

Mississippi Lottery Corporation
A Component Unit of the State of Mississippi

Independent Auditor's Reports and
Financial Statements

Period from October 19, 2018 (Inception) Through June 30, 2019

Mississippi Lottery Corporation
A Component Unit of the State of Mississippi
Period From October 19, 2018 (Inception) Through June 30, 2019

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Independent Auditor's Report

Board of Directors
Mississippi Lottery Corporation
Flowood, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the Mississippi Lottery Corporation (the Corporation), a component unit of the State of Mississippi, as of June 30, 2019, and for the period from October 19, 2018 (inception) through June 30, 2019, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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.

Emphasis of Matter

As discussed in *Note 1*, the Mississippi Lottery Corporation is in the start-up phase of operations.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mississippi Lottery Corporation as of June 30, 2019, and the changes in its financial position and its cash flows for the period then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated September 25, 2019, on our consideration of the Corporation'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 Corporation'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 Corporation's internal control over financial reporting and compliance.

BKD, LLP

Jackson, Mississippi
September 25, 2019

Mississippi Lottery Corporation
A Component Unit of the State of Mississippi
Management's Discussion and Analysis (Unaudited)
Period From October 19, 2018 (Inception) Through June 30, 2019

The following discussion and analysis of the Mississippi Lottery Corporation's (the Corporation) financial performance provides an overview of the Corporation's financial activities for the period from October 19, 2018 (inception) through June 30, 2019. Readers are encouraged to consider the information presented here in conjunction with the Corporation's financial statements, which immediately follow this discussion and analysis. In future years, when prior-year information is available, a comparative analysis of financial data will be presented.

Financial Highlights

The Corporation was established under the Alyce G. Clarke Mississippi Lottery Law passed during the 2018 first extraordinary session of the Mississippi State Legislature. The Corporation's by-laws are dated March 5, 2019, and the Corporation began operations during the state of Mississippi's fiscal year ended June 30, 2019. The Corporation is in the start-up phase of operations and has not begun the sale of lottery tickets as of June 30, 2019.

The Corporation has secured a line of credit in order to fund the costs of the initial start-up of the lottery.

Overview of the Financial Statements

The Corporation is accounted for as a business-type activity and is a discretely presented component unit of the State of Mississippi, reporting transactions using the full accrual basis of accounting. This discussion and analysis is intended to serve as an introduction to the Corporation's basic financial statements along with notes to the financial statements. The basic financial statements include the Corporation's statement of net position (deficit) on page 6; statement of revenues, expenses and changes in net position (deficit) on page 7; and statement of cash flows on page 8.

The statement of net position (deficit) reflects the Corporation's financial position (deficit) at June 30, 2019.

The statement of revenues, expenses and changes in net position (deficit) reports the activity of start-up expenses related to the preparation of selling lottery products for the period from October 19, 2018 through June 30, 2019.

The statement of cash flows outlines the cash inflows and outflows related to the activity of start-up costs related to selling lottery products for the period from October 19, 2018 through June 30, 2019.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements begin on page 9 of the financial statements.

Mississippi Lottery Corporation
A Component Unit of the State of Mississippi
Management's Discussion and Analysis (Unaudited)
Period From October 19, 2018 (Inception) Through June 30, 2019

Financial Analysis

Current Assets

Cash and other current assets at June 30, 2019 were \$403 thousand. These consisted primarily of cash and prepaid insurance. Deposits in the bank were \$378 thousand. Prepaid insurance relating to director and officers' insurance premiums totaled approximately \$25 thousand.

Capital Assets

The Corporation had no capital assets at June 30, 2019.

Current Liabilities

Total current liabilities at June 30, 2019 were \$309 thousand, consisting mainly of accounts payable due to vendors for goods and services.

Long-term Debt

Total long-term debt at June 30, 2019 were \$750 thousand. The amount represents the long-term liability on the line of credit due on May 31, 2023. A line of credit in the amount of \$15 million was established during the period ended June 30, 2019, and one draw was made before the end of the reporting period. The line of credit is being used to fund operations until sales of lottery tickets can commence.

Net Position (Deficit)

Generally, net position (deficit) is comprised of three components: net investment in capital assets, restricted net position and unrestricted net position (deficit).

Net investment in capital assets represent capital assets acquired since inception, net of accumulated depreciation. The Corporation had no investment in capital assets at June 30, 2019.

Restricted net position represents restricted assets reduced by liabilities and deferred inflows of resources related to those assets. The Corporation had no restricted net position as of June 30, 2019.

Unrestricted net position (deficit) was a negative \$656 thousand, representing the difference between total net position and the other two components.

Operating Revenues

The Corporation had not started the sale of lottery tickets as of June 30, 2019. No operating revenues were reported.

Mississippi Lottery Corporation
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Management's Discussion and Analysis (Unaudited)
Period From October 19, 2018 (Inception) Through June 30, 2019

Operating Expenses

Operating expenses were \$656 thousand for the period from October 19, 2018 through June 30, 2019. The majority of these costs related to professional fees of \$607 thousand and personnel expense of \$26 thousand. All costs incurred related to expenses before the start of ticket sales.

Significant Factors Affecting Next Year

The Corporation is scheduled to begin instant scratch-off ticket sales by December 1, 2019.

The Corporation is scheduled to begin online multi-jurisdictional games by the end of the third quarter of the next fiscal year.

Once the Corporation generates net proceeds, as defined by the Alyce G. Clarke Mississippi Lottery Law, the Corporation will transfer the proceeds to the Lottery Proceeds Fund of the State Treasury monthly. The first \$80,000,000 of net proceeds will be used to support the State's Highway Fund through June 30, 2028. Any proceeds exceeding the \$80,000,000 will be deposited into the Education Enhancement Fund for the purposes of funding the Early Childhood Learning Collaborative, the Classroom Supply Fund and other education purposes.

Contact Information

This financial report is designed to provide a general overview of the Corporation's finances for all those with interest. Questions concerning any of the information contained in this report or requests for any additional information should be addressed to the Vice President of Administration and Finance at Mississippi Lottery Corporation, Post Office Box 321433, Flowood, MS 39232.

Mississippi Lottery Corporation
A Component Unit of the State of Mississippi

Statement of Net Position (Deficit)

Period From October 19, 2018 (Inception) Through June 30, 2019

Assets

Current Assets

Cash	\$ 378,485
Prepaid expenses	24,637
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Total current assets	403,122
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Total assets	\$ 403,122
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Liabilities and Net Position (Deficit)

Current Liabilities

Accounts payable	\$ 299,732
Accrued interest	2,516
Other	6,801
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Total current liabilities	309,049
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Long-term debt

750,000

Total liabilities

1,059,049

Net Position (Deficit)

Unrestricted (deficit) (655,927)

Total net position (deficit)

(655,927)

Total liabilities and net position (deficit)

\$ 403,122

Mississippi Lottery Corporation
A Component Unit of the State of Mississippi
Statement of Revenues, Expenses and Changes in Net Position (Deficit)
Period From October 19, 2018 (Inception) Through June 30, 2019

Operating Revenues	\$ <u> -</u>
Total operating revenues	<u> -</u>
Operating Expenses	
Salaries and wages	23,479
Payroll taxes and other benefits	7,774
Professional fees and services	606,759
Insurance	10,807
Other operating expenses	<u>4,592</u>
Total operating expenses	<u>653,411</u>
Operating Loss	<u>(653,411)</u>
Nonoperating Revenues (Expenses)	
Interest expense	<u>(2,516)</u>
Decrease in Net Position	(655,927)
Net Position, Beginning of Period	<u> -</u>
Net Position (Deficit), End of Period	<u><u>\$ (655,927)</u></u>

Mississippi Lottery Corporation
A Component Unit of the State of Mississippi

Statement of Cash Flows

Period From October 19, 2018 (Inception) Through June 30, 2019

Operating Activities

Payments to suppliers	\$ (347,063)
Payments to employees	<u>(24,452)</u>

Net cash used in operating activities	<u>(371,515)</u>
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Noncapital Financing Activities

Advances under line of credit	<u>750,000</u>
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Net cash provided by noncapital financing activities	<u>750,000</u>
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Increase in Cash	378,485
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Cash, Beginning of Period	<u>-</u>
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Cash, End of Period	<u><u>\$ 378,485</u></u>
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**Reconciliation of Operating Loss to Net Cash
Used in Operating Activities**

Operating loss	\$ (653,411)
Changes in operating assets and liabilities	
Prepaid expenses	(24,637)
Accounts payable and other liabilities	<u>306,533</u>

Net cash used in operating activities	<u><u>\$ (371,515)</u></u>
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Mississippi Lottery Corporation

A Component Unit of the State of Mississippi

Notes to Financial Statements

Period From October 19, 2018 (Inception) Through June 30, 2019

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

The Alyce G. Clarke Mississippi Lottery Law, Senate Bill 2001 (First Extraordinary Session 2018) [the Act], formed the Mississippi Lottery Corporation (the Corporation) to administer the State of Mississippi's first lottery. The Corporation's Board of Directors (the Board) governs the Corporation. The Board is comprised of five members appointed by the Governor, with the advice and consent of the Senate, in addition to the Commissioner of the Department of Revenue and the State Treasurer as ex officio members. The Corporation is a component unit of the State of Mississippi (the State).

The Corporation is scheduled to begin conducting lottery games in fiscal year 2020.

The Corporation accounts for the operations of the lottery in which a statutorily defined amount of the first \$80,000,000 of net proceeds shall be used to support the State Highway Fund through June 30, 2028. Beginning July 1, 2028, the statutorily defined amount of \$80,000,000 shall be transferred to the State General Fund. Any net proceeds remaining after the statutorily required transfers is transferred to the State's Education Enhancement Fund.

Basis of Accounting and Presentation

The financial statements of the Corporation have been prepared in accordance with accounting standards generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). The basic financial statements provide information about the Corporation's proprietary fund. Proprietary fund 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 the liabilities are incurred, regardless of when the related cash flow takes place.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows and outflows 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.

Cash Equivalents

The Corporation considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2019, the Corporation held no cash equivalents.

Mississippi Lottery Corporation
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Notes to Financial Statements

Period From October 19, 2018 (Inception) Through June 30, 2019

Prepaid Items

Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items.

Risk Management

The Corporation is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than workers' compensation and natural disasters. Settled claims have not exceeded this commercial coverage since the Corporation was formed.

Net Position (Deficit)

Net position (deficit) of the Corporation is classified in three components.

- Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. At June 30, 2019, the Corporation had no net position included in this category.
- Restricted net position is made up of noncapital assets that must be used for a particular purpose, as specified by legislation, creditors, grantors or donors external to the Corporation, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. At June 30, 2019, the Corporation had no net position included in this category.
- Unrestricted net position (deficit) is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Income Taxes

The Corporation was created by the Mississippi Legislature and is exempt from state and federal income taxes.

Note 2: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Corporation's deposit policy for custodial credit risk requires compliance with the provisions of the Act.

Mississippi Lottery Corporation
A Component Unit of the State of Mississippi

Notes to Financial Statements

Period From October 19, 2018 (Inception) Through June 30, 2019

The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

At June 30, 2019, the carrying amount of the Corporation's deposits was \$378,485, and the bank balances totaled \$378,710. Of the bank balances, \$250,000 was insured by FDIC. The remaining \$128,710 was not collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the Corporation. Subsequent to June 30, 2019, the financial institution properly collateralized any remaining funds.

Note 3: Line of Credit

The Corporation has a \$15,000,000 revolving bank line of credit maturing on May 31, 2023. The line is unsecured, with interest payments monthly at a variable rate of 1.65% over an index rate, which was 4.025% at June 30, 2019. At June 30, 2019, \$750,000 had been drawn on the line and was outstanding.

Note 4: Contingencies

Litigation

In the normal course of business, the Corporation is, from time to time, subject to allegations that may or do result in litigation. The Corporation evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term. No estimate for loss is recorded at June 30, 2019.

Mississippi Lottery Corporation
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Notes to Financial Statements
Period From October 19, 2018 (Inception) Through June 30, 2019

Note 5: Subsequent Events

Subsequent to June 30, 2019, the Corporation entered into an operating lease for office space beginning in 2020 through 2030. The monthly rate will range from approximately \$21,000 to \$23,000 over the term of the lease.

Subsequent to June 30, 2019, the Corporation was approved by the Board of Directors of the Multi-State Lottery Association to sell Powerball and Mega Millions tickets. The Corporation is scheduled to begin sales for both games during fiscal year 2020.

Subsequent events have been evaluated through September 25, 2019, which is the date the financial statements were available to be issued.

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

Board of Directors
Mississippi Lottery Corporation
Flowood, Mississippi

We have audited, 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, the financial statements of Mississippi Lottery Corporation (the Corporation), a component unit of the State of Mississippi, which comprise the statement of net position (deficit) as of June 30, 2019, and the related statements of revenues, expenses and changes in net position (deficit) and cash flows for the period from October 19, 2018 (inception) through June 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated September 25, 2019.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that 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 Corporation'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 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

BKD, LLP

Jackson, Mississippi
September 25, 2019