SIKICH

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY

FINANCIAL AUDIT

For the Year Ended June 30, 2022

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

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
STATE LOTTERY FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2022

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DEPARTMENT OF THE LOTTERY
FINANCIAL AUDIT
For the Year Ended June 30, 2022

DEPARTMENT OFFICIALS

Director (03/22/22 – Present)	Mr. Harold Mays
Director (Acting) (07/01/21 – 03/21/22)	Mr. Harold Mays
Chief of Staff	Mr. Scott Gillard
Chief Financial Officer	Ms. Carol Radwine
General Counsel	Mr. Cornell Wilson
Chief Operations Officer	Mr. Matthew Bell
Chief Transformation Officer (05/01/22 – Present)	Mr. Joseph Logue
Chief Transformation Officer (07/01/21 – 04/30/22)	Vacant
Chief Internal Auditor	Mr. Darick Clark

LOTTERY CONTROL BOARD OFFICER

Chair	Ms. Dianna Sheehan

LOTTERY CONTROL BOARD MEMBERS

Member (08/23/21 – Present)	Ms. Sarah Alter
Member (07/02/21 – 08/22/21)	Vacant
Member (07/01/21 – 07/01/21)	Ms. Sarah Alter
Member	Ms. Alejandra Garza
Member	Ms. Dianna Sheehan
Member	Vacant
Member	Vacant

DEPARTMENT OFFICES

The Department's primary administrative offices are located at:

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

101 W. Jefferson Street
Springfield, Illinois 62702

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
STATE LOTTERY FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2022

FINANCIAL STATEMENT REPORT

SUMMARY

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

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

SUMMARY OF FINDINGS

Number of	Current Report	Prior Report
Findings	2	6
Repeated Findings	2	4
Prior Findings Implemented or Not Repeated	4	1

SCHEDULE OF FINDINGS

Item No.	Page	Last/First Reported	Description	Finding Type
			Current Findings	
2022-001	51	2021/ 2021	Inadequate Controls over SOC Report Reviews	Significant Deficiency
2022-002	53	2021/ 2020	Inadequate Controls over Census Data	Significant Deficiency
			Prior Findings Not Repeated	
A	55	2021/ 2017	Noncompliance with Fund Transfer Provisions	
B	55	2021/ 2017	Inadequate Controls over Specialty Tickets	
C	55	2021/ 2020	System Access Weakness	
D	56	2021/ 2021	Inadequate Controls over Change Management	

EXIT CONFERENCE

Findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on January 18, 2023.

Attending were:

Department of the Lottery
Harold Mays, Director
Carol Radwine, Chief Financial Officer
Cornell Wilson, General Counsel
Darick Clark, Chief Internal Auditor
Amber Chappell, Finance Manager
Scott Gillard, Chief of Staff
Matthew Bell, Chief Operating Officer

Sikich LLP
Amy L. Sherwood, Partner
Shannon Leach, Manager

Office of the Auditor General
Quentin Kuntzman, Audit Manager

The responses to the recommendations were provided by Darick Clark, Chief Internal Auditor, in a correspondence dated January 19, 2023.

SIKICH.

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS
Members of American Institute of Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Lottery Control Board
State of Illinois, Department of the Lottery

Report on the Audit of the Financial Statements

Opinion

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the State Lottery Fund of the State of Illinois, Department of the Lottery (Department), as of and for the year ended June 30, 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the State Lottery Fund of the Department as of June 30, 2022, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 2 to the financial statements, the financial statements present only the State Lottery Fund and do not purport to, and do not, present fairly the financial position of either the State of Illinois or the Department as of June 30, 2022, and the respective changes in their financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibility for the Audit of the Financial Statements

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

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

- exercise professional judgement and maintain professional skepticism throughout the audit.

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.

- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2023, on our consideration of the Department's internal control over financial reporting of the State Lottery Fund and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Restricted Use of this Auditor's Report

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

SIGNED ORIGINAL ON FILE

Springfield, Illinois
January 20, 2023

FINANCIAL STATEMENTS

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
State Lottery Fund
Statement of Net Position (Deficit)
June 30, 2022
(in thousands of dollars)

Assets and Deferred Outflows of Resources	
Current assets:	
Cash and cash equivalents	$ 19,665
Cash equity in State Treasury	54,005
Investments, short-term	26,480
Accounts receivable, net of allowance of $31,327	68,087
Due from other State funds	134,539
Prepaid expenses	94
Total current assets	302,870
Noncurrent assets:	
Investments	219,917
Capital assets being depreciated, net	20
Total noncurrent assets	219,937
Total assets	522,807
Deferred outflows of resources:	
Deferred outflows of resources - pension	10,585
Deferred outflows of resources - OPEB	7,819
Total deferred outflows of resources	18,404
Total assets and deferred outflows of resources	541,211
Liabilities and Deferred Inflows of Resources	
Current liabilities:	
Prizes payable	79,202
Accounts payable and accrued liabilities	1,877
Due to other Government – Federal	36
Due to other State funds	139,749
Unearned revenue	1,665
Leases payable	14
Other liabilities	467
Current portion of long-term annuity prizes payable	24,543
Current portion of OPEB liability	1,018
Total current liabilities	248,571
Noncurrent liabilities:	
Noncurrent portion of long-term annuity prizes payable	222,195
Net pension liability	75,900
Noncurrent portion of OPEB liability	41,108
Noncurrent other	864
Total noncurrent liabilities	340,067
Total liabilities	588,638
Deferred inflows of resources:	
Deferred inflows of resources - pension	8,946
Deferred inflows of resources - OPEB	15,455
Total deferred inflows of resources	24,401
Total liabilities and deferred inflows of resources	613,039
Net Position (Deficit)	
Invested in capital assets	6
Unrestricted	(71,834)
Total net position (deficit)	$ (71,828)

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

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
State Lottery Fund
Statement of Revenues, Expenses, and Changes in Net Position (Deficit)
Year Ended June 30, 2022
(in thousands of dollars)

	Total
Operating revenues:	
Charges for sales and services	$ 3,393,755
Other	5,315
Total operating revenues	3,399,070
Operating expenses:	
Cost of sales and services	175,136
Prizes and claims	2,211,364
Vaccine raffle expense	7,000
General and administrative	178,916
Depreciation	38
Total operating expenses	2,572,454
Operating income	826,616
Nonoperating revenues (expenses):	
Investment income	(21,846)
Interest expense	(7,890)
Grant revenue	7,000
Other	2,099
Total nonoperating revenues (expenses), net	(20,637)
Change in net position (deficit) before transfers	805,979
Transfers to other State funds (see note 14)	(699,648)
Change in net position (deficit)	106,331
Net position (deficit), July 1, 2021	(178,159)
Net position (deficit), June 30, 2022	$ (71,828)

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

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
State Lottery Fund
Statement of Cash Flows
Year Ended June 30, 2022
(in thousands of dollars)

Cash flows from operating activities:	
Cash received from sales and services	$ 3,386,893
Cash receipts from other operating activities	7,000
Cash payments for commissions and bonuses	(175,136)
Cash payments to employees for services	(21,178)
Cash payments for general and administrative expenses	(180,732)
Cash payments for lottery prizes	(2,222,218)
Cash payments for other operating activities	(7,086)
Net cash provided by operating activities	787,543
Cash flows from noncapital financing activities:	
Operating grants received	7,059
Cash transfers – out to other funds	(833,323)
Net cash used in noncapital financing activities	(826,264)
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(5)
Principal payments under lease obligation	(26)
Interest payments under lease obligation	(1)
Net cash used in capital and related financing activities	(32)
Cash flows from investing activities:	
Interest and dividends on investments	12
Purchase of investments	(6,351)
Proceeds from investment maturities	27,718
Cash paid for long-term annuity prizes payable	(25,630)
Net cash used in investing activities	(4,251)
Net increase in cash and cash equivalents	(43,004)
Cash and cash equivalents at beginning of year	116,674
Cash and cash equivalents at end of year	$ 73,670
Reconciliation of cash and cash equivalents to the statement of net position (deficit):	
Total cash and cash equivalents per the statement of net position (deficit)	$ 19,665
Add cash equity in State Treasury	54,005
Cash and cash equivalents at end of year	$ 73,670

This statement is continued on the following page.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
State Lottery Fund
Statement of Cash Flows (Continued)
Year Ended June 30, 2022
(in thousands of dollars)

Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	826,616
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		38
Provision for uncollectible accounts		2,430
Changes in assets and liabilities:		
Increase in accounts receivable		(23,053)
Increase in due from other funds		(555)
Increase in deferred outflows of resources		(6,622)
Decrease in prepaid expenses		38
Decrease in prizes payable		(17,205)
Decrease in accounts payable and accrued liabilities		(2,554)
Decrease in due to other State funds		(142)
Increase in unearned revenues		172
Decrease in other liabilities		(2)
Increase in long-term annuity prizes payable		6,351
Increase in deferred inflows of resources		10,400
Decrease in net pension liability		(5,518)
Decrease in OPEB liability		(2,851)
Net cash provided by operating activities	$	787,543

Noncash investing, capital and financing activities:		
Cost of capital asset acquisitions financed by leases	$	(42)
Change in fair value of investments		29,736
Interest accreted on investments		7,889
Interest accreted on long-term annuity prizes payable		(7,889)
Use of resources to pay long-term annuity prizes payable		(2,099)

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

(1) Organization

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

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

(2) Summary of Significant Accounting Policies

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

(a) Financial Reporting Entity

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

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

2) Fiscal dependency on the primary government.

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

(b) Basis of Accounting and Presentation

The financial statements of the Fund are intended to present the financial position, changes in financial position, and cash flows of only that portion of the activities of the State that are attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State or the Department as of June 30, 2022, and each entity's respective changes in financial position and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As a proprietary fund, the Fund's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place.

The Department accounts for operations of the Illinois Lottery in which a statutorily defined amount of the net income is used for the support of the State's Common School Fund. Through Fiscal Year 2022, any net income remaining after the required transfers to the Common School Fund is transferred to the State's Capital Projects Fund. See Note 14 regarding legislative changes to the distribution of proceeds, which became effective during Fiscal Year 2022. Certain ticket proceeds are dedicated for other State funds prior to the determination of the net income available for transfers to the Common School Fund or the Capital Projects Fund.

(c) Cash and Cash Equivalents

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

(d) Investments

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

(e) Fair Value of Financial Instruments

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

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

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

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

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

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the valuation methodologies used to measure the Department's financial instruments at fair value. There have been no changes in the valuation methodologies used at June 30, 2022, when compared to June 30, 2021.

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

(f) Allowances and Provisions

The allowance for doubtful accounts at June 30, 2022, is based on an analysis of the historical collection experience for accounts receivable, which considers the age of the receivable and current economic conditions.

(g) Interfund Transactions

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

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

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

(h) Capital Assets

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

(i) Compensated Absences

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

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

(j) Net Position (Deficit)

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

Invested in Capital Assets – This consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of borrowings attributable to the acquisition of those assets.

Restricted – This consists of net position (deficit) that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when they are needed. There is no restricted net position (deficit) as of June 30, 2022.

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

(k) Classification of Revenues and Expenses

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

Revenue

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

Expenses

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

(l) Lottery Revenue

Draw Games

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

Instant Games

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

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

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

(m) Prizes and Claims

Draw Games

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

Instant Games

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

(n) Estimates

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

(o) Pension

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

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

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

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

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

(q) New Accounting Pronouncements

Effective for the year ending June 30, 2022, the Department adopted GASB Statement No. 87, *Leases,* which was established to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. See Notes 7(c) and 12(a) for further information regarding the Department's leases.

Effective for the year ending June 30, 2022, the Department adopted GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as expense in the period in which the cost was incurred. Such interest cost will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The implementation of this statement had no impact on the Department's financial statements.

Effective for the year ending June 30, 2022, the Department adopted GASB Statement No. 92, *Omnibus 2020,* which enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The implementation of this statement had no impact on the Department's financial statements.

Effective for the year ending June 30, 2022, the Department adopted GASB Statement No. 93, *Replacement of Interbank Offered Rates,* which is intended to remove the London Interbank Offered Rate (LIBOR) as the appropriate benchmark interest rate. The implementation of this statement had no impact on the Department's financial statements.

Effective for the year ending June 30, 2022, the Department adopted GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and a Suppression of GASB Statement No. 32,* which will (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB (other employee benefits) plans as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through those plans. The implementation of this statement had no impact on the Department's financial statements.

Effective for the year ending June 30, 2022, the Department adopted GASB Statement No. 98, *The Annual Comprehensive Financial Report*, which establishes the term *annual comprehensive financial report* and its acronym *ACFR*. That new term and acronym replace instances of *comprehensive annual financial report* and its acronym in generally accepted accounting principles for state and local governments. The Department has replaced all references to the ACFR accordingly.

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

(r) Future Adoption of GASB Statements

Effective for the year ending June 30, 2023, the Department will adopt GASB Statement No. 91, *Conduit Debt Obligations,* which provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

Effective for the year ending June 30, 2023, the Department will adopt GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements,* which improves financial reporting by addressing issues related to public-private and public-public partnership arrangements.

Effective for the year ending June 30, 2023, the Department will adopt GASB Statement No. 96, *Subscription-Based Information Technology Arrangements,* which provides guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users.

Effective for the years ending June 30, 2023, and June 30, 2024, the Department will adopt GASB Statement No. 99, *Omnibus 2022,* which enhances comparability in accounting and financial reporting and improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements, and accounting and financial reporting for financial guarantees.

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

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

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

(3) Deposits and Investments

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

(a) Deposits

Deposits in the custody of the State Treasurer of approximately $54.0 million as of June 30, 2022, are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Department does not own individual securities. Details on the nature of these deposits and investments are available within the State's ACFR.

Bank deposits for the locally held funds held outside of the State Treasury of approximately $19.7 million as of June 30, 2022, are held in Federal Deposit Insurance Corporation (FDIC) insured depository institutions. The Department has an agreement under which one of these institutions insures balances in excess of FDIC insurance limits from loss by pledging securities as collateral. PNC Bank holds the collateral in the Illinois Lottery's name. The collateral amount exceeded the deposited amount of $11.3 million at June 30, 2022. The Department has not incurred any losses on deposits exceeding the value of pledged securities and considers the risk minimal.

(b) Investments

As of June 30, 2022, the Department had the following investments outside of the State Treasury:

		Fair Value (thousands)	Weighted Average Maturity (years)
U.S. Treasury bonds	$	246,397	6.089
Total	$	246,397	

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

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

Custodial credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, the Department will not be able to recover the value of investment or collateral securities in the possession of an outside party. The Department does not have a formal policy for custodial credit risk of investments held outside of the State Treasury nor is there a policy at the State level. The total balance of the Department's investments held outside of the State Treasury was held by the counterparty, in the Department's name, at June 30, 2022. These investments were held in annuities and U.S. Treasury obligations. Please see Note 4 for additional information concerning the Department's investments.

(4) Fair Value Measurements

The following table presents assets (amounts expressed in thousands) measured at fair value on a recurring basis at June 30, 2022:

	Fair Value	Level 1	Level 2	Level 3
Investments by fair value level				
U.S. Treasury bonds	$ 246,397	$ —	$ 246,397	$ —
Total investments by fair value level	$ 246,397	$ —	$ 246,397	$ —

(5) Interfund Balance and Activity

(a) Balance Due from/to Other Funds

The following balance (amounts expressed in thousands) at June 30, 2022, represents amounts due from other State funds.

Fund	Due from Other State Funds	2022	Description/Purpose
Lottery	Alcoholism and Substance Abuse	$ 15	Due from the Alcoholism and Substance Abuse Fund for problem gambler services.
	Public Health Services	550	Due from the Public Health Services Fund for conducting the COVID-19 vaccination raffle.
	Federal Title III Social Security and Employment Service	6	Due from the Federal Title III Social Security and Employment Service Fund for shared costs of the legislative liason.
	Common School (see Note 14)	133,968	Due from the Common School Fund for excess cash transfers which occurred in Fiscal Year 2018 and periods prior to Fiscal Year 2010.
		$ 134,539	

The following balance (amounts expressed in thousands) at June 30, 2022, represents amounts due to other State funds.

Fund	Due to Other State Funds	2022	Description/Purpose
Lottery	Capital Projects	$ 137,794	Due to other State Funds for allocation of lottery
	Other State funds	1,955	proceeds and for administrative expenses.
		$ 139,749	

The $137,794 million due to the Capital Projects Fund as of June 30, 2022, is expected to be repaid by the end of Fiscal Year 2023. See Note 14 for further information.

(b) Transfers to Other Funds

The Department reports transfers out in the Statement of Revenues, Expenses, and Changes in Net Position (Deficit), for the amounts required by statute to be transferred to the Common School Fund, Capital Projects Fund, and other State funds for lottery games designated for special purposes. The following balances (amounts expressed in thousands) for the year ended June 30, 2022, represent amounts transferred to other State funds:

Fund	Transfers Out To Other State Funds	2022	Description/Purpose
Lottery	Common School (see Note 14)	$ 641,033	Transfers to Common School,
	Capital Projects	48,749	Capital Projects, and other State funds
	Other State funds	9,866	pursuant to statuory requirements.
		$ 699,648	

The $9,866 (amounts expressed in thousands) was transferred to Other State funds as follows:

Multiple Sclerosis Research Fund	$ 1,335
Special Olympics Illinois and Special Children's Charities Fund	918
Illinois Veterans Assistance Fund	1,349
Criminal Justice Information Projects Fund	1,308
School STEAM Grant Program Fund	98
Homelessness Prevention Revenue Fund	1,545
Alzheimer's Awareness Fund	1,159
Quality of Life Endowment Fund	1,176
Carolyn Adams Ticket for the Cure Grant Fund	937
Unclaimed Property Fund	41
Total	$ 9,866

(6) Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2022, was as follows:

	Balance June 30, 2021	Additions	Deletions	Net Transfers	Balance June 30, 2022
Capital assets being depreciated:					
Equipment	$ 399	$ 5	$ —	$ (19)	$ 385
Leased equipment	—	42	—	—	42
Total capital assets being depreciated	399	47	—	(19)	427
Less accumulated depreciation for:					
Equipment	388	10	—	(19)	379
Leased equipment	—	28	—	—	28
Total accumulated depreciation	388	38	—	(19)	407
Total capital assets, net	$ 11	$ 9	$ —	$ —	$ 20

(7) Long-Term Obligations

(a) Changes in Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2022, were as follows:

	Balance June 30, 2021	Additions	Deletions	Balance June 30, 2022	Amounts Due within one year
Leases payable	$ —	$ 42	$ 28	$ 14	$ 14
Compensated absences	906	1,315	1,297	924	60
Obligations to Lottery prize winners – group contracts	49	—	49	—	—
Obligations to Lottery prize winners – annuities	260,167	6,351	19,780	246,738	24,543
Net pension liability	81,418	—	5,518	75,900	—
OPEB liability	44,977	—	2,851	42,126	1,018
Total long-term obligations	$ 387,517	$ 7,708	$ 29,523	$ 365,702	$ 25,635

(b) Obligations to Lottery Prize Winners

The Department has obligations to certain lottery prize winners for awards payable in annual installments ranging from 19 years to the life of the prize winner, with the first payment made shortly after the claim is presented for payment.

For certain prize winners, annuities (group contracts) were purchased in the name of the Department for which the Department has retained the rights of ownership. As of June 30, 2022, the final annuity payment was remitted to the prize winner. Therefore, the Department has no further obligation to prize winners for group contract annuities.

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

The fair value of the investments approximated $246 million at June 30, 2022. Interest rates range from 0.062% to 7.741% and prizes payable are scheduled annually through 2047 as follows (amounts expressed in thousands):

Fiscal year	**Current**	**Long-term**	**Total**
2023	$ 26,942	$ —	$ 26,942
2024	—	26,319	26,319
2025	—	26,674	26,674
2026	—	24,896	24,896
2027	—	22,268	22,268
2028-2047	—	173,517	173,517
Total future prizes	26,942	273,674	300,616
Adjustments to present value	(2,399)	(51,479)	(53,878)
Present value of future prizes	24,543	222,195	246,738
Adjustments to fair value	1,937	(2,278)	(341)
Fair value of future prizes at June 30, 2022	$ 26,480	$ 219,917	$ 246,397

The amortized discount on the prizes payable reflects the interest rates earned by the investments held to fund the related liabilities. The amortization of discount is recorded as interest expense in the Statement of Revenues, Expenses, and Changes in Net Position (Deficit) and amounted to approximately $8 million for the year ended June 30, 2022.

(c) Leases Payable

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

At June 30, 2022, right-to-use assets under the non-cancelable lease amounted to $42 thousand, and the related accumulated depreciation amounted to $28 thousand.

Future minimum commitments for non-cancelable leases recorded in the Department's Statement of Net Position (Deficit) as of June 30, 2022, are as follows (amounts expressed in thousands):

Fiscal Year	Principal	Interest
2023	$ 14	$ —
Total minimum lease payments	$ 14	$ —

(8) Pension Plan

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

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

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

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

Regular Formula Tier 1	Regular Formula Tier 2
A member must have a minimum of eight years of service credit and may retire at: • Age 60, with eight years of service credit. • Any age, when the member's age (years & whole months) plus years of service credit (years & whole months) equal 85 years (1,020 months) (Rule of 85) with eight years of credited service. • Between ages 55-60 with 25-30 years of service credit (reduced 1/2 of 1% for each month under age 60).	A member must have a minimum of 10 years of credited service and may retire at: • Age 67, with 10 years of credited service. • Between ages 62-67 with 10 years of credited service (reduced 1/2 of 1% for each month under age 67).

Regular Formula Tier 1	**Regular Formula Tier 2**
The retirement benefit is based on final average compensation and credited service. Final average compensation is the 48 highest consecutive months of service within the last 120 months of service. Under the Rule of 85, a member is eligible for the first 3% increase on January 1 following the first full year of retirement, even if the member is not age 60. If the member retires at age 60 or older, he/she will receive a 3% pension increase every year on January 1, following the first full year of retirement.	The retirement benefit is based on final average compensation and credited service. For regular formula employees, final average compensation is the average of the 96 highest consecutive months of service within the last 120 months of service. The retirement benefit is calculated on a maximum salary of $106,800. This amount increases annually by 3% or one-half of the Consumer Price Index, whichever is less.
If the member retires before age 60 with a reduced retirement benefit, he/she will receive a 3% pension increase every January 1 after the member turns age 60 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.	If the member retires at age 67 or older, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every year on January 1, following the first full year of retirement. The calendar year 2021 rate is $116,740. If the member retires before age 67 with a reduced retirement benefit, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every January 1 after the member turns age 67 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.

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

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

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

Contributions. Contribution requirements of active employees and the State are established in accordance with Chapter 40, section 5/14-133 of the Illinois Compiled Statutes. Member contributions are based on fixed percentages of covered payroll ranging between 4.00% and 12.50%. Employee contributions are fully refundable, without interest, upon withdrawal from State employment. Tier 1 members contribute based on total annual compensation. Tier 2 members contribute based on an annual compensation rate not to exceed $106,800 with limitations for future years increased by the lessor of 3% or one-half of the annual percentage increase in the Consumer Price Index. For 2022, this amount was $119,892.

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

For Fiscal Year 2022, the required employer contributions were computed in accordance with the State's funding plan. This funding legislation provides for a systematic 50-year funding plan with an ultimate goal to achieve 90% funding of the plan's liabilities. In addition, the funding plan provided for a 15-year phase-in period to allow the State to adapt to the increased financial commitment. Since the 15-year phase-in period ended June 30, 2010, the State's contribution will remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved. For Fiscal Year 2022, the employer contribution rate was 56.169%. The Department's contribution amount for Fiscal Year 2022 was $6.126 million.

Pension Liability, Deferred Outflows of Resources, Deferred Inflows of Resources and Expense Related to Pensions. At June 30, 2022, the Department reported a liability of $75.9 million for its proportionate share of the State's net pension liability for SERS on the Department's Statement of Net Position (Deficit). The net pension liability was measured as of June 30, 2021 (current year measurement date), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Department's portion of the net pension liability was based on the Department's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2021. As of the current year measurement date of June 30, 2021, the Department's proportion was 0.2293%, which was a decrease of 0.0042% from its proportion measured as of the prior year measurement date of June 30, 2020.

At June 30, 2021, the fiduciary net position of SERS was $23,883.3 million and the net pension liability was $33,100.7 million.

For the year ended June 30, 2022, the Department recognized pension expense of $3.663 million. At June 30, 2022, the Department reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2021, from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,191	$ 66
Changes of assumptions	2,954	86
Net difference between projected and actual investment earnings on pension plan investments	-	5,850
Changes in proportion	314	2,944
Department contributions subsequent to the measurement date	6,126	-
Total	$ 10,585	$ 8,946

The Department reported $6.126 million of deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date. These will be recognized as a reduction of the net pension liability in the year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense (credit) as follows (amounts expressed in thousands):

Year ended June 30,		
2023	$	(1,619)
2024		(828)
2025		(674)
2026		(1,366)
Total	$	(4,487)

Actuarial Methods and Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2021, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.25%

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

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

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

Retirement Age: Experience-based table of rates specific to the type of eligibility condition. Table was last updated for the June 30, 2021, valuation pursuant to an experience study of the period July 1, 2015 – June 2018.

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

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

The long-term expected real rate of return on pension plan investments is determined using the best estimates of geometric real rates of return for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. For each major asset class that is included in SERS' target asset allocation, calculated as of the measurement date of June 30, 2021, the best estimates of geometric real rates of return are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	23.0%	4.8%
Developed Foreign Equity	13.0%	5.3%
Emerging Market Equity	8.0%	6.5%
Private Equity	7.0%	6.8%
Intermediate Investment Grade Bonds	14.0%	0.4%
Long-term Government Bonds	4.0%	0.6%
TIPS	4.0%	0.3%
High Yield and Bank Loans	5.0%	2.5%
Opportunistic Debt	8.0%	4.3%
Emerging Market Debt	2.0%	2.2%
Real Estate	10.0%	5.6%
Infrastructure	2.0%	6.5%
	100%	

Discount Rate. A discount rate of 6.20% was used to measure the total pension liability as of the measurement date of June 30, 2021, as compared to a discount rate of 6.35% used to measure the total pension liability as of the prior year measurement date. The June 30, 2021, single blended discount rate was based on the expected rate of return on pension plan investments of 6.75% and a municipal bond rate of 1.92%, based on an index of 20 year general obligation bonds with an average AA credit rating as published by the Federal Reserve.

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

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

	1% Decrease 5.20%	Discount Rate 6.20%	1% Increase 7.20%
Department's proportionate share of the net pension liability	$ 93,657	$ 75,900	$ 61,327

Payables to the Pension Plan. At June 30, 2022, the Department reported a payable of $266 thousand to SERS for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2022.

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

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

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

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

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

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

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

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

For Fiscal Year 2022, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was $11,363.04 ($6,290.40 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and $13,619.28 ($5,623.44 if Medicare eligible) if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

***Total OPEB Liability, Deferred Outflows of Resources, Deferred Inflows of Resources and Expense Related to OPEB*.** The total OPEB liability, as reported at June 30, 2022, was measured as of June 30, 2021, with an actuarial valuation as of June 30, 2020. At June 30, 2022, the Department recorded a liability of $42.126 million for its proportionate share of the State's total OPEB liability. The Department's portion of the OPEB liability was based on the Department's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2021. As of the current year measurement date of June 30, 2021, the Department's proportion was 0.1222%, which was an increase of 0.0147% from its proportion measured as of the prior year measurement date of June 30, 2020.

The Department recognized a credit to OPEB expense for the year ended June 30, 2022, of $1.111 million. At June 30, 2022, the Department reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2021, from the following sources (amounts expressed in thousands):

	Deferred outflows of resources	**Deferred inflows of resources**
Differences between expected and actual experience	$ 308	$ 293
Changes of assumptions	953	11,594
Changes in proportion and difference between employer contributions and proportionate share of contributions	5,541	3,568
Department contributions subsequent to the measurement date	1,017	-
Total	$ 7,819	$ 15,455

The $1.017 million reported as deferred outflows of resources related to OPEB resulting from Department contributions subsequent to the measurement date will be recognized as a reduction to the OPEB liability in the year ended June 30, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (amounts expressed in thousands):

Year ended June 30,	
2023	$ (3,027)
2024	(2,148)
2025	(2,391)
2026	(951)
2027	(137)
Total	$ (8,654)

***Actuarial Methods and Assumptions*.** The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified. The actuarial valuation for the SEGIP was based on GARS, JRS, SERS, TRS, and SURS active, inactive, and retiree data as of June 30, 2020, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2020.

Valuation Date	June 30, 2020
Measurement Date	June 30, 2021
Actuarial Cost Method	Entry Age Normal
Actuarial assumptions:	
Inflation Rate	2.25%
Projected Salary Increases*	2.50% - 12.25%
Healthcare Cost Trend Rate:	
Medical & Rx (Pre-Medicare & Post-Medicare)	8.00% grading down 0.25% per year over 15 years to 4.25% in year 2038. There is no additional trend rate adjustment due to the repeal of the Excise Tax.
Dental and Vision	3.75% grading up 0.25% in the first year to 4.00% through 2038.
Retirees' share of benefit-related costs	Healthcare premium rates for members depend on the date of retirement and the years of service earned at retirement. Members who retired before January 1, 1998, are eligible for single coverage at no cost to the member. Members who retire after January 1, 1998, are eligible for single coverage provided they pay a portion of the premium equal to 5 percent for each year of service under 20 years. Eligible dependents receive coverage provided they pay 100 percent of the required dependent premium. Premiums for plan year 2021 and 2022 are based on actual premiums. Premiums after 2022 were projected based on the same healthcare cost trend rates applied to per capita claim costs.

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

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

Healthcare Cost Trend Rate:	
Medical and Rx (Pre-Medicare & Post-Medicare)	8.25% grading down 0.25% per year over 16 years to an ultimate trend of 4.25% in the year 2037. There is no additional trend rate adjustment due to the repeal of the Excise Tax.
Dental and Vision	4.00% grading up 0.25% in the first year to 4.25% through 2037.

Additionally, the demographic assumptions used in this OPEB valuation are identical to those used in the June 30, 2020, valuations for GARS, JRS, SERS, TRS, and SURS as follows:

	Retirement age experience study^	**Mortality^^**
GARS	July 2015 - June 2018	Pub-2010 Above-Median Income General Healthy Retiree Mortality tables, sex distinct, scaling factors of 99% for males and females and generational mortality improvements using MP-2018 two-dimensional mortality improvement scales
JRS	July 2015 - June 2018	Pub-2010 Above-Median Income General Healthy Retiree Mortality tables, sex distinct, scaling factors of 102% for males and 98% for females and generational mortality improvements using MP-2018 two-dimensional mortality improvement scales
SERS	July 2015 - June 2018	Pub-2010 General and Public Safety Healthy Retiree mortality tables, sex distinct, with rates projected to 2018; generational mortality improvement factors were updated to projection scale MP-2018
TRS	July 2014 - June 2017	RP-2014 with future mortality improvements on a fully generational basis using projection table MP-2017
SURS	July 2014 - June 2017	RP-2014 White Collar, gender distinct, projected using MP-2014 two dimensional mortality improvement scale, set forward one year for male and female annuitants

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

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

***Discount Rate*.** Retirees contribute a percentage of the premium rate based on service at retirement. The State contributes additional amounts to cover claims and expenses in excess of retiree contributions. Because plan benefits are financed on a pay-as-you-go basis, the single discount rate is based on a tax-exempt municipal bond rate index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. A single discount rate of 2.45% at June 30, 2020, and 1.92% at June 30, 2021, was used to measure the total OPEB liability.

Sensitivity of Total OPEB Liability to Changes in the Single Discount Rate. The following presents the Department's total OPEB liability, calculated using a Single Discount Rate of 1.92%, as well as what the Department's total OPEB liability would be if it were calculated using a Single Discount rate that is one percentage point higher (2.92%) or lower (0.92%) than the current rate (amounts expressed in thousands):

	1% Decrease (0.92%)	Current Single Discount Rate Assumption (1.92%)	1% Increase (2.92%)
Department's proportionate share of total OPEB liability	$ 49,751	$ 42,126	$ 36,094

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate. The following presents the Department's total OPEB liability, calculated using the healthcare cost trend rates as well as what the Department's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point higher or lower, than the current healthcare cost trend rates (amounts in table expressed in thousands). The key trend rates are 8.00% in 2023 decreasing to an ultimate trend rate of 4.25% in 2038.

	1% Decrease	Current Healthcare Cost Trend Rates Assumption	1% Increase
Department's proportionate share of total OPEB liability	$ 35,153	$ 42,126	$ 51,353

A one percentage point decrease in healthcare trend rates are 7.00% in plan year end 2023 decreasing to an ultimate trend rate of 3.25% in plan year end 2038.

A one percentage point increase in healthcare trend rates are 9.00% in plan year end 2023 decreasing to an ultimate trend rate of 5.25% in plan year 2038.

(10) Risk Management

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

The Department's risk management activities are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the General Fund of the State. The claims are not considered to be a liability of the Department and, accordingly, these claims have not been reported in the Department's financial statements for the year ended June 30, 2022.

(11) Private Management Agreement

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

Under the terms of the agreement, the compensation to be paid under the PMA is comprised of operating expenses and incentive compensation payments. Operating expenses of Camelot are comprised of Management Fee and Operating Allowance, as outlined in the PMA. Incentive compensation is only earned if net income exceeds minimum net income targets as defined in the agreement and is subject to annual adjustments. For the year ended June 30, 2022, total compensation for operating expenses to Camelot under the PMA was $142.4 million, which are included in general and administrative expenses. This amount was paid in full with no balance due as of June 30, 2022. Incentive compensation earned during the year was $15.5 million, which is also included in general and administrative expenses and was due to Camelot as of June 30, 2022.

The Department has recorded a receivable from Camelot at June 30, 2022, in the amount of $43.1 million. This amount is comprised of an excess advance for estimated operating expenses paid during Fiscal Year 2022 in the amount of $40.7 million and 2021 in the amount of $17.9 million, which has been reconciled to actual operating expenses incurred by Camelot during the year in accordance with the PMA. The receivable amount is net of incentive compensation earned.

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

(12) Commitments and Contingencies

(a) Lease Commitments

The Department leases certain facilities and equipment necessary for operations, primarily from other State agencies. The majority of the Department's leases are month-to-month leases. Total short-term lease costs for the year ended June 30, 2022, amounted to $426 thousand. Information regarding the Department's non-cancelable lease is included in Note 7(c).

(b) Litigation

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

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

(13) COVID-19

The extent of the financial impact of the coronavirus disease (COVID-19) has been monitored closely since the Governor's stay-at-home order in March 2020 and thereafter. Sales slowed significantly during the first several weeks, but quickly rebounded for the remaining months of the Fiscal Year and throughout Fiscal Year 2021. This trend continued into the first few months of Fiscal Year 2022, but the Department saw sales begin to normalize for the remainder of the year. This resulted in COVID-19 having a net positive financial impact on lottery sales during the pandemic.

During Fiscal Year 2022, the Department received legislative authority to develop and offer a promotion and award of prizes to encourage Illinois residents to be vaccinated against COVID-19 known as the "All In For The Win" vaccine raffle promotion. Additionally, the Department received a one-time appropriation from the State of Illinois' State Coronavirus Urgent Remediation Emergency (CURE) Fund in order to facilitate the payment of prizes for the vaccine raffle promotion. The legislation provided the Department and the Department of Public Health ("Public Health") the authority to jointly structure a promotion aimed at Illinois residents receiving COVID-19 vaccinations. Illinois residents aged 18 and up were eligible for a cash award. Those residents under 18 may receive a scholarship or educational award. The Department administered the promotion by conducting the weekly drawings of the cash and scholarship awards utilizing a random number generator, as well as processed the payment of the cash prizes to those winners aged 18 and up. These cash awards were first paid out of the State Lottery Fund and later reimbursed by the CURE Fund. The Department recorded $7 million in grant revenue as nonoperating revenue and the related vaccine raffle expense as an operating expense. Additionally, the Department recorded $550 thousand as a due from other State funds from the Department of Public Health as reimbursement for expenses incurred in the "All In For The Win" vaccine raffle promotion. Please see Note 5(a) for additional information.

(14) Legislative Changes

Part of Public Act 102-0699 amended the Illinois Lottery Law by adding a process to reconcile historical cash deficits in the State Lottery Fund and overpayments to the Common School Fund by offsetting Fiscal Year 2023 transfers to the Common School Fund in the amount of $133.968 million. This offset will then enable the Department to satisfy the long-term amount due to the Capital Projects Fund of $89.045 million, as further described in Note 5(a). In addition, another part of Public Act 102-0699 changes the flow of the Department's proceeds from lottery tickets and shares sold and sports wagering on July 1, 2022. On and after this date, these future proceeds, after the payment of prizes, retailer bonuses, and costs incurred in the operation and administration of the Lottery and the Department's sports wagering program, will be directed to the Common School Fund. Public Act 102-0699 became effective April 19, 2022.

The Department recorded a due from other State funds in the amount of $133.968 million and a corresponding reduction to transfers to other State funds to account for the reconciliation of prior years' excess transfers. The actual transfers made to the Common School Fund in Fiscal Year 2022 totaled $775 million. The cash reconciliation to recover the due from other State funds will occur in Fiscal Year 2023; however, the change in estimate of the due from other State funds was recorded in Fiscal Year 2022 due to the enacted legislation becoming effective, which formally established a plan to collect the balance. The Department recorded all proceeds of Fiscal Year 2022 as transfers to other State funds prior to the reduction for the excess transfers.

During the legislative processes of Public Act 102-0699 some language from section 9.1(o)(4) was stricken that requires clarification as to where the Department is required to deposit the remaining proceeds for Fiscal Year 2022 as priority order (4) no longer specifies. Prior to Public Act 102-0699, the Department was required to deposit the remaining proceeds after payments of (1) prizes and retailer bonuses; (2) expenses incurred in the operation of the Lottery; and (3) payments to the Common School Fund, in the Capital Projects Fund by September 30 the following Fiscal Year. The Department is seeking legislative clarification and at this time has not deposited the remaining proceeds from Fiscal Year 2022 into the Capital Projects Fund. The proceeds of $48.749 million are currently held in the State Lottery Fund until clarification can be received. The Department recorded a due to other State funds and a corresponding transfer to other State funds in the amount of $48.749 million and classified the transfer as a transfer to Capital Projects Fund, as further described in Note 5(a) and (b).

(15) Subsequent Events

Part of Public Act 102-1115, which became effective January 9, 2023, amends the Illinois Lottery Law by adding back the language inadvertently stricken during the passing of Public Act 102-0699 to section 9.1(o)(4), as referenced in footnote 14, clarifying the remaining proceeds to be deposited in the Capital Projects Fund after payments of (1) prizes and retailer bonuses; (2) expenses incurred in the operation of the Lottery; and (3) payments to the Common School Fund. In addition, Public Act 102-1115 added language to section 9.1.(o) referencing those changes made by Public Act 102-0699. The Department deposited the remaining proceeds of Fiscal Year 2022 of $48.749 million in the Capital Projects Fund on January 19, 2023.

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

SUPPLEMENTARY INFORMATION

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
Combining Schedule of Net Position (Deficit) - State Lottery Fund
June 30, 2022
(in thousands of dollars)

Assets and Deferred Outflows of Resources	**State Lottery (Collapsed)**	**Deferred Prize Winners (Collapsed)**	**Lottery Security Deposits (1309)**	**Eliminations**	**Total State Lottery Fund**
Current assets:					
Cash and cash equivalents	$ 19,258	$ -	$ 407	$ -	$ 19,665
Cash equity in State Treasury	50,647	3,358	-	-	54,005
Investments, short-term	-	26,480	-	-	26,480
Accounts receivable, net of allowance of $31,327	68,087	-	-	-	68,087
Due from other State funds	134,539	-	-	-	134,539
Prepaid expenses	94	-	-	-	94
Total current assets	272,625	29,838	407	-	302,870
Noncurrent assets:					
Investments	-	219,917	-	-	219,917
Capital assets being depreciated, net	20	-	-	-	20
Total noncurrent assets	20	219,917	-	-	219,937
Total assets	272,645	249,755	407	-	522,807
Deferred outflows of resources:					
Deferred outflows of resources - pension	10,585	-	-	-	10,585
Deferred outflows of resources - OPEB	7,819	-	-	-	7,819
Total deferred outflows of resources	18,404	-	-	-	18,404
Total assets and deferred outflows of resources	291,049	249,755	407	-	541,211
Liabilities and Deferred Inflows of Resources					
Current liabilities:					
Prizes payable	79,202	-	-	-	79,202
Accounts payable and accrued liabilities	1,877	-	-	-	1,877
Due to other Government – Federal	36	-	-	-	36
Due to other State funds	139,749	-	-	-	139,749
Unearned revenue	1,665	-	-	-	1,665
Leases payable	14	-	-	-	14
Other liabilities	60	-	407	-	467
Current portion of long-term annuity prizes payable	-	24,543	-	-	24,543
Current portion of OPEB liability	1,018	-	-	-	1,018
Total current liabilities	223,621	24,543	407	-	248,571
Noncurrent liabilities:					
Noncurrent portion of long-term annuity prizes payable	-	222,195	-	-	222,195
Net pension liability	75,900	-	-	-	75,900
Noncurrent portion of OPEB liability	41,108	-	-	-	41,108
Noncurrent other	864	-	-	-	864
Total noncurrent liabilities	117,872	222,195	-	-	340,067
Total liabilities	341,493	246,738	407	-	588,638
Deferred inflows of resources:					
Deferred inflows of resources - pension	8,946	-	-	-	8,946
Deferred inflows of resources - OPEB	15,455	-	-	-	15,455
Total deferred inflows of resources	24,401	-	-	-	24,401
Total liabilities and deferred inflows of resources	365,894	246,738	407	-	613,039
Net Position (Deficit)					
Invested in capital assets	6	-	-	-	6
Unrestricted	(74,851)	3,017	-	-	(71,834)
Total net position (deficit)	$ (74,845)	$ 3,017	$ -	$ -	$ (71,828)

See accompanying independent auditors' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
Combining Schedule of Accounts - Schedule of Net Position (Deficit) - State Lottery Fund (Collapsed)
June 30, 2022
(in thousands of dollars)

Assets and Deferred Outflows of Resources	**State Lottery (0711)**	**Lottery Prize Payment Fund (1279)**	**Agent Sales Sweep Account Fund (1373)**	**Eliminations**	**Total State Lottery (Collapsed)**
Current assets:					
Cash and cash equivalents	$ -	$ 7,912	$ 11,346	$ -	$ 19,258
Cash equity in State Treasury	50,647	-	-	-	50,647
Accounts receivable, net of allowance of $31,327	68,087	-	-	-	68,087
Due from other Department funds	19,341	-	-	(19,341)	-
Due from other State funds	134,539	-	-	-	134,539
Prepaid expenses	-	94	-	-	94
Total current assets	272,614	8,006	11,346	(19,341)	272,625
Noncurrent assets:					
Capital assets being depreciated, net	20	-	-	-	20
Total noncurrent assets	20	-	-	-	20
Total assets	272,634	8,006	11,346	(19,341)	272,645
Deferred outflows of resources:					
Deferred outflows of resources - pension	10,585	-	-	-	10,585
Deferred outflows of resources - OPEB	7,819	-	-	-	7,819
Total deferred outflows of resources	18,404	-	-	-	18,404
Total assets and deferred outflows of resources	291,038	8,006	11,346	(19,341)	291,049
Liabilities and Deferred Inflows of Resources					
Current liabilities:					
Prizes payable	79,202	-	-	-	79,202
Accounts payable and accrued liabilities	1,866	11	-	-	1,877
Due to other Government – Federal	36	-	-	-	36
Due to other Department funds	-	7,995	11,346	(19,341)	-
Due to other State funds	139,749	-	-	-	139,749
Unearned revenue	1,665	-	-	-	1,665
Leases payable	14	-	-	-	14
Other liabilities	60	-	-	-	60
Current portion of OPEB liability	1,018	-	-	-	1,018
Total current liabilities	223,610	8,006	11,346	(19,341)	223,621
Noncurrent liabilities:					
Net pension liability	75,900	-	-	-	75,900
Noncurrent portion of OPEB liability	41,108	-	-	-	41,108
Noncurrent other	864	-	-	-	864
Total noncurrent liabilities	117,872	-	-	-	117,872
Total liabilities	341,482	8,006	11,346	(19,341)	341,493
Deferred inflows of resources:					
Deferred inflows of resources - pension	8,946	-	-	-	8,946
Deferred inflows of resources - OPEB	15,455	-	-	-	15,455
Total deferred inflows of resources	24,401	-	-	-	24,401
Total liabilities and deferred inflows of resources	365,883	8,006	11,346	(19,341)	365,894
Net Position (Deficit)					
Invested in capital assets	6	-	-	-	6
Unrestricted	(74,851)	-	-	-	(74,851)
Total net position (deficit)	$ (74,845)	$ -	$ -	$ -	$ (74,845)

See accompanying independent auditors' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
Combining Schedule of Accounts - Schedule of Net Position (Deficit) - Deferred Prize Winners Fund (Collapsed)
June 30, 2022
(in thousands of dollars)

Assets and Deferred Outflows of Resources	**Deferred Prize Winners (0978)**	**Deferred Lottery Prize Winners Trust Fund (2978)**	**Eliminations**	**Total Deferred Prize Winners (Collapsed)**
Current assets:				
Cash equity in State Treasury	$ 3,358	$ -	$ -	$ 3,358
Investments, short-term	-	26,480	-	26,480
Due from other Department funds	26,480	-	(26,480)	-
Total current assets	29,838	26,480	(26,480)	29,838
Noncurrent assets:				
Investments	-	219,917	-	219,917
Due from other Department funds	219,917	-	(219,917)	-
Total noncurrent assets	219,917	219,917	(219,917)	219,917
Total assets	249,755	246,397	(246,397)	249,755
Total assets and deferred outflows of resources	249,755	246,397	(246,397)	249,755
Liabilities and Deferred Inflows of Resources				
Current liabilities:				
Due to other Department funds	-	26,480	(26,480)	-
Current portion of long-term annuity prizes payable	24,543	-	-	24,543
Total current liabilities	24,543	26,480	(26,480)	24,543
Noncurrent liabilities:				
Noncurrent portion of long-term annuity prizes payable	222,195	-	-	222,195
Due to other Department funds	-	219,917	(219,917)	-
Total noncurrent liabilities	222,195	219,917	(219,917)	222,195
Total liabilities	246,738	246,397	(246,397)	246,738
Total liabilities and deferred inflows of resources	246,738	246,397	(246,397)	246,738
Net Position (Deficit)				
Unrestricted	3,017	-	-	3,017
Total net position (deficit)	$ 3,017	$ -	$ -	$ 3,017

See accompanying independent auditors’ report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
Combining Schedule of Revenues, Expenses, and Changes in Net Position (Deficit) - State Lottery Fund
Year Ended June 30, 2022
(in thousands of dollars)

	State Lottery (Collapsed)	Deferred Prize Winners (Collapsed)	Lottery Security Deposits (1309)	Eliminations	Total State Lottery Fund
Operating revenues:					
Charges for sales and services	$ 3,393,755	$ -	$ -	$ -	$ 3,393,755
Other	5,315	-	-	-	5,315
Total operating revenues	3,399,070	-	-	-	3,399,070
Operating expenses:					
Cost of sales and services	175,136	-	-	-	175,136
Prizes and claims	2,211,364	-	-	-	2,211,364
Vaccine raffle expense	7,000	-	-	-	7,000
General and administrative	178,916	-	-	-	178,916
Depreciation	38	-	-	-	38
Total operating expenses	2,572,454	-	-	-	2,572,454
Operating income	826,616	-	-	-	826,616
Nonoperating revenues (expenses):					
Investment income	1	(21,847)	-	-	(21,846)
Interest expense	(1)	(7,889)	-	-	(7,890)
Grant revenue	7,000	-	-	-	7,000
Other	-	2,099	-	-	2,099
Total nonoperating revenues (expenses), net	7,000	(27,637)	-	-	(20,637)
Change in net position (deficit) before transfers	833,616	(27,637)	-	-	805,979
Transfers to other State funds (see note 14)	(699,648)	-	-	-	(699,648)
Change in net position (deficit)	133,968	(27,637)	-	-	106,331
Net position (deficit), July 1, 2021	(208,813)	30,654	-	-	(178,159)
Net position (deficit), June 30, 2022	$ (74,845)	$ 3,017	$ -	$ -	$ (71,828)

See accompanying independent auditors' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
Combining Schedule of Accounts - Schedule of Revenues, Expenses, and Changes in Net Position (Deficit) -
State Lottery Fund (Collapsed)
Year Ended June 30, 2022
(in thousands of dollars)

	State Lottery (0711)	Lottery Prize Payment Fund (1279)	Agent Sales Sweep Account Fund (1373)	Eliminations	Total State Lottery (Collapsed)
Operating revenues:					
Charges for sales and services	$ 2,961	$ -	$ 3,390,794	$ -	$ 3,393,755
Other	(5,125)	6,766	3,674	-	5,315
Total operating revenues	(2,164)	6,766	3,394,468	-	3,399,070
Operating expenses:					
Cost of sales and services	317	-	174,819	-	175,136
Prizes and claims	259,354	131,828	1,820,182	-	2,211,364
Vaccine raffle expense	7,000	-	-	-	7,000
General and administrative	178,789	30	97	-	178,916
Depreciation	38	-	-	-	38
Total operating expenses	445,498	131,858	1,995,098	-	2,572,454
Operating income	(447,662)	(125,092)	1,399,370	-	826,616
Nonoperating revenues (expenses):					
Investment income	1	-	-	-	1
Interest expense	(1)	-	-	-	(1)
Grant revenue	7,000	-	-	-	7,000
Total nonoperating revenues (expenses), net	7,000	-	-	-	7,000
Change in net position (deficit) before transfers	(440,662)	(125,092)	1,399,370	-	833,616
Transfers from other State funds	1,399,370	125,092	-	(1,524,462)	-
Transfers to other State funds (see note 14)	(824,740)	-	(1,399,370)	1,524,462	(699,648)
Change in net position (deficit)	133,968	-	-	-	133,968
Net position (deficit), July 1, 2021	(208,813)	-	-	-	(208,813)
Net position (deficit), June 30, 2022	$ (74,845)	$ -	$ -	$ -	$ (74,845)

See accompanying independent auditors' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
Combining Schedule of Accounts - Schedule of Revenues, Expenses, and Changes in Net Position (Deficit) -
Deferred Prize Winners Fund (Collapsed)
Year Ended June 30, 2022
(in thousands of dollars)

	Deferred Prize Winners (0978)	Deferred Lottery Prize Winners Trust Fund (2978)	Eliminations	Total Deferred Prize Winners (Collapsed)
Operating revenues:				
Charges for sales and services	$ -	$ -	$ -	$ -
Other	-	-	-	-
Total operating revenues	-	-	-	-
Operating expenses:				
Cost of sales and services	-	-	-	-
Prizes and claims	-	-	-	-
General and administrative	-	-	-	-
Depreciation	-	-	-	-
Total operating expenses	-	-	-	-
Operating income	-	-	-	-
Nonoperating revenues (expenses):				
Investment income	-	(21,847)	-	(21,847)
Interest expense	(7,889)	-	-	(7,889)
Other	2,099	-	-	2,099
Total nonoperating revenues (expenses), net	(5,790)	(21,847)	-	(27,637)
Change in net position (deficit) before transfers	(5,790)	(21,847)	-	(27,637)
Transfers from other State funds	(21,847)	-	21,847	-
Transfers to other State funds	-	21,847	(21,847)	-
Change in net position (deficit)	(27,637)	-	-	(27,637)
Net position (deficit), July 1, 2021	30,654	-	-	30,654
Net position (deficit), June 30, 2022	$ 3,017	$ -	$ -	$ 3,017

See accompanying independent auditors' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
Combining Schedule of Cash Flows - State Lottery Fund
Year Ended June 30, 2022
(in thousands of dollars)

	State Lottery (Collapsed)	Deferred Prize Winners (Collapsed)	Lottery Security Deposits (1309)	Eliminations	Total State Lottery Fund
Cash flows from operating activities:					
Cash received from sales and services	$ 3,386,893	$ -	$ -	$ -	$ 3,386,893
Cash receipts from other operating activities	6,934	6,351	66	(6,351)	7,000
Cash payments for commissions and bonuses	(175,136)	-	-	-	(175,136)
Cash payments to employees for services	(21,178)	-	-	-	(21,178)
Cash payments for general and administrative expenses	(180,732)	-	-	-	(180,732)
Cash payments for lottery prizes	(2,228,569)	-	-	6,351	(2,222,218)
Cash payments for other operating activities	(7,000)	-	(86)	-	(7,086)
Net cash provided by operating activities	781,212	6,351	(20)	-	787,543
Cash flows from noncapital financing activities:					
Operating grants received	7,059	-	-	-	7,059
Cash transfers – out to other funds	(833,323)	-	-	-	(833,323)
Net cash used in noncapital financing activities	(826,264)	-	-	-	(826,264)
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(5)	-	-	-	(5)
Principal payments under lease obligation	(26)	-	-	-	(26)
Interest payments under lease obligation	(1)				(1)
Net cash used in capital and related financing activities	(32)	-	-	-	(32)
Cash flows from investing activities:					
Interest and dividends on investments	1	11	-	-	12
Purchase of investments	-	(6,351)	-	-	(6,351)
Proceeds from investment maturities	49	27,669	-	-	27,718
Cash paid for long-term annuity prizes payable	(49)	(25,581)	-	-	(25,630)
Net cash used in investing activities	1	(4,252)	-	-	(4,251)
Net increase (decrease) in cash and cash equivalents	(45,083)	2,099	(20)	-	(43,004)
Cash and cash equivalents at beginning of year	114,988	1,259	427	-	116,674
Cash and cash equivalents at end of year	$ 69,905	$ 3,358	$ 407	$ -	$ 73,670
Reconciliation of cash and cash equivalents to the statement of net position (deficit):					
Total cash and cash equivalents per the statement of net position (deficit)	$ 19,258	$ -	$ 407	$ -	$ 19,665
Add cash equity in State Treasury	50,647	3,358	-	-	54,005
Cash and cash equivalents at end of year	$ 69,905	$ 3,358	$ 407	$ -	$ 73,670

See accompanying independent auditors' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
Combining Schedule of Cash Flows - State Lottery Fund (Continued)
Year Ended June 30, 2022
(in thousands of dollars)

	State Lottery (Collapsed)	Deferred Prize Winners (Collapsed)	Lottery Security Deposits (1309)	Eliminations	Total State Lottery Fund
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	$ 826,616	$ -	$ -	$ -	$ 826,616
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	38	-	-	-	38
Provision for uncollectible accounts	2,430	-	-	-	2,430
Changes in assets and liabilities:					
Increase in accounts receivable	(23,053)	-	-	-	(23,053)
Increase in due from other funds	(555)	-	-	-	(555)
Increase in deferred outflows of resources	(6,622)	-	-	-	(6,622)
Decrease in prepaid expenses	38	-	-	-	38
Decrease in prizes payable	(17,205)	-	-	-	(17,205)
Decrease in accounts payable and accrued liabilities	(2,554)	-	-	-	(2,554)
Decrease in due to other State funds	(142)	-	-	-	(142)
Increase in unearned revenues	172	-	-	-	172
Increase (Decrease) in other liabilities	18	-	(20)	-	(2)
Increase in long-term annuity prizes payable	-	6,351	-	-	6,351
Increase in deferred inflows of resources	10,400	-	-	-	10,400
Decrease in net pension liability	(5,518)	-	-	-	(5,518)
Decrease in OPEB liability	(2,851)	-	-	-	(2,851)
Net cash provided by operating activities	$ 781,212	$ 6,351	$ (20)	$ -	$ 787,543
Noncash investing, capital and financing activities:					
Cost of capital asset acquisitions financed by leases	$ (42)	$ -	$ -	$ -	$ (42)
Change in fair value of investments	-	29,736	-	-	29,736
Interest accreted on investments	-	7,889	-	-	7,889
Interest accreted on long-term annuity prizes payable	-	(7,889)	-	-	(7,889)
Use of resources to pay long-term annuity prizes payable	-	(2,099)	-	-	(2,099)

See accompanying independent auditors' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
Combining Schedule of Accounts - Schedule of Cash Flows - State Lottery Fund (Collapsed)
Year Ended June 30, 2022
(in thousands of dollars)

	State Lottery (0711)	Lottery Prize Payment Fund (1279)	Agent Sales Sweep Account Fund (1373)	Eliminations	Total State Lottery (Collapsed)
Cash flows from operating activities:					
Cash received from sales and services	$ (3,901)	$ -	$ 3,390,794	$ -	$ 3,386,893
Cash receipts from other operating activities	3,259	1	3,674	-	6,934
Cash payments for commissions and bonuses	(317)	-	(174,819)	-	(175,136)
Cash payments to employees for services	(21,178)	-	-	-	(21,178)
Cash payments for general and administrative expenses	(184,451)	(30)	3,749	-	(180,732)
Cash payments for lottery prizes	(276,589)	(131,798)	(1,820,182)	-	(2,228,569)
Cash payments for other operating activities	(7,000)	-	-	-	(7,000)
Net cash provided by operating activities	(490,177)	(131,827)	1,403,216	-	781,212
Cash flows from noncapital financing activities:					
Operating grants received	7,059	-	-	-	7,059
Cash transfers – in from other funds	1,399,370	125,092	-	(1,524,462)	-
Cash transfers – out to other funds	(958,415)	-	(1,399,370)	1,524,462	(833,323)
Net cash used in noncapital financing activities	448,014	125,092	(1,399,370)	-	(826,264)
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(5)	-	-	-	(5)
Principal payments under lease obligation	(26)	-	-	-	(26)
Interest payments under lease obligation	(1)				(1)
Net cash used in capital and related financing activities	(32)	-	-	-	(32)
Cash flows from investing activities:					
Interest and dividends on investments	1	-	-	-	1
Proceeds from investment maturities	49	-	-	-	49
Cash paid for long-term annuity prizes payable	(49)	-	-	-	(49)
Net cash used in investing activities	1	-	-	-	1
Net increase in cash and cash equivalents	(42,194)	(6,735)	3,846	-	(45,083)
Cash and cash equivalents at beginning of year	92,841	14,647	7,500	-	114,988
Cash and cash equivalents at end of year	$ 50,647	$ 7,912	$ 11,346	$ -	$ 69,905
Reconciliation of cash and cash equivalents to the statement of net position (deficit):					
Total cash and cash equivalents per the statement of net position (deficit)	$ -	$ 7,912	$ 11,346	$ -	$ 19,258
Add cash equity in State Treasury	50,647	-	-	-	50,647
Cash and cash equivalents at end of year	$ 50,647	$ 7,912	$ 11,346	$ -	$ 69,905

See accompanying independent auditors' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
Combining Schedule of Accounts - Schedule of Cash Flows - State Lottery Fund (Collapsed) (Continued)
Year Ended June 30, 2022
(in thousands of dollars)

	State Lottery (0711)	Lottery Prize Payment Fund (1279)	Agent Sales Sweep Account Fund (1373)	Eliminations	Total State Lottery (Collapsed)
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	$ (447,662)	$ (125,092)	$ 1,399,370	$ -	$ 826,616
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	38	-	-	-	38
Provision for uncollectible accounts	2,430	-	-	-	2,430
Changes in assets and liabilities:					
Increase in accounts receivable	(23,053)	-	-	-	(23,053)
Increase in due from other funds	(555)	-	-	-	(555)
Increase in deferred outflows of resources	(6,622)	-	-	-	(6,622)
Decrease in prepaid expenses	-	38	-	-	38
Decrease in prizes payable	(17,205)	-	-	-	(17,205)
Decrease in accounts payable and accrued liabilities	(2,546)	(8)	-	-	(2,554)
Increase (Decrease) in due to other State funds	2,777	(6,765)	3,846	-	(142)
Increase in unearned revenues	172	-	-	-	172
Increase in other liabilities	18	-	-	-	18
Increase in deferred inflows of resources	10,400	-	-	-	10,400
Decrease in net pension liability	(5,518)	-	-	-	(5,518)
Decrease in OPEB liability	(2,851)	-	-	-	(2,851)
Net cash provided by operating activities	$ (490,177)	$ (131,827)	$ 1,403,216	$ -	$ 781,212
Noncash investing, capital and financing activities:					
Cost of capital asset acquisitions financed by leases	$ (42)	$ -	$ -	$ -	$ (42)
Change in fair value of investments	-	-	-	-	-
Interest accreted on investments	-	-	-	-	-
Interest accreted on long-term annuity prizes payable	-	-	-	-	-
Use of resources to pay long-term annuity prizes payable	-	-	-	-	-

See accompanying independent auditors' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
Combining Schedule of Accounts - Schedule of Cash Flows - Deferred Prize Winners Fund (Collapsed)
Year Ended June 30, 2022
(in thousands of dollars)

	Deferred Prize Winners (0978)	Deferred Lottery Prize Winners Trust Fund (2978)	Eliminations	Total Deferred Prize Winners (Collapsed)
Cash flows from operating activities:				
Cash received from sales and services	$ -	$ -	$ -	$ -
Cash receipts from other operating activities	6,351	-	-	6,351
Cash payments for commissions and bonuses	-	-	-	-
Cash payments to employees for services	-	-	-	-
Cash payments for general and administrative expenses	-	-	-	-
Cash payments for lottery prizes	-	-	-	-
Cash payments for other operating activities	-	-	-	-
Net cash provided by operating activities	6,351	-	-	6,351
Cash flows from noncapital financing activities:				
Cash transfers – out to other funds	-	-	-	-
Net cash used in noncapital financing activities	-	-	-	-
Cash flows from capital and related financing activities:				
Principal payments under lease obligation	-	-	-	-
Net cash used in capital and related financing activities	-	-	-	-
Cash flows from investing activities:				
Interest and dividends on investments	11	-	-	11
Purchase of investments	(6,351)	-	-	(6,351)
Proceeds from investment maturities	27,669	27,669	(27,669)	27,669
Cash paid for long-term annuity prizes payable	(25,581)	(27,669)	27,669	(25,581)
Net cash used in investing activities	(4,252)	-	-	(4,252)
Net decrease in cash and cash equivalents	2,099	-	-	2,099
Cash and cash equivalents at beginning of year	1,259	-	-	1,259
Cash and cash equivalents at end of year	$ 3,358	$ -	$ -	$ 3,358
Reconciliation of cash and cash equivalents to the statement of net position (deficit):				
Total cash and cash equivalents per the statement of net position (deficit)	$ -	$ -	$ -	$ -
Add cash equity in State Treasury	3,358	-	-	3,358
Cash and cash equivalents at end of year	$ 3,358	$ -	$ -	$ 3,358

See accompanying independent auditors' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
Combining Schedule of Accounts - Schedule of Cash Flows - Deferred Prize Winners Fund (Collapsed) (Continued)
Year Ended June 30, 2022
(in thousands of dollars)

	Deferred Prize Winners (0978)	Deferred Lottery Prize Winners Trust Fund (2978)	Eliminations	Total Deferred Prize Winners (Collapsed)
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	$ -	$ -	$ -	$ -
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	-	-	-	-
Provision for uncollectible accounts	-	-	-	-
Changes in assets and liabilities:				
Increase in accounts receivable	-	-	-	-
Decrease in due from other funds	-	-	-	-
Decrease in deferred outflows of resources	-	-	-	-
Increase in prepaid expenses	-	-	-	-
Decrease in prizes payable	-	-	-	-
Decrease in accounts payable and accrued liabilities	-	-	-	-
Increase in intergovernmental payables	-	-	-	-
Increase in due to other State funds	-	-	-	-
Decrease in unearned revenues	-	-	-	-
Decrease in other liabilities	-	-	-	-
Increase in long-term annuity prizes payable	6,351	-	-	6,351
Increase in deferred inflows of resources	-	-	-	-
Decrease in net pension liability	-	-	-	-
Decrease in OPEB liability	-	-	-	-
Net cash provided by operating activities	$ 6,351	$ -	$ -	$ 6,351
Noncash investing, capital and financing activities:				
Change in fair value of investments	$ 29,736	$ -	$ -	$ 29,736
Interest accreted on investments	7,889	-	-	7,889
Interest accreted on long-term annuity prizes payable	(7,889)	-	-	(7,889)
Use of resources to pay long-term annuity prizes payable	(2,099)	-	-	(2,099)

See accompanying independent auditors' report.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Lottery Control Board
State of Illinois, Department of the Lottery

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State Lottery Fund of the State of Illinois, Department of the Lottery (Department), as of and for the year ended June 30, 2022, and the related notes to the financial statements, as listed in the table of contents, and we have issued our report thereon dated January 20, 2023.

Report on Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings, as items 2022-001 and 2022-002 that we considered to be significant deficiencies.

Report on Compliance and Other Matters

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

Department's Responses to the Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Department's responses to the findings identified in our audit and described in the accompanying Schedule of Findings. The Department's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

Restricted Use of this Report

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

SIGNED ORIGINAL ON FILE

Springfield, Illinois
January 20, 2023

2022-001 **FINDING** (Inadequate Controls over SOC Report Reviews)

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

The Department receives SOC reports from four different service providers and performs an independent internal control review of each SOC report to determine whether any areas of concern are noted. In total, the Department received nine SOC reports during the fiscal year ended June 30, 2022.

During our testing, we noted three of nine (33%) SOC reports had qualified or adverse opinions due to deficiencies noted by the SOC auditors. The Department did not perform an analysis on whether they could rely on the service providers' controls due to deficiencies noted in the SOC reports with qualified or adverse opinions. Through our assessment of the types of deficiencies noted by the SOC auditors, and the substantive testing we performed in other areas of our audit, we were able to rely on the testing and assurance provided by the SOC reports.

The National Institute of Standards and Technology (NIST), Special Publication 800-35, *Guide to Information Technology Security Services*, System and Services Acquisition section, states the organization should ensure operational success by consistently monitoring service providers and organizational security performance against identified requirements, periodically evaluating changes in risks and threats to the organization and ensuring the organizational security solution is adjusted as necessary to maintain an acceptable security posture. As such, reviews of assessments, audits and inspections should be completed to determine the controls are in place at all vendors, service providers, and subservice providers.

In addition, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal administrative controls to provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources. Strong management controls, due diligence, and fiduciary responsibility require adequate supervision of external service providers.

2022-001 **FINDING** (Inadequate Controls over SOC Report Reviews) (Continued)

Department officials indicated the issues noted were due to an incorrect understanding of the interpretation of the prior year finding's recommendation requirements.

Failure of the Department to consider deficiencies noted within their reviews of SOC reports and the deficiencies effect on the Department's internal controls could result in inaccurate data, or the loss of data. (Finding Code No. 2022-001, 2021-005)

RECOMMENDATION

We recommend the Department conduct adequate reviews over SOC reports to ensure the reviews capture the Department's disposition on the effect of any modified opinions noted within the SOC reports.

DEPARTMENT RESPONSE

The Department accepts the recommendation. Department personnel met internally and determined after reviewing each SOC report that there was no effect on the Department's operations due to the deficiencies noted in the SOC reports with qualified or adverse opinions. The initial written review of the SOC reports did not include this analysis on the deficiencies noted. Since the audit, the Department has updated the reviews to include an analysis on the deficiencies noted. The Department will ensure that if any future SOC audits contain deficiencies, the analysis is included in the written review.

2022-002 **FINDING** (Inadequate Controls Over Census Data)

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

Census data is demographic data (date of birth, gender, years of service, etc.) of the active, inactive, or retired members of a pension or other postemployment benefit (OPEB) plan. The accumulation of inactive or retired members' census data occurs before the current accumulation period of census data used in the plan's actuarial valuations (which eventually flows into each employer's financial statements), meaning the plan is solely responsible for establishing internal controls over these records and transmitting this data to the plan's actuary. In contrast, responsibility for active members' census data during the current accumulation period is split among the plan and each member's current employer(s). Initially, employers must accurately transmit census data elements of their employees to the plan. Then, the plan must record and retain these records for active employees and then transmit this census data to the plan's actuary.

We noted the Department's employees are members of both the pension plan administered by the System and the State Employees Group Insurance Program (SEGIP) sponsored by the State of Illinois which includes OPEB. In addition, we noted these plans have characteristics of different types of pension and OPEB plans, including single employer plans and cost-sharing multiple-employer plans.

During the performance of the census examination, the auditors identified, during backwards testing, one of twenty-three (4%) employees included on Department payroll reports had an incorrect retirement deduction code.

The result of this error led to contributions due to the plan being overstated and inaccurate census data being utilized by the System and the State in the performance of the annual pension and OPEB actuarial valuation processes. The independent actuaries utilized by the System and the State of Illinois for the pension and OPEB plans deemed the error immaterial to the plan level valuations as a whole.

The State Records Act (5 ILCS 160/8) requires the Department make and preserve records containing adequate and proper documentation of its essential transactions to protect the legal and financial rights of the State and of persons directly affected by the Department's activities.

2022-002 **FINDING** (Inadequate Controls Over Census Data) (Continued)

Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department establish and maintain a system, or systems, of internal fiscal and administrative control to provide assurance funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial and statistical reports.

Department officials indicated this exception was due to oversight.

Failure to ensure census data reported to the System was complete and accurate may result in significant misstatements of the Department's financial statements and reduce the overall accuracy of System related pension liabilities, deferred inflows and outflows of resources, and expense recorded by the State and its agencies. (Finding Code No. 2022-002, 2021-002, 2020-002)

RECOMMENDATION

We recommend the Department strengthen controls to ensure accurate census data is provided to the System for use in the annual actuarial valuation process. If differences are noted between the Department's data and the System's data, these differences should be communicated timely and rectified to ensure the actuarial valuations are using accurate data.

DEPARTMENT RESPONSE

The Department accepts the recommendation. The single employee noted with an incorrect retirement code deduction was discovered by the Department during the annual reconciliation process with the State Employees' Retirement System (SERS) data. The Department immediately worked with SERS to rectify the error. The Department will continue to work with SERS to ensure accurate census data is provided to the System and if any inaccuracies are discovered during the annual reconciliation, they will be corrected in a timely manner.

A. **FINDING** (Noncompliance with Fund Transfer Provisions)

During the prior year engagement, we noted the Department had failed to resolve prior period excess cash transfers from the State Lottery Fund (Fund 711) to the Common School Fund (Fund 412) or performed all transfers to the Capital Projects Fund (Fund 694) from Fund 711.

During the current engagement, we noted the Department had sought appropriate legislative remedy, and the Illinois Lottery Law (Law) (20 ILCS 1605/) was amended effective 4/1/22, to resolve the $134 million due from Fund 412 to Fund 711 and the $89 million due from Fund 711 to Fund 694. The amended Law provides the Department a vehicle to recoup the prior excess transfers made to Fund 412 and subsequently transfer the deficient amounts owed to Fund 694 by June 30, 2023. (Finding Code 2021-001, 2020-001, 2019-003, 2018-002, 2017-001)

B. **FINDING** (Inadequate Controls over Specialty Tickets)

During the prior year engagement, we noted the Department had not fully implemented corrective action to quantify the impact of improper prior period overhead charges and had not performed a "true up" of its estimated prize liabilities to prizes paid.

During the current engagement, we noted the Department performed an initial reconciliation of specialty tickets for all games that have closed out, factoring in the impact of the improper prior period overhead charges, to quantify the excess or deficient transfers made to each specialty cause. Additionally, the Department implemented procedures for an annual reconciliation to take place in order to ensure they can "true up" any excess or deficient costs charged to the causes for closed out games. (Finding Code 2021-003, 2020-003, 2019-004, 2018-004, 2017-003)

C. **FINDING** (System Access Weakness)

During the prior year engagement, we noted the Department failed to perform user access reviews as well as timely revoke access for separated employees. Additionally, the Department failed to update the *User Provisioning and Access Rights Review Procedure* (*Procedure*).

During the current engagement, we noted the Department created two new policies that replaced the outdated *Procedure*. Additionally, we did not note any exceptions pertaining to user access reviews, or revocation of separated employees. (Finding Code 2021-004, 2020-005)

D. **FINDING** (Inadequate Controls over Change Management)

During the prior year engagement, we noted the Department did not maintain adequate controls over changes to its Internal Control System (ICS).

During the current engagement, we noted the Department had updated their *ICS Change Management Procedures (Procedures)*. Additionally, during our testing, we noted developers did not have access to the ICS production environment. (Finding Code 2021-006)