



***State of Illinois
Department of the Lottery***

ANNUAL REPORT: FISCAL YEAR 2020

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Letter from Acting Director Harold Mays

Fiscal Year 2020 represented a year of change and adversity for the Illinois Lottery. The year began on the heels of the Department and its Private Manager Camelot Illinois completing one of the largest and most complex technology transitions undertaken by a U.S. lottery in recent years. The transition included a new central gaming system, a new instant ticket management system, a new internal control system, all new retail terminals and equipment at 7,200 locations statewide and a new website and mobile app. It also included retail enhancement efforts that continued throughout FY20 that was intended to modernize the look of the Illinois Lottery in many of our retail stores.

The massive scope of the transition affected every aspect of the business operationally and had an adverse effect on our ability to fully maximize the momentum from the record performance seen in FY19 that was largely driven by the record sales produced by multi-state jackpot game performance that year. Sub-par FY20 jackpot game performance, in-state and multi-state, also hampered our ability to perform during FY20. Performance challenges during the first half of FY20 necessitated a corrective action plan and improved strategic approach be enacted. As these course corrections began to gain traction late in the 3rd quarter of FY20, COVID-19 began to take hold of society and fundamentally change the way we worked.

The COVID-19 stay-at-home order implemented in March 2020 and its initial impact on society had a direct repercussion on lottery sales which saw weekly averages drop 7% (adjusted for FY20 suspended scratch ticket settlements due to the pandemic) during the first 6 weeks of the order compared to before the order. Several retail closures, ~5% of total retail locations, also affected sales. However, sales began to recover strongly toward the end of the year with the highest weekly sales averages seen all year. Although not completely understood, this so-called COVID effect was due to several factors. The restriction of many social activities and outlets, elimination of other gaming options (casinos, VGTs, etc.), the change in work habits and personal behavior, all when viewed holistically, are a few variables that may have aided the lottery sales surge. This surge was seen throughout the lottery industry. As a result, we were able to pivot our marketing and digital strategies to adequately position the lottery in society's new normal, supporting first responders, retail and our players by promoting safe play. The COVID effect on our sales was strong but wasn't strong enough to overcome the poor performance during the first three quarters of the year. These were some of the factors that contributed to Department generating one of the lowest operating revenue and operating income totals in recent years.

When all was said and done at the end of the year our FY20 Operating Revenue was \$2,849 million, 13.6% short of the target of \$3,297 million set at the beginning of the year. It was 4.4% short of FY19's record total of \$2,981 million. FY20 Operating Income was \$698 million, 12.2% short of the target of \$795 million set at the beginning of the year. It was 7.4% short of last year's total of \$754 million. The impact of those numbers resulted in the Department transferring \$690 million to the Common School Fund, 7.6% (\$57 million) short of its FY20 obligation of \$747 million.

Although disappointing from a revenue and income perspective, FY20 did allow us to show our resilience. We are encouraged by the strong sales performance we have seen going into FY21 and will continue to improve as we pivot as necessary based on the demands and reality of the pandemic. We will change the way we work accordingly and leverage the tools we have to continue to serve our retailers and players. We will position our iLottery platform as a viable alternative to engage with the Lottery and play our games in the safety of our homes when retail is challenged. We will become proficient at working remotely where possible and by instituting new safety procedures for our field staff, claims personnel and office personnel who can't work remotely.

We will fully embrace our brand motto, "Illinois is Full of Winners" and champion the people of Illinois who show up every day for their families and their communities as we strive to meet our mission to maximize revenue to the state to benefit schools, capital projects and specialty causes in an ethical and socially responsible manner. We look forward to delivering positive results for the people of IL in FY21, as we all win when we do so.

1. Sales Performance

Total Sales by Game

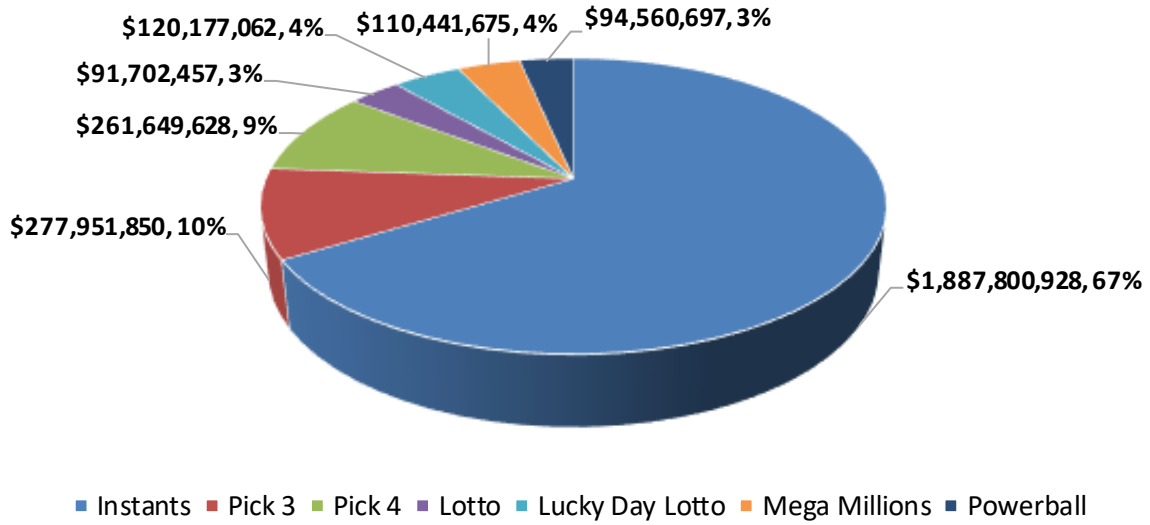


Table 1A – FY20 Total Sales by Game

Instant tickets remained the biggest part of Lottery’s sales in FY20 at 67%. Our Pick plus Fireball games continue to be our draw-based games sales leader with 19 percent of total sales. Total Sales for FY20 were \$2,844 million.

Total Sales by Game 3-year Comparison (in \$ millions)

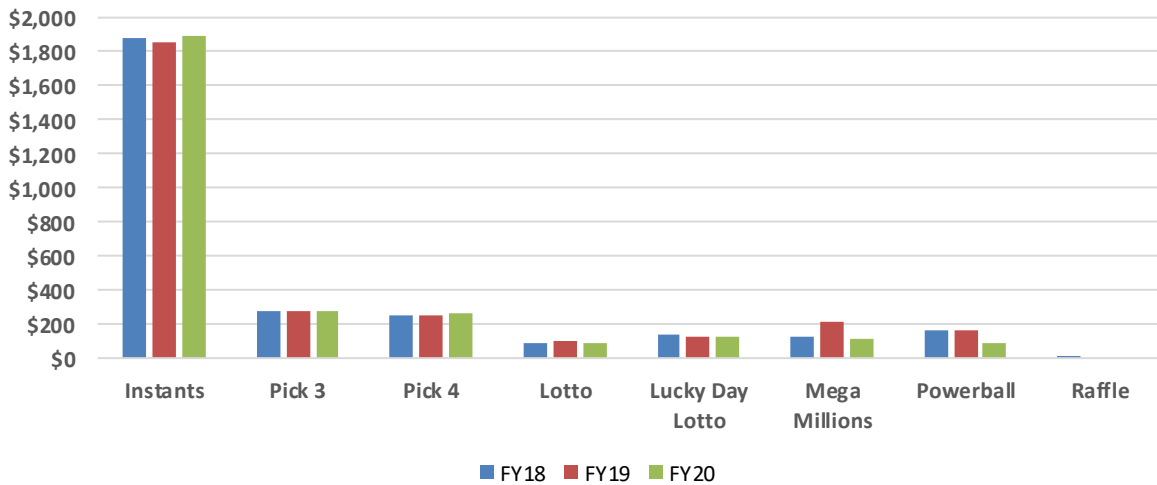
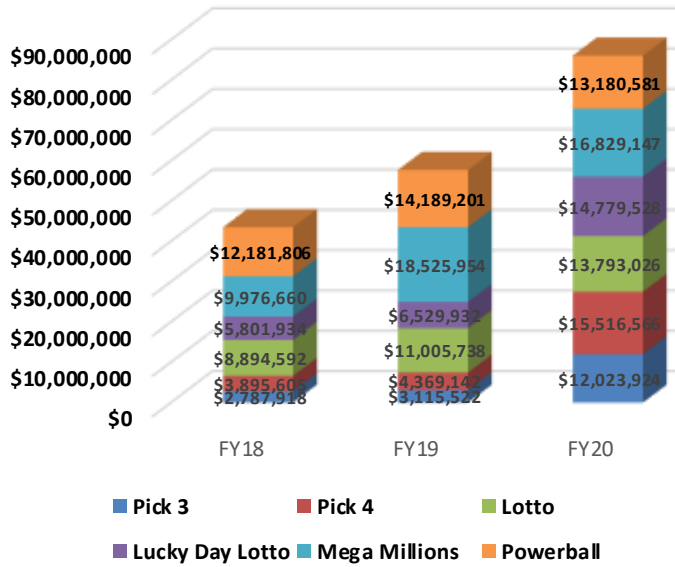


Table 1B – Total Sales by Game FY18 – FY20

Instant ticket sales were \$1.89 billion in FY20, which is a 2% increase from the previous year. Pick plus Fireball games increased by a combined 5% in FY20. Mega Millions and Powerball sales both decreased significantly, 48% and 40% respectively. FY20 Mega Millions sales more closely aligned with FY18 sales. FY19 Mega Million sales were much higher than normal due to a record breaking \$1.5 billion MM jackpot that year. FY20 Powerball sales were lower than FY18 and FY19. FY18 raffle sales were \$6.5 million. No raffles were performed in FY19 or FY20.

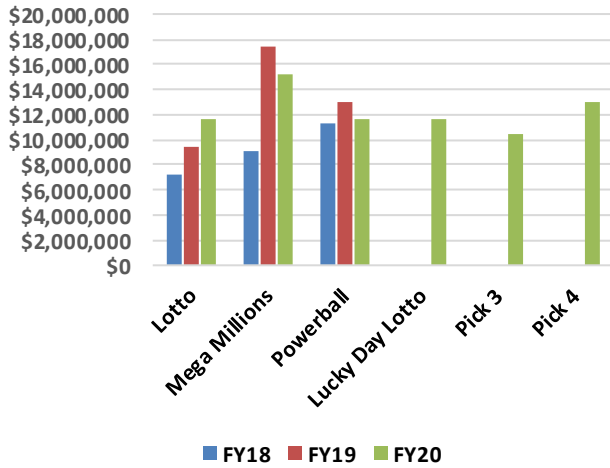
iLottery Sales Performance

Table 1C – Total iLottery Sales by Game by Year



Total iLottery sales combine online purchases of single-draw tickets with that of subscriptions. At \$86 million in FY20 sales, iLottery represents 3 percent of our total sales for the year and 9 percent total draw-based game sales. iLottery sales increased by 49 percent from the previous year.

Online Sales



Subscription Sales

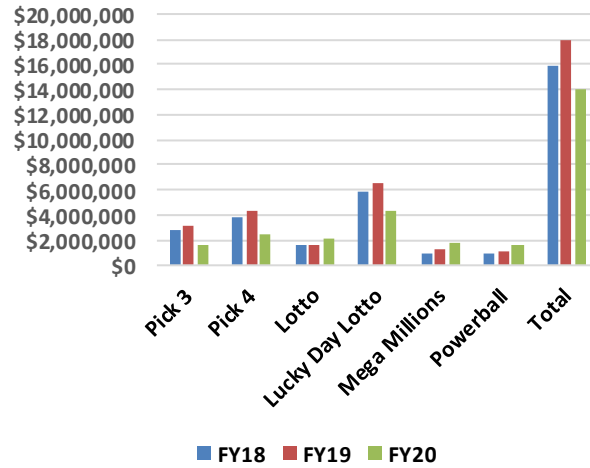


Table 1D – Online Sales by Year (single ticket purchases)

FY20 was the first year single ticket purchases were allowed for all of our draw-based games. Online sales for both PB and MM decreased in FY20 while Lotto has seen a consistent increase over the past 3 years.

Table 1E – Total Online Subscriptions Sales by Year

Our daily draw games Pick 3, Pick 4 and Lucky Day Lotto could only be sold online via a subscription purchase prior to August 2019. Subscription sales can be influenced by high jackpot amounts as shown in FY19, however player habits are the biggest driver. Daily draw games subscriptions decreased in FY20 when single ticket purchases for these games were enabled.

2. Transfers to Good Causes

Where the Money Goes

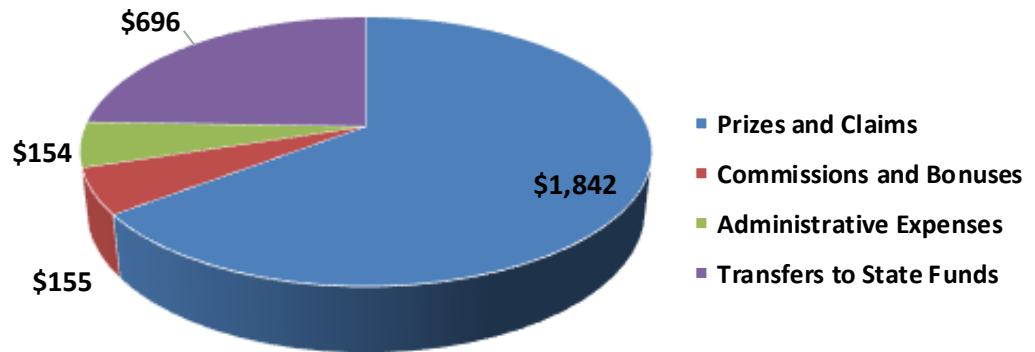


Table 2A – Total Expenses Paid in FY20 (in \$ millions)

In FY20 roughly 24% of Lottery sales went to good causes, which has decreased from 25% in FY19.

Common School Fund Transfers

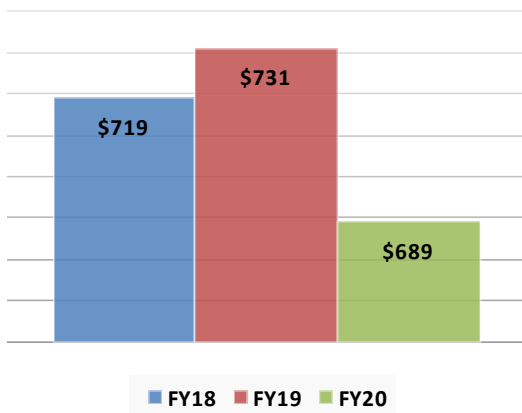


Table 2B – Yearly CSF Transfers (in \$ millions)

Capital Projects Fund Transfers

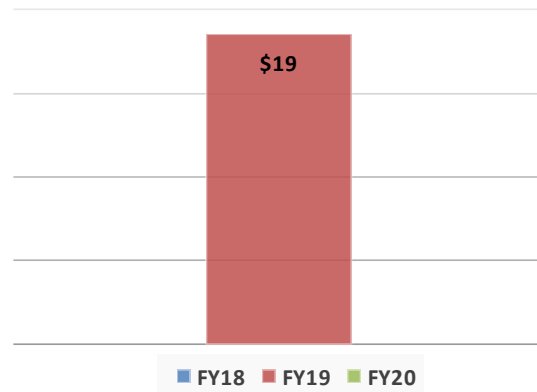


Table 2C – Yearly CPF Transfers (in \$ millions)

Specialty Ticket Transfers

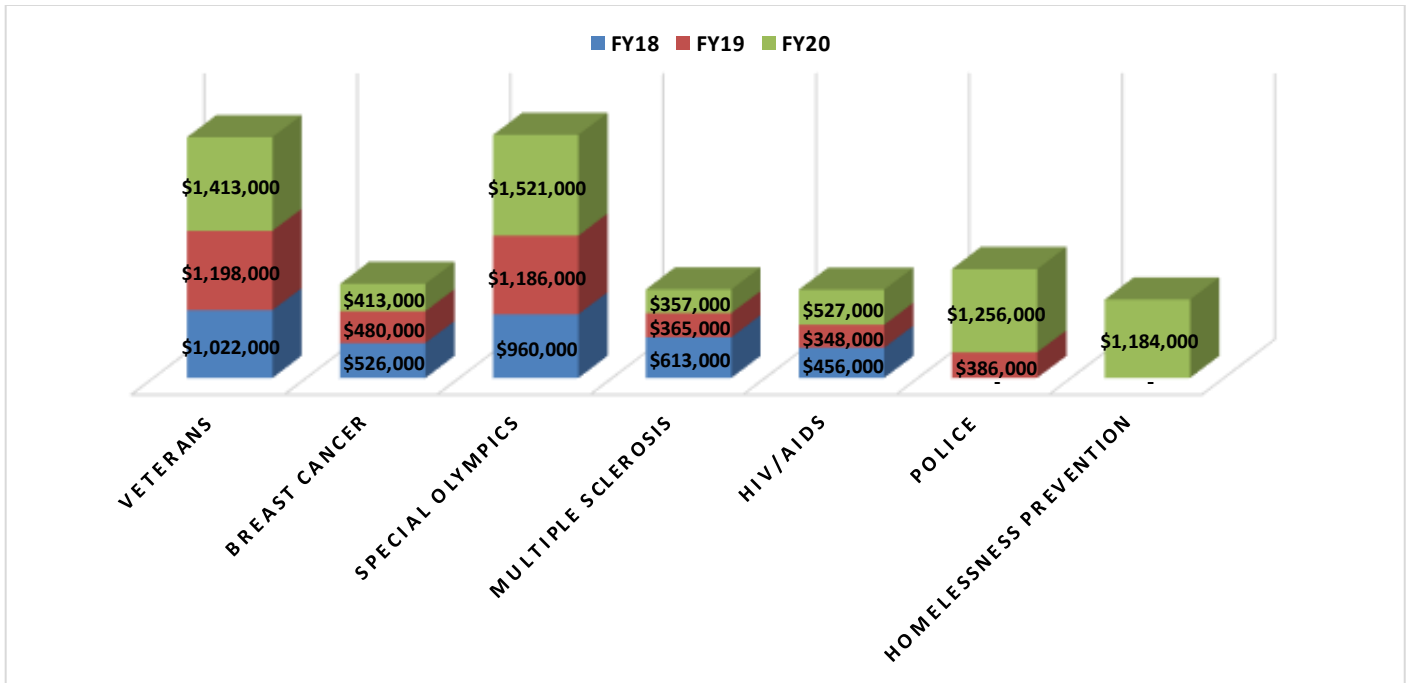


Table 2D – Yearly Specialty Ticket Transfers

3. Independent Audit Report

This audit report is for the year ended June 30, 2020. It has been performed as a Special Assistant Auditors for the Auditor General, State of Illinois.



STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY

FINANCIAL AUDIT

For the Year Ended June 30, 2020 Performed as

Special Assistant Auditors for the

Auditor General, State of Illinois

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AGENCY OFFICIALS

Director (Acting)	Mr. Harold Mays
Chief of Staff	Mr. Scott Gillard
Chief Financial Officer	Ms. Carol Radwine
General Counsel	Mr. Cornell Wilson
Chief Operations Officer (05/17/21 – Present)	Mr. Matthew Bell
Chief Operations Officer (Acting) (07/01/19 – 05/16/21)	Mr. James Bartlett
Chief Internal Auditor	Mr. Darick Clark

LOTTERY CONTROL BOARD OFFICER

Chair (09/02/20 – Present)	Ms. Dianna Sheehan
Chair (06/18/20 – 09/01/20)	Vacant
Chair (08/21/19 – 06/17/20)	Mr. James Floyd
Chair (07/01/19 – 08/20/19)	Vacant

LOTTERY CONTROL BOARD MEMBERS

Member (06/18/20 – Present)	Vacant
Member (07/01/19 – 06/17/20)	Ms. Elba Aranda-Suh
Member	Ms. Sarah Alter
Member (08/21/19 – Present)	Vacant
Member (07/01/19 – 08/20/19)	Mr. James Floyd
Member (03/26/21 – Present)	Ms. Alejandra Garza
Member (08/23/19 – 03/25/21)	Ms. Tarrah Cooper Wright
Member (07/01/19 – 08/22/19)	Vacant
Member (09/02/20 – Present)	Vacant
Member (07/10/20 – 09/01/20)	Ms. Dianna Sheehan

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

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

The auditors identified five matters involving the Department of the Lottery's financial reporting that they considered to be material weaknesses and significant deficiencies. Further, the auditors identified two noncompliance matters.

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>	<u>Finding Type</u>
CURRENT FINDINGS				
2020-001	50	2019/ 2017	Noncompliance with Fund Transfer Provisions	Material Weakness and Noncompliance
2020-002	53	NEW	Inadequate Internal Controls over Census Data	Material Weakness
2020-003	56	2019/ 2017	Inadequate Controls over Specialty Tickets	Significant Deficiency and Noncompliance
2020-004	59	NEW	Untimely Review of Credit Card Security	Significant Deficiency
2020-005	61	NEW	System Access Weaknesses	Significant Deficiency
PRIOR FINDINGS NOT REPEATED				
A	63	2019/ 2019	Failure to Ensure Timely Compliance with the Private Manager Agreement	
B	63	2019/ 2018	Excess Transfers to the Common School Fund	

EXIT CONFERENCE

The Department waived an exit conference in a correspondence from Darick Clark, Chief Internal Auditor, on May 20, 2021. The responses to the recommendations were provided by Darick Clark, Chief Internal Auditor, in a correspondence dated May 28, 2021.

3201 W. White Oaks Dr., Suite 102
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SIKICH.COM

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 Financial Statements

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, 2020, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the 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, 2020, 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.

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, 2020, 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.

Other Matters

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. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by the missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State Lottery Fund's financial statements.

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.

The accompanying supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with 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 as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2021, 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
June 4, 2021

FINANCIAL STATEMENTS

Statement of Net Position (Deficit)

June 30, 2020
(in thousands of dollars)

Assets and Deferred Outflows of Resources

Current assets:	
Cash and cash equivalents	\$ 13,609
Cash equity in State Treasury	45,597
Investments, short-term	24,250
Accounts receivable, net of allowance of \$26,618	112,436
Due from other State funds	3
Prepaid expenses	<u>223</u>
Total current assets	<u>196,118</u>
Noncurrent assets:	
Investments	272,835
Capital assets being depreciated, net	<u>29</u>
Total noncurrent assets	<u>272,864</u>
Total assets	<u>468,982</u>
Deferred outflows of resources:	
Deferred outflows of resources - pension	9,271
Deferred outflows of resources - OPEB	<u>3,178</u>
Total deferred outflows of resources	<u>12,449</u>
Total assets and deferred outflows of resources	<u>481,431</u>

This statement is continued on the following page.

Statement of Net Position (Deficit) (Continued)

June 30, 2020
(in thousands of dollars)

Liabilities and Deferred Inflows of Resources

Current liabilities:	
Prizes payable	88,030
Accounts payable and accrued liabilities	11,082
Due to other Government – Federal	43
Due to other State funds	59,827
Unearned revenue	1,411
Leases payable	17
Other liabilities	542
Current portion of long-term annuity prizes payable	22,817
Current portion of Net OPEB liability	<u>1,208</u>
Total current liabilities	<u>184,977</u>
Noncurrent liabilities:	
Noncurrent portion of long-term annuity prizes payable	226,050
Due to other State funds	89,045
Net pension liability	77,407
Noncurrent portion of Net OPEB liability	50,932
Noncurrent other	<u>740</u>
Total noncurrent liabilities	<u>444,174</u>
Total liabilities	<u>629,151</u>
Deferred inflows of resources:	
Deferred inflows of resources - pension	7,293
Deferred inflows of resources - OPEB	<u>12,668</u>
Total deferred inflows of resources	<u>19,961</u>
Total liabilities and deferred inflows of resources	<u>649,112</u>
Net Position (Deficit)	
Invested in capital assets	12
Unrestricted	<u>(167,693)</u>
Total net position (deficit)	<u>\$ (167,681)</u>

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

Statement of Revenues, Expenses, and Changes in Net Position (Deficit)

Year Ended June 30, 2020

(in thousands of dollars)

	<u>Total</u>
Operating revenues:	
Charges for sales and services	\$ 2,841,724
Other	<u>6,780</u>
Total operating revenues	<u>2,848,504</u>
Operating expenses:	
Cost of sales and services	154,938
Prizes and claims	1,842,188
General and administrative	153,614
Depreciation	<u>27</u>
Total operating expenses	<u>2,150,767</u>
Operating income	<u>697,737</u>
Nonoperating revenues (expenses):	
Investment income	32,346
Interest expense	(9,008)
Other	<u>(3)</u>
Total nonoperating revenues (expenses), net	<u>23,335</u>
Change in net position (deficit) before transfers	721,072
Transfers to other State funds	<u>(696,068)</u>
Change in net position (deficit)	25,004
Net position (deficit), July 1, 2019	<u>(192,685)</u>
Net position (deficit), June 30, 2020	<u>\$ (167,681)</u>

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

Statement of Cash Flows
Year Ended June 30, 2020
(in thousands of dollars)

Cash flows from operating activities:	
Cash received from sales and services	\$ 2,786,215
Cash receipts from other operating activities	6,839
Cash payments for commissions and bonuses	(154,938)
Cash payments to employees for services	(20,190)
Cash payments for general and administrative expenses	(146,169)
Cash payments for lottery prizes	(1,805,100)
Cash payments for other operating activities	<u>(192)</u>
Net cash provided by operating activities	<u>666,465</u>
Cash flows from noncapital financing activities:	
Cash transfers – out to other funds	<u>(656,174)</u>
Net cash used in noncapital financing activities	<u>(656,174)</u>
Cash flows from capital and related financing activities:	
Principal payments under capital lease obligation	<u>(20)</u>
Net cash used in capital and related financing activities	<u>(20)</u>
Cash flows from investing activities:	
Interest and dividends on investments	39
Proceeds from investment maturities	24,392
Cash paid for long-term annuity prizes payable	<u>(24,425)</u>
Net cash used in investing activities	<u>6</u>
Net increase in cash and cash equivalents	10,277
Cash and cash equivalents at beginning of year	<u>48,929</u>
Cash and cash equivalents at end of year	<u>\$ 59,206</u>
Reconciliation of cash and cash equivalents to the statement of net position (deficit):	
Total cash and cash equivalents per the statement of net position (deficit)	\$ 13,609
Add cash equity in State Treasury	<u>45,597</u>
Cash and cash equivalents at end of year	<u>\$ 59,206</u>

This statement is continued on the following page.

Statement of Cash Flows (Continued)Year Ended June 30, 2020
(in thousands of dollars)Reconciliation of operating income to net cash provided by
operating activities:

Operating income	\$ 697,737
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	27
Provision for uncollectible accounts	2,561
Changes in assets and liabilities:	
Increase in accounts receivable	(57,100)
Decrease in due from other funds	1
Decrease in deferred outflows of resources	1,481
Decrease in prepaid expenses	82
Increase in prizes payable	37,088
Decrease in accounts payable and accrued liabilities	(12,489)
Decrease in intergovernmental payables	(41)
Decrease in due to other State funds	(331)
Increase in unearned revenues	150
Decrease in other liabilities	(42)
Decrease in deferred inflows of resources	(3,370)
Decrease in net pension liability	(3,317)
Increase in net OPEB liability	4,028
Net cash provided by operating activities	<u>\$ 666,465</u>

Noncash investing, capital and financing activities:

Change in fair value of investments	\$ (23,329)
Interest accreted on investments	9,008
Interest accreted on long-term annuity prizes payable	(9,008)
Use of resources to pay long-term annuity prizes payable	3

(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, 2020, 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 net income is used for the support of the State's Common School Fund. Any net income remaining after the required transfers to the Common School Fund is transferred to the State's Capital Projects Fund. Certain ticket proceeds are dedicated for other State funds prior to the determination of the net income available for transfers to the Common School Fund 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 methodologies used at June 30, 2020 when compared to June 30, 2019.

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. These bonds were formerly presented as Level 1 assets in years ending prior to, and including, June 30, 2019.

Money market mutual fund—The fair value of the Department’s mutual fund is determined using the net asset value (or its equivalent) (NAV) per share. It is not probable any investments sold will be sold at an amount different from the current NAV of the plan’s ownership interest. Investments measured at fair value using the NAV as a practical expedient to fair value are not classified in the fair value hierarchy. As such, separate disclosures for these investments are provided in Note 4.

Annuities—Annuities are valued at fair value and are comprised of insurance policies not traded on the open market. These assets are classified as Level 3 assets.

(f) Allowances and Provisions

The allowance for doubtful accounts at June 30, 2020, 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, 2020.

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.

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.

During the COVID-19 Pandemic, this procedure was modified as further described in Note 13.

(m) Prizes and Claims

Draw Games

Prize expense for draw based games is recognized when the draw occurs and is recorded as the amount of prize liability incurred for the respective draw. 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 plan's 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, 2020, the Department adopted GASB Statement No. 83, *Certain Asset Retirement Obligations*, which establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The implementation of this statement had no impact on the Department's financial statements, as the Department currently has no asset retirement obligations.

Effective for the year ending June 30, 2020, the Department adopted GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The implementation of this statement had no impact on the Department's financial statements, as the Department currently has no debt.

Effective as of May 8, 2020, the Department adopted GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. The implementation of this statement postpones the effective date of GASB Statement No. 87, *Leases*, by 18 months. This statement also postpones the effective dates of the following pronouncements by one year:

Statement No. 83, *Certain Asset Retirement Obligations*

Statement No. 84, *Fiduciary Activities*

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*

Statement No. 90, *Majority Equity Interests*

Statement No. 91, *Conduit Debt*

Obligations Statement No. 92, *Omnibus*

2020

Statement No. 93, *Replacement of Interbank Offered Rates*

All effective dates within Notes 2(q) and 2(r) have been updated per the guidelines of GASB Statement No. 95.

(r) Future Adoption of GASB Statements

Effective for the year ending June 30, 2021, the Department will adopt GASB Statement No. 84, *Fiduciary Activities*, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

Effective for the year ending June 30, 2022, the Department will adopt 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.

Effective for the year ending June 30, 2022, the Department will adopt 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.

Effective for the year ending June 30, 2021, the Department will adopt GASB Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, which defines a majority equity interest and specifies that a majority equity interest should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. All other holdings of a majority equity interest should be reported as a component unit, and the government that holds the equity interest should report an asset related to the majority equity interest.

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, 2022, the Department will adopt 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.

Effective for the years ending June 30, 2021 and 2022, the Department will adopt GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which addresses agreements in which variable payments made or received depend on an interbank offered rate (IBOR), most notably, the London Interbank Offered Rate (LIBOR), which is expected to cease to exist in its current form at the end of 2021. Removal of LIBOR as a benchmark interest rate is effective for the year ending June 30, 2022. All other requirements of this statement are effective for the year ending June 30, 2021.

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 year ending June 30, 2022, the Department will adopt 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 plans (other employee benefit 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 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 \$45.6 million as of June 30, 2020, 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 \$13.6 million as of June 30, 2020, are held in Federal Deposit Insurance Corporation (FDIC) insured depository institutions. The Department has an agreement under which one of these institutions insures balances in excess of FDIC insurance limits from loss by pledging securities as collateral. PNC Bank holds the collateral in the Illinois Lottery’s name. The collateral amount exceeded the deposited amount of \$7 million at June 30, 2020. 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, 2020, the Department had the following investments outside of the State Treasury:

	<u>Fair value (thousands)</u>	<u>Weighted average maturity (years)</u>
Annuities	\$ 108	1.440
U.S. Treasury bonds	296,762	7.049
Money market mutual fund	<u>215</u>	0.123
Total	<u>\$ 297,085</u>	

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 Department’s investments are held in U.S. Treasury obligations. Please see Note 4 for additional information concerning the Department’s investments.

(4) Fair Value Measurements

The following table presents assets (amounts expressed in thousands) measured at fair value on a recurring basis at June 30, 2020:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level				
Annuities	\$ 108	—	—	108
U.S. Treasury bonds	<u>296,762</u>	<u>—</u>	<u>296,762</u>	<u>—</u>
Total investments by fair value level	296,870	<u>—</u>	<u>296,762</u>	<u>108</u>
Investments measured at the net asset value (NAV)				
Money market mutual fund	<u>215</u>			
Total investments measured at the NAV	<u>215</u>			
Total investments	\$ <u>297,085</u>			

The change in assets (amounts expressed in thousands) measured at fair value using Level 3 inputs for the year ended June 30, 2020, is as follows:

	<u>2020</u>
Balance, beginning of the year	\$ 165
Change in value of annuities	<u>(57)</u>
Balance, end of the year	<u>\$ 108</u>

The money market mutual fund seeks current income consistent with stability of principal and liquidity by investing in a portfolio of short-term U.S. Treasury securities maturing in 397 days or less that pay interest exempt from state personal income tax. The fair value of the investment in this type has been determined using the NAV per share. The funds can be redeemed on any day the New York Stock Exchange is open. Redemption proceeds normally are wired or mailed within one business day for each method of payment after receiving a timely request in proper form.

(5) Interfund Balance and Activity

(a) Balance Due from/to Other Funds

The following balance (amounts expressed in thousands) at June 30, 2020, represents amounts due from other State funds.

<u>Fund</u>	<u>Due from</u>		<u>Description/Purpose</u>
	<u>Other State funds</u>	<u>2020</u>	
Lottery	Alcoholism and Substance Abuse	\$ <u>3</u>	Due from the Alcoholism and Substance Abuse Fund for problem gambler services.
		\$ <u>3</u>	

The following balance (amounts expressed in thousands) at June 30, 2020, represents amounts due to other State funds.

<u>Fund</u>	<u>Due to</u>		<u>Description/Purpose</u>
	<u>Other State funds</u>	<u>2020</u>	
Lottery	Common School	\$ 59,135	Due to other State funds for allocation of lottery proceeds and for administrative expenses.
	Capital Projects	89,045	
	Other State funds	<u>692</u>	
		<u>\$ 148,872</u>	

The \$89.045 million due to the Capital Projects Fund as of June 30, 2020, is not expected to be repaid within one year.

(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, 2020, represent amounts transferred to other State funds:

<u>Fund</u>	<u>Transfers out to</u>		<u>Description/Purpose</u>
	<u>Other State funds</u>	<u>2020</u>	
Lottery	Common School	\$ 689,523	Transfers to the Common School Fund and other State funds pursuant to the statutory requirements.
	Other State funds	<u>6,545</u>	
		<u>\$ 696,068</u>	

(6) Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2020, was as follows:

	<u>Balance June 30, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Net transfers</u>	<u>Balance June 30, 2020</u>
Capital assets being depreciated:					
Equipment	\$ 642	\$ -	\$ 34	\$ (83)	\$ 525
Less accumulated depreciation	<u>(586)</u>	<u>(27)</u>	<u>(34)</u>	<u>83</u>	<u>(496)</u>
Total capital assets, net	<u>\$ 56</u>	<u>\$ (27)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29</u>

(7) Long-Term Obligations

(a) Changes in Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2020, were as follows:

	<u>Balance June 30, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2020</u>	<u>Amounts Due within one year</u>
Leases payable	\$ 37	—	20	17	17
Compensated absences	747	1,142	1,049	840	100
Obligations to Lottery prize winners – group contracts	165	—	57	108	60
Obligations to Lottery prize winners – annuities	264,086	—	15,327	248,759	22,757
Net pension liability	80,724	—	3,317	77,407	—
OPEB liability	48,112	4,028	—	52,140	1,208
Total long-term obligations \$	<u>393,871</u>	<u>5,170</u>	<u>19,770</u>	<u>379,271</u>	<u>24,142</u>

(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. The present value of these annuities and the related liability installments owed to prize winners (amounts expressed in thousands) were as follows at June 30, 2020:

<u>Fiscal year</u>	<u>Current</u>	<u>Long-term</u>	<u>Total</u>
2021	\$ 62	—	62
2022	—	50	50
Total future prize payments	62	50	112
Less present value adjustments	(2)	(2)	(4)
Present value at June 30, 2020	<u>\$ 60</u>	<u>48</u>	<u>108</u>

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 \$297 million at June 30, 2020. Interest rates range from 1.8% to 7.7% and prizes payable are scheduled annually through 2046 as follows (amounts expressed in thousands):

<u>Fiscal year</u>	<u>Current</u>	<u>Long-term</u>	<u>Total</u>
2021	\$ 26,656	—	26,656
2022	—	24,000	24,000
2023	—	25,022	25,022
2024	—	23,649	23,649
2025	—	24,003	24,003
2026-2046	—	191,296	191,296
Total future prizes	26,656	287,970	314,626
Adjustments to present value	(3,899)	(61,968)	(65,867)
Present value of future prizes	22,757	226,002	248,759
Adjustments to fair value	1,433	46,785	48,218
Fair value of future prizes at June 30, 2020	\$ 24,190	272,787	296,977

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 \$9 million for the year ended June 30, 2020.

(c) Leases Payable

The Department has entered into a lease agreement as lessee for financing the acquisition of office equipment. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date in the capital assets account. Information regarding operating leases is included in Note 12(a).

Assets under the capital lease amounted to \$63 thousand, and the related accumulated depreciation amounted to \$51 thousand as of June 30, 2020.

Future minimum lease payments for the capital lease recorded in the Department's Statement of Net Position (Deficit) as of June 30, 2020, are as follows (amounts expressed in thousands):

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 17	-
Total minimum lease payments	\$ 17	-

(8) Pension Plan

Plan Description. Substantially all of the Department's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement

System(SERS), which is a single-employer defined benefit pension trust fund in the State of Illinois reporting entity. SERS is governed by article 14 of the Illinois Pension Code (40 ILCS 5/1, et al.). The plan consists of two tiers of contribution requirements and benefit levels based on when an employee was hired.

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

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

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

Regular Formula Tier 1	Regular Formula Tier 2
<p>A member must have a minimum of eight years of service credit and may retire at:</p> <ul style="list-style-type: none"> • Age 60, with 8 years of service credit. • Any age, when the member’s age (years & whole months) plus years of service credit (years & whole months) equal 85 years (1,020 months) (Rule of 85) with eight years of credited service. • Between ages 55-60 with 25-30 years of service credit (reduced 1/2 of 1% for each month under age 60). <p>The retirement benefit is based on final average compensation and credited service. Final average compensation is the 48 highest consecutive months of service within the last 120 months of service.</p> <p>Under the Rule of 85, a member is eligible for the first 3% increase on January 1 following the first full year of retirement, even if the member is not age 60. If the member retires at age 60 or older, he/she will receive a 3% pension increase every year on January 1, following the first full year of retirement.</p>	<p>A member must have a minimum of 10 years of credited service and may retire at:</p> <ul style="list-style-type: none"> • Age 67, with 10 years of credited service. • Between ages 62-67 with 10 years of credited service (reduced 1/2 of 1% for each month under age 67). <p>The retirement benefit is based on final average compensation and credited service. For regular formula employees, final average compensation is the average of the 96 highest consecutive months of service within the last 120 months of service. The retirement benefit is calculated on a maximum salary of \$106,800. This amount increases annually by 3% or one-half of the Consumer Price Index, whichever is less.</p> <p>If the member retires 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 2019 rate is \$114,952.</p>

<p>If the member retires before age 60 with a reduced retirement benefit, he/she will receive a 3% pension increase every January 1 after the member turns age 60 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.</p>	<p>If the member retires before age 67 with a reduced retirement benefit, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every January 1 after the member turns age 67 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.</p>
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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 lesser of 3% or one-half of the annual percentage increase in the Consumer Price Index. For 2020, this amount was \$115,929.

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 2020, 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 2020, the employer contribution rate was 54.290%. The Department's contribution amount for fiscal year 2020 was \$5.584 million.

Pension Liability, Deferred Outflows of Resources, Deferred Inflows of Resources and Expense Related to Pensions. At June 30, 2020, the Department reported a liability of \$77.407 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, 2019 (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 SERS during the year ended June 30, 2019. As of the current year measurement date of June 30, 2019, the Department’s proportion was 0.2318%, which was a decrease of 0.012% from its proportion measured as of the prior year measurement date of June 30, 2018. At June 30, 2019, the fiduciary net position of SERS was \$18,491.9 million and the net pension liability was \$33,394.1 million.

For the year ended June 30, 2020, the Department recognized pension expense of \$6.268 million. At June 30, 2020, the Department reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2019, from the following sources (amounts expressed in thousands):

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 968
Changes of assumptions	2,158	1,117
Net difference between projected and actual investment earnings on pension plan investments	-	113
Changes in proportion	1,529	5,095
Department contributions subsequent to the measurement date	<u>5,584</u>	<u>-</u>
Total	\$ <u>9,271</u>	\$ <u>7,293</u>

The Department reported \$5.584 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, 2021. 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,	
2021	\$ 168
2022	(2,097)
2023	(1,235)
2024	(443)
Total	\$ <u>(3,607)</u>

Actuarial Methods and Assumptions. The total pension liability was determined by an actuarial valuation as

of June 30, 2019, 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, 2019 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 except for the following:

The rate of inflation decreased from 2.50% to 2.25%.

The investment rate of return decreased from 7.00% to 6.75%.

The projected salary increase range changed from 3.00% - 7.42% to 2.75% - 7.17%.

The retirement age experience study was updated to July 2015 – June 2018.

The mortality rate was updated from using the 105 percent of the RP 2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added.

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, 2019, 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%	4.6%
Emerging Market Equity	8.0%	6.9%
Private Equity	7.0%	6.8%
Intermediate Investment Grade Bonds	14.0%	0.7%
Long-term Government Bonds	4.0%	1.0%

TIPS	4.0%	0.8%
High Yield and Bank Loans	5.0%	2.7%
Opportunistic Debt	8.0%	4.2%
Emerging Market Debt	2.0%	2.7%
Real Estate	10.0%	4.4%
Infrastructure	2.0%	4.1%
Total	<u>100%</u>	

Discount Rate. A discount rate of 6.47% was used to measure the total pension liability as of the measurement date of June 30, 2019, as compared to a discount rate of 6.81% used to measure the total pension liability as of the prior year measurement date. The June 30, 2019 single blended discount rate was based on the expected rate of return on pension plan investments of 6.75% and a municipal bond rate of 3.13%, 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 contributions will be made based on the statutorily required rates under State law. 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 2073. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2073, 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 5.47%	Discount Rate 6.47%	1% Increase 7.47%
Department's proportionate share of the net pension liability	\$ 93,615	\$ 77,407	\$ 64,082

Payables to the Pension Plan. At June 30, 2020, the Department reported a payable of \$315 thousand to SERS for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2020.

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

Plan Description. The State Employees Group Insurance Act of 1971 (Act), as amended, authorizes the Illinois 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), 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 2020, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was \$11,681.04 (\$6,703.92 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and \$14,959.44 (\$5,592.24 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, 2020, was measured as of June 30, 2019, with an actuarial valuation as of June 30, 2018. At June 30, 2020, the Department recorded a liability of \$52.140 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, 2019. As of the current year measurement date of June 30, 2019, the Department's proportion was 0.1189%, which was a decrease of 0.0011% from its proportion measured as of the prior year measurement date of June 30, 2018.

The Department recognized a credit to OPEB expense for the year ended June 30, 2020, of \$652 thousand. At June 30, 2020, the Department reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2019, from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 75	\$ 795
Changes of assumptions	1,812	3,217
Changes in proportion and differences between employer contributions and proportionate share of contributions	83	8,656
Department contributions subsequent to the measurement date	<u>1,208</u>	<u>-</u>
Total	<u>\$ 3,178</u>	<u>\$ 12,668</u>

The \$1.208 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, 2021. 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):

<u>Year ended June 30,</u>	
2021	\$ (3,920)
2022	(3,920)
2023	(2,917)
2024	9
2025	<u>51</u>
Total	<u>\$ (10,697)</u>

Actuarial Methods and Assumptions. The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified. The actuarial valuation for the SEGIP was based on GARS, JRS, SERS, TRS, and SURS active, inactive, and retiree data as of June 30, 2018, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2018.

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry Age Normal
Inflation Rate	2.50%
Projected Salary Increases*	2.75% - 12.25%
Discount Rate	3.13%

Healthcare Cost Trend Rate:

Medical (Pre-Medicare)	8.00% grading down 0.50% in the first year to 7.50%, then grading down 0.11% in the second year to 7.39%, followed by grading down of 0.50% per year over 5 years to 4.89% in year 7
Medical (Post-Medicare)	9.00% grading down 0.50% per year over 9 years to 4.50%
Dental	6.00% grading down 0.50% per year over 3 years to 4.50%

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 2019 and 2020 are based on actual premiums. Premiums after 2020 were projected based on the same healthcare cost trend rates applied to per capita claim costs but excluding the additional trend rate that estimates the impact of the Excise Tax.

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

Since the last measurement date on June 30, 2019, the State has not made any significant changes to the benefit terms affecting the measurement of the collective total OPEB liability. On December 20, 2019, the *Further Consolidated Appropriations Act, 2020* (Public Law 116-94) was signed into law repealing the federal excise taxes of 40% on total employer premium spending in excess of specified dollar amounts, also known as the "Cadillac Tax." The impact of this repeal to the State's financial statements, which could be significant, is not known at this time.

Additionally, the demographic assumptions used in this OPEB valuation are identical to those used in the June 30, 2018, valuations for GARS, JRS, SERS, TRS, and SURS as follows:

	Retirement age experience study[^]	Mortality^{^^}
GARS	July 2012 - June 2015	RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales
JRS	July 2012 - June 2015	RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales
SERS	July 2012 - June 2015	105 percent of the RP 2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added
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. A modified experience review was completed for SERS for the 3-year period ending June 30, 2015. Changes were made to the assumptions regarding investment rate of return, projected salary increases, inflation rate, and mortality based on this review. All other assumptions remained unchanged.

^{^^} 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 3.62% at June 30, 2018, and 3.13% at June 30, 2019, 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 3.13%, as well as what the Department's total OPEB liability would be if it were calculated using a Single Discount rate that is one percentage point higher (4.13%) or lower (2.13%) than the current rate (amounts expressed in thousands):

	<u>1% Decrease (2.13%)</u>	<u>Current Single Discount Rate Assumption (3.13%)</u>	<u>1% Increase (4.13%)</u>
Department's proportionate share of total OPEB liability	\$ 61,409	\$ 52,140	\$ 44,726

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 8.0% in 2020 decreasing to an ultimate trend rate of 4.89% in 2027, for non-Medicare coverage, and 9.0% decreasing to an ultimate trend rate of 4.5% in 2029 for Medicare coverage.

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rates Assumption</u>	<u>1% Increase</u>
Department's proportionate share of total OPEB liability	\$ 43,720	\$ 52,140	\$ 63,046

(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 State's 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, 2020.

(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. Incentive compensation is subject to annual adjustments and is only earned if net income meets statutorily required transfers in accordance with the agreement. For the year ended June 30, 2020, total compensation for operating expenses to Camelot under the PMA was \$132.2 million, which are included in general and administrative expenses. There was no incentive compensation earned during the year. Of this amount, \$10 million was outstanding at June 30, 2020, and is included in accounts payable and accrued liabilities.

The Department has recorded a receivable from Camelot at June 30, 2020, in the amount of \$31.3 million. This amount is comprised solely of excess advance for expenses incurred during fiscal year 2020.

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. Camelot has also asserted a Force Majeure claim due to the COVID-19 Pandemic. 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, could have an impact on Camelot's annual Net Income Targets (NITs) for fiscal year 2020 and beyond per Schedule 10.1 of the PMA. The Adverse Action and Force Majeure Event could result in decreased NITs. The Beneficial Action could result in increased NITs. The Department is currently working with Camelot to resolve these matters 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 operating leases. Total operating lease costs for the year ended June 30, 2020, amounted to \$319 thousand. Information regarding the Department's capital 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 COVID-19 outbreak in the United States has resulted in the Department's ability to deliver services being challenged while attempting to maintain core functions and essential operations. During this time, the Department continued to operate, with adjustments, to satisfy its mission to generate funding for schools, capital projects, and specialty causes in a socially responsible manner. However, there were significant internal operational challenges resulting from the Department's response to COVID-19 and the stay-at-home order, as well as challenges within the Department's retail estate. These challenges had a direct impact on the Department's ability to serve its retailers and players.

The Department complied with the State's remote work mandate during its COVID-19 response. The Department chose to remove Lottery Sales Representatives (LSRs) from the field. This action reduced the Department's ability to service retailers on-site, including facilitating the return of unsold tickets. Additionally, some retailers had to temporarily or permanently close. As a result of these circumstances, the Department, along with its Private Manager, elected to suspend the automatic settlement of instant ticket books that reached 90 days old, as a one-time courtesy to its retailers to prevent undue hardship. This suspension became effective on March 22, 2020, and was removed on August 12, 2020. LSRs re-entered the field on June 29, 2020, and began settling books manually and processing returns for unsold tickets. Therefore, any instant ticket books that reached 90 days old remained unsettled as of June 30, 2020, unless settled via the other two methods described in Note 2(l). Accordingly, the Department accrued the corresponding instant ticket revenue, net of returned books, in accordance with its revenue recognition policy established within Note 2(l), and also accrued the related accounts receivable, prize expense, and prize liability.

The Department's claim centers closed on March 17, 2020, in accordance with the Governor's stay-at-home order. The centers re-opened again in mid-July by appointment-only. Due to the temporary closure of the claim centers, the Department extended the redemption period for unclaimed prizes through September 30, 2020.

The extent of the financial impact of COVID was monitored closely throughout this period and thereafter. Sales slowed significantly during the first several weeks, but quickly rebounded for the remaining months of the fiscal year.

(14) Subsequent Events

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

SUPPLEMENTARY INFORMATION

Combining Schedule of Net Position (Deficit) - State Lottery Fund

June 30, 2020

(in thousands of dollars)

	State Lottery (Collapsed)	Deferred Prize Winners (Collapsed)	Lottery Security Deposits (1309)	Eliminations	Total State Lottery Fund
Assets and Deferred Outflows of Resources					
Current assets:					
Cash and cash equivalents	\$ 13,167	\$ -	\$ 442	\$ -	\$ 13,609
Cash equity in State Treasury	43,933	1,664	-	-	45,597
Investments, short-term	60	24,190	-	-	24,250
Accounts receivable, net of allowance of \$26,618	112,436	-	-	-	112,436
Due from other State funds	3	-	-	-	3
Prepaid expenses	223	-	-	-	223
Total current assets	<u>169,822</u>	<u>25,854</u>	<u>442</u>	<u>-</u>	<u>196,118</u>
Noncurrent assets:					
Investments	48	272,787	-	-	272,835
Capital assets being depreciated, net	29	-	-	-	29
Total noncurrent assets	<u>77</u>	<u>272,787</u>	<u>-</u>	<u>-</u>	<u>272,864</u>
Total assets	<u>169,899</u>	<u>298,641</u>	<u>442</u>	<u>-</u>	<u>468,982</u>
Deferred outflows of resources:					
Deferred outflows of resources - pension	9,271	-	-	-	9,271
Deferred outflows of resources - OPEB	3,178	-	-	-	3,178
Total deferred outflows of resources	<u>12,449</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,449</u>
Total assets and deferred outflows of resources	<u>182,348</u>	<u>298,641</u>	<u>442</u>	<u>-</u>	<u>481,431</u>
Liabilities and Deferred Inflows of Resources					
Current liabilities:					
Prizes payable	88,030	-	-	-	88,030
Accounts payable and accrued liabilities	11,082	-	-	-	11,082
Due to other Government – Federal	43	-	-	-	43
Due to other State funds	59,827	-	-	-	59,827
Unearned revenue	1,411	-	-	-	1,411
Leases payable	17	-	-	-	17
Other liabilities	100	-	442	-	542
Current portion of long-term annuity prizes payable	60	22,757	-	-	22,817
Current portion of OPEB liability	1,208	-	-	-	1,208
Total current liabilities	<u>161,778</u>	<u>22,757</u>	<u>442</u>	<u>-</u>	<u>184,977</u>
Noncurrent liabilities:					
Noncurrent portion of long-term annuity prizes payable	48	226,002	-	-	226,050
Due to other State funds	89,045	-	-	-	89,045
Net pension liability	77,407	-	-	-	77,407
Noncurrent portion of OPEB liability	50,932	-	-	-	50,932
Noncurrent other	740	-	-	-	740
Total noncurrent liabilities	<u>218,172</u>	<u>226,002</u>	<u>-</u>	<u>-</u>	<u>444,174</u>
Total liabilities	<u>379,950</u>	<u>248,759</u>	<u>442</u>	<u>-</u>	<u>629,151</u>
Deferred inflows of resources:					
Deferred inflows of resources - pension	7,293	-	-	-	7,293
Deferred inflows of resources - OPEB	12,668	-	-	-	12,668
Total deferred inflows of resources	<u>19,961</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,961</u>
Total liabilities and deferred inflows of resources	<u>399,911</u>	<u>248,759</u>	<u>442</u>	<u>-</u>	<u>649,112</u>
Net Position (Deficit)					
Invested in capital assets	12	-	-	-	12
Unrestricted	(217,575)	49,882	-	-	(167,693)
Total net position (deficit)	<u>\$ (217,563)</u>	<u>\$ 49,882</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (167,681)</u>

See accompanying independent auditors' report.

Combining Schedule of Accounts - Schedule of Net Position (Deficit) - State Lottery Fund (Collapsed)

June 30, 2020

(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	\$ -	\$ 5,811	\$ 7,356	\$ -	\$ 13,167
Cash equity in State Treasury	43,933	-	-	-	43,933
Investments, short-term	60	-	-	-	60
Accounts receivable, net of allowance of \$26,618	112,436	-	-	-	112,436
Due from other Department funds	15,534	2,150	-	(17,684)	-
Due from other State funds	3	-	-	-	3
Prepaid expenses	-	223	-	-	223
Total current assets	<u>171,966</u>	<u>8,184</u>	<u>7,356</u>	<u>(17,684)</u>	<u>169,822</u>
Noncurrent assets:					
Investments	48	-	-	-	48
Capital assets being depreciated, net	29	-	-	-	29
Total noncurrent assets	<u>77</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>77</u>
Total assets	<u>172,043</u>	<u>8,184</u>	<u>7,356</u>	<u>(17,684)</u>	<u>169,899</u>
Deferred outflows of resources:					
Deferred outflows of resources - pension	9,271	-	-	-	9,271
Deferred outflows of resources - OPEB	3,178	-	-	-	3,178
Total deferred outflows of resources	<u>12,449</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,449</u>
Total assets and deferred outflows of resources	<u>184,492</u>	<u>8,184</u>	<u>7,356</u>	<u>(17,684)</u>	<u>182,348</u>
Liabilities and Deferred Inflows of Resources					
Current liabilities:					
Prizes payable	88,030	-	-	-	88,030
Accounts payable and accrued liabilities	11,076	6	-	-	11,082
Due to other Government – Federal	43	-	-	-	43
Due to other Department funds	2,150	8,178	7,356	(17,684)	-
Due to other State funds	59,827	-	-	-	59,827
Unearned revenue	1,411	-	-	-	1,411
Leases payable	17	-	-	-	17
Other liabilities	100	-	-	-	100
Current portion of long-term annuity prizes payable	60	-	-	-	60
Current portion of OPEB liability	1,208	-	-	-	1,208
Total current liabilities	<u>163,922</u>	<u>8,184</u>	<u>7,356</u>	<u>(17,684)</u>	<u>161,778</u>
Noncurrent liabilities:					
Noncurrent portion of long-term annuity prizes payable	48	-	-	-	48
Due to other State funds	89,045	-	-	-	89,045
Net pension liability	77,407	-	-	-	77,407
Noncurrent portion of OPEB liability	50,932	-	-	-	50,932
Noncurrent other	740	-	-	-	740
Total noncurrent liabilities	<u>218,172</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>218,172</u>
Total liabilities	<u>382,094</u>	<u>8,184</u>	<u>7,356</u>	<u>(17,684)</u>	<u>379,950</u>
Deferred inflows of resources:					
Deferred inflows of resources - pension	7,293	-	-	-	7,293
Deferred inflows of resources - OPEB	12,668	-	-	-	12,668
Total deferred inflows of resources	<u>19,961</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,961</u>
Total liabilities and deferred inflows of resources	<u>402,055</u>	<u>8,184</u>	<u>7,356</u>	<u>(17,684)</u>	<u>399,911</u>
Net Position (Deficit)					
Invested in capital assets	12	-	-	-	12
Unrestricted	(217,575)	-	-	-	(217,575)
Total net position (deficit)	<u>\$ (217,563)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (217,563)</u>

See accompanying independent auditors' report.

Combining Schedule of Accounts - Schedule of Net Position (Deficit) - Deferred Prize Winners Fund (Collapsed)

June 30, 2020
(in thousands of dollars)

	Deferred Prize Winners (0978)	Deferred Lottery Prize Winners Trust Fund (2978)	Eliminations	Total Deferred Prize Winners (Collapsed)
Assets and Deferred Outflows of Resources				
Current assets:				
Cash equity in State Treasury	\$ 1,664	\$ -	\$ -	\$ 1,664
Investments, short-term	-	24,190	-	24,190
Due from other Department funds	24,190	-	(24,190)	-
Total current assets	<u>25,854</u>	<u>24,190</u>	<u>(24,190)</u>	<u>25,854</u>
Noncurrent assets:				
Investments	-	272,787	-	272,787
Due from other Department funds	272,787	-	(272,787)	-
Total noncurrent assets	<u>272,787</u>	<u>272,787</u>	<u>(272,787)</u>	<u>272,787</u>
Total assets	<u>298,641</u>	<u>296,977</u>	<u>(296,977)</u>	<u>298,641</u>
Total assets and deferred outflows of resources	<u>298,641</u>	<u>296,977</u>	<u>(296,977)</u>	<u>298,641</u>
Liabilities and Deferred Inflows of Resources				
Current liabilities:				
Due to other Department funds	-	24,190	(24,190)	-
Current portion of long-term annuity prizes payable	22,757	-	-	22,757
Total current liabilities	<u>22,757</u>	<u>24,190</u>	<u>(24,190)</u>	<u>22,757</u>
Noncurrent liabilities:				
Noncurrent portion of long-term annuity prizes payable	226,002	-	-	226,002
Due to other Department funds	-	272,787	(272,787)	-
Total noncurrent liabilities	<u>226,002</u>	<u>272,787</u>	<u>(272,787)</u>	<u>226,002</u>
Total liabilities	<u>248,759</u>	<u>296,977</u>	<u>(296,977)</u>	<u>248,759</u>
Total liabilities and deferred inflows of resources	<u>248,759</u>	<u>296,977</u>	<u>(296,977)</u>	<u>248,759</u>
Net Position (Deficit)				
Unrestricted	49,882	-	-	49,882
Total net position (deficit)	<u>\$ 49,882</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,882</u>

See accompanying independent auditors' report.

Combining Schedule of Revenues, Expenses, and Changes in Net Position (Deficit) - State Lottery Fund

Year Ended June 30, 2020

(in thousands of dollars)

	<u>State Lottery (Collapsed)</u>	<u>Deferred Prize Winners (Collapsed)</u>	<u>Lottery Security Deposits (1309)</u>	<u>Eliminations</u>	<u>Total State Lottery Fund</u>
Operating revenues:					
Charges for sales and services	\$ 2,841,724				
Other	<u>6,780</u>				
Total operating revenues	<u>2,848,504</u>				
Operating expenses:					
Cost of sales and services	154,938	-	-	-	
Prizes and claims	1,842,188	-	-	-	
General and administrative	153,614	-	-	-	
Depreciation	<u>27</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Total operating expenses	<u>2,150,767</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Operating income	<u>697,737</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Nonoperating revenues (expenses):					
Investment income	9	32,337	-	-	
Interest expense	-	(9,008)	-	-	
Other	<u>-</u>	<u>(3)</u>	<u>-</u>	<u>-</u>	
Total nonoperating revenues (expenses), net	<u>9</u>	<u>23,326</u>	<u>-</u>	<u>-</u>	
Change in net position (deficit) before transfers	697,746	23,326	-	-	
Transfers from other State funds	(1,678)	-	-	1,678	
Transfers to other State funds	<u>(696,068)</u>				
Change in net position (deficit)	<u>-</u>				
Net position (deficit), July 1, 2019	<u>(217,563)</u>				
Net position (deficit), June 30, 2020	<u>\$ (217,563)</u>				

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, 2020
(in thousands of dollars)

	State Lottery (0711)				
Operating revenues:					
Charges for sales and services	\$ 68,405				
Other	3,120				
Total operating revenues	71,525				
Operating expenses:					
Cost of sales and services	3,904				
Prizes and claims	276,988				
General and administrative	153,467				
Depreciation	27				
Total operating expenses	434,386				
Operating income	(362,861)				
Nonoperating revenues (expenses):					
Investment income	9	-	-	-	9
Interest expense	-	-	-	-	-
Other	-				
Total nonoperating revenues (expenses), net	9				
Change in net position (deficit) before transfers	(362,852)				
Transfers from other State funds	1,162,259				
Transfers to other State funds	(799,407)				
Change in net position (deficit)	-				
Net position (deficit), July 1, 2019	(217,563)				
Net position (deficit), June 30, 2020	\$ (217,563)				

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, 2020
(in thousands of dollars)

	Deferred Prize Winners (0978)	
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		-
Interest expense		(9,008)
Other		(3)
Total nonoperating revenues (expenses), net		(9,011)
Change in net position (deficit) before transfers		(9,011)
Transfers from other State funds		32,337
Transfers to other State funds		1,678
Change in net position (deficit)		25,004
Net position (deficit), July 1, 2019		24,878
Net position (deficit), June 30, 2020	\$	49,882

See accompanying independent auditors' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
Combining Schedule of Cash Flows - State Lottery Fund
Year Ended June 30, 2020
(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	\$ 2,786,215	\$ -	\$ -	\$ -	\$ 2,786,215
Cash receipts from other operating activities	6,780	-	59	-	6,839
Cash payments for commissions and bonuses	(154,938)	-	-	-	(154,938)
Cash payments to employees for services	(20,190)	-	-	-	(20,190)
Cash payments for general and administrative expenses	(146,169)	-	-	-	(146,169)
Cash payments for lottery prizes	(1,805,100)	-	-	-	(1,805,100)
Cash payments for other operating activities	-	-	(192)	-	(192)
Net cash provided by operating activities	<u>666,598</u>	<u>-</u>	<u>(133)</u>	<u>-</u>	<u>666,465</u>
Cash flows from noncapital financing activities:					
Cash transfers – out to other funds	(656,174)	-	-	-	(656,174)
Net cash used in noncapital financing activities	<u>(656,174)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(656,174)</u>
Cash flows from capital and related financing activities:					
Principal payments under capital lease obligation	(20)	-	-	-	(20)
Net cash used in capital and related financing activities	<u>(20)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(20)</u>
Cash flows from investing activities:					
Interest and dividends on investments	9	30	-	-	39
Proceeds from investment maturities	57	24,335	-	-	24,392
Cash paid for long-term annuity prizes payable	(57)	(24,368)	-	-	(24,425)
Net cash used in investing activities	<u>9</u>	<u>(3)</u>	<u>-</u>	<u>-</u>	<u>6</u>
Net decrease in cash and cash equivalents	10,413	(3)	(133)	-	10,277
Cash and cash equivalents at beginning of year	46,687	1,667	575	-	48,929
Cash and cash equivalents at end of year	<u>\$ 57,100</u>	<u>\$ 1,664</u>	<u>\$ 442</u>	<u>\$ -</u>	<u>\$ 59,206</u>
Reconciliation of cash and cash equivalents to the statement of net position (deficit):					
Total cash and cash equivalents per the statement of net position (deficit)	\$ 13,167	\$ -	\$ 442	\$ -	\$ 13,609
Add cash equity in State Treasury	43,933	1,664	-	-	45,597
Cash and cash equivalents at end of year	<u>\$ 57,100</u>	<u>\$ 1,664</u>	<u>\$ 442</u>	<u>\$ -</u>	<u>\$ 59,206</u>

This statement is continued on the following page.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
Combining Schedule of Cash Flows - State Lottery Fund (Continued)
Year Ended June 30, 2020
(in thousands of dollars)

	<u>State Lottery (Collapsed)</u>	<u>Deferred Prize Winners (Collapsed)</u>	<u>Lottery Security Deposits (1309)</u>	<u>Eliminations</u>	<u>Total State Lottery Fund</u>
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	\$ 697,737	-	-	-	697,737
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	27	-	-	-	27
Provision for uncollectible accounts	2,561	-	-	-	2,561
Changes in assets and liabilities:					
Increase in accounts receivable	(57,100)	-	-	-	(57,100)
Decrease in due from other funds	1	-	1	(1)	1
Decrease in deferred outflows of resources	1,481	-	-	-	1,481
Decrease in prepaid expenses	82	-	-	-	82
Increase in prizes payable	37,088	-	-	-	37,088
Decrease in accounts payable and accrued liabilities	(12,489)	-	-	-	(12,489)
Decrease in intergovernmental payables	(41)	-	-	-	(41)
Decrease in due to other State funds	(332)	-	-	1	(331)
Increase in unearned revenues	150	-	-	-	150
Increase (Decrease) in other liabilities	92	-	(134)	-	(42)
Decrease in deferred inflows of resources	(3,370)	-	-	-	(3,370)
Decrease in net pension liability	(3,317)	-	-	-	(3,317)
Increase in OPEB liability	4,028	-	-	-	4,028
Net cash provided by operating activities	<u>\$ 666,598</u>	<u>\$ -</u>	<u>\$ (133)</u>	<u>\$ -</u>	<u>\$ 666,465</u>
Noncash investing, capital and financing activities:					
Change in fair value of investments	\$ -	\$ (23,329)	\$ -	\$ -	\$ (23,329)
Interest accreted on investments	-	9,008	-	-	9,008
Interest accreted on long-term annuity prizes payable	-	(9,008)	-	-	(9,008)
Use of resources to pay long-term annuity prizes payable	-	3	-	-	3

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,
2020(in thousands of
dollars)

	State Lottery	Lottery Prize	Agent		Total
	(0711)	Payment Fund	Sales Sweep	Eliminations	State Lottery
	(0711)	(1279)	Account Fund		State Lottery
	(0711)	(1279)	(1373)		(Collapsed)
Cash flows from operating activities:					
Cash received from sales and services	\$ 12,896	\$ -	\$ 2,773,319	\$ -	\$ 2,786,215
Cash receipts from other operating activities	-	6,736	3,650	(3,606)	6,780
Cash payments for commissions and bonuses	(3,904)	-	(151,034)	-	(154,938)
Cash payments to employees for services	(20,190)	-	-	-	(20,190)
Cash payments for general and administrative expenses	(139,138)	(6,752)	(279)	-	(146,169)
Cash payments for lottery prizes	(235,711)	(107,512)	(1,461,877)	-	(1,805,100)
Cash payments for other operating activities	<u>(3,606)</u>	<u>-</u>	<u>-</u>	<u>3,606</u>	<u>-</u>
Net cash provided by operating activities	<u>(389,653)</u>	<u>(107,528)</u>	<u>1,163,779</u>	<u>-</u>	<u>666,598</u>
Cash flows from noncapital financing activities:					
Cash transfers – in from other funds	1,163,937	103,339	-	(1,267,276)	-
Cash transfers – out to other funds	<u>(759,513)</u>	<u>-</u>	<u>(1,163,937)</u>	<u>1,267,276</u>	<u>(656,174)</u>
Net cash used in noncapital financing activities	<u>404,424</u>	<u>103,339</u>	<u>(1,163,937)</u>	<u>-</u>	<u>(656,174)</u>
Cash flows from capital and related financing activities:					
Principal payments under capital lease obligation	<u>(20)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(20)</u>
Net cash used in capital and related financing activities	<u>(20)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(20)</u>
Cash flows from investing activities:					
Interest and dividends on investments	9	-	-	-	9
Proceeds from investment maturities	57	-	-	-	57
Cash paid for long-term annuity prizes payable	<u>(57)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(57)</u>
Net cash used in investing activities	<u>9</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9</u>
Net increase in cash and cash equivalents	14,760	(4,189)	(158)	-	10,413
Cash and cash equivalents at beginning of year	<u>29,173</u>	<u>10,000</u>	<u>7,514</u>	<u>-</u>	<u>46,687</u>
Cash and cash equivalents at end of year	<u>\$ 43,933</u>	<u>\$ 5,811</u>	<u>\$ 7,356</u>	<u>\$ -</u>	<u>\$ 57,100</u>
Reconciliation of cash and cash equivalents to the statement of net position (deficit):					
Total cash and cash equivalents per the statement of net position (deficit)	\$ -	\$ 5,811	\$ 7,356	\$ -	\$ 13,167
Add cash equity in State Treasury	<u>43,933</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,933</u>
Cash and cash equivalents at end of year	<u>\$ 43,933</u>	<u>\$ 5,811</u>	<u>\$ 7,356</u>	<u>\$ -</u>	<u>\$ 57,100</u>

This statement is continued on the following page.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
Combining Schedule of Accounts - Schedule of Cash Flows - State Lottery Fund (Collapsed) (Continued)
Year Ended June 30, 2020
(in thousands of dollars)

	<u>State Lottery</u> <u>(0711)</u>	<u>Lottery Prize</u> <u>Payment Fund</u> <u>(1279)</u>	<u>Agent</u> <u>Sales Sweep</u> <u>Account Fund</u> <u>(1373)</u>	<u>Eliminations</u>	<u>Total</u> <u>State Lottery</u> <u>(Collapsed)</u>
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	\$ (362,861)	(103,339)	1,163,937	-	697,737
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	27	-	-	-	27
Provision for uncollectible accounts	2,561	-	-	-	2,561
Changes in assets and liabilities:					
Increase in accounts receivable	(57,100)	-	-	-	(57,100)
(Increase) Decrease in due from other funds	(2,471)	2,472	-	-	1
Decrease in deferred outflows of resources	1,481	-	-	-	1,481
Decrease in prepaid expenses	-	82	-	-	82
Increase in prizes payable	37,088	-	-	-	37,088
Decrease in accounts payable and accrued liabilities	(12,479)	(10)	-	-	(12,489)
Decrease in intergovernmental payables	(34)	(7)	-	-	(41)
Increase (Decrease) in due to other State funds	6,552	(6,726)	(158)	-	(332)
Increase in unearned revenues	150	-	-	-	150
Increase in other liabilities	92	-	-	-	92
Decrease in deferred inflows of resources	(3,370)	-	-	-	(3,370)
Decrease in net pension liability	(3,317)	-	-	-	(3,317)
Increase in OPEB liability	4,028	-	-	-	4,028
Net cash provided by operating activities	<u>\$ (389,653)</u>	<u>\$ (107,528)</u>	<u>\$ 1,163,779</u>	<u>\$ -</u>	<u>\$ 666,598</u>
Noncash investing, capital and financing activities:					
Release of long-term liability	\$ -	-	-	-	-
Change in fair value of investments	-	-	-	-	-
Interest accreted on investments	-	-	-	-	-
Interest accreted on 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, 2020
(in thousands of dollars)

	<u>Deferred Prize Winners (0978)</u>	<u>Deferred Lottery Prize Winners Trust Fund (2978)</u>	<u>Eliminations</u>	<u>Total Deferred Prize Winners (Collapsed)</u>
Cash flows from operating activities:				
Cash received from sales and services	\$ -	\$ -	\$ -	\$ -
Cash receipts from other operating activities	-	-	-	-
Cash payments for commissions and bonuses	-	-	-	-
Cash payments to employees for services	-	-	-	-
Cash payments for general and administrative expenses	-	-	-	-
Cash payments for lottery prizes	-	-	-	-
Cash payments for other operating activities	-	-	-	-
Net cash provided by operating activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from noncapital financing activities:				
Cash transfers – out to other funds	-	-	-	-
Net cash used in noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from capital and related financing activities:				
Principal payments under capital lease obligation	-	-	-	-
Net cash used in capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities:				
Interest and dividends on investments	30	-	-	30
Proceeds from investment maturities	24,335	24,335	(24,335)	24,335
Cash paid for long-term annuity prizes payable	<u>(24,368)</u>	<u>(24,335)</u>	<u>24,335</u>	<u>(24,368)</u>
Net cash used in investing activities	<u>(3)</u>	<u>-</u>	<u>-</u>	<u>(3)</u>
Net decrease in cash and cash equivalents	(3)	-	-	(3)
Cash and cash equivalents at beginning of year	<u>1,667</u>	<u>-</u>	<u>-</u>	<u>1,667</u>
Cash and cash equivalents at end of year	<u>\$ 1,664</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,664</u>
Reconciliation of cash and cash equivalents to the statement of net position (deficit):				
Total cash and cash equivalents per the statement of net position (deficit)	\$ -	\$ -	\$ -	\$ -
Add cash equity in State Treasury	<u>1,664</u>	<u>-</u>	<u>-</u>	<u>1,664</u>
Cash and cash equivalents at end of year	<u>\$ 1,664</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,664</u>

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Combining Schedule of Accounts - Schedule of Cash Flows - Deferred Prize Winners Fund (Collapsed) (Continued)
Year Ended June 30, 2020
(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	-	-	-	-
Increase in deferred inflows of resources	-	-	-	-
Decrease in net pension liability	-	-	-	-
Decrease in OPEB liability	-	-	-	-
Net cash provided by operating activities	\$ -	\$ -	\$ -	\$ -
Noncash investing, capital and financing activities:				
Change in fair value of investments	\$ (23,329)	\$ -	\$ -	\$ (23,329)
Interest accreted on investments	9,008	-	-	9,008
Interest accreted on long-term annuity prizes payable	(9,008)	-	-	(9,008)
Use of resources to pay long-term annuity prizes payable	3	-	-	3

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

Report on the Financial Statements

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 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, 2020, and the related notes to the financial statements, as listed in the table of contents, and we have issued our report thereon dated June 4, 2021.

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 determination of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as items 2020-001 and 2020-003.

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 to determine the 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings, we did identify certain deficiencies in internal control that we consider to be a material weaknesses and a significant deficiency.

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. We consider the deficiencies described in the accompanying Schedule of Findings as items 2020-001 and 2020-002 to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings as items 2020-003 through 2020-005 to be significant deficiencies.

Department's Responses to the Findings

The Department's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Department's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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

SIGNED ORIGINAL ON FILE

Springfield, Illinois
June 4, 2021

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
STATE LOTTERY FUND
SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS FINDINGS
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2020-001 **FINDING** (Noncompliance with Fund Transfer Provisions)

The Department of the Lottery (Department) has not yet resolved 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.

On June 30, 2020, the Illinois Lottery Law (Law) (20 ILCS 1605/9.1(o)) required the Department to distribute the proceeds of lottery tickets and shares sold in the following priority order and manner:

- 1) to pay prizes and retailer bonuses;
- 2) to pay costs related to operating and administering the Lottery, including all amounts due to the Private Manager under the Private Management Agreement;
- 3) to distribute the net revenue from specialty tickets into specific State funds, as provided by § 21.5, § 21.6, § 21.7, § 21.8, § 21.9, § 21.10, § 21.11, § 21.12, and § 21.13 of the Law;
- 4) to transfer into Fund 412 an amount equal to the proceeds transferred into Fund 412 from Fund 711 in Fiscal Year 2009, adjusted for inflation, on the last day of each month or as soon thereafter as possible; and,
- 5) to annually deposit, on or before September 30, any estimated remaining proceeds from the prior fiscal year into Fund 694, with an adjustment in the subsequent annual transfer for any difference between the estimated amount and the actual audited amount reported in the Department's annual financial audit report.

This calculation excludes all activity associated with the Deferred Prize Winners Fund (Fund 978) and Deferred Lottery Prize Winners Trust Fund (Fund 2978).

During testing, we noted the following:

- The Department has been unable to resolve excess transfers to Fund 412 from Fund 711, totaling \$133.966 million. This amount consists of \$64.124 million in excess transfers which occurred in Fiscal Year 2018 and \$69.842 million in excess transfers which occurred in periods prior to Fiscal Year 2010.

During discussions with Department officials regarding the \$69.842 million, they indicated Fund 711 annually transferred more cash into Fund 412 than required on an accrual basis during periods prior to Fiscal Year 2010. To account for the accumulation of excess transfers, the Department's predecessor agency booked a due from Fund 412 (accounts receivable) for the amount of excess cash transferred from Fund 711. During the Department's Fiscal Year 2012 financial audit, it was determined this due no longer met the criteria established by the Governmental Accounting Standards Board to be reported and the Department cured the issue by reclassifying the balance as a transfer.

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2020-001 **FINDING** (Noncompliance with Fund Transfer Provisions)

This remedy, however, created a cash deficit within Fund 711, as Fund 412 now had the cash that otherwise should have been deposited into Fund 694 under the waterfall calculation set forth in the Law.

Further, during discussions with Department officials regarding the \$64.124 million, they indicated this was due to the Department previously interpreting the amount to transfer to Fund 412 as an absolutely mandatory monthly amount, regardless of the amount of actual proceeds remaining on an accrual basis under the waterfall calculation set forth in the Law.

- The Department has been unable to transfer \$89.045 million from Fund 711 to Fund 694. This amount consists of \$69.842 million in excess transfers which occurred in periods prior to Fiscal Year 2010 as discussed above and \$19.203 million in unperformed prior period transfers not performed in periods prior to Fiscal Year 2019.

During discussions with Department officials regarding the \$19.203 million, they indicated that prior to Public Act 100-0587's enactment in June 2018, the Department was required to annually transfer cash from Fund 711 to Fund 694 on June 30. Due to both timing issues arising from the conversion of accounts receivable into cash and difficulties determining the exact amount to transfer, the Department was not able to timely transfer this balance into Fund 694.

Department officials indicated, due to other competing priorities and the COVID-19 pandemic, a legislative remedy has not been obtained to correct these balances.

Failure to make transfers into Fund 412 in conformity with the priority waterfall order for the distribution and use of proceeds established by the Law created a cash deficit within Fund 711. Additionally, failure to make transfers into Fund 694 in conformity with the Law has delayed Fund 694's receipt of cash. (Finding Code No. 2020-001, 2019-003, 2018-002, 2017-001)

RECOMMENDATION

We recommend the Department work with the General Assembly and the Governor to resolve the \$133.966 million due from Fund 412 to Fund 711 and the \$89.045 million due from Fund 711 to Fund 694.

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2020-001 **FINDING** (Noncompliance with Fund Transfer Provisions)

DEPARTMENT RESPONSE

The Department agrees with the finding and recommendation. As noted in the finding, excess transfers to Fund 412 in the amount of \$69.842 million did occur prior to 2009 and have never been recouped. The write-off of this amount, previously categorized as a due to Fund 412, resulted in a cash shortage which affects our prior and future transfers. Additionally, the Department transferred an excess of \$64.124 million to Fund 412 in 2018, which further increases our cash deficit in Fund 711. These over transfers lead to the Department's inability to transfer the remaining proceeds to Fund 694 due to the cash deficit.

The Department has implemented controls and revised procedures to transfer proceeds in the priority order per 20 ILCS 1605/9.1(o) by transferring amounts based upon the available net profit and not the prescribed amount. Additionally, the Department is working diligently to reach a legislative remedy regarding the prior year overpayments to Fund 412, underpayments to Fund 694, and to revise the language in the Law to better meet the operating needs of the Department as the true net profit is not known until the year-end audited financials are complete, while respecting the need for expediency in making monthly transfers to Fund 412.

2020-002 **FINDING** (Inadequate Internal Controls over Census Data)

The Department of the Lottery (Department) did not develop or retain adequate supporting documentation for its personnel transactions and did not have a reconciliation process to provide assurance census data submitted to its pension and other postemployment benefits (OPEB) plans was complete and accurate for the State Lottery Fund (Fund).

Census data is demographic data (date of birth, gender, years of service, etc.) of the active, inactive, or retired members of a pension or 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 valuation (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 within the Fund are members of both the State Employees' Retirement System of Illinois (SERS) for their pensions and the State Employees Group Insurance Program sponsored by the State of Illinois, Department of Central Management Services (CMS) for their OPEB. In addition, we noted these plans have characteristics of different types of pension and OPEB plans, including single employer plans

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and cost-sharing multiple-employer plans.

During testing, we noted the following:

- 1) The Department had not performed an initial complete reconciliation of its census data recorded by SERS and CMS to its internal records to establish a base year of complete and accurate census data.
- 2) After establishing a base year, the Department had not developed a process to annually obtain from SERS and CMS the incremental changes recorded by SERS and CMS in their census data records and reconcile these changes back to the Department's internal supporting records.
- 3) Two of 80 (3%) employees tested did not have documentation supporting the employee's total compensation as determined under the Illinois Pension Code (40 ILCS 5/14-133(a)), as adjustments were posted for longevity pay which the Department could not substantiate from its own records. We considered the impact of the portion of these employees' total compensation that was unsupported and determined these amounts did not materially impact the Department's financial statements.

2020-002 **FINDING** (Inadequate Internal Controls over Census Data)

- 4) One of 80 (1%) employees tested had a discrepancy between the employee's compensation where the Department's records reflected wages of \$3,327 per month as opposed to SRS' records of \$3,127 per month. We considered the impact of this discrepancy and determined it did not materially impact the Department's financial statements.

For employers participating in plans with multiple-employer and cost-sharing characteristics, the American Institute of Certified Public Accountants' *Audit and Accounting Guide: State and Local Governments* (AAG-SLG) (§ 13.177 for pensions and § 14.184 for OPEB) notes the determination of net pension/OPEB liability, pension/OPEB expense, and the associated deferred inflows and deferred outflows of resources depends on employer-provided census data reported to the plan being complete and accurate along with the accumulation and maintenance of this data by the plan being complete and accurate. To help mitigate against the risk of a plan's actuary using incomplete or inaccurate census data within similar agent multiple-employer plans, the AAG-SLG (§ 13.181 (A-27) for pensions and § 14.141 for OPEB) recommends an employer annually reconcile its active members' census data to a report from the plan of census data submitted to the plan's actuary, by comparing the current year's census data file to both the prior year's census data file and its underlying records for changes occurring during the current year.

Further, 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.

Finally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department

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establish and maintain a system, or systems, of internal fiscal and administrative controls 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 attributed these exceptions to oversight.

Failure to ensure census data reported to SERS was complete and accurate could have resulted in a material misstatement of the Department's financial statements and reduced the overall accuracy of SERS-related pension liabilities, deferred inflows and outflows of resources, and expense recorded by the State and its agencies. In addition, failure to reconcile active members' census data reported to and held by SERS and CMS to the Department's records could result in each plan's actuary relying on incomplete or inaccurate census data in the calculation of the Department's pension and OPEB balances, which may result in a misstatement of these amounts. (Finding Code No. 2020-002)

2020-002 **FINDING** (Inadequate Internal Controls over Census Data)

RECOMMENDATION

We recommend the Department implement controls to ensure total compensation paid to each employee is fully documented and supported within the Department's records.

Further, we recommend the Department work with SERS and CMS to develop an annual reconciliation process of its active members' census data from its underlying records to a report from each plan of census data submitted to the plan's actuary. After completing an initial full reconciliation, the Department may limit the annual reconciliations to focus on the incremental changes to the census data file from the prior actuarial valuation, provided no risks are identified that incomplete or inaccurate reporting of census data may have occurred during prior periods.

DEPARTMENT RESPONSE

The Department accepts the recommendation. The Department will work with CMS and SERS on implementing controls to ensure census data is reconciled and documented within the Department's records.

2020-003 **FINDING** (Inadequate Controls over Specialty Tickets)

The Department of the Lottery (Department) had not fully implemented corrective action to quantify the impact of improper prior period overhead charges and performed a "true up" of its estimated prize liabilities to prizes paid.

As of June 30, 2020, the Illinois Lottery Law (Law) required the Department offer specialty scratch-off games to fund:

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- breast cancer research grants appropriated by the General Assembly to the Department of Public Health from the Carolyn Adams Ticket For The Cure Grant Fund (Fund 208) (20 ILCS 1605/21.5);
- assistance for veterans appropriated by the General Assembly to the Department of Veterans' Affairs for grants from the Illinois Veterans Assistance Fund (Fund 236) (20 ILCS 1605/21.6);
- multiple sclerosis research grants appropriated by the General Assembly to the Department of Public Health from the Multiple Sclerosis Research Fund (Fund 429) (20 ILCS 1605/21.7);
- HIV/AIDS prevention grants appropriated by the General Assembly to the Department of Public Health from the Quality of Life Endowment Fund (Fund 437) (20 ILCS 1605/21.8);
- Special Olympics grants appropriated by the General Assembly to the Department of Human Services from the Special Olympics Illinois and Special Children's Charities Fund (Fund 073) (20 ILCS 1605/21.9);
- Chicago Police Memorial Foundation Fund, the Police Memorial Committee Fund, and the Illinois State Police Memorial Park Fund grants appropriated by the General Assembly to the Illinois Criminal Justice Information Authority from the Criminal Justice Information Projects Fund (Fund 335) (20 ILCS 1605/21.10);
- homelessness prevention grants appropriated by the General Assembly to the Department of Human Services from the Homelessness Prevention Revenue Fund (Fund 889) (20 ILCS 1605/21.11);
- science, technology, engineering, art, and math (STEAM) programming grants appropriated by the General Assembly to the Illinois State Board of Education from the School STEAM Grant Program Fund (Fund 987) (20 ILCS 1605/21.12); and,
- Alzheimer's care, support, education, and awareness grants appropriated by the General Assembly to the Office of the Secretary of State from the Alzheimer's Awareness Fund (Fund 020) (20 ILCS 1605/21.13).

At June 30, 2020, the Law (20 ILCS 1605/21.5(b), 20 ILCS 1605/21.6(b), 20 ILCS 1605/21.7(b), 20 ILCS 1605/21.8(b), 20 ILCS 1605/21.9(b), 20 ILCS 1605/21.10(b), 20 ILCS 1605/21.11(b), 20 ILCS 1605/21.12(b), and 20 ILCS 1605/21.13(b)) required the deposit of net revenue from each game to its respective fund within the State Treasury pursuant to the following statutory formula: Net Revenue = Tickets Sold –

2020-003 **FINDING** (Inadequate Controls over Specialty Tickets)

Amounts Paid Out in Prizes – Actual Administrative Expenses of the Department solely related to each specific specialty scratch-off game.

During testing, we noted the following problems:

- During the Fiscal Year 2017 and Fiscal Year 2018 annual audits, predecessor auditors had questioned whether the Department's practice of allocating an overhead charge to specialty tickets conformed with the Law's net revenue formula. Department officials ultimately agreed with the predecessor auditors and ceased allocating the overhead charge during Fiscal Year 2019. However, the Department has not yet quantified the difference between the overhead charge and its actual administrative

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costs solely related to each specialty scratch-off game from October 2008 through June 2018. As such, the Department has not posted adjusting entries to correct prior period errors.

- The Department has not performed its “true up” for its initial estimated prize liability for specialty ticket games ending during the two years prior to June 30, 2018. This true up would recalculate the amount of net revenue based upon actual known prizes paid after the game had formally ended, with adjusting entries being posted to correct for estimation differences.
- Due to the two preceding problems, the “accrual only” information sent by the Department to the Department of Public Health, the Department of Veterans’ Affairs, and the Department of Human Services during the State’s annual financial reporting process was not complete and accurate.

The Statewide Accounting Management System (Procedure 27.50.10) requires the Department prepare a complete set of manual forms to report “accrual only” entries to the administering agency for financial reporting purposes for the State Treasury-held funds receiving “net revenues” from the Department’s specialty scratch-off games. Good internal controls include ensuring accurate and timely information is reported to each administering agency to ensure these agencies can properly record and account for transactions used in preparing its financial reports for the Office of the State Comptroller, which are then used to prepare the State’s financial statements.

Further, 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 and administrative controls to provide assurance revenues, transfers, and funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports and to maintain accountability over the State’s resources.

2020-003 **FINDING** (Inadequate Controls over Specialty Tickets)

Department officials indicated while some work on implementing corrective action has been taken, it was hampered by other competing priorities during Fiscal Year 2020 and the difficulties encountered in locating historical records.

Failure to determine the impact of prior period errors and perform a “true up” of actual prizes paid to estimated prizes paid hinders the overall reliability of financial reporting and represents noncompliance with the specialty ticket provisions of the Law. (Finding Code No. 2020-003, 2019-004, 2018-004, 2017-003)

RECOMMENDATION

We recommend the Department develop an annual financial reporting checklist which includes performing a “true up” of actual prizes paid to estimated prizes paid for all games that have closed out. Further, the Department should complete its analysis of the impact of allocating the overhead rate as opposed to actual administrative costs and, as necessary, post

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adjusting entries.

DEPARTMENT RESPONSE

The Department accepts the recommendation. In Fiscal Year 2019, the Department revised our specialty ticket procedures to charge actual administrative costs incurred to each ticket. These costs do not encompass all administrative costs incurred by the Department in administering these tickets while performing administrative duties related to all games that aren't specifically separated. Work occurs through our instant ticket processes, marketing processes, and financial processes. We are able to identify direct costs incurred by our vendor for specific products or services to the development and marketing of specialty games, but the hourly efforts of the Department's staff and the Private Manager's staff requires manual tracking and have been difficult and costly to isolate.

The Department is still working to complete the reconciliation to "true-up" estimated prize liabilities to prizes paid, as well as, our review of the overhead rate charged to specialty tickets in years prior to 2019. Once the reconciliation is complete, the Department will communicate directly with those agencies impacted and make any necessary transfers at this time. Finally, the Department will continue to research and analyze a better way to allocate and account for the administrative costs associated with specialty tickets to bring forth a legislative remedy.

2020-004 **FINDING** (Untimely Review of Credit Card Security)

The Department of the Lottery (Department) did not timely demonstrate its compliance with the Payment Card Industry Data Security Standards (PCI DSS).

Credit card payments are accepted for Lottery games at retailers, self-service terminals, and the Department's Internet and Mobile Application (IMA) managed by a service provider. During Fiscal Year 2020, the Department handled approximately 3 million transactions valued at \$72 million. As a result of this activity, the Department was required to comply with the PCI DSS as a subject entity.

During testing, we noted the Department did not complete the required annual Self-Assessment Questionnaire (SAQ) until October 5, 2020, 97 days after the end of the fiscal year.

The PCI DSS includes detailed security requirements for entities which either (1) store, process, or transmit cardholder data or (2) outsource cardholder data functions to PCI DSS validated service providers. Cardholder data includes any personally identifiable data associated with a cardholder.

In order to determine which SAQ must be completed annually, the Department must first conduct a documented review of (1) all locations, including any backup/recovery sites and fail-over systems, (2) flows of cardholder data, and (3) all systems connected to the data environment with cardholder data or systems which could, if compromised, impact cardholder data. Based on this survey, the PCI DSS require completion of the appropriate SAQ.

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Further, the *Security and Privacy Controls for Information Systems and Organizations* (Special Publication 800-53 (Fifth Revision)) published by the National Institute of Standards and Technology (NIST), Maintenance and System and Service Acquisition sections, requires those entities outsourcing their information technology environment or operations to obtain assurance over the entities internal controls related to the services provided.

Department officials indicated delays in receiving the Private Manager's SAQ and a transition of roles and responsibilities to a new position within the Department led to the Department not completing its SAQ during the examination period.

Failure to timely ensure compliance with the PCI DSS could delay the identification of security weaknesses, potentially exposing cardholder data to unauthorized use or theft, and may subject the State to unnecessary legal risks and the loss of the right to utilize certain credit card providers. (Finding Code No. 2020-004)

2020-004 **FINDING** (Untimely Review of Credit Card Security)

RECOMMENDATION

We recommend the Department comply with the current PCI DSS by conducting and documenting an annual review to determine the scope of its annual assessment and timely complete the appropriate SAQ.

DEPARTMENT RESPONSE

The Department accepts the recommendation. The Department did not receive the SAQ report from the Private Manager until September 1, 2020, which delayed the Department's own PCI review. The Department will work with the Private Manager to ensure the SAQ report is received timely to ensure the Department can complete its own review on a timely basis.

2020-005 **FINDING** (System Access Weaknesses)

The Department of the Lottery (Department) failed to perform user access reviews. During testing, we noted the following:

- The Department had not performed annual user access reviews within the engagement period for both iLottery and iSecure. The iLottery system allows Lottery players to purchase tickets online and the Department uses iSecure to validate winning tickets.

The Department's *User Provisioning and Access Rights Review Procedure (Procedure)* states an authorized coordinator regularly reviews and documents user access on the Department's network and key systems to ensure authorized access is appropriate.

In addition, the *Security and Privacy Controls for Information Systems and*

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Organizations (Special Publication 800-53 (Fifth Revision)) published by the National Institute of Standards and Technology (NIST), Access Control section, sanctions the periodic review of access rights to ensure appropriateness.

- The Department's *Procedure* has not been updated to reflect the Department's current environment. We noted the *Procedure*:
 - 1) referred to one system which was no longer used by the Department;
 - 2) did not address a newer system used by the Department; and,
 - 3) had not been updated to reflect the movement of responsibilities from the Department of Central Management Services to the Department of Innovation and Technology.

The *Procedure*, which was last updated in August 2014, notes it was scheduled to have been reviewed for potential updates by the Department's staff no later than February 2015, more than five years ago.

Further, NIST's Special Publication 800-53 (Fifth Revision), Access Control section, sanctions the development, review, and dissemination of access control procedures.

Department officials indicated the access reviews and updating the related procedure were not completed due to oversight and personnel turnover.

Failure to perform regular user access review increases the risk of unauthorized access to the Department's applications and data. In addition, failure to update the *Procedure* to reflect the Department's current operating environment could result in unidentified risks not being mitigated or employees not performing their duties in accordance with management's intent. (Finding Code No. 2020-005)

2020-005 **FINDING** (System Access Weaknesses)

RECOMMENDATION

We recommend the Department perform a periodic review of system access rights to ensure users are removed or access rights are deactivated for users who do not still need access. In addition, the Department should update its *Procedure* to reflect its current operating environment.

DEPARTMENT RESPONSE

The Department accepts the recommendation. While the Private Manager who operates the iLottery system has been performing periodic user reviews on iLottery, the Department will implement procedures to conduct its own user access reviews on iLottery and iSecure. In addition, the Department is currently updating its policies and procedures to reflect the current operating environment.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
STATE LOTTERY FUND
SCHEDULE OF FINDINGS – *GOVERNMENT AUDITING STANDARDS* FINDINGS
For the Year Ended June 30, 2020

A. **FINDING** (Failure to Ensure Timely Compliance with the Private Manager Agreement)

During the financial audit of the State Lottery Fund for the year ended June 30, 2019, the Department of the Lottery (Department) did not ensure timely compliance by its Private Manager with obtaining a System Organization and Control (SOC) examination of the Central Gaming System (CGS) by an Independent Service Auditor, a critical piece of auditevidence for both the Department's and State's financial statements.

During the current engagement, our testing indicated the Department timely obtained the required SOC reports. (Finding Code 2019-001)

B. **FINDING** (Excess Transfers to the Common School Fund)

During the financial audit of the State Lottery Fund for the year ended June 30, 2019, the Department of the Lottery (Department) had not resolved the prior period excess cash transfers from the State Lottery Fund (Fund 711) to the Common School Fund (Fund 412), totaling \$64.124 million. Additionally, the Department's process still called for, in years where the Illinois Lottery does not have sufficient profitability to fully satisfy the amountsto transfer into Fund 412, the Department to perform excess transfers into Fund 412 from Fund 711 based on the prescribed amount.

During the current engagement, written confirmation from the Department's General Counsel and Finance Manager was received indicating the Department's current policy is only to transfer proceeds to Fund 412 where sufficient funds remain after (1) paying prizes and retailer bonuses, (2) paying costs related to administering the Lottery (including all amounts due under the Management Agreement to the Private Manager), and (3) distributing net revenues from specialty tickets into specifically-designated funds. Due to the commonality of the remaining condition with the repeated conditions in Finding 2019-003, these conditions were reported together within Finding 2020-001. (Finding Code No.2019-002, 2018-001)