
Cash flows from noncapital financing activities:				
Cash transfers – out to other funds	-	-	-	-
Net cash used in noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from capital and related financing activities:				
Principal payments under lease obligation	-	-	-	-
Net cash used in capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities:				
Interest and dividends on investments	184	-	-	184
Purchase of investments	(13,144)	-	-	(13,144)
Proceeds from investment maturities	27,185	27,185	(27,185)	27,185
Cash paid for long-term annuity prizes payable	(26,538)	(27,185)	27,185	(26,538)
Net cash used in investing activities	<u>(12,313)</u>	<u>-</u>	<u>-</u>	<u>(12,313)</u>
Net decrease in cash and cash equivalents	831	-	-	831
Cash and cash equivalents at beginning of year	3,358	-	-	3,358
Cash and cash equivalents at end of year	<u>\$ 4,189</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,189</u>
Reconciliation of cash and cash equivalents to the statement of net position (deficit):				
Total cash and cash equivalents per the statement of net position (deficit)	\$ -	\$ -	\$ -	\$ -
Add cash equity in State Treasury	4,189	-	-	4,189
Cash and cash equivalents at end of year	<u>\$ 4,189</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,189</u>

This schedule is continued on the following page.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
**Combining Schedule of Accounts - Schedule of Cash Flows -
Deferred Prize Winners Fund (Collapsed) (Continued)**
Year Ended June 30, 2023
(in thousands of dollars)

	Deferred Prize Winners (0978)	Deferred Lottery Prize Winners Trust Fund (2978)	Eliminations	Total Deferred Prize Winners (Collapsed)
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ -	\$ -	\$ -	\$ -
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	-	-	-	-
Provision for uncollectible accounts	-	-	-	-
Changes in assets and liabilities:				
Increase in accounts receivable	-	-	-	-
Decrease in due from other funds	-	-	-	-
Decrease in deferred outflows of resources	-	-	-	-
Increase in prepaid expenses	-	-	-	-
Decrease in prizes payable	-	-	-	-
Decrease in accounts payable and accrued liabilities	-	-	-	-
Increase in intergovernmental payables	-	-	-	-
Increase in due to other State funds	-	-	-	-
Decrease in unearned revenues	-	-	-	-
Decrease in other liabilities	-	-	-	-
Increase in long-term annuity prizes payable	13,144	-	-	13,144
Increase in deferred inflows of resources	-	-	-	-
Decrease in net pension liability	-	-	-	-
Decrease in OPEB liability	-	-	-	-
Net cash provided by operating activities	<u>\$ 13,144</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,144</u>
Noncash investing, capital and financing activities:				
Decrease in fair value of investments	\$ (12,751)	\$ -	\$ -	\$ (12,751)
Interest accreted on investments	8,204	-	-	8,204
Interest accreted on long-term annuity prizes payable	(8,204)	-	-	(8,204)
Use of resources to pay long-term annuity prizes payable	(862)	-	-	(862)

See independent auditor's report.

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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***

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Lottery Control Board
State of Illinois, Department of the Lottery

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the 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 State Lottery Fund of the State of Illinois, Department of the Lottery (Department), as of and for the year ended June 30, 2023, and the related notes to the financial statements, and we have issued our report thereon dated January 19, 2024.

Report on Internal Control Over Financial Reporting

Management of the Department is responsible for establishing and maintaining effective internal control over financial reporting (internal control).

In planning and performing our audit of the financial statements, we considered the Department’s internal control as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Department’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 have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department'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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Restricted Use of this Report

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, the Lottery Control Board, and the Department's management and is not intended to be and should not be used by anyone other than these specified parties.

SIGNED ORIGINAL ON FILE

Springfield, IL
January 19, 2024

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
STATE LOTTERY FUND
SCHEDULE OF FINDINGS – PRIOR FINDINGS NOT REPEATED
For the Year Ended June 30, 2023

A. **FINDING** (Inadequate Controls over SOC Report Reviews)

During the prior engagement, the Department of the Lottery (Department) did not conduct adequate independent internal control reviews over its service providers' System and Organization Control (SOC) reports.

During the current engagement, our testing indicated the Department performed independent internal control reviews over its service providers' SOC reports, including analyzing the effects of deficiencies noted in SOC reports with qualified or adverse opinions, and determining if they could rely on the service providers' controls as a result. (Finding Code 2022-001, 2021-005)

B. **FINDING** (Inadequate Internal Controls over Census Data)

During the prior engagement, the Department had certain deficiencies in their internal controls to ensure accurate census data was provided to the State Employees' Retirement System of Illinois (System) for use in the applicable annual actuarial valuations.

During the current engagement, we relied on the census data compliance reports for both pension and OPEB data from the Illinois Office of the Auditor General. The testing indicated the Department had strengthened controls to ensure accurate census data is provided to the System for use in the annual actuarial valuation process, as no exceptions were identified. (Finding Code 2022-002, 2021-002, 2020-002)