

Mississippi Lottery Corporation
A Component Unit of the State of Mississippi
Independent Auditor's Reports and Financial Statements
Years Ended June 30, 2021 and 2020

Mississippi Lottery Corporation
A Component Unit of the State of Mississippi
Years Ended June 30, 2021 and 2020

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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 and for the years ended June 30, 2021 and 2020, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mississippi Lottery Corporation as of June 30, 2021 and 2020, and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

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 audits 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 23, 2021, 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 23, 2021

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Management's Discussion and Analysis
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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 fiscal years ended June 30, 2021 and 2020. Readers are encouraged to consider the information presented here in conjunction with the Corporation's financial statements, which immediately follow this discussion and analysis.

Fiscal Year 2021 Financial Highlights

During fiscal year 2021, the Corporation launched the sale of the following draw-style games - Cash 3 on September 1, 2020 and *Mississippi Match 5* on April 28, 2021. The Corporation ended its fiscal year 2021 with contributions of \$137.7 million to the State of Mississippi Lottery Proceeds Fund, bringing the total to over \$208.4 million since sales began November 25, 2019. In accordance with the Alyce G. Clarke Mississippi Lottery Law (the Law), the first \$80 million transferred each fiscal year will be used to fund infrastructure projects throughout the state. Proceeds exceeding \$80 million per fiscal year will be transferred into the Education Enhancement Fund for the purposes of funding the Early Childhood Learning Collaborative, the Classroom Supply Fund and other educational purposes.

Gross ticket sales for the fiscal year 2021 were \$510.6 million. Total actual prizes paid to winners for the year were \$285.9 million. Included in the prizes paid were one \$1 million-dollar *Mega Millions* game winner and one \$1 million-dollar *Powerball* game winner.

Management credits the start-up success to the Corporation's focus on its mission to be managed in such a manner that the people of Mississippi benefit from its profits, security, integrity, strategic planning, and effective marketing.

Thirty-five new instant ticket games were introduced during the fiscal year. These new games contributed to the instant product's success by providing players with multiple price points, including the introduction of a \$20 game, new ways to play along with new ways to win. For the current year, the highest earning instant ticket revenue game was "\$100 Million Extravaganza", recording gross sales of \$41,203,880. "\$100 Million Extravaganza" is the Corporation's first \$20 scratch-off game.

Gross instant ticket sales for the year were \$427.5 million. Instant tickets accounted for 83.7% of all ticket sales.

The Corporation offers and oversees the following in-state draw-style games:

Cash 3 sales began across the state on September 1, 2020. Sales for the fiscal year were \$15.4 million.

Mississippi Match 5 sales began across the state on April 28, 2021. Sales for the fiscal year were \$1.9 million.

The Corporation participates in the following multi-jurisdictional draw-style games:

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Powerball sales for the period were \$34.6 million. Sales increased by \$22.8 million in fiscal year 2021 as compared to 2020. The year-over-year increase can be attributed to its first complete fiscal year of sales and to significantly larger jackpots.

Mega Millions sales for the period were \$31.1 million. Sales increased by \$21.0 million in fiscal year 2021 as compared to 2020. The year-over-year increase can be attributed to its first complete fiscal year of sales and to significantly larger jackpots.

Total draw-style game sales for the year were \$83.0 million, accounting for 16.3% of total ticket sales.

Fiscal Year 2020 Financial Highlights

The Corporation launched the sale of statewide instant lottery tickets on November 25, 2019. *Powerball* and *Mega Millions* draw-style games began selling on January 30, 2020. The Corporation ended its fiscal year 2020 with total contributions of \$70.7 million to the State of Mississippi Lottery Proceeds Fund. In accordance with the Law, the first \$80 million transferred of each fiscal year will be used to fund infrastructure projects throughout the state.

Gross ticket sales for the fiscal year 2020 were \$339.8 million. Total actual prizes paid to winners for the year were \$192.5 million. Included in the prizes paid was one \$2 million-dollar *Mega Millions* game winner.

Management attributes the success of the launch of both instant and draw-style game tickets to the Corporation's retailers and players. Management also credits the start-up success to the Corporation's focus on its mission to be managed in such a manner that the people of Mississippi benefit from its profits and the integrity of the lottery.

Twenty-eight instant ticket games were introduced during the fiscal year. These new games contributed to the instant product's success by providing players with new ways to play. For the fiscal year, the highest earning instant ticket revenue was the Corporation's "Mega Ca\$h" game, a \$10 game that produced gross sales of \$32,549,780.

Gross instant ticket sales for the year were \$317.8 million. Instant tickets accounted for 93.5% of all ticket sales.

The Corporation participates in the following multi-jurisdictional draw-style games:

Powerball sales began across the state on January 30, 2020. Sales for the period were \$11.8 million. Sales were hampered nationwide by the COVID-19 pandemic, causing beginning jackpot amounts to be lowered, as well as minimum jackpot increases between drawings to be determined by sales.

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Mega Millions sales began across the state on January 30, 2020. Sales for the fiscal year were \$10.1 million. Sales were hampered nationwide by the COVID-19 pandemic, causing beginning jackpot amounts to be lowered, as well as minimum jackpot increases to be determined by sales.

Total draw-style game sales for the year were \$21.9 million, accounting for 6.5% of total ticket sales.

In addition to the transfers made to the State of Mississippi, the Corporation was able to pay off the line of credit previously secured to fund the start-up of the operation. The Corporation has no long-term debt at the end of the fiscal year.

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 statements of net position on page 13; statements of revenues, expenses, and changes in net position on page 14; and statements of cash flows on page 15.

The statements of net position reflect the Corporation's financial position at June 30, 2021 and 2020.

The statement of revenues, expenses, and changes in net position for the year ended June 30, 2020 reports both the start-up expenses related to the preparation of selling lottery products, as well as revenues and expenses related to lottery operations since ticket sales began on November 25, 2019. For the year ended June 30, 2021, this statement reports the revenues and expenses related to lottery operations.

The statement of cash flows for the year ended June 30, 2020 outlines the cash inflows and outflows related to both the activity of start-up expenses, as well as cash inflows and outflows related to lottery operations since ticket sales began on November 25, 2019. For the year ended June 30, 2021, this statement reports cash inflows and outflows related to lottery operations.

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 17 of the financial statements.

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Financial Analysis

The Corporation's Net Position (Deficit)

The Corporation's net position (deficit) is the difference between its assets and liabilities reported in the statements of net position. The Corporation's net position decreased by approximately \$170 thousand as of June 30, 2021, compared to 2020, and the Corporations' net position (deficit) increased by approximately \$2.5 million as of June 30, 2020, compared to 2019, as shown in the following table.

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Assets			
Current assets	\$ 49,286,904	\$ 41,273,922	\$ 403,122
Capital assets, net	1,637,005	1,806,885	-
Total assets	<u>\$ 50,923,909</u>	<u>\$ 43,080,807</u>	<u>\$ 403,122</u>
Liabilities			
Prizes payable	\$ 38,700,815	\$ 28,555,549	\$ -
Other current liabilities	2,050,481	2,021,719	309,049
Due to State of Mississippi Highway Fund	8,535,608	10,696,654	-
Long-term debt	-	-	750,000
Total liabilities	<u>49,286,904</u>	<u>41,273,922</u>	<u>1,059,049</u>
Net Position (Deficit)			
Investment in capital assets	1,637,005	1,806,885	-
Unrestricted (deficit)	-	-	(655,927)
Total net position (deficit)	<u>1,637,005</u>	<u>1,806,885</u>	<u>(655,927)</u>
Total liabilities and net position (deficit)	<u>\$ 50,923,909</u>	<u>\$ 43,080,807</u>	<u>\$ 403,122</u>

2021

Assets

The \$7.8 million increase in total assets is primarily due to an increase in lottery ticket revenues resulting in increased cash and accounts receivable at fiscal year-end. Retailer accounts receivable increased \$724 thousand during fiscal year 2021. Cash increased \$6.8 million during fiscal year 2021. This increase is related to the cash received from lottery ticket sales that is earmarked for winning prizes payable to players.

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As detailed in *Note 3* to the financial statements, capital assets, net of depreciation, were \$1.6 million and \$1.8 million at June 30, 2021 and 2020, respectively.

Liabilities

Total liabilities increased \$8.0 million in 2021. The increase is primarily driven by the increase in liabilities related to prizes payable to players for both instant and draw-style ticket sales at June 30, 2021. Additionally, the Corporation was set to transfer the net proceeds for June 2021 in the amount of \$8.5 million.

2020

Assets

The \$42.7 million increase in total assets is attributable to the launch of the Corporation's lottery ticket sales. Retailer accounts receivable were \$11 million at June 30, 2020, where no retailer accounts receivable existed at June 30, 2019. Cash increased \$29.7 million during fiscal year 2020. This increase is related to the cash received from lottery ticket sales that is earmarked for winning prizes payable to players.

At the end of fiscal year 2020, the Corporation had \$1.8 million of net capital assets as detailed in *Note 3* to the financial statements. At the end of fiscal year 2019, the Corporation had no capital assets. The purchase of capital assets during the year was part of the start-up costs associated related to the selling of lottery products.

Liabilities

Total liabilities increased \$40.2 million in 2020. \$28.6 million of the increase in liabilities is related to prizes payable to players for both instant and draw-style ticket sales at June 30, 2020. Additionally, the Corporation was set to transfer the net proceeds for June 2020 in the amount of \$10.7 million.

A line of credit in the amount of \$15 million was established during FY2019, and one draw of \$750 thousand was made before the end of the FY2019 reporting period. The line of credit was used to fund operations until sales of lottery tickets commenced. An additional \$4.5 million was drawn on the line of credit during FY2020 before the line was fully repaid in April 2020.

Operating Results and Changes in the Corporation's Net Position (Deficit)

In 2021, the Corporation's net position decreased by approximately \$170 thousand, as shown in the following table. In accordance with the Law, capital expenditures are excluded from the calculation of net proceeds. The net position decrease is a result of the continued depreciation of capital expenditures primarily purchased during start-up in the previous fiscal year, along with the continued transfer of the Corporation's net proceeds to the State of Mississippi Lottery Proceeds Fund monthly in accordance with the Law.

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In 2020, the Corporation's net position increased by approximately \$2.5 million, as shown in the following table. This increase is a result of the start of lottery instant ticket sales on November 25, 2019 and draw-style games on January 30, 2020.

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating Revenues			
Net ticket sales	\$ 476,323,747	\$ 311,195,835	\$ -
Other operating revenues	<u>1,942,335</u>	<u>1,062,562</u>	<u>-</u>
Total operating revenues	<u>478,266,082</u>	<u>312,258,397</u>	<u>-</u>
Operating Net Prize Expense	<u>283,492,127</u>	<u>198,262,912</u>	<u>-</u>
Other Operating Expenses			
Retailer commissions	30,648,526	20,387,909	-
Gaming vendor fees	15,543,827	10,741,698	-
Other operating expenses	<u>11,091,536</u>	<u>9,727,522</u>	<u>653,411</u>
Total other operating expenses	<u>57,283,889</u>	<u>40,857,129</u>	<u>653,411</u>
Operating Income (Loss)	<u>137,490,066</u>	<u>73,138,356</u>	<u>(653,411)</u>
Nonoperating Revenues (Expenses)			
Payments to State of Mississippi	(137,718,154)	(70,703,360)	-
Interest income	57,305	109,836	-
Interest expense	-	(92,144)	(2,516)
Other revenue	<u>903</u>	<u>10,124</u>	<u>-</u>
Total nonoperating expenses	<u>(137,659,946)</u>	<u>(70,675,544)</u>	<u>(2,516)</u>
Increase (Decrease) in Net Position (Deficit)	(169,880)	2,462,812	(655,927)
Net Position (Deficit), Beginning of Year/Period	<u>1,806,885</u>	<u>(655,927)</u>	<u>-</u>
Net Position (Deficit), End of Year/Period	<u>\$ 1,637,005</u>	<u>\$ 1,806,885</u>	<u>\$ (655,927)</u>

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Operating Revenues

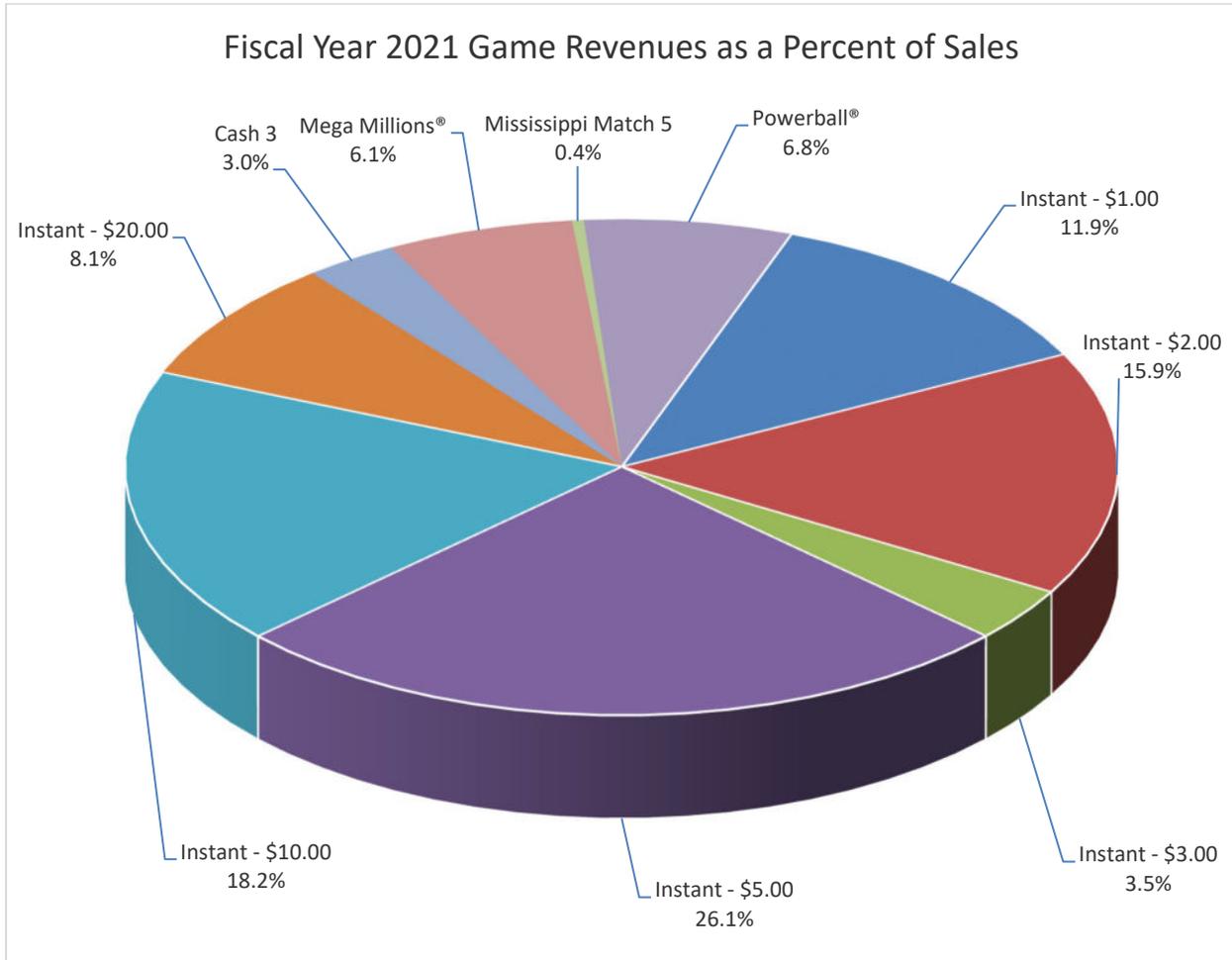
Operating revenues consist primarily of ticket sales and fees charged to retailers. Gross ticket sales totaled \$510.6 million and \$339.8 million for the years ended June 30, 2021 and 2020, respectively. Gross and net ticket sales for the years ended June 30, 2021 and 2020, were as follows:

Ticket Sales	2021	2020
\$1 instant tickets	\$ 60,991,213	\$ 75,307,376
\$2 instant tickets	81,235,586	98,111,896
\$3 instant tickets	18,000,495	3,611,868
\$5 instant tickets	133,307,295	97,705,720
\$10 instant tickets	92,790,360	43,098,280
\$20 instant tickets	41,203,880	-
Total instant ticket sales	427,528,829	317,835,140
Cash 3	15,381,993	-
<i>Mississippi Match 5</i>	1,934,974	-
<i>Mega Millions</i>	31,107,379	10,109,350
<i>Powerball</i>	34,616,313	11,831,916
Total draw-style game sales	83,040,659	21,941,266
Gross ticket sales	510,569,488	339,776,406
Less tickets provided as prizes	(34,245,741)	(28,580,571)
Net ticket sales	\$ 476,323,747	\$ 311,195,835

The Corporation experienced an increase in total lottery ticket sales of \$170.8 million or 50.3% for fiscal year 2021, as compared to fiscal year 2020. Instant ticket sales continued to be the Corporation's most popular product contributing 83.7% and 93.5% to total fiscal year sales for 2021 and 2020, respectively. For fiscal year 2021, instant ticket gross sales increased by \$109.7 million, while draw-style game sales increased by \$61.1 million.

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The graph below summarizes the fiscal year 2021 sales as a percent of total ticket revenues:



Operating Expenses

In 2021, net prizes were \$283.5 million and other operating expenses were \$57.3 million. In 2020, net prizes were \$198.3 million, and other operating expenses were \$40.8 million. Operating costs include retailer commissions, marketing and advertising costs, general administrative costs, depreciation, gaming related costs, and vendor fees.

Net prize expense of \$283.5 million relates directly to the proportional sales mix of instant and draw-style games.

For instant tickets, the prize expense is managed through an approved prize structure for each game. The prize structure is established prior to the printing of the instant tickets for each game. Prize expense is

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recognized based on the established prize structure in relation to ticket sales. Gross prize expense for instant tickets for the current year equaled \$245.4 million

For draw-style games (*Cash 3, Mississippi Match 5, Powerball and Mega Millions*), prize expense is recorded based on the respective game rules. Prize expense is a percentage of each drawing's sales and is recorded on the day of the draw. Gross prize expense for these draw-style games for FY2021 was \$41.6 million.

Prize expense is reduced by unclaimed prizes. In 2021, unclaimed prize expense was \$3.5 million and related directly to instant games. Unclaimed prize amounts are adjusted to actual for instant games after the game has closed and the 90-day claim period for prizes has ended. For draw-style games, unclaimed prize amounts are adjusted to actual after the 180-day claim period for each drawing has passed.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of required transfers to the State of Mississippi Lottery Proceeds Fund, as well as interest income and expense.

Monthly, the Corporation is required to transfer their net proceeds to the Lottery Proceeds Fund of the State Treasury. For the fiscal years 2021 and 2020, net transfers of \$137.7 million and \$70.7 million, respectively, were made to the State of Mississippi Lottery Proceeds Fund.

The Law requires the first \$80 million of net proceeds each fiscal year to be used to support the Mississippi State Highway Fund through June 30, 2028. Any proceeds exceeding the \$80 million will be deposited into the Education Enhancement Fund for the purposes of funding the Early Childhood Learning Collaborative, the Classroom Supply Fund and other educational purposes.

Net Position

In FY2021, the Corporation's net position decreased by \$170 thousand. In accordance with the Law, capital expenditures are excluded from the calculation of net proceeds. The net position decrease is a result of the continued depreciation of capital expenditures primarily purchased during start-up in the previous fiscal year, along with the continued transfer of the Corporation's net proceeds to the State of Mississippi Lottery Proceeds Fund monthly in accordance with the Law.

Other Economic Factors

The Corporation's operations have adapted to the new business environment influenced by the COVID-19 pandemic. The Corporation's claim center has implemented safety procedures for players to claim prizes at their headquarters.

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Significant Factors Affecting Next Year

The Corporation's mission is to enable the people of the State of Mississippi to benefit from its profits. The following is presented to inform readers of the financial statements about factors that could potentially affect future results:

- The Corporation will continue to introduce new instant ticket games with varied price points.
- The Corporation will expand its current library of draw-style game offerings.
- The Corporation will continually review prize payout percentages for instant game products in order to maximize sales with the goal of ensuring the highest net proceeds are eligible for transfer to the State.

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 Finance at Mississippi Lottery Corporation, Post Office Box 321433, Flowood, MS 39232.

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Statements of Net Position
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Assets	2021	2020
Current Assets		
Cash	\$ 36,936,352	\$ 30,105,264
Retailer accounts receivable, net of allowance for doubtful accounts of \$5,056 and \$3,297 in 2021 and 2020, respectively	11,715,590	10,992,077
Prepaid expenses	207,070	86,219
Other current assets	427,892	90,362
	<u>49,286,904</u>	<u>41,273,922</u>
Noncurrent Assets		
Capital assets, net	1,637,005	1,806,885
	<u>\$ 50,923,909</u>	<u>\$ 43,080,807</u>
Liabilities and Net Position		
Current Liabilities		
Prizes payable	\$ 38,700,815	\$ 28,555,549
Accounts payable and accrued expenses	1,128,416	1,111,319
Due to MUSL	444,007	421,967
Unearned revenue	478,058	488,433
Due to State of Mississippi	8,535,608	10,696,654
	<u>49,286,904</u>	<u>41,273,922</u>
Net Position		
Investment in capital assets	1,637,005	1,806,885
	<u>\$ 50,923,909</u>	<u>\$ 43,080,807</u>

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	<u>2021</u>	<u>2020</u>
Operating Revenues		
Instant ticket sales	\$ 427,528,829	\$ 317,835,140
Draw-style game sales	83,040,659	21,941,266
Gross ticket sales	510,569,488	339,776,406
Less tickets provided as prizes	(34,245,741)	(28,580,571)
Net ticket sales	476,323,747	311,195,835
Other operating revenues	1,942,335	1,062,562
Total operating revenues	478,266,082	312,258,397
Operating Net Prize Expense	283,492,127	198,262,912
Other Operating Expenses		
Retailer commissions	30,648,526	20,387,909
Gaming vendor fees	15,543,827	10,741,698
Salaries and wages	5,398,738	4,530,779
Advertising	3,577,879	2,136,374
Professional fees and services	484,945	1,491,441
General, administrative and other operating	770,924	737,927
Contractor fees	32,861	237,695
Other gaming costs	101,047	162,305
Depreciation	374,491	161,132
Occupancy	257,734	135,009
Retailer merchandising and marketing	85,744	132,288
Repairs and maintenance	7,173	2,572
Total other operating expenses	57,283,889	40,857,129
Operating Income	137,490,066	73,138,356
Nonoperating Revenues (Expenses)		
Payments to State of Mississippi Highway Fund	(80,000,000)	(70,703,360)
Payments to Education Enhancement Fund	(57,718,154)	-
Interest income	57,305	109,836
Interest expense	-	(92,144)
Other revenue	903	10,124
Total nonoperating expenses	(137,659,946)	(70,675,544)
Increase (Decrease) in Net Position	(169,880)	2,462,812
Net Position (Deficit), Beginning of Year	1,806,885	(655,927)
Net Position, End of Year	<u>\$ 1,637,005</u>	<u>\$ 1,806,885</u>

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Statements of Cash Flows
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	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities		
Receipts from and on behalf of retailers	\$ 477,532,194	\$ 301,754,753
Payments to winners	(272,902,854)	(169,285,396)
Payments to suppliers	(52,422,467)	(35,553,324)
Payments to employees	(5,350,182)	(4,489,831)
	<u>146,856,691</u>	<u>92,426,202</u>
Cash Flows from Noncapital Financing Activities		
Advances under line of credit	-	4,500,000
Repayments on line of credit	-	(5,250,000)
Interest paid on line of credit	-	(94,660)
Payments to State of Mississippi Highway Fund	(82,161,046)	(60,006,706)
Payments to State Education Enhancement Fund	(57,718,154)	-
	<u>(139,879,200)</u>	<u>(60,851,366)</u>
Cash Flows from Capital and Related Financing Activities		
Purchase of property and equipment	(204,611)	(1,968,017)
	<u>(204,611)</u>	<u>(1,968,017)</u>
Cash Flows from Investing Activities		
Investment income	57,305	109,836
Other	903	10,124
	<u>58,208</u>	<u>119,960</u>
Increase in Cash	6,831,088	29,726,779
Cash, Beginning of Year	<u>30,105,264</u>	<u>378,485</u>
Cash, End of Year	<u>\$ 36,936,352</u>	<u>\$ 30,105,264</u>

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Statements of Cash Flows (Continued)
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	2021	2020
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 137,490,066	\$ 73,138,356
Depreciation and amortization	374,491	161,132
Changes in operating assets and liabilities		
Retailer accounts receivable, net	(723,513)	(10,992,077)
Prepaid expenses	(120,851)	(61,582)
Other current assets	(337,530)	(90,362)
Prizes payable	10,145,266	28,555,549
Accounts payable and accrued expenses and due to MUSL	39,137	1,226,753
Unearned revenue	(10,375)	488,433
	\$ 146,856,691	\$ 92,426,202

Mississippi Lottery Corporation
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Notes to Financial Statements
June 30, 2021 and 2020

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

Nature of Operations and Reporting Entity

The Alyce G. Clarke Mississippi Lottery Law (the Law), Senate Bill 2001 (First Extraordinary Session 2018) formed the Mississippi Lottery Corporation (the Corporation) to administer the State of Mississippi's 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 began conducting lottery games on November 25, 2019.

The Corporation accounts for the operations of the lottery in which a statutorily defined amount of the first \$80,000,000 of annual net proceeds (as defined in the Law) shall be used to support the State of Mississippi Highway Fund through June 30, 2028. Beginning July 1, 2028, the statutorily defined amount of the first \$80,000,000 shall be transferred to the State General Fund. Any net proceeds remaining after the statutorily required transfers are 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 principles 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.

Enterprise Fund

The Corporation accounts for its operations as an enterprise fund. The intent of the State of Mississippi Legislature is that the Corporation's costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered solely through user charges. The Corporation defines operating revenues as those earned as a direct result of the fund's principal ongoing operations, i.e., the sale of lottery products. Operating expenses include expenses incurred in earning those revenues such as prize payments, the cost of tickets, vendor fees, retailer commissions and other incentives, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

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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, 2021 and 2020, the Corporation held no cash equivalents.

Retailer Accounts Receivable

Retailer accounts receivable consist of amounts due from retailers for gross ticket sales and weekly fees less commissions and prizes paid by the retailers. Lottery proceeds for instant tickets sold by retailers are due and payable to the Corporation upon pack settlement, and lottery proceeds for draw-style game tickets are due and payable at the end of the accounting period in accordance with Section 2.11 of Retailer Rules and Regulations. Lottery proceeds are collected from retailer bank accounts established in a trust. Retailers are invoiced for net proceeds on a weekly basis for all billable activity from Sunday through Saturday of each week.

The Corporation will record a bad debt expense and related allowance for bad debt based on a quarterly review of outstanding retailer accounts receivable as a result of nonpayment. The outstanding balances will not be written off against the allowance account until required retailer bonds are executed, and management determines any remaining balance, if any, for such account is deemed noncollectible. Retailers will be charged NSF fees in accordance with Section 2.12 of Retailer Rules and Regulations.

In accordance with the Law, each retailer is required to post a bond or letter of credit with the Corporation using surety acceptable to the Corporation in an amount not to exceed twice the average lottery ticket sales of the lottery retailer for the period determined by the Corporation within which the lottery retailer is required to remit lottery funds to the Corporation. In accordance with the Corporation Rules and Regulations for 2021 and 2020, the amount of a retailer's initial letter of credit or bond shall be \$8,000 per retailer business location, subject to later adjustment by the Corporation.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

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Capital Assets

Capital assets are recorded at cost at the date of acquisition. The Corporation adheres to the state policy of capitalizing equipment only if the cost exceeds \$5,000 and has a useful life in excess of one year. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the Corporation:

Buildings and leasehold improvements	10-25 years
Equipment	3-15 years

Unearned Revenue

Unearned revenue represents amounts collected from retailers for draw-style game tickets for Cash 3, *Match 5*, *Mega Millions* and *Powerball* sold in advance of the drawing. These amounts collected are recognized as revenue once the related drawing occurs.

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.

- Investment in capital assets consists of capital assets net of accumulated depreciation. At June 30, 2021 and 2020, the Corporation had \$1,637,005 and \$1,806,885, respectively, of their cumulative net position included in this category, and there were no outstanding balances of borrowings used to finance the purchase or construction of those assets.
- 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, 2021 and 2020, 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 investment in capital assets or restricted net position. At June 30, 2021 and 2020, the Corporation had no net position included in this category.

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Classification of Revenues

The Corporation has classified its revenues as either operating or nonoperating revenues according to the following criteria.

Operating revenues include activities that have the characteristics of exchange transactions, such as

- (1) Instant ticket sales
- (2) Draw-style game sales
- (3) Retailer fees

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as

- (1) Interest income
- (2) Other income

Income Taxes

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

Revenue Recognition

The Corporation recognizes revenue for instant games when retailers make them available for sale to the public, as indicated by the retailers' activation of tickets. Certain games include free tickets, which entitle the holder to exchange one instant ticket for another of equal value. The selling price of free tickets reduces instant ticket revenue when the free ticket is claimed by a player.

The Corporation recognizes revenue for terminal-based draw-style games based on the game characteristics. Revenues for draw-style games, whereby the prize expense is only determinable at the time of the related drawing, will be recognized after the tickets are sold to the players and the drawing occurs. Revenue collected from retailers for these games sold in advance of the draw are recorded as unearned revenue and recognized as the draw occurs.

Gaming Vendor Fees

The Corporation has contracted with IGT Corporation (IGT) for the gaming systems and supplies. IGT operates a gaming network in Mississippi that consists of 1,844 and 1,675 instant and draw-style retailer ticket terminals as of June 30, 2021 and 2020, respectively. The contract is for a period continuing seven years after December 1, 2019, and is subject to three, one-year contract extensions. Terms of the contract include a service fee rate of 1.9241% of gross on-line ticket sales revenue less cancelled transactions, plus the retail face value of all instant tickets activated during the week, less the retail face value of instant tickets returned, given as free tickets, returned as

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defective, reported stolen by a retailer, or issued by the Corporation as a promotion. The contract also includes a service fee rate of 1.4938% of the total face value of all instant tickets activated during the week, less the sum of the total face value of activated tickets returned by retailers during the given week, activated defective tickets, activated tickets reported stolen by retailers, and activated promotional tickets issued by the Corporation during the week. These fees are recorded as gaming vendor fees in the accompanying financial statements.

Prize Liability and Prize Expense

In accordance with the Law, as nearly as practical, at least 50% of ticket proceeds must be made available as prize money. Gross prize expense for instant ticket sales is recognized based on a predetermined prize structure for each game in accordance with the approved game working papers when tickets are activated for sale. Draw-style games gross prize expense is recognized based on historical payout experience when the drawings occur.

The Corporation recognizes prize expense in the period of related revenue recognition, regardless of when prizes are claimed by the player. All games are accounted for using the accrual basis of accounting. Instant ticket liability and expense are recognized at the point of ticket pack activation based on a predetermined prize payout for each game and are adjusted when the game ends. The Corporation will reconcile prize expense and prizes payable when the game is closed and the claim period has ended. The prize structure is included as part of each instant game's working papers, which is the contractual commitment for the instant vendor to produce the game at a predetermined payout.

The liability and expense for draw-style game prizes are recognized and recorded on the day of the draw. Prize liability for all games is reduced as prizes are paid to winners. The Corporation prize expense is recognized for terminal-based draw-style games at 50% to 55% of net ticket sales, depending on the amount of prize payout allocated for each draw game and estimated unclaimed prizes.

Cash 3, *Match 5*, *Powerball* and *Mega Millions* prize expense is recognized as a percentage of ticket sales in accordance with the game rules and contractual agreement, as applicable (for example, *Powerball* Rule 28 and *Mega Millions* Rule 28).

Unclaimed Prizes

Prizes not claimed within 90 days of the announced end-of-game date for instant games, and within 180 days of the drawing for all terminal-based draw-style games, are forfeited as unclaimed prizes.

The Corporation records actual unclaimed amounts after the expiration of the related claim period. In accordance with the Law, the Corporation allocates the unclaimed prize funds to the pool from which future prizes are to be awarded or used for special prize promotions.

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Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties, and other sources will be recorded when it is probable that a liability has been incurred, and the amount of the liability can be reasonably estimated.

Retailer Commissions

Retailers receive a commission of 6.0% on all instant tickets settled and draw-style tickets sold. The commission expense is recorded in the period of related ticket sales or activations. Where commission has been paid to retailers for deferred ticket sales, this fee is recorded as a prepaid expense until the related revenue is recognized.

Retailers are also eligible to receive incentive payments in accordance with the following guidelines. The Corporation will pay an incentive of \$25,000 to a retailer in good standing with Corporation that sells a jackpot winning *Powerball* or *Mega Millions* draw-style game play. The Corporation will pay an incentive of \$5,000 to a retailer in good standing with the Corporation who sells a winning draw-style game play (excluding a play described by the previous sentence) when the prize won is equal to or greater than \$1 million. If there are multiple winning plays sold in Mississippi in a single drawing that qualify for any of the incentives described in this section to be paid, the respective incentive will be divided between and among the respective retailers equally, based on the number of winning plays sold by each retailer. The retailer incentive expense is accrued in the same period in which the winning ticket is drawn.

Prize Reserve

As part of the Corporation's agreement with the Multi-State Lottery Association (MUSL), for both the *Powerball* and *Mega Millions* games, a certain percentage of sales must be contributed to MUSL by each member, when required, to bring the set prize and grand prize reserves up to the reserve requirement amounts as determined by MUSL. In accordance with MUSL requirements, during the years ended June 30, 2021 and 2020, a total of \$311,074 and \$101,194, respectively, were transferred from the Corporation to MUSL to cover *Mega Millions* set prize reserves. At June 30, 2021 and 2020, the balance held by MUSL for *Mega Millions* set-aside prize reserve for the Corporation was \$312,281 and \$7,551, respectively. These reserves are recorded as other current assets in the accompanying statements of net position. There were no amounts transferred, repaid or owed during the years ended June 30, 2021 and 2020 related to the *Powerball* prize reserve.

Compensated Absences

Effective October 15, 2019, the Corporation implemented an attendance and leave policy allowing employees to earn paid time off (PTO) during their employment on a calendar-year basis. The Corporation recognizes expense for PTO in the current year and does allow PTO not used in its entirety to be added to the next calendar year. The total maximum balance to be added to an

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employee's PTO for the next calendar year is 120 hours. Notwithstanding, the maximum number of additional PTO hours will never exceed 120 hours in any one year.

Expense and the related liability are recognized as PTO hours are earned. Compensated absence liabilities are computed using the regular pay rates in effect at the statement of net position date. Employees are not compensated for any unused PTO upon termination of employment.

Change in Accounting Principles

Effective July 1, 2020, the Corporation adopted GASB Statement No. 84, *Fiduciary Activities*. This standard clarifies whether a government has a fiduciary responsibility and is required to present a fiduciary fund financial statement. The adoption of this standard did not result in the identification of any fiduciary activities for the Corporation nor in the previously reported net position.

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 and the Law require compliance with the provisions of Section 27-105-5 Miss. Code Ann. (1972).

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, 2021 and 2020, the carrying amount of the Corporation's deposits was \$36,936,352 and \$30,105,264, respectively, and the bank balances totaled \$37,047,445 and \$30,379,273, respectively. Of the bank balances, \$250,000 was insured by FDIC. At June 30, 2021 and 2020, the remaining \$36,619,969 and \$30,129,273, respectively, were collateralized as described above.

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Note 3: Capital Assets

Capital assets activity for the years ended June 30, 2021 and 2020, was:

	2021				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Buildings and leasehold improvements	\$ 674,975	\$ -	\$ -	\$ -	\$ 674,975
Equipment	1,293,042	204,611	-	-	1,497,653
	<u>1,968,017</u>	<u>204,611</u>	<u>-</u>	<u>-</u>	<u>2,172,628</u>
Less accumulated depreciation					
Buildings and leasehold improvements	(33,472)	(68,185)	-	-	(101,657)
Equipment	(127,660)	(306,306)	-	-	(433,966)
	<u>(161,132)</u>	<u>(374,491)</u>	<u>-</u>	<u>-</u>	<u>(535,623)</u>
Capital assets, net	<u>\$ 1,806,885</u>	<u>\$ (169,880)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,637,005</u>
	2020				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Buildings and leasehold improvements	\$ -	\$ 674,975	\$ -	\$ -	\$ 674,975
Equipment	-	1,293,042	-	-	1,293,042
	<u>-</u>	<u>1,968,017</u>	<u>-</u>	<u>-</u>	<u>1,968,017</u>
Less accumulated depreciation					
Buildings and leasehold improvements	-	(33,472)	-	-	(33,472)
Equipment	-	(127,660)	-	-	(127,660)
	<u>-</u>	<u>(161,132)</u>	<u>-</u>	<u>-</u>	<u>(161,132)</u>
Capital assets, net	<u>\$ -</u>	<u>\$ 1,806,885</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,806,885</u>

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Note 4: Due to State of Mississippi and Transfers to State of Mississippi

In accordance with Section 26(c) of the Law, all net proceeds of the Corporation are due to the State of Mississippi. The net proceeds amount is defined by the Corporation as total net operating and nonoperating income less additions to property, plant and equipment, plus depreciation expense. In accordance with the Law, distributions of net proceeds shall be made within 20 days following the close of each calendar month. In accordance with Section 43 of the Law, net proceeds generated by the Corporation shall be paid to the State of Mississippi Highway Fund until June 30, 2028, not to exceed \$80 million per fiscal year. All monies deposited into the Lottery Proceeds Fund over \$80 million per fiscal year shall be transferred into the Education Enhancement Fund for the purposes of funding the Early Childhood Learning Collaborative, the Classroom Supply Fund and other educational purposes.

Net proceeds for the years ended June 30, 2021 and 2020 are summarized as follows:

	<u>2021</u>	<u>2020</u>
Operating Revenues		
Ticket sales	\$ 510,569,488	\$ 339,776,406
Less tickets provided as prizes	(34,245,741)	(28,580,571)
Net ticket sales	<u>476,323,747</u>	<u>311,195,835</u>
Other operating revenues	<u>1,942,335</u>	<u>1,062,562</u>
Operating Expenses		
Gaming	283,492,127	198,262,912
Operating	57,283,889	40,857,129
Total operating expenses, as defined	<u>340,776,016</u>	<u>239,120,041</u>
Operating Income	137,490,066	73,138,356
Nonoperating Revenues (Expenses)		
Interest income	57,305	109,836
Interest expense	-	(92,144)
Other revenue	903	10,124
Total nonoperating revenues	<u>58,208</u>	<u>27,816</u>
Adjustments to Amount Due to State		
Prior-year deficit	-	(655,927)
Depreciation expense	374,491	161,132
Additions to fixed assets	(204,611)	(1,968,017)
	<u>169,880</u>	<u>(2,462,812)</u>
Net Proceeds	<u>\$ 137,718,154</u>	<u>\$ 70,703,360</u>

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Note 5: 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 1.775% at June 30, 2021. There were no funds drawn on the line of credit at June 30, 2021 or 2020.

Note 6: Lease Liabilities

The Corporation leases office space under operating leases, the terms of which expire December 1, 2029. During the years ended June 30, 2021 and 2020, the Corporation recognized \$257,734 and \$135,009, respectively, of rental expense for the office space.

Future minimum lease payments at June 30, 2021, were:

2022	\$ 265,773
2023	268,975
2024	268,975
2025	268,975
2026	273,458
2027-2030	<u>945,255</u>
Future minimum lease payments	<u><u>\$ 2,291,411</u></u>

Note 7: 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, 2021 or 2020.

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Note 8: Employee Retirement Plans

The Corporation has two types of defined contribution retirement plans for its employees. The first is a Governmental 401(a) Plan. The second plan is an Eligible Governmental 457 Plan, which permits employees to make additional pretax contributions from their wages up to defined Internal Revenue Service (IRS) limitations. In the 401(a) plan, the Corporation will contribute 100% of each employee's pretax wages that are deferred in the 457 plan up to 4%. The Corporation's contributions are limited to 4% and only to the extent of each individual employee's contributions to the 457 Plan up to a total of \$19,500 (\$26,000 for catch-up eligible employees) per employee.

Retirement expense is recorded for the amount of the Corporation's required contributions and administrative fees determined in accordance with the terms of the plans. The Corporation has an appointed investment committee, including the President and an external investment advisor, to administer the plans. Benefit provisions are contained in the plan documents and, where established, can be amended by action of the Corporation's Board of Directors and management. Employee contributions of pretax wages are subject to a maximum set by the IRS.

Contributions made by the Corporation were \$114,118 and \$27,543 during the years ended June 30, 2021 and 2020, respectively.

**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 as of June 30, 2021, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated September 23, 2021.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 23, 2021