

Oklahoma Lottery Commission An Enterprise Fund of the State of Oklahoma

Financial Report
June 30, 2024 and 2023

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Independent Auditor's Report

Board of Trustees
Oklahoma Lottery Commission
An Enterprise Fund of the State of Oklahoma

Report on the Audit of the Financial Statements***Opinion***

We have audited the financial statements of the Oklahoma Lottery Commission (the OLC), an enterprise fund of the State of Oklahoma, as of and for the years ended June 30, 2024 and 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 financial position of the Oklahoma Lottery Commission, as of June 30, 2024 and 2023, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the State of Oklahoma, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 1, the financial statements present only the OLC and do not purport to, and do not, present fairly the financial position of the State of Oklahoma, as of June 30, 2024 and 2023, the changes in its financial position, or, where applicable, its cash flows for the years 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 judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the OLC'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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the OLC's proportionate share of the net pension liability (asset), the schedule of the OLC's contributions, and the related notes to the required supplementary information be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the OLC's financial statements. The revenue and prize expense by game is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the revenue and prize expense by game is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2024 on our consideration of the OLC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the OLC'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 OLC's internal control over financial reporting and compliance.

RSM US LLP

Kansas City, Missouri
September 19, 2024

**Oklahoma Lottery Commission
An Enterprise Fund of the State of Oklahoma**

**Management's Discussion and Analysis
June 30, 2024 and 2023**

Management of the Oklahoma Lottery Commission (the OLC) provides this management's discussion and analysis of their financial performance for the readers of the OLC's financial statements. This narrative provides an overview of the OLC's financial activity for the fiscal years ended June 30, 2024 and 2023. This analysis is to be considered in conjunction with the financial statements to provide an objective analysis of the OLC's financial activities based on facts, decisions and conditions currently facing management.

Understanding the OLC's Financial Statements

The OLC, an instrumentality of the State of Oklahoma, is accounted for as an enterprise fund that reports all assets and liabilities using the accrual basis of accounting, much like a private business entity. In accordance with accounting principles generally accepted in the United States of America, this report consists of a series of financial statements, along with explanatory notes to the financial statements. The financial statements immediately follow this Management's Discussion and Analysis and are designed to highlight the OLC's net position and changes to its net position resulting from the OLC's operations.

The most important relationship demonstrated within the OLC's financial statements is the requirement that the OLC transfer all net proceeds, "as defined," to the State Treasurer for the Oklahoma Education Lottery Trust Fund (OELTF). Accordingly, a significant focus of these financial statements is determining net proceeds available for transfer to the OELTF.

The OLC is also required to transfer annually the first \$750,000, for both 2024 and 2023, of unclaimed prize money to the Oklahoma Department of Mental Health and Substance Abuse Services (ODMHSAS). This is discussed further on page 7 of the management's discussion and analysis.

Financial and Activity Highlights

Revenues from lottery games totaled \$354,707,419 and \$379,826,946, respectively, for the fiscal years ended June 30, 2024 and 2023. The OLC returned \$219,851,900 and \$234,155,812 to winners of lottery games; paid commissions and incentives to retailers totaling \$22,307,462 and \$24,109,047; incurred other game-related expenses of \$15,410,970 and \$20,316,089; and had operating expenses of \$8,775,364 and \$8,302,700 for each of the respective fiscal years of 2024 and 2023. The OLC's net position increased by \$1,959,835 and \$5,933,739 in fiscal years 2024 and 2023, respectively. Transfers made and due to the OELTF were \$87,692,671 and \$87,586,218, respectively, for fiscal years ended June 30, 2024 and 2023.

Revenues from lottery games totaled \$350,343,377 for the fiscal year ended June 30, 2022. The OLC returned \$226,704,786 to winners of lottery games; paid commissions and incentives to retailers totaling \$22,392,561; incurred other game-related expenses of \$14,752,788; and had operating expenses of \$7,883,949 for the fiscal year of 2022. The OLC's net position decreased by \$9,189 in fiscal year 2022. Transfers made and due to the OELTF were \$78,587,377 for the fiscal year ended June 30, 2022.

The OLC's investment in capital assets includes machinery, equipment, computers and software. Capital assets, net of accumulated depreciation, at June 30, 2024, were \$46,102, a decrease of \$50,392 from June 30, 2023. Capital assets, net of accumulated depreciation, at June 30, 2023, were \$96,494, a decrease of \$65,197 from June 30, 2022. Additional information concerning the OLC's capital assets is contained in Note 4 to the financial statements.

The OLC did not have any long-term debt at June 30, 2024 or 2023.

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Management's Discussion and Analysis
June 30, 2024 and 2023

The following table summarizes the OLC's Statement of Net Position as of June 30:

	2024	2023	2022
Current assets	\$ 76,544,005	\$ 73,613,984	\$ 51,470,575
Noncurrent assets:			
Capital assets, net	46,102	96,494	161,691
Deposit with MUSL	5,442,635	4,831,960	4,781,807
Net pension asset	-	-	1,395,462
Total assets	<u>\$ 82,032,742</u>	<u>\$ 78,542,438</u>	<u>\$ 57,809,535</u>
Deferred outflows of resources	<u>\$ 741,820</u>	<u>\$ 1,168,518</u>	<u>\$ 260,227</u>
Current liabilities	\$ 64,712,629	\$ 63,087,700	\$ 46,722,820
Noncurrent liabilities	516,364	925,931	79,493
Total liabilities	<u>\$ 65,228,993</u>	<u>\$ 64,013,631</u>	<u>\$ 46,802,313</u>
Deferred inflows of resources	<u>\$ 26,673</u>	<u>\$ 138,264</u>	<u>\$ 1,642,127</u>
Net position:			
Investment in capital assets	\$ 46,102	\$ 96,494	\$ 161,691
Restricted net position—expendable	18,596,955	16,015,232	10,015,884
Unrestricted (deficit)	(1,124,161)	(552,665)	(552,253)
Total net position	<u>\$ 17,518,896</u>	<u>\$ 15,559,061</u>	<u>\$ 9,625,322</u>

Net position increased from fiscal year 2023 to fiscal year 2024 by \$1,959,835. This increase was due to an influx of unclaimed funds that were utilized for additional prizes in FY24.

Net position increased from fiscal year 2022 to fiscal year 2023 by \$5,933,739. This increase was primarily attributable to record sales due to three Billion Dollar Jackpots in and adjacent to FY23; two Mega Millions (July 2022 & January 2023) and one Powerball (July 2023). While the Powerball jackpot was won in July 2023, the OLC saw increased sales as a result of the growing jackpot during late fiscal year 2023.

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Management's Discussion and Analysis
June 30, 2024 and 2023

The following table summarizes the OLC's Statement of Revenues, Expense and Changes in Net Position for the years ended June 30:

	2024	2023	2022
Operating revenues:			
Gaming revenues	\$ 354,707,419	\$ 379,826,946	\$ 350,343,377
Other revenues	522,424	502,737	389,124
Total operating revenues	355,229,843	380,329,683	350,732,501
Nonoperating revenue, interest income	1,518,359	823,922	329,771
Total revenue	<u>\$ 356,748,202</u>	<u>\$ 381,153,605</u>	<u>\$ 351,062,272</u>
Less prize expense	\$ 219,851,900	\$ 234,155,812	\$ 226,704,786
Less commissions and incentives to retailers	22,307,462	24,109,047	22,392,561
Less other direct game costs	15,410,970	20,316,089	14,752,788
Less operating expenses	8,775,364	8,302,700	7,883,949
Total expense	<u>266,345,696</u>	<u>286,883,648</u>	<u>271,734,084</u>
Change in net position before transfers	<u>90,402,506</u>	<u>94,269,957</u>	<u>79,328,188</u>
Transfers:			
Transfers to ODMHSAS	750,000	750,000	750,000
Transfers to OELTF	87,692,671	87,586,218	78,587,377
Total transfers	<u>\$ 88,442,671</u>	<u>\$ 88,336,218</u>	<u>\$ 79,337,377</u>
Change in net position	\$ 1,959,835	\$ 5,933,739	\$ (9,189)
Net position at beginning of year	15,559,061	9,625,322	9,634,511
Net position at end of year	<u>\$ 17,518,896</u>	<u>\$ 15,559,061</u>	<u>\$ 9,625,322</u>

Instant sales decreased from fiscal year 2024 to fiscal year 2023 by \$23.9 million due to the lingering impact of high inflation, as well as the increased cost of everyday goods and services and decreased discretionary income. While economic conditions remain challenging, FY24 draw sales only saw a slight decline from fiscal year 2023 to fiscal year 2024 (\$2 million) due to five jackpots that exceeded a billion dollars.

Instant sales decreased from fiscal year 2022 to fiscal year 2023 by \$14.6 million. This decline was the result of historically large jackpots for draw games. Draw sales increased by \$38 million with higher than expected sales during the year due to historic jackpot prizes. Jackpot amounts for Powerball and Mega Millions were also greater than fiscal year 2022 levels.

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Management's Discussion and Analysis
June 30, 2024 and 2023

Net proceeds of the OLC must be transferred to the State Treasurer for the OELTF, with the following exceptions: 1) the cost of property and equipment, net of depreciation, and related debt and 2) other assets that cannot be transferred due to statutory or other legal restriction, including restricted cash from unclaimed prizes, deposits with Multi-State Lottery (MUSL), and the Restricted Fidelity Fund. Unclaimed prizes, after required transfers to the Department of Mental Health and Substance Abuse Services, must be added to a pool from which future prizes are awarded or used for special prize promotions. Deposits with MUSL result from a set-aside of prize expenses paid to MUSL and are available for prize reserves and promotional expenses of MUSL games. The Restricted Fidelity Fund is derived from the licensing fees of new retailers, which may be retained by the OLC up to the budgeted expenses from the fund for the next fiscal year plus \$500,000, in 2024 and 2023, and used to cover losses the OLC may experience due to nonfeasance, misfeasance or malfeasance of a lottery retailer and to pay the costs of vendor, retailer and employee background investigations conducted by the Oklahoma State Bureau of Investigation and for audits conducted by the State Auditor and Inspector.

For the years ended June 30, 2024 and 2023, the total transfers made or due to the OELTF related to operations were \$87,692,671 and \$87,586,218, respectively. Since inception to June 30, 2024, total transfers made or due to the OELTF were \$1,334,438,897. For each of the years ended June 30, 2024 and 2023, the OLC transferred \$750,000 in unclaimed prize funds to the Department of Mental Health and Substance Abuse Services for the treatment of compulsive gambling disorders and educational programs related to such disorders. From inception to June 30, 2024, total transfers to the Oklahoma Department of Mental Health and Substance Abuse Services were \$11,794,600.

The following is a condensed version of the OLC's statement of cash flows for the years ended June 30:

	2024	2023	2022
Cash provided by (used in):			
Operating activities	\$ 94,382,392	\$ 98,011,753	\$ 78,350,035
Noncapital financing activities	(92,567,676)	(78,491,086)	(85,662,859)
Capital and related financing activities	-	(868)	(6,519)
Investing activities	1,518,359	823,922	329,771
Net increase (decrease) in cash	3,333,075	20,343,721	(6,989,572)
Cash at beginning of year	58,467,995	38,124,274	45,113,846
Cash at end of year	\$ 61,801,070	\$ 58,467,995	\$ 38,124,274

Potential Factors Impacting Future Operations

The key areas of focus here are still the US economy and legislative constraints. While inflation has come down since reaching historic levels in FY23, the cost of everyday consumer goods remains high and continues to impact lottery sales. The Lottery will continue finding ways to promote sales through strengthening our field service team, a statewide equipment upgrade, and new product offering potentials.

Contacting the OLC's Financial Management

This financial report is designed to provide a general overview of the OLC's financial activity for all those interested in the OLC's operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director by mail at Oklahoma Lottery Commission, 300 N Broadway, Oklahoma City, Oklahoma 73102 or by phone at 405-522-7700.

Oklahoma Lottery Commission
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Statements of Net Position
June 30, 2024 and 2023

	2024	2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 48,646,750	\$ 47,284,723
Cash equivalents—restricted	13,154,320	11,183,272
Retailer accounts receivable and other	14,355,046	14,736,252
Accounts receivable—Multi-State Lottery	387,889	409,737
Total current assets	76,544,005	73,613,984
Noncurrent assets:		
Capital assets, net	46,102	96,494
Deposit with Multi-State Lottery	5,442,635	4,831,960
Total noncurrent assets	5,488,737	4,928,454
Total assets	\$ 82,032,742	\$ 78,542,438
Deferred outflows of resources, deferred pension plan outflows	\$ 741,820	\$ 1,168,518
Liabilities		
Current liabilities:		
Due to Oklahoma Education Lottery Trust Fund	\$ 32,683,713	\$ 36,808,718
Due to Multi-State Lottery	1,065,430	1,210,558
Prizes payable	29,050,370	22,629,778
Accounts payable	1,281,692	1,921,166
Accrued expenses	631,424	517,480
Total current liabilities	64,712,629	63,087,700
Noncurrent liabilities:		
Accrued compensated absences	83,154	85,068
Net pension liability	433,210	840,863
Total noncurrent liabilities	516,364	925,931
Total liabilities	\$ 65,228,993	\$ 64,013,631
Deferred inflows of resources, deferred pension plan inflows	\$ 26,673	\$ 138,264
Net position		
Investment in capital assets	\$ 46,102	\$ 96,494
Restricted net position—expendable:		
Professional fees and other	268,401	150,649
Unclaimed prizes	12,885,919	11,032,623
Multi-State Lottery	5,442,635	4,831,960
Unrestricted (deficit)	(1,124,161)	(552,665)
Total net position	\$ 17,518,896	\$ 15,559,061

See notes to financial statements.

Oklahoma Lottery Commission
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Statements of Revenues, Expenses and Change in Net Position
Years Ended June 30, 2024 and 2023

	2024	2023
Operating revenues:		
Instant Tickets	\$ 224,946,798	\$ 248,849,400
Draw Games	123,306,237	125,350,669
Fast Play	6,454,384	5,626,877
Total revenue from the sale of lottery tickets	354,707,419	379,826,946
Retailer application fees	106,940	112,675
Other	415,484	390,062
Total operating revenues	355,229,843	380,329,683
Direct costs:		
Prize expense:		
Instant Tickets	162,016,496	178,760,074
Draw Games	62,361,671	63,281,591
Fast Play	4,576,628	3,945,759
Unclaimed prize expense	(9,102,895)	(11,831,612)
Total prize expense	219,851,900	234,155,812
Commissions and incentives to retailers	22,307,462	24,109,047
Instant and online costs	15,410,970	20,316,089
Total direct costs	257,570,332	278,580,948
Gross profit	97,659,511	101,748,735
Operating expenses:		
Advertising and promotion	3,927,313	3,762,146
Salaries, wages and benefits	3,604,735	3,447,495
Contracted and professional services	257,381	238,109
Depreciation	50,392	66,065
Equipment	142,037	46,274
Rent expense	624,529	590,229
Office supplies	20,916	23,747
Travel	54,570	43,062
Other general and administrative	93,491	85,573
Total operating expenses	8,775,364	8,302,700
Operating income	88,884,147	93,446,035
Nonoperating income, interest income	1,518,359	823,922
Change in net position before transfers	90,402,506	94,269,957
Transfers:		
Required payments to Oklahoma Department of Mental Health and Substance Abuse Services	(750,000)	(750,000)
Required payments to and due to Oklahoma Education Lottery Trust Fund	(87,692,671)	(87,586,218)
Total transfers	(88,442,671)	(88,336,218)
Change in net position	1,959,835	5,933,739
Net position at beginning of year	15,559,061	9,625,322
Net position at end of year	\$ 17,518,896	\$ 15,559,061

See notes to financial statements.

Oklahoma Lottery Commission
An Enterprise Fund of the State of Oklahoma

Statements of Cash Flows
Years Ended June 30, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Cash received from retailers	\$ 333,305,686	\$ 354,408,839
Cash payments to prize winners	(213,576,436)	(228,448,410)
Cash payments to suppliers for goods and services	(21,150,932)	(24,437,540)
Cash payments to employees for services	(3,585,251)	(3,460,983)
Cash payments to fund deposit with Multi-State Lottery	(610,675)	(50,153)
Net cash provided by operating activities	94,382,392	98,011,753
Cash flows from noncapital financing activities:		
Payments to Oklahoma Department of Mental Health and Substance Abuse Services	(750,000)	(750,000)
Payments to Oklahoma Education Lottery Trust Fund	(91,817,676)	(77,741,086)
Net cash used in noncapital financing activities	(92,567,676)	(78,491,086)
Cash flows from capital and related financing activities, purchase of capital assets	-	(868)
Cash flows from investing activities, interest received	1,518,359	823,922
Net change in cash and cash equivalents	3,333,075	20,343,721
Cash and cash equivalents at beginning of year	58,467,995	38,124,274
Cash and cash equivalents at end of year	<u>\$ 61,801,070</u>	<u>\$ 58,467,995</u>
Reconciliation of cash to the statements of net position:		
Cash and cash equivalents	\$ 48,646,750	\$ 47,284,723
Cash equivalents—restricted	13,154,320	11,183,272
Total cash, end of year	\$ 61,801,070	\$ 58,467,995
Operating activities:		
Operating income	\$ 88,884,147	\$ 93,446,035
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation	50,392	66,065
Changes in operating assets, deferred outflows, liabilities and deferred inflows:		
Retailer accounts receivable and other	381,206	(1,726,981)
Accounts receivable—Multi-State Lottery	21,848	(72,707)
Deposit with Multi-State Lottery	(610,675)	(50,153)
Deferred pension plan outflows	426,698	(908,291)
Due to Multi-State Lottery	(145,128)	83,221
Accounts payable, accrued expenses and accrued compensated absences	(527,444)	817,921
Prizes payable	6,420,592	5,624,181
Net pension (liability)	(407,653)	2,236,325
Deferred pension plan inflows	(111,591)	(1,503,863)
Net cash provided by operating activities	\$ 94,382,392	\$ 98,011,753

See notes to financial statements.

**Oklahoma Lottery Commission
An Enterprise Fund of the State of Oklahoma**

Notes to Financial Statements

Note 1. Reporting Entity

The Oklahoma Lottery Commission (the OLC), was formed by the citizens of Oklahoma upon passage of a legislative referendum authorizing the Oklahoma Education Lottery Act (the Act), codified as Title 3A, Section 701, et. seq., of the Oklahoma Statutes. The OLC is an enterprise fund of the State of Oklahoma (the State) and is responsible for administering lotteries in accordance with the Act. These financial statements present only the OLC and do not purport to, and do not, present the financial position of the State of Oklahoma, the changes in its financial position, or, where applicable, its cash flows. The Act established a board of seven trustees appointed by the governor to oversee operations of the OLC. The OLC transfers Net Proceeds as defined by the Act, to the Oklahoma Education Lottery Trust Fund (OELTF). See Note 7 for additional details.

Note 2. Significant Accounting Policies

Method of accounting: The OLC is accounted for as an enterprise fund. Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises where the costs of providing lottery games to the general public on a continuing basis are to be financed through the sale of lottery game tickets. The Act requires that all costs of providing lottery games, including capital costs, be recovered from the sale of lottery game tickets.

The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for accounting principles generally accepted applicable to governmental proprietary activities in the United States of America. The OLC applies all applicable GASB pronouncements.

Basis of accounting: The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method, revenues are recognized when they are earned, and expenses are recognized when they are incurred.

The primary operating revenue of the OLC is ticket sales from games. Nonoperating income primarily consists of interest income. "Operating expenses" are defined under the Act as "all costs of doing business, including but not limited to prizes, commissions, and other compensation paid to retailers, advertising and marketing costs, personnel costs, capital costs, amounts held in or paid from the Fidelity Revolving Fund pursuant to Section 20 of this Act, debt service payments for the payment of initial expenses of start-up, administration and operation of the OLC and other operating costs." The transfers are statutory required transfers to the Oklahoma Education Lottery Trust Fund (OELTF) and the Oklahoma Department of Mental Health and Substance Abuse Services.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue recognition: Revenue for Pick 3, Cash 5, Lucky for Life, Lotto America, Mega Millions and Powerball (collectively referred to as online games) is recognized when tickets are sold to the public by contracted retailers, except for tickets sold in advance of the draw date for which unearned revenue is recorded. Revenue for scratcher games is recognized upon activation of ticket packs for sale by the retailers. Revenue for fast play games is recognized upon generation of ticket immediately upon sale.

Commissions: Retailers receive a 6% commission on total sales and 0.75% commission on prizes cashed.

Oklahoma Lottery Commission
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Notes to Financial Statements

Note 2. Significant Accounting Policies (Continued)

Prizes: Prize expense for scratcher ticket games is recorded at the time the related revenue is recognized based on the predetermined prize structure for each game; periodically, the prize expense is adjusted for unclaimed prizes. Prize expense for online and fast play games is recorded at the time the related revenue is recognized based on the known prizes.

Unclaimed prizes: Prizes must be claimed within 90 days after the game-end (end of sales) for scratcher games and within 180 days after the draw date for online games. The first \$750,000 for fiscal year 2024 and 2023 of unclaimed prize money accruing annually must be transferred to the Oklahoma Department of Mental Health and Substance Abuse Services (ODMHSAS) for the treatment of compulsive gambling disorders and educational programs related to such disorders.

In accordance with Section 724 of the Act, unclaimed prizes are added to a pool from which future prizes are awarded or used for special prize promotions. Under the Act, unclaimed prizes do not constitute net lottery proceeds and are restricted funds that are not available for transfer to the OELTF. Total unclaimed prizes amounted to \$9,102,895 and \$11,831,612 for fiscal years 2024 and 2023, respectively. Unclaimed prizes are netted against prize expense in the statement of revenues, expenses, and changes in net position.

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Oklahoma Public Retirement System (OPERS) and additions to/deductions from OPERS and fiduciary net position have been determined on the same basis as they are reported by OPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred inflows of resources: Deferred inflows of resources represent an acquisition of net assets that applies to future periods. At June 30, 2024 and 2023, the OLC had deferred inflows of resources of \$26,673 and \$138,264, respectively. See Note 8 for additional discussion regarding deferred inflows of resources.

Deferred outflows of resources: Deferred outflows of resources represent a consumption of net assets that applies to future periods. At June 30, 2024 and 2023, the OLC had deferred outflows of resources of \$741,820 and \$1,168,518, respectively. See Note 8 for additional discussion regarding deferred outflows of resources.

Net position: The OLC's net position is classified as follows:

Investment in capital assets: This represents the OLC's total investment in capital assets.

Restricted net position, expendable: Net position not invested in capital is restricted by state statute. Restricted net position consists primarily of cash maintained in the OLC's restricted fidelity fund, deposits with the Multi-State Lottery (MUSL), and balance of unclaimed prizes to be used on future prizes or special prize promotions.

Unrestricted net position (deficit): Unrestricted net position (deficit) is the result of the effects of the OLC's recognition of its proportionate share of Net Pension Liability from participation in the Oklahoma Public Employee's Retirement System, the release (use) of Unclaimed Prizes and current year changes in the required deposit with MUSL.

Oklahoma Lottery Commission
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Notes to Financial Statements

Note 2. Significant Accounting Policies (Continued)

Gross proceeds: Gross proceeds, as defined by the Act, consist of all revenue derived from the sale of lottery game tickets or shares and all other monies derived from the lottery games.

Operating expenses: Operating expenses, as defined by the Act, in the determination of net proceeds, consist of all costs of doing business including, but not limited to, prizes, commissions, and other compensation paid to lottery retailers, advertising and marketing costs, rental fees, personnel costs, capital costs, depreciation of property and equipment, and other operating costs.

Cash and cash equivalents: The OLC's cash and cash equivalents are considered to be cash on hand and amounts maintained in OK INVEST, an internal investment pool administered by the Oklahoma State Treasurer. Investments with original maturities of three months or less at the time of purchase are classified as cash equivalents.

Retailer accounts receivable: Retailer accounts receivable represents lottery proceeds due from retailers for online ticket sales and activated ticket packs for scratcher games, less commissions due to retailers and prizes paid by the retailers. Lottery proceeds are collected weekly by the OLC from retailer trust accounts established in trust for benefit of the OLC.

Capital assets, net: Capital assets, which consist of machinery, equipment, computers and software, are stated at cost less accumulated depreciation. The OLC capitalizes assets with dollar values that exceed \$25,000 and which have a useful life of greater than one year. Depreciation is computed using the straight-line method over the following estimated useful lives: machinery and equipment—five to ten years; computers and software—three to five years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the results from operations in the period of disposal.

Restricted cash: In accordance with the Act, retailers contribute a fee to a fidelity fund upon acceptance as a retailer for the OLC. The fund is used to cover losses the OLC may incur due to misfeasance, nonfeasance, or malfeasance of retailers and to contract for investigations, reviews, or audits. At the end of any fiscal year, the OLC must transfer to the OELTF any amount in the restricted fidelity fund which exceeds the budgeted expenses from the fund for the next fiscal year plus \$500,000 for both fiscal years 2024 and 2023. At June 30, 2024 and 2023, no amounts were available for transfer as net proceeds. During fiscal years 2024 and 2023, \$0 and \$110,250, respectively, was used to reimburse the OLC for retailer accounts that were delinquent and in collection status, for the retailer application fees and audit fees. Receipts from retailers in collection status are deposited back to the fidelity fund. The fidelity fund is held in a separate account. As of June 30, 2024 and 2023, the balance in the fidelity fund totaled \$268,401 and \$150,649, respectively and is included in the accompanying statement of net position with cash equivalents restricted and expendable restricted net position.

Current unclaimed prizes in excess of \$750,000 for both fiscal years 2024 and 2023, and the balance from prior years are included in cash equivalents restricted and expendable restricted net position in the accompanying statement of net position. These funds are to be utilized to enhance future OLC prizes or promotions and totaled \$12,885,919 and \$11,032,623 as of June 30, 2024 and 2023, respectively.

Risk management: The OLC is exposed to various risks of loss related to torts, destruction of assets due to theft or damage, errors and omissions, injuries to employees, and natural disasters. The OLC has coverage that substantially covers these risks through a self-insured pool for agencies of the State of Oklahoma. This coverage is administered by the Risk Management Division of the Department of Central Services for the State of Oklahoma.

Oklahoma Lottery Commission
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Notes to Financial Statements

Note 2. Significant Accounting Policies (Continued)

Compensated absences: Employees earn the right to be compensated during absences for vacation and compensatory time. Unused leave benefits are paid to employees upon separation from service. The cost of vacation and compensatory time is accrued in the period in which it is earned.

Bad-debt expense: The OLC recognizes bad-debt expense when retailer account receivables are greater than 90 days old. The accounts receivable balance due to the OLC is satisfied at that time by a transfer of funds from the restricted fidelity fund. The OLC may continue its effort to collect these accounts. Any collection from a retailer balance previously charged to bad-debt expense will be deposited back to the restricted fidelity fund. Bad debt expense was approximately \$19,700 and \$0 for the years ended June 30, 2024 and 2023.

Pending pronouncements: The GASB has issued several statements not yet implemented by the OLC. OLC is currently evaluating the impacts that these new standards will have on its financial statements. A description of the new accounting pronouncements is included below:

- GASB Statement No. 101, *Compensated Absences*, issued in June 2022, will be effective for the OLC beginning with its fiscal year ended June 30, 2025. The objective of Statement No. 101 is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.
- GASB Statement No. 102, *Certain Risk Disclosures*, issued in December 2023, will be effective for the OLC beginning with its fiscal year ended June 30, 2025. The objective of Statement No. 102 is to provide users of financial statements with essential information about the reporting entity's vulnerabilities due to certain concentrations or constraints through expanded disclosures.
- GASB Statement No. 103, *Financial Reporting Model Improvements*, issued in April 2024, will be effective for the OLC beginning with its fiscal year ended June 30, 2026. Statement No. 103 will implement a variety of changes including revising the presentation of the management's discussion and analysis section and that of the statement of revenues, expenses and changes in net position, including requiring the presentation of unusual or infrequent items and subsidies when applicable.

The OLC's management has not yet determined the effect that these statements will have on the OLC's financial statements.

Subsequent events: The OLC has evaluated subsequent events through September 19, 2024, the date the financial statements were available to be issued.

**Oklahoma Lottery Commission
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Notes to Financial Statements

Note 3. Cash and Cash Equivalents

The OLC's investment in OK INVEST is carried at \$61,801,070 and \$58,467,995 at June 30, 2024 and 2023, respectively, which represents the OLC's net asset value of its interest in OK INVEST. The amounts held in OK INVEST are considered liquid as they are available to be withdrawn on demand with limited redemption restrictions.

Agencies and funds that are considered to be part of the State's reporting entity in the State's Annual Comprehensive Financial Report are allowed to participate in OK INVEST. Oklahoma statutes and the State Treasurer establish the primary objectives and guidelines governing the investment of funds in OK INVEST. Safety, liquidity, and return on investment are the objectives that establish the framework for the day-to-day OK INVEST management, with an emphasis on safety of the capital and the probable income to be derived and meeting the State and its funds' and agencies' daily cash flow requirements. Guidelines in the Investment Policy address credit quality requirements, diversification percentages and the types and maturities of allowable investments. The specifics regarding these policies can be found on the State Treasurer's website at <http://www.ok.gov/treasurer>. The State Treasurer, at his discretion, may further limit or restrict such investments on a day-to-day basis. OK INVEST includes a substantial investment in securities with an overnight maturity as well as in U.S. government securities with a maturity of up to ten years. OK INVEST maintains an overall weighted average maturity of less than four years.

Participants in OK INVEST maintain interest in its underlying investments and, accordingly, may be exposed to certain risks. As stated in the State Treasurer information statement, the main risks are interest rate risk, credit/default risk, liquidity risk, and U.S. government securities risk. Interest rate risk is the risk that during periods of rising interest rates, the yield and fair value of the securities will tend to be lower than prevailing market rates; in periods of falling interest rates, the yield will tend to be higher.

Custodial credit risk of investments is the risk that in the event of a bank failure, the government's investments may not be returned to it. OK INVEST is not insured or guaranteed by the State, the FDIC, or any other government agency.

Liquidity risk is the risk that the OLC cannot withdraw its funds from OK INVEST within a reasonable amount of time or at an appropriate value due to liquidity issues in the market or fund. Amounts held within OK INVEST are considered liquid as they are available to be withdrawn on demand with limited restrictions. U.S. government securities risk is the risk that those securities which OK INVEST holds, which are generally considered safe and conservative, lose their value. OLC believes that the risk related to these factors is minimal.

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Notes to Financial Statements

Note 4. Capital Assets, Net

The following is a summary of changes in capital assets and accumulated depreciation during the years ended June 30, 2024 and 2023:

Capital Assets	Year Ended June 30, 2024			
	Beginning Balance	Additions	Deletions	Ending Balance
Machinery and equipment	\$ 1,162,810	\$ -	\$ -	\$ 1,162,810
Computers and software	457,608	-	-	457,608
	1,620,418	-	-	1,620,418
Accumulated depreciation:				
Machinery and equipment	1,066,318	50,390	-	1,116,708
Computers and software	457,606	2	-	457,608
	1,523,924	50,392	-	1,574,316
Total capital assets, net	\$ 96,494	\$ (50,392)	\$ -	\$ 46,102

Capital Assets	Year Ended June 30, 2023			
	Beginning Balance	Additions	Deletions	Ending Balance
Machinery and equipment	\$ 1,162,810	\$ -	\$ -	\$ 1,162,810
Computers and software	456,740	868	-	457,608
	1,619,550	868	-	1,620,418
Accumulated depreciation:				
Machinery and equipment	1,003,211	63,107		1,066,318
Computers and software	454,648	2,958		457,606
	1,457,859	66,065	-	1,523,924
Total capital assets, net	\$ 161,691	\$ (65,197)	\$ -	\$ 96,494

Note 5. Compensated Absences

The current portion of accrued compensated absences is included in accrued expenses in the accompanying statements of net position. The following is a summary of changes in the OLC's liability for compensated absences during the year ended June 30:

	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Compensated absences 2024	\$ 353,686	\$ 62,352	\$ 166,577	\$ 249,461	\$ 166,307
Compensated absences 2023	\$ 238,477	\$ 181,280	\$ 66,071	\$ 353,686	\$ 268,618

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Notes to Financial Statements

Note 6. Operating Leases

The OLC has entered into various operating leases for office space and equipment used in its daily operations. Pursuant to Oklahoma State Statutes, the OLC's operating leases are limited to terms of one year and must be renewed annually by both parties. Accordingly, the OLC has no long-term commitments under the operating leases as of June 30, 2024 or 2023. In addition, the aforementioned agreements are with the State of Oklahoma and therefore no lease liability has been recorded under GASB Statement No. 87, *Leases*, as both lessor and lessee are within the primary government. Rent expense under all operating leases was \$624,529 and \$590,229 for the years ended June 30, 2024 and 2023, respectively.

Note 7. Transfers to Oklahoma Education Lottery Trust Fund

Net Proceeds are defined by the Act as "all revenue derived from the sale of lottery tickets or shares and all other monies derived from the lottery, less operating expenses". In accordance with the Act, all Net Proceeds are transferred to the Oklahoma Education Lottery Trust Fund (OELTF), generally with the first \$65,000,000 transferred by July 15 following the end of the fiscal year, and the balance of the Net Proceeds made subsequent to the OLC's fiscal year.

In accordance with the Act, amounts transferred to the OELTF are to be appropriated by the legislature to education programs according to the parameters established in the Act. Following is an executive summary of these statutory provisions. For the full text, see Title 3A, Section 713 of the Oklahoma Statutes, available on the OLC website.

The first \$65,000,000 of net proceeds transferred shall be appropriated as follows:

5%	Teachers' Retirement System Dedicated Revenue Revolving Fund
5%	School Consolidation and Assistance Fund (SCAF): If the SCAF equals \$5,000,000, this 5% will be allocated to public schools to purchase technology equipment to conduct on-line testing
45%	Kindergarten through twelfth grade public education, including compensation and benefits for public school teachers and support employees, and early childhood development programs
45%	Tuition grants, loans, and scholarships to citizens of this state for attending colleges and universities located within this state or to attend Oklahoma Department of Career and Technology Education institutions; construction of educational facilities or capital outlay projects or technology for elementary school districts, independent school districts, the Oklahoma State System of Higher Education, and career and technology education; endowed chairs for professors at institutions of higher education operated by the Oklahoma State System of Higher Education; and programs and personnel of the Oklahoma School for the Deaf and the Oklahoma School for the Blind

Then remaining portion of the net proceeds transferred above \$65,000,000 shall be used to fund the Teacher Empowerment Revolving Fund. This fund can be used by school districts to create new teacher certifications which will include a pay increase for qualifying teachers.

Oklahoma Lottery Commission
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Notes to Financial Statements

Note 7. Transfers to Oklahoma Education Lottery Trust Fund (Continued)

The following is a summary of the amounts available for transfer to the OELTF during the years ended June 30, 2024 and 2023:

	2024	2023
Change in net position before required transfers	\$ 90,402,506	\$ 94,269,957
Less: required transfer to ODMHSAS	(750,000)	(750,000)
Change in net position before required transfer to OELTF	89,652,506	93,519,957
Adjustments to determine distributable net proceeds to OELTF		
Unclaimed prizes	(9,102,895)	(11,831,612)
Required transfer of unclaimed prizes to Oklahoma Department of Mental Health and Substance Abuse Services	750,000	750,000
Unclaimed prize usage	6,500,000	5,150,000
Retailer bond fees	(106,940)	(112,675)
Restricted expenses	-	110,548
Amount available to transfer to OELTF	\$ 87,692,671	\$ 87,586,218

During the years ended June 30, 2024 and 2023, OLC transferred \$55,008,958 and \$50,777,500, respectively, to the Education Lottery Trust Fund and as of June 30, 2024 and 2023, owed an additional \$32,683,713 and \$36,808,718, respectively, which is recorded as Due to Oklahoma Lottery Trust Fund on the statement of net position.

Note 8. Retirement Program

Plan description: The OLC contributes to the Oklahoma Public Employees Retirement System (OPERS) cost-sharing multiple-employer defined benefit plan. OPERS was established in 1964 by the Oklahoma Legislature and covers substantially all employees of the State, except those covered by six other plans sponsored by the State, and also covers employees of participating counties and local agencies. The Plan provides that all eligible persons, except those specifically excluded, shall become members of OPERS as a condition of their employment. The supervisory authority for the management and operation of OPERS is its Board of Trustees.

OPERS offers retirement and disability benefits, cost of living adjustments on an ad-hoc basis, life insurance benefits, and survivor benefits. The Plan's provisions are established under Title 74 of the Oklahoma Statutes.

Benefits provided: Members qualify for full retirement benefits at their specified normal retirement age or, for any person who became a member prior to July 1, 1992, when the sum of the member's age and years of credited service equals or exceeds 80 (Rule of 80), and for any person who became a member after June 30, 1992, when the member's age and years of credited service equals or exceeds 90 (Rule of 90).

Normal retirement date is further qualified to require that all members employed on or after January 1, 1983 must have six or more years of full-time equivalent employment with a participating employer before being eligible to receive benefits. Credited service is the sum of participating and prior service. Prior service includes nonparticipating service before January 1, 1975, or the entry date of the employer and active wartime military service.

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Notes to Financial Statements

Note 8. Retirement Program (Continued)

A member with a minimum of ten years of participating service may elect early retirement with reduced benefits beginning at age 55 if the participant became a member prior to November 1, 2011, or age 60 if the participant became a member on or after November 1, 2011.

Disability retirement benefits are available for members having eight years of credited service whose disability status has been certified as being within one year of the last day on the job by the Social Security Administration. Disability retirement benefits are determined in the same manner as retirement benefits, but payable immediately without an actuarial reduction.

Benefits are determined at 2% of the average annual salary received during the highest 36 months of the last 10 years of participating service, but not to exceed the applicable annual salary cap, multiplied by the number of years of credited service. Members who join OPERS on or after July 1, 2013, will have their salary averaged over the highest 60 months of the last 10 years. Normal retirement age under the Plan is 62 or Rule of 80/90 if the participant became a member prior to November 1, 2011, or age 65 or Rule of 90 if the participant became a member on or after November 1, 2011.

Members who elect to pay the additional contribution rate, which became available in January 2004, will receive benefits using a 2.5% computation factor for each full year the additional contributions are made. In 2004, legislation was enacted to provide an increased benefit to retiring members who were not yet eligible for Medicare. The Medicare Gap benefit option became available to members under age 65 who retired on or after May 1, 2006. Members may elect to receive a temporary increased benefit to cover the cost of health insurance premiums until the member is eligible to receive Medicare. After the member becomes eligible for Medicare, the retirement benefit will be permanently reduced by an actuarially determined amount. The option is irrevocable, must be chosen prior to retirement, and is structured to have a neutral actuarial cost to the Plan.

Members become eligible to vest fully upon termination of employment after attaining eight years of credited service, or the members' contributions may be withdrawn upon termination of employment.

Contributions: The contribution rates for each member category of the Plan are established by the Oklahoma Legislature after recommendation by the Board based on an actuarial calculation, which is performed to determine the adequacy of such contribution rates.

Each member participates based on their qualifying gross salary earned, excluding overtime. There is no cap on the qualifying gross salary earned, subject to Internal Revenue Service (IRS) limitations on compensation.

For 2024 and 2023, *state agency employers* contributed 16.5% on all salary, and *state employees* contributed 3.5% on all salary.

Contributions to the pension plan from the Oklahoma Lottery Commission were \$278,212 and \$279,671 for the years ended June 30, 2024 and 2023, respectively.

Members have the option to elect to increase the benefit computation factor for all future service from 2.0% to 2.5%. The election is irrevocable, binding for all future employment under OPERS, and applies only to full years of service. Those who make the election pay the standard contribution rate plus an additional contribution rate, 2.91% which is actuarially determined.

Oklahoma Lottery Commission
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Notes to Financial Statements

Note 8. Retirement Program (Continued)

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions: At June 30, 2024 and 2023, the Oklahoma Lottery Commission reported a liability of \$433,210 and \$840,863, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2023 and 2022, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2023 and 2022, respectively. The Oklahoma Lottery Commission's proportion of the net pension liability was based on the Oklahoma Lottery Commission's share of contributions to the pension plan relative to the contributions of all participating employers. At June 30, 2023 and 2022, the Oklahoma Lottery Commission's proportion was 0.09468652% and 0.10003532%, respectively.

For the years ended June 30, 2024 and 2023, the Oklahoma Lottery Commission recognized pension expense of \$34,338 and \$(34,714), respectively. At June 30, 2024 and 2023, the Oklahoma Lottery Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2024		June 30, 2023	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumption	\$ 91,517	\$ -	\$ -	\$ -
Differences between expected and actual experience	11,885	6,562	-	38,552
Difference between projected and actual investment earnings on pension plan investments	360,114	-	882,592	-
Changes in proportion and differences between OLC contributions and proportionate share of contributions	92	20,111	6,255	99,712
Total deferred amounts to be recognized in pension expense in future periods	463,608	26,673	888,847	138,264
OLC contributions subsequent to the measurement date	278,212	-	279,671	-
Total deferred amounts related to pension	\$ 741,820	\$ 26,673	\$ 1,168,518	\$ 138,264

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Notes to Financial Statements

Note 8. Retirement Program (Continued)

Deferred pension outflows resulting from the OLC's Employer' contributions subsequent to the measurement date, totaling \$278,212 and \$279,671 at June 30, 2024 and 2023, will be recognized as a reduction of the net pension liability in the years ended June 30, 2025 and 2024, respectively. The deferred outflows and deferred inflows resulting from the difference between projected and actual earnings on pension plan investments will be recognized as a reduction of pension expense over five years. The other deferred inflows and outflows will be recognized in pension expense using the average expected remaining service lives of all Plan members. The average is determined by taking the calculated total future service years of the Plan divided by the number of the people in the Plan including retirees. Deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

	June 30, 2024 Deferred Outflows (Inflows)
	<hr/>
2025	\$ 107,648
2026	18,133
2027	393,243
2028	(82,089)
	<hr/> <hr/>
	\$ 436,935

Actuarial assumptions: The total pension liability as of June 30, 2024 and 2023, was determined based on an actuarial valuation prepared as of July 1, 2023 and 2022, respectively using the following actuarial assumptions:

2023 and 2022

Investment return	6.50% compounded annually net of investment expense and including inflation
Salary increases	3.25% to 9.25% per year including inflation
Mortality rates	2023: PUB-2010 Below Median, General Membership Active/Retiree Healthy Mortality Table with base rates projected generationally using scale MP-2019. Male rates are unadjusted and female rates are set forward two years. Nondisabled retiree mortality set forward 12 years for disabled experience
	2022: PUB-2010 Below Median, General Membership Active/Retiree Healthy Mortality Table with base rates projected to 2030 using scale MP-2019. Male rates are unadjusted and female rates are set forward two years. Nondisabled retiree mortality set forward 12 years for disabled experience.

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Notes to Financial Statements

Note 8. Retirement Program (Continued)

No annual postretirement benefit increases

Assumed inflation rate 2.50%

Payroll growth 3.25% per year

Actuarial cost method Entry age

The actuarial assumptions used in the July 1, 2023 valuation are based on the results of the most recent actuarial experience study which covers the three-year period ended June 30, 2022. The experience study report is dated April 12, 2023. The actuarial assumptions used in the July 1, 2022 valuation were based on the results of the actuarial experience study for the three-year period ended June 30, 2019 whose report was dated May 13, 2020.

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

July 1, 2023 Valuation:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Large Cap Equity	34.0%	5.1%
U.S. Small Cap Equity	6.0%	5.0%
Global Equity ex-US	28.0%	8.2%
Core Fixed Income	25.0%	1.9%
Long Term Treasuries	3.5%	2.1%
US TIPS	3.5%	1.8%
Total	100.0%	

July 1, 2022 Valuation:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Large Cap Equity	34.0%	4.7%
U.S. Small Cap Equity	6.0%	5.8%
Int'l Developed Equity	23.0%	6.5%
Emerging Market Equity	5.0%	8.5%
Core Fixed Income	25.0%	0.5%
Long Term Treasuries	3.5%	0.0%
US TIPS	3.5%	0.3%
Total	100.0%	

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Notes to Financial Statements

Note 8. Retirement Program (Continued)

Discount rate: The discount rate used to measure the total pension liability was 6.50% for 2024 and 2023. The projection of cash flows used to determine the discount rate assumed that contributions from Plan members and the employers will be made at the current contribution rate as set out in state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determined does not use a municipal bond rate.

Sensitivity of the Oklahoma Lottery Commission's proportionate share of the net pension liability to changes in the discount rate: The following presents the Oklahoma Lottery Commission's proportionate share of the net pension liability (asset) calculated using the discount rate of 6.50% for June 30, 2024 and 2023, as well as what Oklahoma Lottery Commission's net pension liability (asset) 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:

	June 30, 2024			June 30, 2023		
	Current			Current		
	1% Decrease (5.50%)	Discount Rate (6.50%)	1% Increase (7.50%)	1% Decrease (5.50%)	Discount Rate (6.50%)	1% Increase (7.50%)
Oklahoma Lottery Commission's proportionate share of the net pension liability (asset)	\$ 1,673,325	\$ 433,210	\$ (609,508)	\$ 2,060,959	\$ 840,863	\$ (190,985)

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements, the June 30, 2023 OPERS Annual Comprehensive Financial Report. The report is available online at https://www.opers.ok.gov/wp-content/uploads/2023/11/2023_ACFR_OPERS_Final.pdf.

Note 9. Defined Compensation Plans

Oklahoma Public Employees Retirement Defined Contribution Plans

Pathfinder: In 2014, the Oklahoma Legislature enacted legislation in HB 2630 requiring a Defined Contribution System be established by the OPERS for most state employees first employed by a participating State employer on or after November 1, 2015. This bill is codified in Oklahoma Statutes as Title 74, Section 935.1, *et. seq.* Employees of the OLC who first became employees on or after November 1, 2015, and have no prior participation in OPERS must participate in the mandatory Defined Contribution Plan created in accordance with Internal Revenue Code Section 401(a) and 457(b) and Title 590, Chapter 40 of the Oklahoma Administrative Code. The Defined Contribution Plan is known as Pathfinder. Pathfinder and its related Trust(s) are intended to meet the requirements of the Internal Revenue Code. Pathfinder is administered by the OPERS.

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Notes to Financial Statements

Note 9. Defined Compensation Plans (Continued)

Contribution rates are established by Oklahoma Statute and may be amended by the Oklahoma Legislature. For 2015, the initial period of implementation, employees must make mandatory employee contributions of 4.5% of pretax salary to the 401(a) plan and may make additional voluntary contributions to the 457(b) plan, subject to the maximum deferral limit allowed under the Internal Revenue Code. Employees are vested 100% for all employee contributions. The OLC must make mandatory contributions of 6% of the employee's pretax salary and 7% if the employee elects to participate in the 457(b) plan. Employees become vested for the employer contributions based on an established vesting schedule. The amount of the OLC's contributions for Pathfinder for the years ended June 30, 2024 and 2023, was approximately \$120,635 and \$100,567, respectively.

Additionally, in order to reduce the liabilities of the defined benefit plan, the OLC is required to contribute the difference between the established 16.5% defined benefit employer contribution rate and the amount required to match the participating employees' contribution in the defined contribution plan. The amount contributed by the OLC for the years ended June 30, 2024 and 2023, to meet this requirement is \$180,627 and \$154,938, respectively. The OLC had no outstanding payables to OPERS for the defined benefit plan for the years ended June 30, 2024 and 2023.

SoonerSave: The State offers to its own employees, state agency employees and other duly constituted authority or instrumentality employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457 and Chapter 45 of Title 74, Oklahoma Statutes. The Oklahoma State Employees Deferred Compensation Plan (the 457 Plan), also known as SoonerSave, is a voluntary plan that allows participants to defer a portion of their salary into the 457 Plan. Participation allows a person to shelter the portion of their salary that they defer from current federal and state income tax. Taxes on the interest or investment gains on this money, while in the 457 Plan, are also deferred. The deferred compensation is not available to employees until termination, retirement, death or approved unforeseeable emergency.

Under SoonerSave, the untaxed deferred amounts are invested as directed by the participant among various 457 Plan investment options. Effective January 1, 1988, a Trust and Trust Fund covering the 457 Plan assets was established pursuant to federal legislation enacted in 1996, requiring public employers to establish such trusts for plans meeting the requirements of Section 457 of the IRC. Under terms of the Trust, the corpus or income of the Trust Fund may be used only for the exclusive benefit of the 457 Plan participants and their beneficiaries. Further information may be obtained from the Oklahoma State Employees Deferred Compensation Plan audited financial statements for the years ended June 30, 2024 and 2023. The OLC believes that it has no liabilities in respect to the State's plan.

Note 10. Contingencies

The OLC is subject to litigation in the ordinary course of any operations. In the opinion of the OLC's management and its legal counsel, the outcome of such litigation will not have a material impact on the financial position or cash flows of the OLC for the years ended June 30, 2024 and 2023.

Oklahoma Lottery Commission
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Notes to Financial Statements

Note 11. Contractual Arrangements

In August 2005, the OLC entered into a contract with Scientific Games International, Inc. (SGI) to provide, amongst other things, services and equipment to operate its lotteries. The contract with SGI contained seven one-year renewal options, which the OLC's Board of Trustees renewed annually. In August 2013, the last one-year renewal option matured and a similar contract was entered into with SGI. This contract contains nine one-year renewal options. In October 2020, a revised contract was entered into with SGI for a period of 10 years, with a 5 year renewal option. Under the terms of the contract, the OLC pays SGI a fee based on a percentage of the OLC's sales. For the years ended June 30, 2024 and 2023, the OLC paid SGI \$15,410,970 and \$20,316,089, respectively.

The OLC is a member of the MUSL, which operates games on behalf of participating lotteries. MUSL currently operates the Powerball, Mega Millions, Lucky for Life and Lotto America games for the OLC. Under the OLC's agreement with the MUSL, the OLC must remit 50% of its Powerball ticket sales, 50% of its Lotto America ticket sales and 50% of its Mega Millions ticket sales. This payment is to cover the OLC's share of current jackpot prizes based on the OLC's percent of sales for each drawing and the OLC share of the prize reserve fund. The OLC is responsible for paying winning tickets purchased in Oklahoma; therefore, it is able to deduct winning tickets sold from the amount due to the MUSL on its ticket sales. As of June 30, 2024 and 2023, the OLC owed the MUSL \$1,065,430 and \$1,210,558 for ticket sales, and the MUSL owed the OLC \$387,889 and \$409,737 for non-jackpot-winning tickets. The OLC has recorded these items at their gross amounts in the accompanying statements of net position.

As noted above, OLC's payments to MUSL includes the OLC share of the prize reserve fund. The prize reserve fund serves as a contingency reserve to protect all the MUSL members, including the OLC, from unforeseen prize liabilities. These funds are in the possession of the MUSL and are included in expendable restricted net position.

The balances of the deposits are made up of the following:

	June 30	
	2024	2023
Set prize reserve account	\$ 438,837	\$ 1,118,254
Prize reserve account	2,999,622	2,485,669
Balance of unreserved account	2,004,176	1,228,037
	<u>\$ 5,442,635</u>	<u>\$ 4,831,960</u>

Required Supplementary Information

Oklahoma Lottery Commission
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Required Supplementary Information
Schedule of OLC's Proportionate Share of the Net Pension Liability (Asset)
Oklahoma Public Employees Retirement Plan
Last Ten Fiscal Years

	June 30									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Measurement date	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
OLC's proportion of the net pension liability (asset)	0.09468652%	0.10003532%	0.10397113%	0.09676096%	0.10074722%	0.09563208%	0.08877707%	0.08982094%	0.08784744%	0.09022625%
OLC's proportionate share of the net pension liability (asset)	\$ 433,210	\$ 840,863	\$(1,395,462)	\$ 863,266	\$ 134,183	\$ 186,524	\$ 479,985	\$ 891,231	\$ 315,973	\$ 165,624
OLC's covered payroll	1,794,461	881,000	1,228,480	1,255,982	1,423,992	1,443,455	1,455,835	1,610,474	1,552,939	1,528,606
OLC's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	24.14%	46.86%	113.59%	68.73%	9.42%	12.92%	32.97%	55.34%	20.35%	10.84%
Plan fiduciary net position as a percentage of the total pension liability	95.9%	92.2%	112.5%	91.6%	98.6%	98.0%	94.3%	89.5%	96.0%	97.9%

See notes to required supplementary information.

Oklahoma Lottery Commission
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Required Supplementary Information
Schedule of OLC's Contributions
Oklahoma Public Employees Retirement Plan
Last Ten Fiscal Years

	June 30									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required to contribute	\$ 278,212	\$ 279,671	\$ 145,365	\$ 202,699	\$ 207,237	\$ 234,958	\$ 238,170	\$ 240,213	\$ 265,728	\$ 256,235
Contributions in relation to the contractually required contributions	278,212	279,671	145,365	202,699	219,189	234,948	238,323	239,231	266,041	256,235
Contributions deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ (11,952)	\$ 10	\$ (153)	\$ 982	\$ (313)	\$ -
OLC's covered payroll	\$ 1,686,133	\$ 1,794,461	\$ 881,000	\$ 1,228,480	\$ 1,255,982	\$ 1,423,992	\$ 1,443,455	\$ 1,455,835	\$ 1,610,474	\$ 1,552,939
Contributions as a percentage of covered payroll	16.50%	16.50%	16.50%	16.50%	16.50%	16.50%	16.51%	16.43%	16.52%	16.50%

See notes to required supplementary information.

Oklahoma Lottery Commission
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Required Supplementary Information (Continued)
Notes to Required Supplementary Information
Oklahoma Public Employees Retirement Plan

Valuation Date

Actuarially determined contributions are calculated as of the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	2023 – 5 years 2022 – 6 years
Asset valuation method	5-year moving average
Inflation	2.50% for 2023 and 2022
Salary increase	3.25% to 9.25% for 2023 and 2022
Investment rate of return	6.50% for 2023 and 2022, compounded annually, net of investment expense and including inflation
Retirement age	Age 65 for all members hired on or after November 1, 2011, age 62 for members hired prior to November 1, 2011
Mortality	2023: PUB-2010 Below Median, General Membership Active/Retiree Healthy Mortality Table with base rates projected generationally using scale MP-2019. Male rates are unadjusted and female rates are set forward two years. Nondisabled retiree mortality set forward 12 years for disabled experience 2022: PUB-2010 Below Median, General Membership Active/Retiree Healthy Mortality Table with base rates projected to 2030 using scale MP-2019. Male rates are unadjusted and female rates are set forward two years. Nondisabled retiree mortality set forward 12 years for disabled experience.

Other Information

House Bill 3350, enacted in 2020, granted a one-time benefit increase to certain retirees. Members who retired prior to or on July 1, 2015 were granted a 4.0% increase to their benefit amounts, members who retired between July 1, 2015 and July 1, 2018 received a 2.0% increase to their benefit amounts, and members who retired after July 1, 2018 did not receive an increase to their benefit amounts. The effective date of the benefit increase is July 1, 2020.

House Bill 1340, enacted in 2018, provides a stipend for members of each system who have been retired for five years as of October 1, 2018. The stipend amount is based on the funding level of the system. OPERS members will receive the lesser of 2% of the gross annual retirement amount or \$1,200. The bill also provides a minimum payment of \$350 for members with 20 years of service. The effective date of the stipend is October 1, 2018.

**Oklahoma Lottery Commission
An Enterprise Fund of the State of Oklahoma**

**Required Supplementary Information (Continued)
Notes to Required Supplementary Information
Oklahoma Public Employees Retirement Plan**

The Plan has been amended by House Bill 2630 in 2014 which states that effective November 1, 2015, OPERS shall create a defined contribution plan for most people first employed by a participating employer. Exemptions from the new defined contribution plan include hazardous duty members and district attorneys, assistant district attorneys and employees of the district attorney's office. Each employer shall send to OPERS the difference between the required employer contribution to OPERS and the amount required to match the participating employee's contribution in the defined contribution plan.

Senate Bill 2120, also enacted in 2014, amends House Bill 2630 to further exempt from the new defined contribution plan county elected officials and employees of a county, county hospital, city or town, conservation district, circuit engineering district, and any public or private trust in which a county, city or town participates. Senate Bill 2120 also states that employees who participate in the defined contribution system are excluded from the \$105 health subsidy.

New employees specifically exempted from the defined contribution plan will participate in the existing defined benefit plan.

Supplementary Information

Oklahoma Lottery Commission
An Enterprise Fund of the State of Oklahoma

Supplementary Information
Revenue and Prize Expense by Game

	June 30, 2024								
	Scratcher Games	Fast Play Games	Pick 3 Game	Cash 5 Game	Lucky for Life Game	Lotto America	Mega Millions Game	Powerball Game	Total
Revenue	\$ 224,946,798	\$ 6,454,384	\$ 6,627,290	\$ 3,849,845	\$ 7,322,203	\$ 5,938,610	\$ 35,437,324	\$ 64,130,965	\$ 354,707,419
Prize expense	(162,016,496)	(4,576,628)	(3,175,690)	(2,702,352)	(3,503,400)	(3,355,931)	(17,861,609)	(31,762,689)	(228,954,795)
Unclaimed prize expense	5,545,823	-	50,480	36,659	269,677	561,378	1,002,758	1,636,120	9,102,895
	<u>\$ 68,476,125</u>	<u>\$ 1,877,756</u>	<u>\$ 3,502,080</u>	<u>\$ 1,184,152</u>	<u>\$ 4,088,480</u>	<u>\$ 3,144,057</u>	<u>\$ 18,578,473</u>	<u>\$ 34,004,396</u>	<u>\$ 134,855,519</u>

	June 30, 2023								
	Scratcher Games	Fast Play Games	Pick 3 Game	Cash 5 Game	Lucky for Life Game	Lotto America	Mega Millions Game	Powerball Game	Total
Revenue	\$ 248,849,400	\$ 5,626,877	\$ 6,725,163	\$ 3,819,514	\$ 6,896,433	\$ 9,232,926	\$ 43,131,379	\$ 55,545,254	\$ 379,826,946
Prize expense	(178,760,074)	(3,945,759)	(3,229,730)	(1,737,150)	(4,394,783)	(4,393,106)	(21,643,570)	(27,883,252)	(245,987,424)
Unclaimed prize expense	7,734,422	43,688	69,030	36,170	159,713	176,186	1,848,566	1,763,837	11,831,612
	<u>\$ 77,823,748</u>	<u>\$ 1,724,806</u>	<u>\$ 3,564,463</u>	<u>\$ 2,118,534</u>	<u>\$ 2,661,363</u>	<u>\$ 5,016,006</u>	<u>\$ 23,336,375</u>	<u>\$ 29,425,839</u>	<u>\$ 145,671,134</u>

**Report Required by
*Government Auditing Standards***

**Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

Independent Auditor's Report

Board of Trustees
Oklahoma Lottery Commission
An Enterprise Fund of the State of Oklahoma

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 (*Government Auditing Standards*), the financial statements of the Oklahoma Lottery Commission (the OLC), an enterprise fund of the State of Oklahoma, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the OLC's financial statements, and have issued our report thereon dated September 19, 2024. Our report includes an emphasis of matter paragraph acknowledging that the OLC is an enterprise fund of the State of Oklahoma and these financial statements reflect only the assets, liabilities, deferred outflows and deferred inflows of resources, and revenues and expenses of that enterprise fund and not the State of Oklahoma as a whole.

Report On Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the OLC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the OLC's internal control. Accordingly, we do not express an opinion on the effectiveness of the OLC'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report On Compliance and Other Matters

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

RSM US LLP

Kansas City, Missouri
September 19, 2024