

Oklahoma Lottery Commission An Enterprise Fund of the State of Oklahoma

Financial Report
June 30, 2021 and 2020

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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 Financial Statements

We have audited the accompanying 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, 2021 and 2020; and the related notes to the financial statements, which collectively comprise the OLC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Oklahoma Lottery Commission as of June 30, 2021 and 2020, and the respective 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.

Emphasis of Matter

As discussed in Note 1 of the financial statements, 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, 2020 and 2021, 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.

Other Matters

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the OLC's basic financial statements. The revenue and prize expense by game is presented for purposes of additional analysis and are not a required part of the basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic 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 21, 2021, on our consideration of the OLC's internal control over financial reporting and 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 the OLC's internal control over financial reporting and compliance.

RSM US LLP

Oklahoma City, Oklahoma
September 21, 2021

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

**Management's Discussion and Analysis
June 30, 2021 and 2020**

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, 2021 and 2020. 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 2021 and 2020, of unclaimed prize money to the Oklahoma Department of Mental Health and Substance Abuse Services (ODMHSAS). This is discussed further on page 6 of the management's discussion and analysis.

Financial and Activity Highlights

Revenues from lottery games totaled \$346,750,742 and \$267,763,235, respectively, for the fiscal years ended June 30, 2021 and 2020. The OLC returned \$224,003,729 and \$166,692,905 to winners of lottery games; paid commissions and incentives to retailers totaling \$22,193,927 and \$17,123,205; incurred other game-related expenses of \$14,430,084 and \$13,318,210; and had operating expenses of \$7,113,065 and \$6,416,038 for each of the respective fiscal years of 2021 and 2020. The OLC's net position decreased by \$1,227,090 in fiscal year 2021 and decreased by \$218,134 in fiscal year 2020. Transfers made and due to the OELTF were \$80,235,984 and \$64,399,704, respectively, for fiscal years ended June 30, 2021 and 2020.

Revenues from lottery games totaled \$241,693,417 and \$221,110,396, respectively, for the fiscal years ended June 30, 2019 and 2018. The OLC returned \$141,324,235 and \$129,610,748 to winners of lottery games; paid commissions and incentives to retailers totaling \$15,265,982 and \$14,039,604; incurred other game-related expenses of \$10,412,913 and \$10,819,307; and had operating expenses of \$6,887,479 and \$6,169,674 for each of the respective fiscal years of 2019 and 2018. The OLC's net position increased by \$396,783 in fiscal year 2019 and decreased by \$2,975,310 in fiscal year 2018. Transfers made and due to the OELTF were \$67,554,285 and \$63,979,605, respectively, for fiscal years ended June 30, 2019 and 2018.

The OLC's investment in capital assets includes machinery, equipment, computers and software. Capital assets, net of accumulated depreciation, at June 30, 2021, were \$243,323, an increase of \$51,540 from June 30, 2020. Capital assets, net of accumulated depreciation, at June 30, 2020, were \$191,783, an increase of \$91,786 from June 30, 2019. 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, 2021 or 2020.

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Management's Discussion and Analysis
June 30, 2021 and 2020

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

	2021	2020	2019
Current assets	\$ 57,086,774	\$ 39,890,222	\$ 42,497,772
Noncurrent assets:			
Capital assets, net	243,324	191,783	99,997
Deposit with MUSL	4,827,842	5,107,007	5,105,410
Total assets	<u>\$ 62,157,940</u>	<u>\$ 45,189,012</u>	<u>\$ 47,703,179</u>
Deferred outflows of resources	<u>\$ 625,930</u>	<u>\$ 247,272</u>	<u>\$ 334,147</u>
Current liabilities	\$ 52,202,738	\$ 34,290,897	\$ 36,565,577
Noncurrent liabilities	941,904	211,723	259,852
Total liabilities	<u>\$ 53,144,642</u>	<u>\$ 34,502,620</u>	<u>\$ 36,825,429</u>
Deferred inflows of resources	<u>\$ 4,717</u>	<u>\$ 72,063</u>	<u>\$ 132,162</u>
Net position			
Net position, invested in capital assets	\$ 243,324	\$ 191,783	\$ 99,997
Restricted net position—expendable	10,080,913	11,607,460	11,819,195
Unrestricted (deficit)	(689,726)	(937,642)	(839,457)
Total net position	<u>\$ 9,634,511</u>	<u>\$ 10,861,601</u>	<u>\$ 11,079,735</u>

Net position decreased from fiscal year 2020 to fiscal year 2021 by \$1,227,090. This decrease was primarily attributable to the unclaimed prizes collected for fiscal year 2021 being less than the amount used for prize enhancements & payments to mental health. Fidelity fund receipts were less than Fidelity fund expenditures in fiscal year 2021.

Net position decreased from fiscal year 2019 to fiscal year 2020 by \$218,134. This decrease was primarily attributable to the unclaimed prizes collected for fiscal year 2020 being less than the amount used for prize enhancements & payments to mental health. Fidelity fund receipts were less than Fidelity fund expenditures in fiscal year 2020.

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Management's Discussion and Analysis
June 30, 2021 and 2020

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

	2021	2020	2019
Operating revenues:			
Gaming revenues	\$ 346,750,742	\$ 267,763,235	\$ 241,693,417
Other revenues	310,351	175,696	293,640
Total operating revenues	347,061,093	267,938,931	241,987,057
Nonoperating revenue, interest income	438,606	542,997	604,620
Total revenue	<u>\$ 347,499,699</u>	<u>\$ 268,481,928</u>	<u>\$ 242,591,677</u>
Less prize expense	\$ 224,003,729	\$ 166,692,905	\$ 141,324,235
Less retailer commissions/incentives	22,193,927	17,123,205	15,265,982
Less other direct game costs	14,430,084	13,318,210	10,412,913
Less operating expenses	7,113,065	6,416,038	6,887,479
Total expense	<u>267,740,805</u>	<u>203,550,358</u>	<u>173,890,609</u>
Transfers:			
Transfers to ODMHSAS	750,000	750,000	750,000
Transfers to OELTF	80,235,984	64,399,704	67,554,285
Total transfers	<u>80,985,984</u>	<u>65,149,704</u>	<u>68,304,285</u>
Total expense and transfers	<u>\$ 348,726,789</u>	<u>\$ 268,700,062</u>	<u>\$ 242,194,894</u>
Changes in net position	\$ (1,227,090)	\$ (218,134)	\$ 396,783
Net position at beginning of year	10,861,601	11,079,735	10,682,952
Net position at end of year	<u>\$ 9,634,511</u>	<u>\$ 10,861,601</u>	<u>\$ 11,079,735</u>

Instant sales increased from fiscal year 2020 to fiscal year 2021 by \$57.8 million continuing the growth in instant products from the 2017 legislative change which allowed the Oklahoma Lottery to increase prize payouts. During fiscal year 2021, the Oklahoma Lottery introduced its first \$30 instant ticket, which continues to be a highly popular product. Draw sales increased by \$21.2 million due to increased jackpot levels for Powerball and Mega Millions compared to fiscal year 2020. Large jackpots positively impact the sales for draw games.

Instant sales increased from fiscal year 2019 to fiscal year 2020 by \$62.3 million continuing the growth in instant products from the 2017 legislative change which allowed the Oklahoma Lottery to increase prize payouts. Draw sales decreased by \$36.2 million due to jackpot levels for Powerball and Mega Millions were at historic lows during the course of fiscal year 2020. The lack of large jackpots subsequently had a serious negative impact on overall draw sales.

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**Management's Discussion and Analysis
June 30, 2021 and 2020**

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 2021 and 2020, 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, 2021 and 2020, the total transfers made or due to the OELTF related to operations were \$80,235,984 and \$64,399,704, respectively. Since inception to June 30, 2021, total transfers made or due to the OELTF were \$1,080,572,631. For each of the years ended June 30, 2021 and 2020, 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, 2020, total transfers to the Oklahoma Department of Mental Health and Substance Abuse Services were \$9,544,600.

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

	2021	2020	2019
Cash provided by (used in):			
Operating activities	\$ 83,121,752	\$ 64,290,096	\$ 67,088,042
Noncapital financing activities	(69,782,037)	(68,304,284)	(63,979,539)
Capital and related financing activities	(138,880)	(161,809)	(42,301)
Investing activities	488,513	564,871	583,475
Net increase (decrease) in cash	13,689,348	(3,611,126)	3,649,677
Cash at beginning of year	31,424,498	35,035,624	31,385,947
Cash at end of year	<u>\$ 45,113,846</u>	<u>\$ 31,424,498</u>	<u>\$ 35,035,624</u>

Potential Factors Impacting Future Operations

Future operations always have the potential to be impacted by economic factors and rising costs. The OLC strives to maximize the contribution to education, while maintaining new and entertaining games that engage players. In order to meet these goals, the OLC strives to keep costs low and introduce new games regularly. The OLC is always looking for opportunities to participate in new regional and multi-state games. The OLC is also trying to develop new local games to stay up-to-date with player demands. The OLC began offering a product called Quick Tickets, which has allowed lottery products to be offered through nontraditional retailers, including Dollar General.

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, Oklahoma Lottery Commission, 405-522-7700, 300 N Broadway, Oklahoma City, Oklahoma 73102.

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Statements of Net Position
June 30, 2021 and 2020

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 39,860,775	\$ 24,924,045
Cash equivalents—restricted	5,253,071	6,500,453
Retailer accounts receivable and other	11,735,936	8,317,251
Accounts receivable—Multi-State Lottery	236,992	148,473
Total current assets	57,086,774	39,890,222
Noncurrent assets:		
Capital assets, net	243,324	191,783
Deposit with Multi-State Lottery	4,827,842	5,107,007
Total noncurrent assets	5,071,166	5,298,790
Total assets	\$ 62,157,940	\$ 45,189,012
Deferred outflows of resources,		
deferred pension plan outflows	\$ 625,930	\$ 247,272
Liabilities		
Current liabilities:		
Due to Oklahoma Education Lottery Trust Fund	\$ 33,289,068	\$ 22,085,121
Due to Multi-State Lottery	798,242	683,191
Prizes payable	15,202,321	9,200,623
Accounts payable	2,395,041	1,898,665
Accrued expenses	345,891	254,894
Unearned revenue	172,175	168,403
Total current liabilities	52,202,738	34,290,897
Noncurrent liabilities:		
Accrued compensated absences	78,638	77,540
Net pension liability	863,266	134,183
Total noncurrent liabilities	941,904	211,723
Total liabilities	\$ 53,144,642	\$ 34,502,620
Deferred inflows of resources,		
deferred pension plan inflows	\$ 4,717	\$ 72,063
Net position		
Investment in capital assets	\$ 243,324	\$ 191,783
Restricted net position—expendable:		
Professional fees and other	159,555	170,666
Unclaimed prizes	5,093,516	6,329,787
Multi-State Lottery	4,827,842	5,107,007
Unrestricted (deficit)	(689,726)	(937,642)
Total net position	\$ 9,634,511	\$ 10,861,601

See notes to financial statements.

Oklahoma Lottery Commission
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Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2021 and 2020

	2021	2020
Operating revenues:		
Instant Tickets	\$ 256,040,427	\$ 198,279,748
Draw Games	90,710,315	69,483,487
Total revenue from the sale of lottery tickets	346,750,742	267,763,235
Retailer application fees	127,185	79,035
Other	183,166	96,661
Total operating revenues	347,061,093	267,938,931
Direct costs:		
Prize expense:		
Instant Tickets	181,477,821	138,673,740
Draw Games	46,047,457	34,476,388
Unclaimed prize expense	(3,521,549)	(6,457,223)
Total prize expense	224,003,729	166,692,905
Commissions and incentives to retailers	22,193,927	17,123,205
Instant and online costs	14,430,084	13,318,210
Total direct costs	260,627,740	197,134,320
Gross profit	86,433,353	70,804,611
Operating expenses:		
Advertising and promotion	2,860,137	3,051,254
Salaries, wages and benefits	3,344,426	2,756,912
Contracted and professional services	258,147	221,648
Depreciation	87,339	70,023
Equipment	174,435	49,410
Rent expense	293,847	166,610
Office supplies	14,133	14,537
Travel	21,121	15,146
Other general and administrative	59,480	70,498
Total operating expenses	7,113,065	6,416,038
Operating income	79,320,288	64,388,573
Nonoperating income, interest income	438,606	542,997
Change in net position before transfers	79,758,894	64,931,570
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	(80,235,984)	(64,399,704)
Total transfers	(80,985,984)	(65,149,704)
Changes in net position	(1,227,090)	(218,134)
Net position at beginning of year	10,861,601	11,079,735
Net position at end of year	\$ 9,634,511	\$ 10,861,601

See notes to financial statements.

Oklahoma Lottery Commission
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Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Cash received from retailers	\$ 321,454,806	\$ 249,970,299
Cash payments to prize winners	(217,886,980)	(165,822,185)
Cash payments to suppliers for goods and services	(17,755,987)	(17,121,274)
Cash payments to employees for services	(2,969,252)	(2,735,147)
Cash receipts to fund deposit with Multi-State Lottery	279,165	(1,597)
Net cash provided by operating activities	83,121,752	64,290,096
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	(69,032,037)	(67,554,284)
Net cash used in noncapital financing activities	(69,782,037)	(68,304,284)
Cash flows from capital and related financing activities, purchase of capital assets	(138,880)	(161,809)
Cash flows from investing activities, interest received	488,513	564,871
Net change in cash and cash equivalents	13,689,348	(3,611,126)
Cash and cash equivalents at beginning of year	31,424,498	35,035,624
Cash and cash equivalents at end of year	\$ 45,113,846	\$ 31,424,498
Reconciliation of cash to the statements of net position:		
Cash and cash equivalents	\$ 39,860,775	\$ 24,924,045
Cash equivalents—restricted	5,253,071	6,500,453
Total cash, end of year	\$ 45,113,846	\$ 31,424,498
Operating activities:		
Operating income	\$ 79,320,288	\$ 64,388,573
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation	87,339	70,023
Bad-debt expense	7,050	10,175
Changes in operating assets, deferred outflows, liabilities and deferred inflows:		
Retailer accounts receivable	(3,475,642)	(1,253,882)
Accounts receivable—Multi-State Lottery	(88,519)	218,257
Deposit with Multi-State Lottery	279,165	(1,597)
Deferred pension plan outflows	(378,658)	86,875
Due to Multi-State Lottery	115,051	(463,486)
Accounts payable, accrued expenses and accrued compensated absences	588,471	(19,181)
Prizes payable	6,001,698	1,334,206
Net pension liability	729,083	(52,341)
Unearned revenue	3,772	32,573
Deferred pension plan inflows	(67,346)	(60,099)
Net cash provided by operating activities	\$ 83,121,752	\$ 64,290,096

See notes to financial statements.

**Oklahoma Lottery Commission
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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) responsible for administering lotteries in accordance with the Act. 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.

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

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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 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 2021 and 2020 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 \$3,521,549 and \$6,457,223 for fiscal years 2021 and 2020, 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 are the acquisition of net position by the OLC that are applicable to a future reporting period. At June 30, 2021 and 2020, the OLC had deferred inflows of resources of \$4,717 and \$72,063, respectively. See Note 8 for additional discussion regarding deferred inflows of resources.

Deferred outflows of resources: Deferred outflows of resources are the consumption of net position by the OLC that are applicable to a future reporting period. At June 30, 2021 and 2020, the OLC had deferred outflows of resources of \$625,930 and \$247,272, 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.

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 all property and equipment purchases of \$500 or more. 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 2021 and 2020. At June 30, 2021 and 2020, no amounts were available for transfer as net proceeds. During fiscal years 2021 and 2020, \$141,760 and \$110,796, 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, 2021 and 2020, the balance in the fidelity fund totaled \$159,555 and \$170,666, 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 2021 and 2020, 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 \$5,093,516 and \$6,329,787 as of June 30, 2021 and 2020, 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.

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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. For the years ended June 30, 2021 and 2020, bad-debt expense was \$7,050 and \$10,175, respectively.

New accounting pronouncements issued not yet adopted: The GASB has issued a new accounting pronouncement which will be effective to OLC in fiscal year ended June 30, 2022. OLC is currently evaluating the impact that this new standard will have on its financial statements. A description of the new accounting pronouncement is described below:

- GASB Statement No. 87, *Leases*, issued June 2017, establishes a single approach to accounting for and reporting leases by state and local governments. Under this statement, a government entity that is a lessee must recognize (1) a lease liability and (2) an intangible asset representing the lessee's right to use the leased asset. In addition, the Commission must report the (1) amortization expense for using the lease asset over the shorter of the term of the lease or the useful life of the underlying asset, (2) interest expense on the lease liability and (3) note disclosures about the lease. The statement provides exceptions from the single-approach for short-term leases, financial purchases, leases of assets that are investments, and certain regulated leases. This statement also addresses accounting for lease terminations and modifications, sale-leaseback transactions, non-lease components embedded in lease contracts (such as service agreements), and leases with related parties.

Subsequent events: The OLC has evaluated subsequent events through September 21, 2021, the date the financial statements were available to be issued.

Note 3. Cash and Cash Equivalents

The OLC's investment in OK INVEST is carried at \$45,113,846 and \$31,424,498 at June 30, 2021 and 2020, 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 Comprehensive Annual 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.

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Notes to Financial Statements

Note 3. Cash and Cash Equivalents (Continued)

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 market 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.

Note 4. Capital Assets, Net

The following is a summary of changes in capital assets and accumulated depreciation during the years ended June 30, 2021 and 2020:

Capital Assets	Year Ended June 30, 2021			
	Beginning Balance	Additions	Deletions	Ending Balance
Machinery and equipment	\$ 1,116,358	\$ 138,880	\$ -	\$ 1,255,238
Computers and software	456,740	-	-	456,740
	<u>1,573,098</u>	<u>138,880</u>	<u>-</u>	<u>1,711,978</u>
Accumulated depreciation:				
Machinery and equipment	953,025	71,301	-	1,024,326
Computers and software	428,290	16,038	-	444,328
	<u>1,381,315</u>	<u>87,339</u>	<u>-</u>	<u>1,468,654</u>
Total capital assets, net	<u>\$ 191,783</u>	<u>\$ 51,541</u>	<u>\$ -</u>	<u>\$ 243,324</u>

Capital Assets	Year Ended June 30, 2020			
	Beginning Balance	Additions	Deletions	Ending Balance
Machinery and equipment	\$ 973,843	\$ 142,515	\$ -	\$ 1,116,358
Computers and software	437,446	19,294	-	456,740
	<u>1,411,289</u>	<u>161,809</u>	<u>-</u>	<u>1,573,098</u>
Accumulated depreciation:				
Machinery and equipment	896,082	56,943	-	953,025
Computers and software	415,210	13,080	-	428,290
	<u>1,311,292</u>	<u>70,023</u>	<u>-</u>	<u>1,381,315</u>
Total capital assets, net	<u>\$ 99,997</u>	<u>\$ 91,786</u>	<u>\$ -</u>	<u>\$ 191,783</u>

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Notes to Financial Statements

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 2021	\$ 232,620	\$ 63,007	\$ 59,715	\$ 235,912	\$ 157,274
Compensated absences 2020	\$ 219,983	\$ 53,848	\$ 41,211	\$ 232,620	\$ 155,080

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. Accordingly, the OLC has no long-term commitments under the operating leases as of June 30, 2021 or 2020. Rent expense under all operating leases was \$293,847 and \$166,610 for the years ended June 30, 2021 and 2020, 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 \$50,000,000 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.

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

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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, 2021 and 2020:

	2021	2020
Change in net position before required transfers	\$ 79,758,894	\$ 64,931,570
Less: required transfer to ODMHSAS	(750,000)	(750,000)
Change in net position before required transfer to OELTF	79,008,894	64,181,570
Adjustments to determine distributable net proceeds to OELTF		
Unclaimed prizes	(3,521,549)	(6,457,223)
Required transfer of unclaimed prizes to Oklahoma Department of Mental Health and Substance Abuse Services	750,000	750,000
Unclaimed prize usage	4,000,000	5,900,000
Retailer application fees	(127,185)	(79,035)
Restricted expenses	125,824	104,392
Amount available to transfer to OELTF	<u>\$ 80,235,984</u>	<u>\$ 64,399,704</u>

During the year ended June 30, 2021, OLC transferred \$46,946,916 to the Education Lottery Trust Fund and as of June 30, 2021, owed an additional \$33,289,068, 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 2021 and 2020, *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 \$202,699 and \$219,189 for the years ended June 30, 2021 and 2020, 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.

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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, 2021 and 2020, the Oklahoma Lottery Commission reported a liability of \$863,266 and \$134,183, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020 and 2019, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020 and 2019, 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, 2020 and 2019, the Oklahoma Lottery Commission's proportion was 0.096760960% and 0.100747220%, respectively.

For the years ended June 30, 2021 and 2020, the Oklahoma Lottery Commission recognized pension expense of \$485,778 and \$193,624, respectively. At June 30, 2021 and 2020, the Oklahoma Lottery Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2021		June 30, 2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumption	\$ 308,351	\$ -	\$ -	\$ -
Differences between expected and actual experience	-	4,717	-	31,575
Difference between projected and actual investment earnings on pension plan investments	100,548	-	-	40,488
Changes in proportion and differences between OLC contributions and proportionate share of contributions	14,332	-	28,083	-
Total deferred amounts to be recognized in pension expense in future periods	423,231	4,717	28,083	72,063
OLC contributions subsequent to the measurement date	202,699	-	219,189	-
Total deferred amounts related to pension	\$ 625,930	\$ 4,717	\$ 247,272	\$ 72,063

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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 \$202,699 and \$219,189 at June 30, 2021 and 2020, will be recognized as a reduction of the net pension liability in the years ended June 30, 2022 and 2021, 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, 2021 Deferred Outflows (Inflows)
2022	\$ 249,938
2023	128,758
2024	144,708
2025	210,497
Thereafter	(315,387)
	<u>\$ 418,514</u>

Actuarial assumptions: The total pension liability as of June 30, 2021 and 2020, was determined based on an actuarial valuation prepared as of July 1, 2020 and 2019, respectively using the following actuarial assumptions:

2020

Investment return	6.50% for 2020 compounded annually net of investment expense and including inflation
Salary increases	3.25% to 9.25% per year including inflation
Mortality rates	PUB-2010 Below Median, General Membership Active/Retiree Healthy Mortality Table with base rates project to 2030 using scale MP-2019
No annual post-retirement benefit increases	
Assumed inflation rate	2.50%
Payroll growth	3.25% per year
Actuarial cost method	Entry age
Select period for the termination of employment assumptions	10 years

Oklahoma Lottery Commission
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Notes to Financial Statements

Note 8. Retirement Program (Continued)

2019

Investment return	7.00% for 2019 compounded annually net of investment expense and including inflation
Salary increases	3.5% to 9.5% per year including inflation
Mortality rates	Active participants and nondisabled pensioners—RP-2014 Mortality Table projected to 2025 by Scale MP-2016 (disabled pensioners set forward 12 years)
No annual post-retirement benefit increases	
Assumed inflation rate	2.75%
Payroll growth	3.5% per year
Actuarial cost method	Entry age
Select period for the termination of employment assumptions	10 years

The actuarial assumptions used in the July 1, 2021 and 2020, valuation are based on the results of the most recent actuarial experience study, which cover the three-year period ended June 30, 2019. The experience study report is 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:

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's 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	<u>100.0%</u>	

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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% and 7.00% for 2021 and 2020, respectively. 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 calculated using the discount rate of 7.00% for June 30, 2021 and 2020, 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, 2021			June 30, 2020		
	Current			Current		
	1% Decrease (5.50%)	Discount Rate (6.50%)	1% Increase (7.50%)	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Oklahoma Lottery Commission's proportionate share of the net pension liability (asset)	\$ 2,032,200	\$ 863,266	\$ (124,469)	\$ 1,213,226	\$ 134,183	\$ (780,639)

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements, June 30, 2020 Comprehensive Annual Financial Report, available at [2020_CAFR_OPERS.pdf \(ok.gov\)](#)

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.

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, 2021 and 2020, was approximately \$62,704 and \$39,050, respectively.

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Notes to Financial Statements

Note 9. Defined Compensation Plans (Continued)

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, 2021 and 2020, to meet this requirement is \$102,817 and \$64,064, respectively. The OLC had no outstanding payables to OPERS for the defined benefit plan for the years ended June 30, 2021 and 2020.

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. Participants 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, 2021 and 2020. 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, 2021 and 2020.

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. Due to Oklahoma Statutes, the OLC may not contract for a period longer than one year. However, 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. 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, 2021 and 2020, the OLC paid SGI \$14,430,084 and \$13,318,210, respectively.

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Notes to Financial Statements

Note 11. Contractual Arrangements (Continued)

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 Hot Lotto 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 Hot Lotto 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, 2021 and 2020, the OLC owed the MUSL \$798,242 and \$683,191 for ticket sales, and the MUSL owed the OLC \$236,992 and \$148,473 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	
	2021	2020
Set prize reserve account	\$ 426,636	\$ 557,417
Prize reserve account	2,967,651	3,127,072
Balance of unreserved account	1,433,555	1,422,518
	<u>\$ 4,827,842</u>	<u>\$ 5,107,007</u>

Required Supplementary Information

Oklahoma Lottery Commission
An Enterprise Fund of the State of Oklahoma

Required Supplementary Information
Schedule of OLC's Proportionate Share of the Net Pension Liability
Oklahoma Public Employees Retirement Plan
Last 10 Fiscal Years*

	June 30						
	2021	2020	2019	2018	2017	2016	2015
Measurement date	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	0.09676096%	0.10074722%	0.09563208%	0.08877707%	0.08982094%	0.08784744%	0.09022625%
OLC's proportionate share of the net pension liability	\$ 863,266	\$ 134,183	\$ 186,524	\$ 479,985	\$ 891,231	\$ 315,973	\$ 165,624
OLC's covered payroll	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 as a percentage of its covered-employee payroll	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	91.6%	98.6%	98.0%	94.3%	89.5%	96.0%	97.9%

Note to Schedule:

* Information prior to 2015 is not available.

See notes to required supplementary information.

Oklahoma Lottery Commission
An Enterprise Fund of the State of Oklahoma

Required Supplementary Information
Schedule of OLC's Contributions
Oklahoma Public Employees Retirement Plan
Last 10 Fiscal Years

	June 30									
	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Contractually required to contribute	\$ 202,699	\$ 207,237	\$ 234,958	\$ 238,170	\$ 240,213	\$ 265,728	\$ 256,235	\$ 252,220	\$ 260,035	\$ 289,515
Contributions in relation to the contractually required contributions	202,699	219,189	234,948	238,323	239,231	266,041	256,235	252,220	260,035	289,515
Contributions deficiency (excess)	\$ -	\$ (11,952)	\$ 10	\$ (153)	\$ 982	\$ (313)	\$ -	\$ -	\$ -	\$ -
OLC's covered payroll	1,228,480	1,255,982	1,423,992	1,443,455	1,455,835	1,610,474	1,552,939	1,528,606	*	*
Contributions as a percentage of covered-employee payroll	16.50%	16.50%	16.50%	16.51%	16.43%	16.52%	16.50%	16.50%	*	*

* Information prior to 2015 is not available.

See notes to required supplementary information.

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

**Required Supplementary Information
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	7 years
Asset valuation method	5-year moving average
Inflation	2.50% for 2020 and 2.75% for 2019
Salary increase	3.25% to 9.25% for 2020 and 3.50% to 9.50% for 2019, including inflation
Investment rate of return	6.50% for 2020, 7.00% for 2019, 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	For 2020, PUB-2010 Below Median, General Membership Active/Retiree Healthy Mortality Table with base rates projected to 2030 using scale MP-2019. For 2019 and 2018, active participants and nondisabled pensioners – RP-2014 Mortality Table projected to 2025 by Scale MP-2016 (disabled pensioners set forward 12 years).

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.

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.

**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**

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.

Oklahoma Lottery Commission
An Enterprise Fund of the State of Oklahoma

Supplementary Information
Revenue and Prize Expense by Game

	June 30, 2021							
	Scratcher Games	Pick 3 Game	Cash 5 Game	Lucky for Life Game	Lotto America	Mega Millions Game	Powerball Game	Total
Revenue	\$ 256,040,427	\$ 6,978,105	\$ 4,348,120	\$ 4,141,007	\$ 5,359,626	\$ 31,975,939	\$ 37,907,518	\$ 346,750,742
Prize expense	(181,477,821)	(3,382,520)	(2,044,799)	(2,845,180)	(2,665,982)	(15,964,052)	(19,144,924)	(227,525,278)
Unclaimed prize expense	2,161,981	39,100	24,350	106,669	104,282	392,962	692,205	3,521,549
	<u>\$ 76,724,587</u>	<u>\$ 3,634,685</u>	<u>\$ 2,327,671</u>	<u>\$ 1,402,496</u>	<u>\$ 2,797,926</u>	<u>\$ 16,404,849</u>	<u>\$ 19,454,799</u>	<u>\$ 122,747,013</u>

	June 30, 2020							
	Scratcher Games	Pick 3 Game	Cash 5 Game	Lucky for Life Game	Lotto America	Mega Millions Game	Powerball Game	Total
Revenue	\$ 198,279,748	\$ 6,190,229	\$ 4,201,747	\$ 3,856,262	\$ 5,444,051	\$ 20,876,050	\$ 28,915,148	\$ 267,763,235
Prize expense	(138,673,740)	(2,961,100)	(1,842,088)	(2,086,731)	(2,638,787)	(10,575,675)	(14,372,007)	(173,150,128)
Unclaimed prize expense	4,624,418	36,070	22,470	106,924	125,926	374,174	1,167,241	6,457,223
	<u>\$ 64,230,426</u>	<u>\$ 3,265,199</u>	<u>\$ 2,382,129</u>	<u>\$ 1,876,455</u>	<u>\$ 2,931,190</u>	<u>\$ 10,674,549</u>	<u>\$ 15,710,382</u>	<u>\$ 101,070,330</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, 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, 2021, and the related notes to the financial statements, which collectively comprise the OLC's basic financial statements, and have issued our report thereon dated September 21, 2021. 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.

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. We did identify a certain deficiency in internal control, described in the accompanying schedule of finding and response as item 2021-001 that we consider to be a material weakness.

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*.

OLC's Response to the Finding

OLC's response to the finding identified in our audit is described in the accompanying schedule of finding and response. OLC's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it

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

RSM US LLP

Oklahoma City, Oklahoma
September 21, 2021

Oklahoma Lottery Commission

Schedule of Finding and Response

Finding Required to be Reported by *Government Auditing Standards* Year Ended June 30, 2021

Finding Relating to the Financial Statement Audit as Reported in Accordance with *Government Auditing Standards*

Finding 2021-001

Finding: Retailer accounts receivable and prizes payable were both understated by approximately \$8,970,000.

Criteria: The OLC should only recognize prizes payable for the amount the OLC expects to pay.

Condition: During the year ended June 30, 2021, two individuals won material jackpots on online games. The individuals elected to be paid out through the annuity option instead of a lump sum amount. The OLC correctly recorded the related prize expense for these transactions but recorded entries to accounts receivable and prizes payable that incorrectly understated those account balances by \$8,970,000. The OLC subsequently made an adjusting entry to properly record transactions in the OLC's financial statements.

Cause: Account reconciliations were not reviewed to ensure accuracy.

Effect: Material adjustment recorded that impacted accounts receivable and prizes payable with no impact to the revenues or expenses of the OLC.

Recommendation: We recommend a review process be in place to ensure all accounts impacted annuity payments are recorded properly.

Management's Response: Management recognizes that the issue noted above was based on a rare occurrence at the Lottery (annuity prize selection by winner vs cash). Management also recognizes that the 2021 procedure for handling this type of prize selection only covered how to correctly record the prize expense and not how to correctly record it in accounts receivable and prizes payable. Management has already revised this procedure to completely cover all applicable accounting steps to be taken in the event of this type of prize selection. Management will also implement over the next few months a deeper and more comprehensive review process of all accounts to better identify in real-time any accounts that reflect a variance from the norm.