



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

Contact: Ernest Ruben
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FOR RELEASE

April 11, 2022

Auditor of State Rob Sand today released an audit report on the Iowa Lottery Authority for the year ended June 30, 2021. The Iowa Lottery Authority oversees the marketing of lottery games and performs the administrative duties necessary to maximize the amount of money deposited to the State General Fund. Total operating revenues for the year ended June 30, 2021 increased 21.68% over the prior year.

Comparative operating data is as follows:

	Year ended June 30, 2021	Year ended June 30, 2020	% Increase (Decrease)
Revenues:			
Scratch ticket sales	\$ 316,934,651	262,447,704	20.76%
Instaplay sales	23,478,424	16,279,705	44.22%
Pick 3 sales	9,540,165	8,502,502	12.20%
Pick 4 sales	5,470,758	4,950,001	10.52%
Powerball sales	43,419,695	36,428,043	19.19%
Mega Millions sales	28,980,779	20,433,854	41.83%
Lucky for Life sales	5,555,026	5,335,530	4.11%
Lotto America sales	6,441,090	6,751,811	(4.60%)
Pull-tab sales	12,771,423	10,824,344	17.99%
Other	11,017	11,186	(1.51%)
Total operating revenues	452,603,028	371,964,680	21.68%
Prize expense	288,877,229	236,317,005	22.24%
Other expense	61,903,976	55,056,789	12.44%
Proceeds deposited to the State's General Fund	99,047,494	78,929,332	25.49%
Proceeds deposited to the Veteran's Trust Fund	2,500,000	2,500,000	0.00%
Proceeds deposited to the Public Safety Survivor Benefits Fund	100,000	100,000	0.00%
Proceeds deposited to the DOC Survivor Benefits Fund	100,000	-	100.00%

An analysis of prizes awarded for the year ended June 30, 2021 is as follows:

Scratch ticket prizes	=	67% of Scratch ticket sales
Instaplay prizes	=	73% of Instaplay sales
Pick 3 prizes	=	60% of Pick 3 sales
Pick 4 prizes	=	60% of Pick 4 sales
Powerball prizes	=	50% of Powerball sales
Mega Millions prizes	=	50% of Mega Millions sales
Lucky for Life prizes	=	64% of Lucky for Life sales
Lotto America prizes	=	50% of Lotto America sales
Pull-tab prizes	=	62% of Pull-tab sales

The Iowa Lottery Authority spent \$7,421,985 on advertising production and media purchases for the year ended June 30, 2021, representing 1.64% of revenue. Iowa law allows the Iowa Lottery Authority to spend up to 4% of revenue for the marketing of lottery games.

AUDIT FINDINGS:

Consistent with the prior year, Sand reported no findings pertaining to the Iowa Lottery Authority.

A copy of the audit report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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IOWA LOTTERY AUTHORITY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2021



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006
Telephone (515) 281-5834 Facsimile (515) 281-6518

March 30, 2022

Iowa Lottery Authority
Des Moines, Iowa

To the Members of the Iowa Lottery Authority:

I am pleased to submit to you the financial and compliance audit report for the Iowa Lottery Authority for the year ended June 30, 2021. The audit was performed pursuant to Chapter 99G.40(5) of the Code of Iowa and in accordance with U.S. auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of Iowa Lottery Authority throughout the audit. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand".

Rob Sand
Auditor of State

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Iowa Lottery Authority

Officials

Governor

Honorable Kim Reynolds

Interim Director, Department of Management

Kraig Paulsen

Interim Director, Legislative Services Agency

Timothy McDermott

Iowa Lottery Authority Board of Directors

		Term <u>Expires</u>
Josh Cook	Chairperson	April 2023
Mary Rathje	Vice Chairperson	April 2023
Sherrae Hanson	Member	April 2022
John Quinn	Member	April 2022
Mary Junge	Member	April 2024

Ex-Officio Member

Honorable Michael L. Fitzgerald Treasurer of State

Iowa Lottery Authority

Matthew N. Strawn Chief Executive Officer
Michael Conroy Vice President of Finance and Chief
 Financial Officer

Iowa Lottery Authority



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Independent Auditor's Report

To the Board Members of the Iowa Lottery Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Iowa Lottery Authority, a component unit of the State of Iowa, as of and for the year ended June 30, 2021, and the related Notes to Financial Statements, which collectively comprise the Iowa Lottery Authority's basic financial statements 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 U.S. generally accepted accounting principles. 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 U.S. generally accepted auditing standards 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 Authority'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 Authority'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 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 financial position of the Iowa Lottery Authority as of June 30, 2021, and the respective changes in its financial position and its cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

As discussed in Note 1, the financial statements of the Iowa Lottery Authority are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the component units of the State of Iowa that is attributable to the transactions of the Iowa Lottery Authority. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2021, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Schedule of the Lottery's Proportionate Share of the Net Pension Liability, the Schedule of the Lottery's Contributions and the Schedule of Changes in the Lottery's Total OPEB Liability, Related Ratios and Notes on pages 8 through 11 and 36 through 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Iowa Lottery Authority's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the five years ended June 30, 2020 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 30, 2022 on our consideration of the Iowa Lottery Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Authority'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 Iowa Lottery Authority's internal control over financial reporting and compliance.



Ernest H. Ruben, Jr., CPA
Deputy Auditor of State

March 30, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Iowa Lottery Authority (Lottery) provides this Management's Discussion and Analysis of the Lottery's annual financial statements. This narrative overview and analysis of the financial activities of the Lottery is for the fiscal year ended June 30, 2021. We encourage readers to consider this information in conjunction with the Lottery's financial statements, which follow this section.

2021 FINANCIAL HIGHLIGHTS

- The Lottery raised \$101.7 million in proceeds for state programs in fiscal year 2021, the highest proceeds amount for the Lottery since its start in 1985.
- Lottery sales totaled \$452.6 million in fiscal year 2021, an increase of \$80.6 million from the prior year's sales of \$372.0 million. Fiscal year 2021 sales generated the highest revenue amount in Lottery history.
- Prizes to players totaled \$288.9 million for the Lottery during the fiscal year.
- Sales of scratch tickets totaled \$316.9 million in fiscal year 2021, breaking the previous record of \$262.4 million for scratch ticket sales set in fiscal year 2020.
- Since the Lottery's inception in 1985, its players have won more than \$4.9 billion in prizes while the Lottery has raised more than \$2.1 billion for state programs.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the Lottery's basic financial statements and provides an analytical overview of the Lottery's financial activities.

The Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows provide information about the activities of the Lottery as a whole and present an overall view of the Lottery's finances.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a Schedule of the Lottery's Proportionate Share of the Net Pension Liability and a Schedule of Lottery Contributions and related notes, as well as presenting a Schedule of Changes in the Lottery's Total OPEB Liability, Related Ratios and Notes.

Supplementary Information provides detailed information about the Lottery and includes the following: Schedule 1 provides detailed information about other operating expenses by object; Schedule 2 shows a comparison of revenues, expenses and changes in net position of the current year to the prior year; and Schedule 3 provides an analysis of net position. In addition, Schedule 4 presents revenues by game over the past six years while Schedule 5 presents prize payouts by game over the past six years.

REPORTING THE LOTTERY AS A WHOLE

One of the most important questions asked about the Lottery's finances is, "Is the Lottery as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Lottery as a whole and its activities in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The Lottery's financial statements include the following statements:

The Statement of Net Position presents all of the Lottery's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as "net position". Per Section 99G.39 of the Code of Iowa, two million five hundred thousand dollars in lottery revenues are to be deposited each fiscal year to the Iowa Veteran's Trust Fund and one hundred thousand dollars in lottery revenues are to be deposited each fiscal year to the Public Safety Survivor Benefits Fund and the Department of Corrections Survivor Benefits Fund, prior to the deposit of lottery revenues in the State General Fund. In addition, Sections 99G.2 and 99G.40 of the Code of Iowa require net proceeds of lottery games be deposited to the State's General Fund on a quarterly basis. However, the Lottery may retain an amount sufficient to cover anticipated administrative expenses for a period of 21 (twenty-one) days. Net position is calculated as the sum of cash retained for vehicle purchases, ticket inventories, net investment in capital assets and deferred outflows of resources, netted against the net pension liability, the other post-employment benefit liability and deferred inflows of resources.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Lottery's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the event or change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal years. Both ticket sales and related proceeds deposited to the State serve as useful indicators of the Lottery's future ability to provide a steady, reliable stream of revenue to the State.

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where cash came from, what was cash used for and what was the change in cash and cash equivalents during the fiscal year.

FINANCIAL ANALYSIS

The Lottery's assets totaled \$51.7 million at the end of fiscal year 2021 compared to \$49.4 million at the end of the previous year, an increase of \$2.3 million. The increase in assets was primarily due to: (a) an increase of \$1 million in cash due, in part, to an increase in proceeds to be deposited to the State General Fund for the fourth quarter, (b) an increase of \$0.5 million in accounts receivable due to one additional day of sales activity/accruals at the end of fiscal year 2021 compared to fiscal year 2020, (c) an increase of \$0.5 million in ticket inventories due to an increase in consumer demand, (d) a decrease of \$0.1 million in prize reserves on hand with the Multi-State Lottery Association, (e) an increase of \$0.5 million in investments in prize annuities due to one new annuitant during fiscal year 2021 and (f) a decrease of \$0.1 million in net capital assets due primarily to annual depreciation.

Current liabilities increased \$1.3 million during fiscal year 2021, primarily due to (a) a \$1.4 million increase in the amount of proceeds to be deposited to the State General Fund for the fourth quarter, (b) a \$0.1 million decrease in prizes payable, (c) an increase of \$0.1 million in other payables and (d) a decrease of \$0.1 million in unearned revenue.

Net investment in capital assets decreased \$0.1 million from fiscal year 2020. Unrestricted net position represents assets used to meet the Lottery's ongoing obligations to vendors and creditors. Unrestricted net position increased \$0.3 million compared to the previous fiscal year.

	Net Position	
	June 30,	
	2021	2020
Current assets	\$ 39,096,491	37,084,071
Prize reserve	4,739,182	4,880,247
Investment in prize annuities	895,731	400,335
Capital assets, net	6,935,145	7,042,248
Total assets	51,666,549	49,406,901
Deferred outflows of resources	1,547,443	1,480,560
Current liabilities	33,936,819	32,614,022
Long-term accounts payable and accruals	82,658	33,508
Prize reserve	4,739,182	4,880,247
Other long-term liabilities	8,587,399	7,544,219
Long-term annuity prizes payable	895,731	400,335
Total liabilities	48,241,789	45,472,331
Deferred inflows of resources	570,653	1,165,776
Net position:		
Net investment in capital assets	6,935,145	7,042,248
Unrestricted	(2,533,595)	(2,792,894)
Total net position	\$ 4,401,550	4,249,354

The next schedule highlights the activity for fiscal year 2021 compared to fiscal year 2020.

	Changes in Net Position	
	Year ended June 30,	
	2021	2020
Operating revenues:		
Ticket sales	\$ 452,592,011	371,953,494
Application fees	4,700	3,750
Other	6,317	7,436
Total operating revenues	452,603,028	371,964,680
Operating expenses:		
Prizes	288,877,229	236,317,005
Other operating expenses	61,903,976	55,056,789
Total operating expenses	350,781,205	291,373,794
Operating income	101,821,823	80,590,886
Non-operating revenues (expenses):		
Proceeds to state causes	(101,747,494)	(81,529,332)
Interest income	59,467	383,498
Gain on disposal of capital assets	18,400	1,647
Net non-operating expenses	(101,669,627)	(81,144,187)
Changes in net position	152,196	(553,301)
Net position beginning of year	4,249,354	4,802,655
Net position end of year	\$ 4,401,550	4,249,354

Lottery sales for fiscal year 2021 were up approximately 21.7%, totaling \$452.6 million compared to \$372.0 million for fiscal year 2020. Scratch tickets generated \$316.9 million in sales, an increase of \$54.5 million over the previous year's \$262.4 million in sales. Lotto game sales (Pick 3, Pick 4, Powerball, Mega Millions, Lucky for Life and Lotto America) increased \$17.0 million mainly due to the jackpots in Mega Millions and Powerball simultaneously topping the \$700 million mark for the first time in January 2021. Instaplay sales increased \$7.2 million and pull-tab sales increased \$1.9 million over the prior year.

Prize expense is the largest operating expense and accounted for 63.8% of sales. Overall, prize expense increased 22.2% in fiscal year 2021 due to increased sales. The Lottery's other operating expenses, excluding prize expense, were up 12.4% in the current fiscal year. The largest operating expense is retailer compensation expense, which accounted for 6.6% of all sales. Retailers earned a total of \$29.7 million in commissions during fiscal year 2021, an increase of 22.1% over the previous year. This total includes incentive compensation paid to retailers during periods of high jackpot runs as well as bonus payments to retailers that sell jackpot-winning tickets in Powerball, Mega Millions, Lotto America and Lucky for Life and tickets winning prizes of at least \$100,000 in any lotto game.

Overall, the Lottery's proceeds for State programs increased 24.8% in fiscal year 2021, totaling \$101.7 million compared to \$81.5 million a year earlier. Proceeds deposited to the State's General Fund for fiscal year 2021 were \$99.0 million compared to the previous year's total of \$78.9 million. Proceeds deposited to the Iowa Veteran's Trust Fund totaled \$2.5 million in the current and prior fiscal year in accordance with Section 99G.39 of the Code of Iowa. Proceeds of \$0.1 million were deposited to each the Public Safety Survivor Benefits Fund and the Department of Corrections Survivor Benefits Fund in the current fiscal year in accordance with Section 99G.39 of the Code of Iowa.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At June 30, 2021 the Lottery had \$9.8 million invested in capital assets, less accumulated depreciation of \$2.9 million, leaving a net book value of \$6.9 million. Additional information about the Lottery's capital assets is presented in note 4 to the financial statements.

On June 30, 2021, the Lottery had no outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Lottery's management considered many factors when establishing the fiscal year 2022 budget. These factors include fuel prices, competition from other sources and concentration of retailers. The Lottery is committed to providing budgeted proceeds totaling \$73.5 million to State programs in fiscal year 2022.

CONTACTING THE LOTTERY'S FINANCIAL MANAGEMENT

This financial report is designed to present users with a general overview of the Lottery's finances and demonstrate the Lottery's accountability for the funds generated. If you have questions about the report or need additional financial information, please contact the Finance Department, Iowa Lottery Headquarters, 13001 University Avenue, Clive, Iowa 50325.

Iowa Lottery Authority

Basic Financial Statements

Iowa Lottery Authority
Statement of Net Position
June 30, 2021

Assets	
Current assets:	
Cash	\$ 29,382,553
Restricted assets - cash	795,450
Prepaid expense	59,285
Interest receivable	4,117
Accounts receivable	5,428,754
Ticket inventories	3,367,165
Investment in prize annuities	<u>59,167</u>
Total current assets	<u>39,096,491</u>
Noncurrent assets:	
Prize reserve	4,739,182
Investment in prize annuities	895,731
Capital assets, net	<u>6,935,145</u>
Total noncurrent assets	<u>12,570,058</u>
Total assets	<u>51,666,549</u>
Deferred Outflows of Resources	
OPEB related deferred outflows	109,729
Pension related deferred outflows	<u>1,437,714</u>
Total Deferred Outflows of Resources	<u>1,547,443</u>
Liabilities	
Current liabilities:	
Lotto prizes payable	5,301,174
Instaplay prizes payable	148,504
Annuity prizes payable	59,167
Accounts payable and accruals	27,060,255
Unearned revenue	207,790
Salary and benefits payable	140,238
Compensated absences and OPEB	<u>1,019,691</u>
Total current liabilities	<u>33,936,819</u>
Long-term liabilities:	
Accounts payable and accruals	82,658
Compensated absences and OPEB	2,057,399
Net pension liability	6,530,000
Prize reserve	4,739,182
Annuity prizes payable	<u>895,731</u>
Total long-term liabilities	<u>14,304,970</u>
Total liabilities	<u>48,241,789</u>
Deferred Inflows of Resources	
OPEB related deferred inflows	174,734
Pension related deferred inflows	<u>395,919</u>
Total Deferred Inflows of Resources	<u>570,653</u>
Net Position	
Net investment in capital assets	6,935,145
Unrestricted	<u>(2,533,595)</u>
Total net position	<u>\$ 4,401,550</u>

See notes to financial statements.

Iowa Lottery Authority
Statement of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2021

Operating revenues:	
Scratch ticket sales	\$ 316,934,651
Instaplay sales	23,478,424
Pick 3 sales	9,540,165
Pick 4 sales	5,470,758
Powerball sales	43,419,695
Mega Millions sales	28,980,779
Lucky for Life sales	5,555,026
Lotto America sales	6,441,090
Pull-tab sales	12,771,423
Application fees	4,700
Other	6,317
Total operating revenues	<u>452,603,028</u>
Operating expenses:	
Prizes:	
Scratch ticket	211,664,732
Instaplay	17,225,460
Pick 3	5,766,802
Pick 4	3,282,455
Powerball	21,710,608
Mega Millions	14,490,389
Lucky for Life	3,535,075
Lotto America	3,220,545
Pull-tab	7,981,163
Total prizes	<u>288,877,229</u>
Retailer compensation	29,694,891
Advertising production and media purchases	7,421,985
Retailer lottery system/terminal communications	6,277,734
Scratch/pull-tab ticket expense	3,576,478
Vending machines & maintenance/ticket dispensers	394,430
Courier delivery of tickets	710,983
Other operating expenses	13,827,475
Total operating expenses	<u>350,781,205</u>
Operating income	<u>101,821,823</u>
Non-operating revenues (expenses):	
Proceeds to state causes	(101,747,494)
Interest income	59,467
Gain on disposal of capital assets	18,400
Net non-operating expenses	<u>(101,669,627)</u>
Change in net position	152,196
Net position beginning of year	4,249,354
Net position end of year	<u>\$ 4,401,550</u>

See notes to financial statements.

Iowa Lottery Authority

Iowa Lottery Authority
Statement of Cash Flows
Year ended June 30, 2021

Cash flows from operating activities:	
Cash received from customers	\$ 451,991,816
Cash paid for prizes	(289,279,132)
Cash paid to retailers	(29,692,391)
Cash paid to suppliers for goods and services	(20,832,704)
Cash paid to employees for services	(10,751,390)
Other operating revenues	<u>11,017</u>
Net cash provided by operating activities	<u>101,447,216</u>
Cash flows from non-capital financing activities:	
Proceeds provided to the State	<u>(100,355,107)</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(375,233)
Proceeds from the sale of capital assets	<u>43,600</u>
Net cash used for capital and related financing activities	<u>(331,633)</u>
Cash flows from investing activities:	
Interest income	85,960
Annuity payments received	<u>177,000</u>
Net cash provided by investing activities	<u>262,960</u>
Net increase in cash	1,023,436
Cash beginning of year	<u>29,154,567</u>
Cash end of year	<u>\$ 30,178,003</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 101,821,823</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	457,136
Change in assets and liabilities:	
Prepaid expense	(21,802)
Accounts receivable	(457,420)
Ticket inventories	(502,664)
Accounts payable and accruals	209,497
Prizes payable	(178,204)
Unearned revenue	(142,775)
Compensated absences	94,035
Salary and benefits payable	36,823
Pension liability and related deferrals	222,778
OPEB obligation and related deferrals	84,989
Prize annuities	<u>(177,000)</u>
Total adjustments	<u>(374,607)</u>
Net cash provided by operating activities	<u>\$ 101,447,216</u>
Noncash non-capital financing activities:	
Multi-state contributions collected to purchase life insurance annuity for Iowa's Lucky for Life second prize winner	\$ 557,252
Purchase of life insurance annuity for Iowa's Lucky for Life second prize winner	<u>(557,252)</u>
Total noncash non-capital financing activities	<u>\$ -</u>

See notes to financial statements.

Iowa Lottery Authority
Notes to Financial Statements
June 30, 2021

(1) Summary of Significant Accounting Policies

The Iowa Lottery Authority was created by the 2003 Iowa Legislature as the successor to the Lottery Division of the Iowa Department of Revenue and Finance.

The Iowa Lottery Authority (Lottery), a component unit of the State of Iowa, is a public instrumentality of the State of Iowa with comprehensive and extensive powers to operate a state lottery. The Lottery has the responsibility to operate and manage lottery games in a manner to provide continuing entertainment to the public, maximize revenues and deposit the net proceeds to the General Fund of the State of Iowa and ensure the Lottery is operated with integrity and dignity and free from political influence. The Lottery oversees the marketing of lottery games and performs the administrative procedures necessary to ensure the most efficient and effective operation possible.

The head of the Lottery is a Chief Executive Officer appointed by the Governor. The Governor also appoints the Iowa Lottery Authority Board, consisting of five members.

The Board and Chief Executive Officer have joint responsibility for entering into major contracts, procuring the printing of scratch and pull-tab tickets and for the purchase or lease of equipment or services essential to the operation of a lottery game.

The Board must promulgate rules regarding the following:

- (a) Types, prize structure and price of lottery games.
- (b) Retailer licensing requirements, fees, incentives, locations and compensation.
- (c) Method of selecting winning tickets or shares, manner of prize payment, method of ticket validation, preliminary drawings and jackpot events, ticket printing and purchasing.

The organizational structure of the Lottery consists of five sections: Security, Finance, Systems, Sales and Marketing, and External Relations.

The financial statements of the Lottery have been prepared in conformity with U.S. generally accepted accounting principles as applied to governmental units. The more significant of the Lottery's accounting policies are described below.

A. Reporting Entity

For financial reporting purposes, the Lottery has included all funds. The Lottery has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Lottery are such that exclusion would cause the Lottery's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Lottery to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Lottery. The Lottery has no component units which meet the Governmental Accounting Standards Board criteria.

B. Fund Accounting

The Lottery is reported for accounting purposes as an Enterprise Fund. The operations of the fund are accounted for with self-balancing accounts which comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues and expenses. Enterprise Funds are used to report activities for which fees are charged to external users for goods or services.

C. Measurement Focus

Enterprise Funds are accounted for on a cost of services or “capital maintenance” measurement focus. This means all assets, deferred outflows of resources, liabilities and deferred inflows of resources, whether current or non-current, associated with their activity are included in the Statement of Net Position, with the difference reported as net position. Enterprise Fund operating statements present increases (revenues) and decreases (expenses) in total net position.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Enterprise Fund is accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

The Lottery distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an Enterprise Fund’s principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

E. Budgets and Budgetary Accounting

Budgetary control is exercised over the Lottery by the Board and Chief Executive Officer through the budgetary process prescribed in Chapter 99G of the Code of Iowa.

F. Revenue Recognition

Sales of scratch, pull-tab, instaplay and lotto tickets are made to the public through licensed retail sales agents. Scratch ticket sales are recognized when the retailer settles a pack of tickets. Revenues for pull-tab games are recognized upon the sale of tickets to the retail sales agents. Instaplay ticket sales are recognized when the retailer sells the ticket to the player. Revenues for lotto games are recognized as the drawings are held. Unearned revenue represents lotto tickets sold for future prize drawings.

G. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

The following accounting policies are followed in preparing the basic financial statements:

Cash, Pooled Investments and Cash Equivalents

Generally, all cash is held on deposit with the Treasurer of State and is invested by that office. Interest on funds held by the State Treasurer is credited to the Lottery as received.

The Lottery also earned interest on the prize reserve maintained by the Multi-State Lottery Association (MUSL).

Restricted Assets – Cash

The Lottery retains cash for the purpose of purchasing replacement vehicles. Also included are annuity payments received by the Lottery during the fiscal year which are not owed to jackpot winners until the next fiscal year and cash deposits required from certain retailers.

Investments

Investments are reported at fair value. Insurance annuities are valued on the basis of future installment payments and are discounted using established annuity contract interest rates.

Ticket Inventories

Inventories consist of scratch tickets held by retailers which have not settled, scratch and pull-tab tickets held by the Lottery's sales representatives and scratch and pull-tab tickets stored in the main or regional warehouses for games in progress or new games. Inventories are carried at cost using the specific identification method. Tickets are charged to scratch/pull-tab ticket expense when sold or voided. Unsold tickets are expensed upon the end or cancellation of a lottery game.

Prize Reserve

The Lottery makes weekly payments to the MUSL. Such payments are for the purpose of funding the jackpot prize and funding an errors and omissions reserve.

Capital Assets

Capital assets, which include buildings, vehicles and equipment, are defined by the Lottery as assets with an initial individual cost of more than \$50,000 for buildings and \$5,000 for vehicles and equipment and an estimated useful life in excess of three years and assets purchased through special financing arrangements. Such assets are recorded at historical cost.

The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciation is computed using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	50
Equipment	5 - 25
Vehicles	3 - 4

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position applicable to a future year(s) which will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension and OPEB expense, the unamortized portion of the net difference between projected and actual earnings on IPERS' plan investments and contributions from the Lottery after the measurement date but before the end of the Lottery's reporting period.

Prize Liabilities

The prize liabilities for the Pick 3 and the Pick 4 games are determined and recognized daily after the drawings are held. The prize liabilities for Powerball, Mega Millions, Lotto America and Lucky for Life are determined and recognized twice a week after the jackpot drawings are held. The prize liabilities for Instaplay games are recognized daily when the tickets are sold. Prizes for the Pick 3 and Pick 4 games may be claimed up to 90 days after the drawings are held. Prizes for Powerball, Mega Millions, Lotto America and Lucky for Life may be claimed up to 365 days after the drawings are held. Prizes for InstaPlay must be claimed within 90 days from date of purchase.

Compensated Absences and Other Postemployment Benefits (OPEB)

Employees accumulate a limited amount of earned but unused vacation and sick leave for subsequent use, for payment of the employer portion of insurance premiums upon retirement or for payment upon termination, death or retirement. The liabilities recorded for compensated absences are based on current rates of pay and current insurance rates.

The State of Iowa provides access to postretirement medical benefits to all retirees as required by Chapter 509A.13 of the Code of Iowa. Although the retirees generally must pay 100% of the premium, GASB Statement No. 75 requires employers recognize the implicit rate subsidy in postretirement medical plans provided by governmental employers.

Pensions

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

Total OPEB Liability

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information has been determined based on the Lottery's proportionate share of the State of Iowa's actuarial information. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position applicable to a future year(s) which will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of unrecognized items not yet credited to pension and OPEB expense.

(2) Deposits and Investments

The Lottery's deposits with the Office of the Treasurer of State throughout the period and at June 30, 2021 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa.

The Lottery held investments totaling \$954,898 for the purpose of paying installment prizes. The Lottery may invest in financial instruments carrying the full faith and credit of the U.S. government or insurance annuities.

The Lottery is responsible for investing in insurance annuities. The Lottery had investments in insurance annuities totaling \$954,898 which are not subject to credit risk categorization.

The Lottery uses the fair value hierarchy established by generally accepted accounting principles based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

The fair value measurements, categorized by level of the fair value hierarchy, for the investments at June 30, 2021 are as follows:

<u>Investment Type</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Fixed:	
Other fixed income	<u>\$ 954,898</u>

(3) Investment in Prize Annuities and Annuity Prizes Payable

Investments totaling \$954,898 are held by the Lottery for the purpose of paying installment prizes which have already been won but will not be fully paid until 2037. Annuity liabilities to fund jackpot winners are valued at an amount equal to the carrying values of the respective assets held to fund the annuity obligations. The following is a schedule of future payments:

Year ending June 30,	Current	Long-term	Total
2022	\$ 50,000	-	50,000
2023	-	50,000	50,000
2024	-	50,000	50,000
2025	-	50,000	50,000
2026	-	50,000	50,000
2027-2031	-	250,000	250,000
2032-2036	-	250,000	250,000
2037	-	100,000	100,000
Total future value	50,000	800,000	850,000
Add: unamortized premium	9,167	95,731	104,898
Present value of payments	\$ 59,167	895,731	954,898

(4) Capital Assets

Capital assets activity for the year ended June 30, 2021 was as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 1,592,000	-	-	1,592,000
Capital assets being depreciated:				
Buildings	4,278,454	-	-	4,278,454
Equipment	2,710,451	177,121	60,304	2,827,268
Vehicles	1,054,808	198,112	129,288	1,123,632
Total capital assets being depreciated	8,043,713	375,233	189,592	8,229,354
Less accumulated depreciation for:				
Buildings	477,760	85,569	-	563,329
Equipment	1,396,030	254,819	60,304	1,590,545
Vehicles	719,675	116,748	104,088	732,335
Total accumulated depreciation	2,593,465	457,136	164,392	2,886,209
Total capital assets being depreciated, net	5,450,248	(81,903)	25,200	5,343,145
Capital assets, net	\$ 7,042,248	(81,903)	25,200	6,935,145

(5) Lease Commitment

The Lottery leases advertising display signs in Cedar Rapids and Mason City and occupies office and warehouse facilities in Cedar Rapids, Mason City, Storm Lake, Council Bluffs and Ankeny under long-term operating leases which expire by June 30, 2027.

The following is a schedule, by year, of the future minimum rental payments required under operating leases which have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2021:

Year ending June 30,	Amount
2022	\$ 171,167
2023	149,556
2024	149,556
2025	149,556
2026	149,556
2027	8,775
Total	<u>\$ 778,166</u>

Rental expense for the year ended June 30, 2021 for all operating leases, except those with terms of a month or less that were not renewed, totaled \$341,745.

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2021 are summarized as follows:

	Balance June 30, 2020	Additions	Deletions	Balance June 30, 2021	Due Within One Year
Compensated absences	\$ 1,855,055	1,032,925	938,890	1,949,090	961,321
Total OPEB liability	1,163,000	117,000	152,000	1,128,000	58,370
Termination benefits for retirees	84,099	106,145	57,618	132,626	49,968
Net pension liability	5,525,227	1,004,773	-	6,530,000	-
Total	<u>\$ 8,627,381</u>	<u>2,260,843</u>	<u>1,148,508</u>	<u>9,739,716</u>	<u>1,069,659</u>

Sick Leave Insurance Program (SLIP) – The Sick Leave Insurance Program is a voluntary termination benefit program. The program is an opportunity for employees who are retirement-eligible to use the value of their unused sick leave to pay the employer share of the monthly premium of the state’s group health insurance plan after retirement. A SLIP liability is reported for both current, active Lottery employees and retirees. The SLIP liability for current, active employees is included in compensated absences and the liability for retirees is included in accounts payable and accruals.

Upon retirement, employees shall first receive a cash payment for accumulated, unused sick leave converted at the employee’s current regular hourly rate of pay, up to \$2,000, payable with the final payroll warrant that includes the employee’s retirement date. The value of the remaining balance of the accrued sick leave will be converted based upon the original balance (before the cash payment). The remainder of the sick leave value is calculated as follows, based on the number of sick leave hours the employee had before the cash payment:

If the sick leave balance is:	The conversion rate is:
Zero to 750 hours	60% of the value
Over 750 hours to 1,500 hours	80% of the value
Over 1,500 hours	100% of the value

The final calculated dollar value was credited to the employee’s SLIP account. Each month, the Lottery pays 100% of the employer share of the selected state group health insurance premium from the retiree’s SLIP account. The retiree is responsible for any additional premiums associated with the employee/retiree share.

The Lottery will continue to pay the employer's share of the health insurance premium each month until the converted value of the employee's sick leave balance is exhausted, the employee is eligible for Medicare, the employee waives the benefit or the employee dies, whichever comes first. The retired employees may stay with the same health insurance program as when employed or switch down at any time without underwriting. The converted value of the sick leave can only be applied to the employer's share of health insurance premium payments. It has no cash value and is not transferable to another use or to an heir.

If a retired employee who has utilized this benefit returns to permanent State employment, all remaining balances in the SLIP account will be forfeited.

All SLIP program benefits are financed on a pay-as-you-go basis. Amounts due for this program have been recorded as a liability in the financial statements.

For the year ended June 30, 2021, seven employees have retired and received benefits totaling \$57,618 under the SLIP program.

Other Postemployment Benefits (OPEB)

Plan Description – The Lottery's employees are provided with OPEB through the State of Iowa OPEB Plan – a cost-sharing, multiple-employer defined benefit OPEB plan administered by the State of Iowa (State OPEB Plan). The State of Iowa provides access to postretirement medical benefits to all retirees as required by Chapter 509A.13 of the Code of Iowa. Although the retirees generally must pay 100% of the premium rate, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75), requires that employers recognize the Implicit Rate Subsidy that exists in postretirement medical plans provided by governmental employers.

Implicit Rate Subsidy refers to the concept that retirees under the age of 65 (i.e. not eligible for Medicare) generate higher claims on average than active participants. When a medical plan is self-insured or fully insured through a third-party administrator, a premium is usually determined by analyzing the claims of the entire population in the plan and adjusting for administrative costs. The resulting premium is called a blended premium because it blends the claims of active and retired participants. Since individuals generally have more and higher claims as they get older, the blended premium paid for retirees is lower than their expected claims. Another way of considering this is that if the retirees were removed from the plan, the premium for the active group would be lower; therefore, the retirees' premiums are being subsidized by the active group. Since the employer generally pays a large portion or all of the premiums for the active group, this subsidy creates a liability for the employer. The difference between the expected claims for the retiree group and the blended premium is called the Implicit Rate Subsidy.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

Plan Membership – There are 161 active and 1 retired participants in the plan.

Plan Benefits – The State OPEB Plan currently offers 3 plans which are available to participants: the Iowa Choice Plan, the National Choice Plan and the SPOC (State Police Officer's Council) Plan.

The contribution requirements of the plan participants are established and may be amended by the State Legislature. The State currently finances the retiree benefit plan on a pay-as-you-go basis.

OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – At June 30, 2021, the Lottery reported a liability of \$1,128,000 for its proportionate share of the total OPEB liability. The total OPEB liability was measured as of June 30, 2021 and was determined by an actuarial valuation performed as of January 1, 2021 and rolled forward to June 30, 2021 using generally accepted actuarial principles. The Lottery's proportion of the total OPEB liability was based on the ratio of Lottery's active employees in relation to all active employees of the State OPEB Plan. At June 30, 2021, the Lottery's proportion was 0.527%.

For the year ended June 30, 2021, the Lottery recognized OPEB expense of \$84,989. At June 30, 2021, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	59,319
Changes in proportion and differences in the Lottery's contributions and the Lottery's proportionate share of contributions	42,120	100,922
Changes in assumptions	67,609	14,493
Total	<u>\$ 109,729</u>	<u>174,734</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending June 30,	Amount
2022	\$ (4,387)
2023	(4,387)
2024	(4,387)
2025	(4,387)
2026	(6,020)
Thereafter	<u>(41,437)</u>
	<u>\$ (65,005)</u>

Actuarial Assumptions – The total OPEB liability in the June 30, 2021 measurement was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement:

Rate of inflation	2.60%
Discount rate	2.16%
Healthcare cost trend rates	7.0%-8.0% initial, decreasing to 4.5% ultimate.

The discount rate was based on the 20-year Bond Buyer GO Index as of the end of June 2021.

The majority of State of Iowa employees are participants in the Iowa Public Employees' Retirement System (IPERS). For this reason, the individual salary increases, the mortality rates, withdrawal, retirement and age of spouse assumptions are based on the assumptions used for the IPERS' actuarial valuation report as of June 30, 2020. The plan participation and coverage election at retirement assumptions are based upon the recent experience of the State of Iowa Postretirement Medical Plan.

Changes in the Total OPEB Liability follows:

	<u>Total OPEB Liability</u>
Total OPEB liability beginning of year	\$ 1,163,000
Changes for the year:	
Service cost	91,000
Interest	26,000
Changes in assumptions	(111,000)
Benefit payments	<u>(41,000)</u>
Net changes	<u>(35,000)</u>
Total OPEB liability end of year	<u>\$ 1,128,000</u>

Sensitivity of the Lottery's Total OPEB Liability to Changes in the Discount Rate – The proportionate share of the total OPEB liability was calculated using a discount rate of 2.16%, as well as a discount rate that is 1 percentage point lower (1.16%) or 1 percentage higher (3.16%) than the current discount rate. The sensitivity of the proportionate share of the total OPEB liability to changes in the discount rate is presented below:

	1% Decrease (1.16%)	Discount Rate (2.16%)	1% Increase (3.16%)
Total OPEB liability	\$ 1,199,000	1,128,000	1,060,000

Sensitivity of the Lottery's Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – The proportionate share of the total OPEB liability was calculated using a healthcare cost trend rate of 7.0% to 8.0% as well as a healthcare cost trend rate that is 1 percentage point lower (6.0%-7.0%) or 1 percentage higher (8.0%-9.0%) than the current healthcare cost trend rate. The sensitivity of the proportionate share of the total OPEB liability to changes in the healthcare cost trend rate is presented below:

	1% Decrease (6.0%-7.0%)	Healthcare Cost Trend Rate (7.0%-8.0%)	1% Increase (8.0%-9.0%)
Total OPEB liability	\$ 1,001,000	1,128,000	1,278,000

Payables to the OPEB Plan – There were no amounts due to the defined benefit State OPEB Plan at June 30, 2021.

(7) Pension Plan

Plan Description – IPERS membership is mandatory for employees of the Lottery, except for those covered by another retirement system. Employees of the Lottery are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2021, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the Lottery contributed 9.44% of covered payroll, for a total rate of 15.73%.

The Lottery's contributions to IPERS for the year ended June 30, 2021 totaled \$708,749.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2021, the Lottery reported a liability of \$6,530,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Lottery's proportion of the net pension liability was based on the Lottery's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2020, the Lottery's proportion was 0.092957%, which was a decrease of 0.002459% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the Lottery recognized pension expense of \$933,539. At June 30, 2021, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 7,214	154,778
Changes of assumptions	335,183	-
Net difference between projected and actual earnings on IPERS' investments	367,090	-
Changes in proportion and differences between Lottery contributions and its proportionate share of contributions	19,478	241,141
Lottery contributions subsequent to the measurement date	708,749	-
Total	<u>\$ 1,437,714</u>	<u>395,919</u>

\$708,749 reported as deferred outflows of resources related to pensions resulting from the Lottery's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30,	Amount
2022	\$ 32,667
2023	74,487
2024	62,275
2025	171,973
2026	<u>(8,356)</u>
Total	<u>\$ 333,046</u>

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2020 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

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

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	22.0%	4.43%
International equity	17.5	5.15
Global smart beta equity	6.0	4.87
Core plus fixed income	28.0	(0.29)
Public credit	4.0	2.29
Cash	1.0	(0.78)
Private equity	11.0	6.54
Private real assets	7.5	4.48
Private credit	3.0	3.11
Total	<u>100.0%</u>	

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Lottery will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Lottery’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Lottery’s proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Lottery’s proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Lottery's proportionate share of the net pension liability	\$ 10,888,224	6,530,000	2,875,696

IPERS’ Fiduciary Net Position – Detailed information about IPERS’ fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS’ website at www.ipers.org.

Payables to IPERS – All legally required employer contributions and legally required employee contributions which had been withheld from employee wages were remitted by the Lottery to IPERS by June 30, 2021.

(8) Payment of Prizes

Scratch ticket prize expense is comprised of actual winning tickets validated for payment by any retailer or by the Lottery.

Instaplay ticket prize expense is comprised of actual winning tickets sold by any retailer or by the Lottery.

The Powerball prize expense is comprised of two different prize structures. One prize structure is winners who match 3, 4 or 5 of 5 numbers or none, 1, 2, 3 or 4 of 5 numbers plus the Powerball number. The second prize structure involves a jackpot which increases from drawing to drawing until the jackpot is won. The jackpot is won when 5 of 5 numbers, plus the Powerball number, are matched.

The Mega Millions prize expense is comprised of two different prize structures. One prize structure is winners who match 3, 4 or 5 of 5 numbers or none, 1, 2, 3 or 4 of 5 numbers plus the Megaball number. The second prize structure involves a jackpot which increases from drawing to drawing until the jackpot is won. The jackpot is won when 5 of 5 numbers, plus the Megaball number, are matched.

Pull-tab prize expense is comprised of actual winning tickets, up to and including \$600, included in packs delivered to retailers and actual winning tickets over \$600 paid by the Lottery.

The Pick 3 prize expense is comprised of winners who match either 2 or 3 of 3 numbers. A player may win from \$30 to \$3,000 depending on the play type selected and the play amount. Play types are Straight, Box, Straight/Box, Front Pair or Back Pair and require the player to match all numbers in the exact order drawn, match all three numbers in any order, match either exact and/or any order, first two numbers or last two numbers in exact order, respectively.

The Pick 4 prize expense is comprised of winners who match either 2 or 4 of 4 numbers. A player may win from \$30 to \$30,000 depending on the play type selected and the play amount. Play types are Straight, Box, Straight/Box, Front Pair or Back Pair and require the player to match all numbers in the exact order drawn, match all four numbers in any order, match either exact and/or any order, first two numbers or last two numbers in exact order, respectively.

The Lotto America prize expense is comprised of two different prize structures. One prize structure is winners who match 3, 4 or 5 of 5 numbers or none, 1, 2, 3 or 4 of 5 numbers plus the Star Ball number. The second prize structure involves a jackpot which increases from drawing to drawing until the jackpot is won. The jackpot is won when 5 of 5 numbers, plus the Star Ball number, are matched.

The Lucky for Life prize expense is comprised of three different prize structures. One prize structure is winners who match 2, 3 or 4 of 5 numbers or none, 1, 2, 3 or 4 of 5 numbers plus the Lucky Ball number. The game's second prize structure of \$25,000 a year for life is won by matching 5 of 5 numbers without the Lucky Ball. The third prize structure involves a top prize of \$1,000 per day for life and is won by matching 5 of 5 numbers, plus the Lucky Ball number.

(9) Scratch Ticket Packs

The Lottery issues scratch ticket packs to retailers on an ongoing basis. The retailer or District Sales Representative must activate the pack on the system before the pack may be sold to the public. The retailer may not be billed for these packs until a pack is activated and settled on the system. A pack may be settled in one of four ways: 1) 70% of the low-tier tickets in the pack have been validated, 2) 45 days have elapsed from the date the pack was activated, 3) the pack has been settled at delivery or settled manually through the terminal or 4) 21 days have elapsed from the date the pack was activated regardless of validations. As of June 30, 2021, the Lottery had 57,956 packs at retailers which have not yet settled. The receivable and the related unearned revenue of \$7,893,206 calculated as shown below, have not been included in the Lottery's financial statements since the sales associated with these packs have not been recognized.

Unsettled packs	\$ 17,386,800
Less:	
Retailer compensation	1,205,745
Low-tier prize expense	<u>8,287,849</u>
Potential receivable and unearned amount	<u>\$ 7,893,206</u>

(10) Lotto America/Powerball

U.S. Treasury zero coupon bonds are purchased by the Multi-State Lottery Association (MUSL) to provide payments corresponding to the Lottery's obligation to Lotto America/Powerball prize winners. The MUSL holds these bonds and will cash the bonds when due and wire the money to the Lottery's account on or before the anniversary date of the jackpot.

At June 30, 2021, the MUSL held zero coupon bonds for the Lottery to fund future installment payments aggregating \$925,544. The current value of those bonds totaled \$998,654.

(11) Risk Management

State employee benefits for health, dental, long-term disability and life insurance coverage are insured through commercial insurers. There were no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage for the past three fiscal years.

The State of Iowa self-insures on behalf of its agencies for losses related to workers' compensation, its motor vehicle fleet, property damage and torts. A contingent fund exists under Section 29C.20 of the Code of Iowa to provide compensation for loss or damage to state property (casualty losses).

Upon advice of legal counsel, the Lottery has purchased commercial insurance for certain risks.

(12) COVID-19

In March 2020, the COVID-19 outbreak was declared a global pandemic. The disruption to businesses across a range of industries in the United States continues to evolve. The full impact to local, regional and national economies, including the Iowa Lottery Authority, remains uncertain.

To date, the outbreak has not created a material disruption to the operations of the Lottery. However, the extent of the financial impact of COVID-19 will depend on future developments, including the spread of the virus, duration and timing of the economic recovery. Due to these uncertainties, management cannot reasonably estimate the potential impact to the Iowa Lottery Authority.

(13) Prospective Accounting Change

Governmental Accounting Standards Board has issued Statement No. 87, Leases. This statement will be implemented for the fiscal year ending June 30, 2022. This statement requires recognition of certain lease assets and liabilities not previously reported in the Statement of Net Position.

Iowa Lottery Authority

Required Supplementary Information

Iowa Lottery Authority

Schedule of the Lottery's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
For the Last Seven Years*
(In Thousands)

Required Supplementary Information

	2021	2020	2019	2018
Lottery's proportion of the net pension liability	0.092957%	0.095416%	0.099722%	0.098281%
Lottery's proportionate share of the net pension liability	\$ 6,530	5,525	6,311	6,547
Lottery's covered payroll	\$ 7,352	7,235	7,469	7,346
Lottery's proportionate share of the net pension liability as a percentage of its covered payroll	88.82%	76.36%	84.50%	89.12%
IPERS' net position as a percentage of the total pension liability	82.90%	85.45%	83.62%	82.21%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

2017	2016	2015
0.097838%	0.100528%	0.102815%
6,157	4,967	4,078
6,809	6,932	6,753
90.42%	71.65%	60.39%
81.82%	85.19%	87.61%

Iowa Lottery Authority
 Schedule of Lottery Contributions
 Iowa Public Employees' Retirement System
 For the Last Ten Years
 (In Thousands)

Required Supplementary Information

	2021	2020	2019	2018
Statutorily required contribution	\$ 709	694	683	667
Contributions in relation to the statutorily required contribution	(709)	(694)	(683)	(667)
Contribution deficiency (excess)	\$ -	-	-	-
Lottery's covered payroll	\$ 7,511	7,352	7,235	7,469
Contributions as a percentage of covered payroll	9.44%	9.44%	9.44%	8.93%

See accompanying independent auditor's report.

2017	2016	2015	2014	2013	2012
656	608	619	603	582	521
(656)	(608)	(619)	(603)	(582)	(521)
-	-	-	-	-	-
7,346	6,809	6,932	6,753	6,713	6,456
8.93%	8.93%	8.93%	8.93%	8.67%	8.07%

Iowa Lottery Authority

Notes to Required Supplementary Information – Pension Liability

Year ended June 30, 2021

Changes of benefit terms:

There are no significant changes in benefit terms.

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

Iowa Lottery Authority

Schedule of Changes in the Iowa Lottery Authority's
Total OPEB Liability, Related Ratios and Notes

For the Last Four Years
Required Supplementary Information

	2021	2020	2019	2018
Service cost	\$ 91,000	74,000	69,000	76,000
Interest cost	26,000	40,000	42,000	38,000
Difference between expected and actual experiences	-	-	-	70,000
Changes in assumptions	(111,000)	(2,000)	(2,000)	16,000
Benefit payments	(41,000)	(69,000)	(70,000)	(54,000)
Net change in total OPEB liability	(35,000)	43,000	39,000	146,000
Total OPEB liability beginning of year	1,163,000	1,120,000	1,081,000	935,000
Total OPEB liability end of year	\$ 1,128,000	1,163,000	1,120,000	1,081,000
Covered-employee payroll	\$ 7,727,117	7,532,000	7,376,000	7,584,000
Total OPEB liability as a percentage of covered-employee payroll	14.6%	15.4%	15.2%	14.3%

See accompanying independent auditor's report.

Notes to Schedule of Changes in the Iowa Lottery Authority's Total OPEB Liability and Related Ratios

Changes in benefit terms:

There were no significant changes in benefit terms.

Changes in assumptions:

Changes in assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:

Year ended June 30, 2021:	2.16%
Year ended June 30, 2020:	2.21%
Year ended June 30, 2019:	3.50%
Year ended June 30, 2018:	3.87%
Year ended June 30, 2017:	3.58%

There are no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to the pay related benefits.

GASB Statement No. 75 requires ten years of information to be presented in this schedule. However, until a full 10-year trend is compiled, the Lottery Authority will present information for those years for which information is available. The amounts presented for each fiscal year were determined as of June 30.

Iowa Lottery Authority

Supplementary Information

Schedule 1

Iowa Lottery Authority
Other Operating Expenses
Year ended June 30, 2021

Salary and benefits	\$ 11,190,015
Travel	196,657
Supplies	86,120
Printing	3,076
Postage	7,380
Communications	173,362
Rentals	304,104
Utilities	91,331
Professional fees	119,268
Outside services and repair	204,523
Non-capitalized equipment	353,102
Data processing	128,506
Reimbursement to state agencies	460,093
Depreciation	457,136
Other	<u>52,802</u>
Total	<u>\$ 13,827,475</u>

See accompanying independent auditor's report.

Iowa Lottery Authority
Revenues, Expenses and Changes in Net Position
Years ended June 30, 2021 and 2020

	2021	2020	Increase (Decrease)
Operating revenues:			
Scratch ticket sales	\$ 316,934,651	262,447,704	54,486,947
Instaplay sales	23,478,424	16,279,705	7,198,719
Pick 3 sales	9,540,165	8,502,502	1,037,663
Pick 4 sales	5,470,758	4,950,001	520,757
Powerball sales	43,419,695	36,428,043	6,991,652
Mega Millions sales	28,980,779	20,433,854	8,546,925
Lucky for Life sales	5,555,026	5,335,530	219,496
Lotto America sales	6,441,090	6,751,811	(310,721)
Pull-tab sales	12,771,423	10,824,344	1,947,079
Application fees	4,700	3,750	950
Other	6,317	7,436	(1,119)
Total operating revenues	<u>452,603,028</u>	<u>371,964,680</u>	<u>80,638,348</u>
Operating expenses:			
Prizes:			
Scratch ticket	211,664,732	174,595,972	37,068,760
Instaplay	17,225,460	11,659,100	5,566,360
Pick 3	5,766,802	5,101,502	665,300
Pick 4	3,282,455	3,237,775	44,680
Powerball	21,710,608	18,219,035	3,491,573
Mega Millions	14,490,389	10,216,927	4,273,462
Lucky for Life	3,535,075	3,147,141	387,934
Lotto America	3,220,545	3,375,906	(155,361)
Pull-tab	7,981,163	6,763,647	1,217,516
Total prizes	<u>288,877,229</u>	<u>236,317,005</u>	<u>52,560,224</u>
Retailer compensation	29,694,891	24,314,334	5,380,557
Advertising production and media purchases	7,421,985	6,780,551	641,434
Retailer lottery system/terminal communications	6,277,734	6,123,259	154,475
Scratch/pull-tab ticket expense	3,576,478	3,251,770	324,708
Vending machines & maintenance/ticket dispensers	394,430	420,413	(25,983)
Courier delivery of tickets	710,983	660,809	50,174
Other operating expenses	13,827,475	13,505,653	321,822
Total operating expenses	<u>350,781,205</u>	<u>291,373,794</u>	<u>59,407,411</u>
Operating income	<u>101,821,823</u>	<u>80,590,886</u>	<u>21,230,937</u>
Non-operating revenues (expenses):			
Proceeds to the State's General Fund	(99,047,494)	(78,929,332)	20,118,162
Proceeds to the Veteran's Trust Fund	(2,500,000)	(2,500,000)	-
Proceeds to the Public Safety Survivor Benefits Fund	(100,000)	(100,000)	-
Proceeds to the DOC Survivor Benefits Fund	(100,000)	-	100,000
Interest income	59,467	383,498	324,031
Gain on disposal of capital assets	18,400	1,647	(16,753)
Net non-operating expenses	<u>(101,669,627)</u>	<u>(81,144,187)</u>	<u>20,525,440</u>
Changes in net position	152,196	(553,301)	705,497
Net position beginning of year	4,249,354	4,802,655	(553,301)
Net position end of year	<u>\$ 4,401,550</u>	<u>4,249,354</u>	<u>152,196</u>

See accompanying independent auditor's report.

Iowa Lottery Authority

Iowa Lottery Authority
Analysis of Net Position
June 30, 2021

Cash retained for vehicle purchases	\$	780,450
Ticket inventories		3,367,165
Capital assets		6,935,145
OPEB liability		(1,128,000)
Net pension liability		(6,530,000)
OPEB related deferred outflows		109,729
Pension related deferred outflows		1,437,714
OPEB related deferred inflows		(174,734)
Pension related deferred inflows		<u>(395,919)</u>
Total	\$	<u>4,401,550</u>

See accompanying independent auditor's report.

Iowa Lottery Authority
 Revenue by Game
 For the Last Six Years

Games	Year ended		
	2016	2017	2018
Scratch ticket	\$ 233,681,883	237,617,703	244,260,964
Instaplay	-	5,820,274	9,733,769
Pick 3	7,376,766	7,318,686	7,705,163
Pick 4	3,554,719	3,946,273	4,341,103
Powerball	74,851,133	54,292,902	58,471,047
Mega Millions	16,401,018	14,957,109	21,293,740
Hot Lotto	8,827,600	8,210,714	3,761,425
All or Nothing	3,989,479	3,186,443	-
Lucky for Life	3,154,994	5,599,966	5,600,490
Lotto America	-	-	4,872,494
Pull-tab	15,073,332	11,292,740	10,916,692
Total	<u>\$ 366,910,924</u>	<u>352,242,810</u>	<u>370,956,887</u>

See accompanying independent auditor's report.

June 30,		
2019	2020	2021
250,642,094	262,447,704	316,934,651
11,876,560	16,279,705	23,478,424
7,871,469	8,502,502	9,540,165
4,292,190	4,950,001	5,470,758
54,833,068	36,428,043	43,419,695
36,322,749	20,433,854	28,980,779
-	-	-
-	-	-
5,427,678	5,335,530	5,555,026
8,753,137	6,751,811	6,441,090
10,876,605	10,824,344	12,771,423
<u>390,895,550</u>	<u>371,953,494</u>	<u>452,592,011</u>

Iowa Lottery Authority

Iowa Lottery Authority
 Analysis of Prize Payout
 For the Last Six Years

Games	2016	2017	2018	2019	2020	2021
Scratch ticket	65%	65%	66%	67%	67%	67%
Instaplay	-	65%	65%	70%	72%	73%
Pick 3	59%	58%	59%	59%	60%	60%
Pick 4	59%	60%	58%	59%	65%	60%
Powerball	49%	48%	49%	46%	50%	50%
Mega Millions	49%	49%	51%	51%	50%	50%
Hot Lotto	48%	49%	47%	-	-	-
All or Nothing	59%	59%	-	-	-	-
Lucky for Life	80%	63%	59%	57%	59%	64%
Lotto America	-	-	50%	49%	50%	50%
Pull-tab	63%	62%	63%	63%	62%	62%

See accompanying independent auditor's report.



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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board Members of the Iowa Lottery Authority:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the Iowa Lottery Authority, a component unit of the State of Iowa, as of and for the year ended June 30, 2021, and the related Notes to Financial Statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 30, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Iowa Lottery Authority's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Iowa Lottery Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Iowa Lottery Authority's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

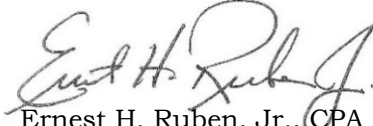
Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Authority'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 Iowa Lottery Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Iowa Lottery Authority during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Ernest H. Ruben, Jr., CPA
Deputy Auditor of State

March 30, 2022

Iowa Lottery Authority

Staff

This audit was performed by:

Ernest H. Ruben, Jr., CPA, Deputy
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