

Georgia Lottery Corporation

*Management's Discussion and Analysis for the
Years Ended June 30, 2023 and 2022, Financial
Statements as of and for the Years Ended June 30,
2023 and 2022, and Independent Auditor's Report*

GEORGIA LOTTERY CORPORATION

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INDEPENDENT AUDITOR'S REPORT

**The Board of Directors
of the Georgia Lottery Corporation:**

Opinions

We have audited the accompanying financial statements of the **Georgia Lottery Corporation** (the "GLC"), a component unit of the State of Georgia, as of and for the fiscal years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the GLC's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Georgia Lottery Corporation as of June 30, 2023 and 2022, and the changes in its financial position and its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the GLC, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the GLC's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the GLC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the GLC's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Proportionate Share of the Net Pension Liability, and Schedule of Contributions, as presented in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Mauldin & Jenkins, LLC

Atlanta, Georgia
October 11, 2023

Management's Discussion and Analysis

As management of the Georgia Lottery Corporation (the "GLC"), we offer readers of the GLC's financial statements this narrative overview and analysis of the financial activities for the fiscal years ended June 30, 2023 and June 30, 2022. We encourage readers to consider the information presented here in conjunction with the financial statements, which begin on page 18.

Financial Highlights

The GLC had another successful year of profits in fiscal year 2023, returning \$1.516 billion for education. This represents an increase of \$42.4 million compared to the prior year. For fiscal year 2022, net proceeds were \$1.474 billion for education. This represents a decrease of \$71.0 million compared to the prior year. Gross ticket sales were \$6.137 billion in fiscal year 2023 compared to \$5.794 billion in 2022. Gross ticket sales were \$5.794 billion in fiscal year 2022 compared to \$6.034 billion in 2021. Other significant financial highlights include the following:

- For fiscal year 2023, gross tickets sales increased by \$343.0 million, or 5.9% as compared to 2022. For fiscal year 2022, gross tickets sales decreased by \$240.4 million, or 4.0 % as compared to 2021.
- Prize expense increased by \$267.6 million, or 7.5% during fiscal year 2023 and decreased \$124.0 million or 3.3% during fiscal year 2022. This expense usually increases or decreases in direct proportion to ticket sales and represented approximately 62.8% of gross ticket sales in fiscal year 2023 and 61.9% in fiscal year 2022.
- Direct gaming expenses, which include retailer commissions, contractor fees, advertising, retailer merchandising and marketing, and gaming equipment increased \$33.2 million in fiscal year 2023, from \$478.1 million to \$511.3 million. These expenses also fluctuate in proportion to ticket sales and represented approximately 8.3% of gross ticket sales in 2023. Gaming expenses decreased \$19.9 million in fiscal year 2022, from \$498.0 million to \$478.1 million. These expenses represented approximately 8.3% of gross ticket sales in 2022.
- Fiscal year 2023 operating expenses increased \$1.4 million above 2022 expenses, from \$55.7 million to \$57.1 million. Fiscal year 2022 operating expenses decreased \$0.1 million below 2021 expenses, from \$55.8 million to \$55.7 million. Operating expenses were approximately 0.9% of gross ticket sales for fiscal year 2023 and 1.0% in 2022.
- Nonoperating expenses, net of revenues, increased \$28.4 million in 2023 as compared to 2022. This increase is attributable to an increase in payments due to Lottery for Education Account over the prior fiscal year of \$42.4 million offset by a favorable change in fair value of grand prize investments held by the GLC for funding future grand prize payments of \$8.9 million and an increase in interest revenue of \$5.1 million. Nonoperating expenses, net of revenues, decreased \$64.8 million in 2022 as compared to 2021. This increase is attributable to a decrease in payments due to Lottery for Education Account over the prior fiscal year of \$71.0 million and an increase in interest revenue of \$0.3 million offset by a decrease in the change in fair value of grand prize investments held by the GLC for funding future grand prize payments of \$6.5 million.
- In fiscal year 2023, the Coin Operated Amusement Machines (COAM) line of business contributed \$159.2 million in revenues from centralized monitoring operations, licensing fees, fines, penalties, and processing fees. This represents a decrease of \$7.9 million or 4.8% below 2022. COAM returned \$133.4 million to the Lottery for Education Account in fiscal year 2023, a decrease of \$7.3 million or 5.2% below 2022. In fiscal year 2022, the Coin Operated Amusement Machines (COAM) line of business contributed

\$167.1 million in revenues from centralized monitoring operations, licensing fees, fines, penalties, and processing fees. This represents a decrease of \$2.5 million or 1.5% below 2021. COAM returned \$140.7 million to the Lottery for Education Account in fiscal year 2022, a decrease of \$4.2 million or 2.9% below 2021.

Overview of the Financial Statements

The GLC is accounted for as an enterprise fund, reporting transactions using the accrual basis of accounting similar to a business entity. This discussion and analysis is intended to serve as an introduction to the GLC's basic financial statements, along with the notes to the financial statements. The statements of net position on page 18, the statements of revenues, expenses, and changes in net position on page 19, and the statements of cash flows on pages 20 and 21 report the GLC's net position and changes therein. 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 22 of this report.

The GLC pays its net proceeds each fiscal year to the General Fund of the state treasury for credit to the Lottery for Education Account. As a result, the GLC's net position consists of funds invested in capital assets and unrestricted net position. Unrestricted net position normally results from the inclusion of capital costs in the determination of net proceeds (as required by the Georgia Lottery for Education Act) and the cumulative effect of periodic adjustments to recognize the fair value of grand prize investments which are held to fund future grand prizes payments. The GLC expects to hold these investments to maturity to meet our future grand prize winner obligations and, therefore, will not realize any gains or losses related to the current value of these investments for distribution as net proceeds. The reader of these financial statements should review the assets, deferred inflows and outflows of resources and liabilities in the statements of net position and the operating revenues and expenses and the payment to and due to Lottery for Education Account in the statements of revenues, expenses, and changes in net position to assess the GLC's financial position as of June 30, 2023 and 2022, and the results of its operations for the years then ended.

Financial Analysis

Assets

At the end of fiscal year 2023, total assets were \$731.2 million compared to \$744.4 million at the end of fiscal year 2022, representing a decrease of \$13.2 million. At the end of fiscal year 2022, total assets were \$744.4 million compared to \$796.3 million at the end of fiscal year 2021, representing a decrease of \$51.9 million.

Current assets were \$531.6 million in 2023 compared to \$522.2 million in 2022, representing an increase of \$9.4 million. This increase was due to increases of \$12.4 million in cash and cash equivalents, \$5.4 million in net retailer receivables, and \$0.1 million in the current portion of lease receivable offset by decreases in prepaid and other assets of \$7.8 million, escrow holdings of \$0.5 million, and \$0.2 million in fidelity funds. The changes in cash and cash equivalents and retailer receivables are due to revenue increases above the previous year.

Current assets were \$522.2 million in 2022 compared to \$552.9 million in 2021, representing a decrease of \$30.7 million. This decrease was due to decreases of \$27.5 million in cash and cash equivalents and \$7.9 million in net retailer receivables offset by increases in prepaid and other assets of \$3.8 million and escrow holdings of \$0.9 million. The changes in cash and cash equivalents and retailer receivables are due to revenue decreases below prior year.

Noncurrent assets decreased by \$22.8 million from \$222.3 million in 2022 to \$199.5 million in 2023. The

GLC experienced a decrease of \$17.5 million in grand prize investments. The decrease represents the net effect of maturities used to fund prize payments of \$21.2 million, net purchases to fund new prize payments of \$7.0 million, accreted interest earned on current-year maturities of \$4.9 million and a decrease of \$8.2 million in the fair value of investments. Net capital assets decreased by \$3.0 million from \$42.9 million in 2022 to \$39.9 million in 2023. Capital purchases consisted of \$0.9 million for computer equipment, vehicles, and software. Additionally, the GLC executed lease extensions at its Augusta and Dalton facilities which added \$1.7 million in net capital assets. The GLC implemented GASB 96 during the fiscal year. GASB 96 requires governments to recognize an intangible, right-to-use asset and corresponding subscription liability at the commencement of the subscription term. The liability should be measured as the present value of the future payments. The standard applies to all subscription agreements longer than twelve months. The GLC had no material qualifying agreements. The GLC recognized a long-term lease receivable reduction of \$2.3 million based on updated assumptions related to a vendor sublease. Deferred outflows of resources were flat in 2023 compared to 2022.

Noncurrent assets decreased by \$21.1 million from \$243.4 million in 2021 to \$222.3 million in 2022. Net capital assets decreased from \$47.5 million in 2021 to \$42.9 million in 2022. Capital purchases consisted of \$0.6 million for communication equipment offset by a reimbursement of \$0.6 million for early closure of an airport kiosk. Additionally, the GLC executed a lease extension at its Macon facility which added \$0.8 million in net capital assets. The GLC recognized a long-term lease receivable of \$7.1 million related to GASB 87. The GLC experienced a decrease of \$16.4 million in grand prize investments. The decrease represents the net effect of maturities used to fund prize payments of \$20.0 million, net purchases to fund new prize payments of \$15.7 million, accreted interest earned on current-year maturities of \$5.1 million and a decrease of \$6.5 million in the fair value of investments. Deferred outflows of resources remained flat at \$0.06 million in 2022 compared to 2021.

Liabilities

Total liabilities at the end of fiscal year 2023 were \$722.3 million compared to \$731.3 million at the end of fiscal year 2022 representing a decrease of \$9.0 million. Total liabilities at the end of fiscal year 2022 were \$731.3 million compared to \$765.4 million at the end of fiscal year 2021 representing a decrease of \$34.2 million.

Current liabilities decreased from \$534.7 million in 2022 to \$533.2 million in 2023, a decrease of \$1.5 million. The change is attributable to decreases of \$18.8 million in funds due to the Lottery for Education, \$3.1 million for accounts payable and accrued liabilities, \$2.0 million in the current portion of long-term lease liabilities, \$0.5 million in retailer escrow holdings, and \$0.2 million in fidelity funds. These decreases were offset by increases of \$22.8 million for prizes won and due to winners not yet claimed and \$0.3 million in the current portion of grand prizes payable.

Current liabilities decreased from \$567.8 million in 2021 to \$534.7 million in 2022, a decrease of \$33.1 million. The change is primarily attributable to decreases of \$32.4 million in funds due to the Lottery for Education and \$10.8 million for prizes won and due to winners not yet claimed offset by increases of \$6.3 million for accounts payable and accrued liabilities, \$2.2 million in grand prizes payable within one year, and \$0.9 million in retailer escrow and fidelity funds.

Noncurrent liabilities decreased \$7.5 million from \$196.5 million in 2022 to \$189.0 million in 2023. The decrease was comprised of a decrease of \$9.8 million for grand prizes payable (which represents the amount to be paid to grand prize winners over future years) offset by an increase of \$2.4 million in long-term lease-related liabilities. The noncurrent portion of compensated absences and net pension liability remained near flat compared to 2022.

Noncurrent liabilities decreased \$1.1 million from \$197.6 million in 2021 to \$196.5 million in 2022. The decrease was comprised of decreases of \$1.6 million for grand prizes payable (which represents the amount to be paid to grand prize winners over future years) and \$0.1 million for the noncurrent portion of compensated absences offset by increases of \$0.4 million in long term lease related liabilities and \$0.1 million in net pension liability.

Deferred Inflows and Outflows of Resources

Deferred outflows of resources increased slightly in 2023 compared to 2022. The deferred outflows are related to pensions. Deferred inflows increased by \$4.0 million in 2023 compared to 2022. The increase was primarily due to an increase in COAM licensing renewal fees of \$6.3 million for 2024 received in 2023 offset by decreases of \$2.2 million in deferred lease revenue and \$0.1 million in pension related outflows.

Net Position and Changes in Net Position

Net position decreased \$8.2 million in 2023 from a debit balance of \$1.2 million in fiscal year 2022, to an end of year debit balance of \$9.4 million. This reduction reflects an unfavorable change in the fair market value of grand prize investments held by the GLC for the funding of future grand prize payments. Accounting principles generally accepted in the United States of America require the GLC to record its grand prize investments at fair value, and the change in the fair value is recorded as non-operating revenue (expense) annually. The GLC classifies the decreases and increases in fair value as unrealized, due to the investments generally being held to maturity to fund future prize obligations. Inclusion of capital costs in the determination of net proceeds is required by the Georgia Lottery for Education Act.

Net position decreased \$17.3 million in 2022 from \$16.1 million in fiscal year 2021, to an end of year debit balance of \$1.2 million. This reduction resulted primarily from an unfavorable change in the fair market value of grand prize investments held by the GLC for the funding of future grand prize payments of \$17.1 million.

Sales

Total lottery ticket sales for fiscal year 2023 were \$6.137 billion as compared to \$5.794 billion in 2022. This represents an increase of \$343.0 million. Scratcher game sales decreased by \$48.9 million, Diggi (e-Instant) game sales increased by \$271.7 million, and sales of draw games increased by \$120.2 million. Total product sales in the interactive channel grew \$337.1 million in 2023, from \$445.3 million to \$782.4 million. Scratcher sales decreased across all price points except the \$25 and \$50 games. Draw game sales performance was driven by decreases in core game (Cash 3, Cash 4, Keno, Fantasy 5) sales of \$49.2 million, increases in multi-state game (Mega Millions, Powerball, and Cash 4 Life) sales of \$170.5 million, and decreases in local game sales of \$1.1 million. Average weekly gross ticket sales for fiscal year 2022 were \$111.4 million versus \$118.0 million in 2023.

Gross scratcher ticket sales decreased \$48.9 million during fiscal year 2023, from \$3.743 billion in 2022 to \$3.694 billion. This represented a 1.3% decrease in ticket sales in 2023 versus 2022.

Scratcher tickets at the \$1, \$2, and \$3 price points generated approximately \$88.0 million, \$259.8 million, and \$156.5 million in sales, respectively in fiscal year 2023 for a net decrease of \$76.2 million or 13.1% compared to 2022. The overall decrease in these aggregate price points was due to decreases of \$43.3 million in \$2 games, \$19.8 million in \$1 games, and \$13.1 million in \$3 games. Some of our most successful scratcher games at the lower price points, included *\$1 Junior Jumbo Bucks*, *\$1 5X The Money*, *\$2 Jumbo Bucks Classic*, *\$2 10X The Money*, *\$3 Cherry, Orange, Lemon Tripler*, and *\$3 Jumbo Bucks CROSSWORD*. *\$2 Jumbo Bucks Classic* was the top selling game in this group, contributing \$60 million.

Ticket sales at the \$5 price point totaled \$560.7 million in fiscal year 2023. Total sales decreased by \$64.1 million or 10.3% below 2022. The most successful \$5 scratcher games during the period included *Giant Jumbo Bucks* and *20X The Money*. Each game contributed \$67 million in revenue. Scratcher games at the \$10 price point provided approximately \$797.6 million in revenue, a decrease of \$16.3 million or 2.0% in 2023 but continues to be the top selling scratcher game segment. The top selling games at this price point included *50X The Money*, *Quick \$600s*, *Win Either \$50 or \$100*, *Jumbo Jumbo Bucks*, and *Jingle Jumbo Bucks*. The top selling games at this price point, *50X The Money* and *Quick \$600s*, generated sales of \$156 million and \$68 million respectively. Ten new games collectively contributed \$335 million.

Ticket sales at the \$15 price point totaled \$7.9 million in fiscal year 2023. Total sales decreased by \$35.2 million or 81.6% below 2022. The GLC only offered one game at this price point.

The \$20 price point category contributed \$626.4 million in ticket revenue, a decrease of \$59.6 million or 8.7% in 2023, making it the third largest segment in terms of overall scratcher sales. The top games at this price point included *100X The Money*, *Millionaire Jumbo Bucks*, and *\$100 or \$200*, which contributed \$159 million, \$67 million, and \$66 million respectively. Three new games contributed \$107 million during the period.

In fiscal year 2023, the \$25 category increased by \$30.8 million or 16.1% to \$221.4 million compared to 2022. Two new games, *Jumbo Bucks Power Shot* and *Lucky 7*, were the top sellers, contributing \$96 million and \$51 million respectively.

In fiscal year 2023, the \$30 category generated \$730.4 million in sales, making it the second largest scratcher segment. This represented a decrease of \$73.4 million or 9.1% below the previous year. The *Billionaire Club \$30* game was the leading seller at this price point, generating \$142 million in sales. Two new games were offered, *\$30 X The Money* and *\$3,000,000 WIN!*, contributing \$159 million in sales. Nine games were offered during the period.

The GLC launched its first game at the \$50 price point in 2023. The *Ultimate \$5 Million* contributed \$245.3 million during the year, making it the top seller in the scratcher category.

The GLC continues to offer popular families of scratcher games in fiscal year 2023. Each of these families demonstrated strong player appeal. The *X The Money* family includes \$1 *5X The Money*, \$2 *10X The Money*, \$3 *15X The Money*, \$5 *20X The Money*, \$10 *50X The Money*, \$20 *100X The Money*, \$25 *200X The Money*, and \$30 *Super Max The Money* and contributed approximately \$569 million in 2023. The *Jumbo Bucks* family includes \$1 *Jr. Jumbo Bucks*, \$2 *Jumbo Bucks Classic*, \$5 *Giant Jumbo Bucks*, \$10 *Jumbo Jumbo Bucks*, \$20 *Millionaire Jumbo Bucks*, and \$30 *Mega Jumbo Bucks* games and contributed approximately \$394 million in 2023. Three new family of games were offered in 2023. The *Big Georgia Raffle* family was offered at the \$1, \$2, \$3, \$5, \$10, and \$20 price points and contributed \$108 million. The *Big Bills* family was offered at the \$1, \$2, \$5, and \$10 price points and contributed \$64 million. The *POWER* family was offered at the \$1, \$2, \$3, and \$5 price points and contributed \$56 million.

Gross scratcher ticket sales decreased \$280.4 million during fiscal year 2022, from \$4.006 billion in 2021 to \$3.743 billion.

Scratcher tickets at the \$1, \$2, and \$3 price points generated approximately \$107.8 million, \$303.0 million, and \$169.7 million in sales, respectively in fiscal year 2022 for a net decrease of \$83.9 million or 12.6% compared to 2021. The overall decrease in these aggregate price points was due to decreases of \$33.0 million in \$2 games, \$27.4 million in \$3 games, and \$23.4 million in \$1 games. Some of our most successful scratcher games at the lower price points, included \$1 *Junior Jumbo Bucks*, \$1 *5X The Money*, \$2 *Jumbo Bucks Classic*, \$2 *10X The Money*, \$3 *Cherry, Orange, Lemon Tripler*, and \$3 *Jumbo Bucks CROSSWORD*. \$2 *Jumbo Bucks*

Classic was the top selling game in this group, contributing \$64 million.

Ticket sales at the \$5 price point totaled \$624.9 million in fiscal year 2022. Total sales decreased by \$67.8 million or 9.8% below 2021. The most successful \$5 scratcher games during the period included *20X The Money*, *Giant Jumbo Bucks*, the *Hit \$500 Game*, *Jumbo Bucks Bonus*, and *\$5 Cash*. The two top selling \$5 scratchers games in fiscal year 2022 were *20X The Money* and *Giant Jumbo Bucks*, which contributed \$74 million and \$64 million in revenue, respectively.

Scratcher games at the \$10 price point provided approximately \$813.9 million in revenue, a decrease of \$117.9 million or 12.7% in 2022, continuing to be the top selling scratcher game segment. The top games at this price point included *50X The Money*, *Win Either \$50 or \$100*, *Jumbo Jumbo Bucks*, *Holiday Silver 50X The Money*, and *Quick \$600s*. The top selling games at this price point, *50X The Money* and *Win Either \$50 or \$100*, generated sales of \$170 million and \$93 million respectively. Nine new games collectively contributed \$399 million.

The GLC launched its first game at the \$15 price point in 2022. *\$50,000 Extravaganza* contributed \$43 million during the year.

The \$20 price point category contributed \$686.1 million in ticket revenue, a decrease of \$95.4 million or 12.2% in 2022, making it the third largest segment in terms of overall scratcher sales. The top games at this price point included *100X The Money*, *\$100 or \$200!*, and *Millionaire Jumbo Bucks*, which contributed \$166 million, \$105 million, and \$76 million respectively. Five new games contributed \$241 million during the period.

In fiscal year 2022, the \$25 category decreased by \$43.8 million or 18.7% to \$190.7 million compared to 2021. The top selling games were *X The Money Extra* and *200X The Money*, contributing \$77 million each in gross sales. *X The Money Extra* was the only new game launched during the period.

In fiscal year 2022, the \$30 category generated \$803.8 million in sales, making it the second largest scratcher segment. This represented an increase of \$102.9 million or 14.7% above the previous year. The *Mega Jumbo Bucks* game was the leading seller in the overall scratcher category, generating \$218 million in sales. Eight games were offered during the period.

The GLC continues to offer popular families of scratcher games in fiscal year 2022. Each of these families demonstrated strong player appeal. The *X The Money* family includes \$1 *5X The Money*, \$2 *10X The Money*, \$3 *15X The Money*, \$5 *20X The Money*, \$10 *50X The Money*, \$20 *100X The Money*, \$25 *200X The Money*, and \$30 *Super Max The Money* and contributed approximately \$692 million in 2022. The *Jumbo Bucks* family includes \$1 *Jr. Jumbo Bucks*, \$2 *Jumbo Bucks Classic*, \$5 *Giant Jumbo Bucks*, \$10 *Jumbo Jumbo Bucks*, \$20 *Millionaire Jumbo Bucks*, and \$30 *Mega Jumbo Bucks* games and contributed approximately \$508 million in 2022. Two new families of games were offered in 2022. The *Ca\$h* family was offered at the \$1, \$2, \$3, \$5, and \$20 price points and contributed \$134 million. *Multiplier Mania* was a second chance family of games offered at the \$1, \$2, \$5, \$10, and \$20 price points and contributed \$130 million in 2022.

For fiscal year 2023, Diggi (e-Instant) game sales were \$581.6 million, an increase of \$271.7 million or 87.7% over 2022. Diggi games are interactive games that can be played on internet or mobile platforms and exhibit the same characteristics as traditional scratcher games, including grids and game reveal data. Players can place wagers using IGT Pay which is funded via debit card, bank account or PayPal. IGT Pay was launched in August 2018. All prizes up to \$600 are automatically paid to the funding source. Prizes greater than \$600 must be claimed at a lottery office. The games are sold at price points ranging from \$0.50 to \$30 with prizes up to \$400,000. The GLC currently has 85 active games as of June 30, 2023 including three games that contain progressive jackpots (jackpots that increase instantaneously with each wager). For fiscal year 2022, Diggi (e-Instant) game sales were \$309.9 million, an increase of \$102.5 million or 49.4% over 2021.

For fiscal year 2023, draw game sales were \$1.861 billion, an increase of \$120.2 million, or 6.9% above 2022 draw sales of \$1.741 billion. For fiscal year 2022, draw game sales were \$1.741 billion, a decrease of \$80.0 million, or 4.4% below 2021 draw sales of \$1.821 billion.

Cash 3 sales decreased by \$34.6 million to \$572.0 million in 2023 compared to \$606.6 million in 2022. *Cash 3* experienced 23 high payout draws (>\$1 million) during the year. *Cash 3* is a thrice-daily drawing game whereby the player chooses a three-digit number and wins a specified fixed amount if his or her numbers are selected in the draw. The aggregate prize amount per draw varies based on the number of winners. A “1-Off” add-on feature is part of the base game. The feature allows players to win fixed prizes for being one off from one or more of the draw numbers (e.g., 1-6-3 or 2-7-2 rather than the 1-6-2 draw number) for an additional wager. This has created another opportunity to refresh an already popular game.

Cash 3 sales decreased by \$33.3 million to \$606.6 million in 2022 compared to \$639.9 million in 2021.

In fiscal year 2023, *Mega Millions* sales increased by \$112.0 million or approximately 102.8% to \$221.1 million compared to \$109.1 million in 2022. The size and frequency of jackpots are the primary drivers for *Mega Millions* sales. The *Mega Millions* jackpot exceeded \$400 million on four occasions during the year, reaching a high value of \$1.348 billion on January 13, 2023, \$1.337 billion on July 29, 2022, \$502 million on October 14, 2022, and \$483 million on April 14, 2023. *Mega Millions* is a multi-state lottery game operated with nine other states—California, Illinois, Maryland, Massachusetts, Michigan, New Jersey, Ohio, Virginia, and Washington. Through an agreement between the Mega Millions Consortium (MMC) and the Multi-State Lottery Association (MUSL), MUSL members are allowed to cross-sell tickets for the *Mega Millions* game. Drawings are held twice weekly on Tuesday and Friday. The game matrix was changed in advance of the October 28, 2017 draw. Under the present game matrix, players win the *Mega Millions* jackpot by matching 5 numbers from a set of 70 white balls plus 1 number from a set of 25 gold balls. Matching the five white balls automatically wins \$1 million. The price of a base wager is \$2. Due to the pandemic, as of the June 12, 2020 draw, the Mega Millions Consortium changed resets after a winning Jackpot to \$20 million and eliminated minimum roll amounts. *Just the Jackpot* (JTJ) is an add-on that permits players to place wagers for jackpot wins only (i.e., no opportunity to win any fixed prize). The price of JTJ is \$3 for two wagers. Three members of the MMC elected to offer this feature. In November 2010, the GLC added the *Megaplier* feature to *Mega Millions*. *Megaplier* remains as an add-on feature that increases players’ non-jackpot prizes for an additional \$1 per play. Depending on the *Megaplier* number selected during the draw, players have the opportunity to multiply their winnings by two, three, four, or five times. The multiplier also applies to matching the five white balls.

In fiscal year 2022, *Mega Millions* sales decreased by \$50.5 million or approximately 31.7% to \$109.1 million compared to \$159.6 million in 2021. The size and frequency of jackpots are the primary drivers for *Mega Millions* sales. The *Mega Millions* jackpot exceeded \$400 million on two occasions during the year, reaching a high value of \$431 million in September 2021 and \$426 million in January 2022.

Powerball sales increased by \$56.2 million, or 35.5% to \$214.8 million in 2023 compared to \$158.6 million in 2022. The size and frequency of jackpots are the primary drivers for *Powerball* sales. The *Powerball* jackpot exceeded \$400 million two times during the year, reaching \$2.04 billion on November 7, 2022, representing the largest jackpot in lottery history, and \$754 million on February 7, 2023. *Powerball* is a multi-state lottery draw game operated by the Multi-State Lottery Association (MUSL). Through a cross-sell agreement between MUSL and participating *Mega Millions* states, the GLC began selling tickets for the *Powerball* draw game during fiscal year 2010, on January 30, 2010. Drawings are held three times weekly on Monday, Wednesday, and Saturday. The game matrix was changed in advance of the October 7, 2015 draw. The five winning numbers are now drawn from a set of 69 balls rather than 59 white balls. The one number is now drawn from a second set of 26 red balls versus 35 red balls. Due to the pandemic, as of the April 8, 2020

draw, MUSL changed resets after a winning Jackpot to \$20 million and eliminated minimum roll amounts. The *Power Play* option includes a non-jackpot prize option for an additional \$1 per play, per draw. Non-jackpot prize tiers are fixed at multiples of two, three, four, five, and sometimes ten from the base prize depending on the specific tier level. Additionally, a jackpot management system was introduced in fiscal year 2016. The process works by reducing the jackpot contribution when the jackpot reaches an annuity value of \$120 million. The intent of the change is to increase the size of the early incremental jackpot increases and to slow down the increments at the higher jackpot levels.

Powerball sales increased by \$33.1 million, or 26.4% to \$158.6 million in 2022 compared to \$125.4 million in 2021. The size and frequency of jackpots are the primary drivers for *Powerball* sales. The *Powerball* jackpot exceeded \$400 million three times during the year, reaching \$699 million in October 2021, \$632 million in January 2022, and \$473 million in April 2022.

Cash 4 sales decreased \$19.6 million or 4.7%, in fiscal year 2023 from \$420.1 million in 2022 to \$400.5 million. *Cash 4* experienced 18 high payout draws (prize liability >\$1 million) and continued synergy with *Cash 3*. *Cash 4* is a thrice-daily drawing game whereby the player chooses a four-digit number and wins a specified fixed amount if his or her numbers are selected in the draw. The aggregate prize amount per draw varies based on the number of winners. A "1-Off" add-on feature was added as part of the base game. The feature allows players to win fixed prizes for being one off from one or more of the draw digits (e.g., 1-6-3-5 or 2-7-2- 5 rather than the 1-6-2-5 draw) for an additional wager. This has created another opportunity to refresh an already popular game.

Cash 4 sales increased \$1.4 million or 0.3%, in fiscal year 2022 from \$418.7 million in 2021 to \$420.1 million.

Fantasy 5 sales increased by \$3.4 million to \$96.5 million in fiscal year 2023 compared to \$93.1 million in 2022. Sales for the add-on feature, *Cash Match* increased \$0.1 million in fiscal year 2023 to \$4.3 million from \$4.2 million in fiscal year 2022. *Fantasy 5* is a pari-mutuel draw game where players have the option to add *Cash Match* for an additional \$1, where matching their *Fantasy 5* numbers to any of the *Cash Match* numbers can win players up to 5 times on each ticket with instant cash prizes from \$4 to \$500. On October 4, 2015, the game matrix for *Fantasy 5* changed from a field of 39 balls to a field of 42 balls. Additionally, the starting jackpot was raised from a guaranteed minimum of \$100,000 and \$120,000 for the first two draws to \$125,000 and \$150,000. The net effect of the change was to increase the size of the jackpots for the game by reducing the odds on the front end. There were 78 jackpot wins and 102 jackpot winners. Five jackpots exceeded \$1 million in 2023.

Fantasy 5 sales decreased by \$8.5 million to \$93.1 million in fiscal year 2022 compared to \$101.6 million in 2021. Sales for the add-on feature, *Cash Match* decreased \$0.5 million in fiscal year 2022 to \$4.2 million from \$4.8 million in fiscal year 2021.

Georgia FIVE sales decreased by \$0.3 million, from \$10.6 million in fiscal year 2022 to \$10.3 million in fiscal year 2023. *Georgia FIVE* is a fixed prize draw game where players pick their own five numbers, in a single play area - one from each vertical column of 0 to 9 or have their numbers randomly selected through the terminal by requesting a Quik Pik lottery ticket. Players win by matching their numbers to the winning number(s) drawn in the exact order and position in a single play. By matching all five of your numbers in exact order to the winning numbers, players win the top prize of \$10,000. Other opportunities to win prizes are available by matching one or more numbers in a specific order and position sequence/order, with prizes ranging from \$1 to \$225.

Georgia FIVE sales increased by \$0.2 million, from \$10.4 million in fiscal year 2021 to \$10.6 million in fiscal year 2022.

Keno! sales increased by \$1.7 million to \$228.3 million in fiscal year 2023, compared to \$226.6 million in fiscal year 2022. *Keno!* is a local draw game where players choose the number of spots they wish to play (1-10), the numbers they wish to play from 1-80 or Quik Pik selections, the dollar amount they wish to wager per draw (\$1, \$2, \$3, \$5, or \$10), an optional multiplier (up to 10X), and the number of consecutive draws they wish to play (up to 20). Winners are based on the total numbers matched per game spot per \$1 played. For example, a 10-spot game where the player matches all 10 spots for a \$2 wager wins \$200,000. The odds are based on the number of spots played. The game is played every 3 ½ minutes, or approximately 350 times per day.

Keno! sales decreased by \$8.9 million to \$226.6 million in fiscal year 2022, compared to \$235.5 million in fiscal year 2021.

Jumbo Bucks Lotto sales increased by \$2.2 million in fiscal year 2023, from \$17.9 million in 2022 to \$20.1 million. *Cash Match* sales increased by \$0.2 million from \$1.5 million in 2022 to \$1.7 million in 2023. *Jumbo Bucks Lotto* is a local draw game that was launched in February 2015. The base game also includes an add-on feature, *Cash Match* that contains features similar to a scratcher game. Drawings are held on Monday and Thursday. Six numbers between one and forty-seven are selected by the player with a starting jackpot of \$1 million. Lottery players can play the base game for \$1 or purchase the *Cash Match* add-on feature for an additional \$1. Players have overall odds of 1 in 2.94 of winning a prize for a combined play. There were no jackpot wins during the year.

Jumbo Bucks Lotto sales decreased by \$5.6 million in fiscal year 2022, from \$23.5 million in 2021 to \$17.9 million. *Cash Match* sales decreased by \$0.4 million from \$1.9 million in 2021 to \$1.5 million in 2022.

Cash 4 Life sales increased \$2.1 million in 2023 from \$24.6 million in 2022 to \$26.7 million. *Cash 4 Life* is a multi-state lottery game that originated with the New Jersey and New York Lotteries and currently includes Florida, Georgia, Indiana, Maryland, Missouri, New Jersey, New York, Pennsylvania, Tennessee, and Virginia. Beginning July 2, 2020, *Cash 4 Life* transitioned to daily draws. The game matrix consists of selecting five numbers from a pool of numbers from one (1) to sixty (60) and a single number from a second pool of numbers from one (1) to four (4). The number from the second pool is referred to as the “Cash Ball” and can be the same as one of the five numbers selected in the first pool. Players wager \$2 per play and can purchase up to ten consecutive advance plays. The prize structure contains nine tiers of which the top two are considered grand prizes and are pari-mutuel under certain circumstances. The remaining tiers are fixed. Beginning April 1, 2019, each participating lottery became responsible for funding its own fixed prizes. Grand prize tiers continue to be funded through a shared pool allocation. The tier one prize is \$1,000 per day (\$365,000 per year) for the life of the winner with a maximum cash option of \$7 million for any single draw. The second-tier prize is \$1,000 per week (\$52,000 per year) for the life of the winner with a maximum cash option of \$5 million for any single draw. In the case of multiple winners for a particular draw, the “Measuring Life” is considered to be twenty (20) years.

Cash 4 Life sales increased \$1.4 million in 2022 from \$23.2 million in 2021 to \$24.6 million.

Print N Play sales decreased by \$0.6 million in 2023 from \$5.5 million to \$4.9 million. *Print N Play* is composed of a series of games that allow players to place wagers of \$1, \$2, \$3 or \$5. Players win by matching numbers and/or symbols in a reveal area. Prizes are determined by specific prize structures associated with each game. The game possesses characteristics of a draw game and a scratcher game. A player receives a ticket similar to what is provided for a draw game wager and each game contains a grid. However, the numbers and/or symbols are already revealed on the draw ticket, i.e., the player does not have to scratch off overprint ink to uncover the reveal section. The winning experience mimics a scratcher game with respect to reveal sections. No playslips are used for *Print N Play*. The individual games are concept driven (e.g., *Bling Bling Bucks*, *Slots of Fun*, *Ca\$hword* and *Electric 8's*). Consequently, the same grids can be “reskinned” to create new games without the need for changing the underlying game specifications. This is another concept adopted from

scratcher games and applied to the draw portfolio. There are currently eight (8) active games with a top prize of \$25,000 as of June 30, 2023.

Print N Play sales decreased by \$0.8 million in 2022 from \$6.3 million to \$5.5 million.

Cash Pop sales decreased \$2.6 million in 2023 from \$62.7 million in 2022 to \$60.1 million. *Cash Pop* was launched in Fiscal Year 2020 as a new concept draw game. The first drawing was held on December 8, 2019. *Cash Pop* is an easy to play draw game, allowing players to place wagers of \$1, \$2, or \$5 per play on a single number between 1 and 15. Prize values are based on the amount of the individual wager. The top prize is \$1,250. *Cash Pop* drawings are held five times daily: 8 am Early Bird, 1 pm Matinee, 5 pm Drive Time, 8 pm Primetime and 11:59 pm Night Owl. *Cash Pop* was the first game in the United States to be launched simultaneously at retail and on the interactive platform.

Cash Pop sales decreased \$7.5 million in 2022 from \$70.2 million in 2021 to \$62.7 million.

COAM Revenue

COAM revenue includes licensing renewal revenue, commissions from net revenue generated by Class B COAM machines, fines and penalties, and other miscellaneous revenue. GLC launched the COAM centralized accounting system in January 2015. Its purpose is to collect net daily revenues generated by Class B COAM machines throughout the state on behalf of the machine owners (Masters). Class B machines are defined as line-up or match-up video games requiring some skill where the points carry over. GLC received 10% of total net revenues generated as a fee for providing this oversight service in 2023. COAM revenue decreased by \$7.9 million in fiscal year 2023, totaling \$159.2 million versus \$167.1 million in 2022. The decrease is due to decreases of \$6.0 million in fines and penalties, and \$3.9 million in license and renewal fees, offset by increases in the GLC revenue share of \$1.8 million. Fiscal year 2023 COAM licensing and renewal fees of \$3.1 million were recognized in 2022.

COAM revenue decreased by \$2.5 million in fiscal year 2022, totaling \$167.1 million versus \$169.6 million in 2021.

Other Operating Revenue

Other operating revenue (which includes interest revenue) increased by \$4.7 million in fiscal year 2023, totaling \$9.5 million versus \$4.8 million in 2022. The change is primarily due to increases of \$5.1 million in interest revenue offset by aggregate decreases in all other accounts of \$0.4 million.

Other operating revenue (which includes interest revenue) increased by \$0.7 million in fiscal year 2022, totaling \$4.8 million versus \$4.1 million in 2021. The change is primarily due to increases of \$0.5 million in line service fees and \$0.3 million in interest revenue offset by a decrease of \$0.1 million in lease interest revenue.

Prize Expense

Gross prize expense for scratcher games decreased by \$12 million to \$2.485 billion in fiscal year 2023 compared to 2022. Gross prize expense for scratcher games decreased by \$157 million to \$2.497 billion in fiscal year 2022 compared to 2021. The decrease is directly proportional to the decrease in gross sales and the change in the sales mix of scratcher products. Scratcher games prize expense is managed through the number of tickets printed for each game and value of prizes at each price point, as determined prior to ticket production. Prize expense is recognized based on an established prize structure and related percentage of sales for each game introduced and is recognized when products are made available for sale to the public.

Scratcher game prize expense is reduced by applying unclaimed prizes recognized during the fiscal year. For fiscal year 2023, prize expense, net of unclaimed prizes for scratcher games, totaled \$2.431 billion as compared to \$2.439 billion in 2022. For fiscal year 2022, prize expense, net of unclaimed prizes for scratcher games, totaled \$2.439 billion as compared to \$2.605 billion in 2021. Unclaimed prize expense was \$53.9 million, \$58.3 million and \$48.3 million in 2023, 2022, and 2021 respectively.

Prize expense for draw games generally increases or decreases each year in direct proportion to ticket sales of the related game. For games with pari-mutuel jackpot prizes (*Mega Millions*, *Powerball*, *Fantasy 5*, *Jumbo Bucks Lotto*, and *Cash 4 Life* under certain circumstances), actual prize expense is recognized as a percentage of ticket sales. For games with fixed prizes (*Cash 3*, *Cash 4*, *Print N Play*, *Georgia FIVE*, *Cash Match* games, *Keno!*, *5 Card Cash*, *Cash Pop* and secondary tier prizes for *Mega Millions*, *Powerball*, *Jumbo Bucks Lotto* and *Cash 4 Life*), actual prize expense is recognized based on the number and prize value of winning tickets. To recognize prize expense on a consistent basis for these games, the GLC recognizes prize expense based on the greater of actual prizes paid, the estimated payout experience over the life of the game or industry averages. The GLC has established prize liability limits per draw for certain games.

Total draw prize expense increased by \$58.7 million in 2023 to \$964.6 million compared to 905.9 million in 2022. Total draw prize expense decreased by \$41.5 million in 2022 to \$905.9 million compared to 947.4 million in 2021. The net increase is comprised of the following increases and decreases by game as follows:

- Prize expense for *Cash 3* decreased \$16.6 million in fiscal year 2023 as compared to 2022. This is consistent with the 5.7% decrease in gross sales over prior year. Prize expense for *Cash 3* decreased \$16.0 million in fiscal year 2022 as compared to 2021. This is consistent with the 5.2% decrease in gross sales over prior year. Historically, as the prize amount won for this game increases above or decreases below the industry average of 50% of sales, a corresponding increase or decrease in sales will occur. The actual prize payout experienced was approximately 48% and 50% for fiscal years 2023 and 2022 respectively.
- Prize expense for *Mega Millions* increased \$56.0 million in 2023 versus 2022, in direct proportion to the 102.8% increase in sales. Prize expense for *Mega Millions* decreased \$25.3 million in 2022 versus 2021, in direct proportion to the 31.7% decrease in sales.
- Prize expense for *Powerball* increased \$28.1 million in fiscal year 2023 as compared to 2022, in direct proportion to the 35.5% increase in sales. Prize expense for *Powerball* increased \$16.6 million in fiscal year 2022 as compared to 2021, in direct proportion to the 26.4% increase in sales.
- Prize expense for *Cash 4* decreased \$11.7 million in 2023 over 2022, consistent with the decrease in gross sales of 4.7%. Prize expense for *Cash 4* increased \$0.7 million in 2022 over 2021, consistent with the increase in gross sales of 0.3%. Actual prize payouts in fiscal years 2023 and 2022 were approximately 47% and 46%, respectively. In 2023, the recognized prize expense for *Cash 4* was adjusted from 49.5% to 49.0% based on an analysis of actual prize payouts over the five prior years. This change decreased prize expense by \$2.0 million in 2023.
- Prize expense for *Fantasy 5* increased by \$1.6 million in 2023 versus 2022, in direct proportion to the increase in gross sales of 3.7%. Prize expense for *Fantasy 5* decreased by \$3.9 million in 2022 versus 2021, in direct proportion to the decrease in gross sales of 8.4%. Additional liability of 1.25% above the prize structure has been recorded beginning in 2015 to account for actual liability experienced from unfunded jackpots. *Cash Match* prize expense was flat in fiscal year 2023 compared to 2022 consistent with a 1.0% increase in gross sales. *Cash Match* prize expense decreased by \$0.4 million in fiscal year 2022 compared to 2021 consistent with an 11.4% decrease in

gross sales.

- Prize expense for *Georgia FIVE* decreased by \$0.1 million compared to 2022, in direct proportion to the 2.6% decrease in sales. Prize expense for *Georgia FIVE* increased by \$0.1 million compared to 2022, in direct proportion to the 1.7% increase in sales.
- Prize expense for *Keno!* increased by \$1.1 million in 2023 compared to 2022. This is consistent with an increase of 0.7% in gross sales. Prize expense for *Keno!* decreased by \$6.0 million in 2022 compared to 2021. This is consistent with a decrease of 3.7% in gross sales. *Keno* experienced actual payout of 67% and 68% for fiscal years 2023 and 2022, respectively. *Keno* experienced actual payout of 68% for fiscal year 2021.
- Prize expense for *Jumbo Bucks Lotto* increased by \$1.1 million in 2023 compared to 2022. This is consistent with an increase in gross sales of 12.5%. Prize expense for *Cash Match* increased \$0.1 million in 2023 compared to 2022. This is consistent with an increase in gross sales of 9.4%. Prize expense for *Jumbo Bucks Lotto* decreased by \$2.8 million in 2022 compared to 2021. This is consistent with a decrease in gross sales of 24.0%. Prize expense for *Cash Match* decreased \$0.3 million in 2022 compared to 2021. This is consistent with a decrease in gross sales of 20.8%.
- Prize expense for *Cash 4 Life* increased by \$1.2 million in 2023 compared to 2022. This is consistent with an increase in gross sales of 8.7%. Prize expense for *Cash 4 Life* increased by \$0.7 million in 2022 compared to 2021. This is consistent with an increase in gross sales of 5.7%.
- Prize expense for *Print N Play* decreased by \$0.4 million in 2023 compared to 2022. This is consistent with a decrease of 10.2% in gross sales. Prize expense for *Print N Play* decreased by \$0.7 million in 2022 compared to 2021. This is consistent with a decrease of 12.9% in gross sales.
- Prize expense for *Cash Pop* decreased by \$1.7 million in 2023 compared to 2022. This is consistent with a decrease in gross sales of 4.2%. Prize expense for *Cash Pop* decreased by \$4.2 million in 2022 compared to 2021. This is consistent with a decrease in gross sales of 10.6%. The first *Cash Pop* drawing was December 8, 2019.

Direct Gaming and Operating Expenses

Direct gaming expenses usually change in proportion with changes in ticket sales. For fiscal year 2023, retail ticket sales were essentially flat resulting in a small increase in retailer commissions compared to 2022. Retailer commissions for fiscal year 2023 were \$320.5 million compared to \$320.1 million in 2022, and \$342.9 million in 2021. This represents a \$0.4 million increase in fiscal year 2023 versus 2022 and \$22.8 million decrease in fiscal year 2022 versus 2021. For fiscal year 2023, the GLC paid its retailers a set 6% commission percentage for selling lottery tickets. Due to legislative changes with the passing of House Bill 326 in March of fiscal year 2011, the GLC began compensating its retailers at a fixed commission percentage of 6% for selling tickets. Cashing bonuses for validating and paying winning prizes up to \$600 and winning ticket jackpot incentives on certain draw games were discontinued. Winning ticket jackpot incentives were reinstated by approval of the GLC BOD in April 2019.

Contractor (vendor) fees primarily represent payments made to our three major suppliers of gaming products, systems, and services and three other suppliers of scratcher ticket printing, website development, and property licensing. The payments made to our two major suppliers of lottery products and services are determined based on a percentage of sales formula. The contracts with our Online Gaming Systems and Services and Scratcher Ticket Printing and Associated Services vendors were extended until September 2032. Both contract extensions provided for lower fees for base services provided to the GLC beginning in September 2025. Payments to our COAM vendor are based on a percentage of net daily revenues collected from the COAM's. The contract with our vendor for the centralized COAM accounting system was extended until 2029. The extension provides for a reduction in base fees plus an investment in infrastructure during

fiscal year 2023 by the vendor. Payments made to the other suppliers are based on contract terms. In fiscal year 2023, contractor (vendor) fees were \$141.8 million compared to \$117.8 million in 2022, representing an increase of \$24.0 million. The increase was primarily attributable to increases in gross sales, a change in our product sales mix, and specialty printing costs for scratcher games. In fiscal year 2022, contractor (vendor) fees were \$117.8 million as compared to \$116.6 million in 2021, representing an increase of \$1.2 million. The increase was primarily attributable to increased interactive sales and COAM revenue share in fiscal year 2022.

In fiscal year 2023, advertising expense increased by \$8.7 million to \$39.1 million from \$30.4 million in 2022. The increase was driven by growth in iLottery marketing activities. The GLC began providing additional marketing investments in the iLottery channel as part of the Amendment Six agreement with the IGT Corporation. GLC invested \$11.9 million to support iLottery activity in fiscal year 2023 compared to \$2.3 million in 2022. The GLC's advertising agency, BBDO, provided marketing services including creative conception, production and shipment of television and radio advertising, point-of-sale materials, digital and print advertising, premium giveaway items, website creative, media and brand awareness research and the placement of media for various lottery games and marketing initiatives during fiscal year 2023. Additionally, BBDO provided marketing, planning and execution of experiential sponsorships, including the development and marketing for the Atlanta Falcons and the Atlanta United digital promotions, media sponsorship, and various other executions. In fiscal year 2022, advertising expense increased by \$1.1 million to \$30.4 million from \$29.3 million in 2021.

In fiscal year 2023, retailer merchandising and marketing expenses increased by \$0.8 million from \$9.0 million in 2022 to \$9.8 million in 2023. In fiscal year 2022, retailer merchandising and marketing expenses increased by \$1.3 million from \$7.7 million in 2021 to \$9.0 million in 2022. Retailer and marketing expenses are associated with marketing campaigns supporting new lottery games and features including game promotions, promotional point of sale, sponsorships of Georgia collegiate and professional sports teams, retailer partnerships, and various second chance promotions. Planned sponsorships of most events cancelled in 2020 due to the pandemic resumed in 2022.

Gaming equipment expenses include purchases of *Keno!* monitors, jackpot signs, digital signage and Express Point Plus (EPP) ticket checkers. In 2023, the GLC invested \$0.1 million in new gaming equipment. In 2022, the GLC invested \$0.8 million in new gaming equipment. Due to provisions of the IGT contract extension, most planned purchases for 2023 were no longer required.

Operating expenses increased by \$1.4 million to \$57.1 million in 2023 from \$55.7 million in 2022. The increase in operating expenses resulted primarily from an increase of \$2.5 million in personnel services and an aggregate of \$0.4 million in all other accounts offset by a decrease of \$1.5 million in professional fees. Operating expenses decreased by \$0.1 million to \$55.7 million in 2022 from \$55.8 million in 2021. The decrease in operating expenses resulted primarily from savings of \$1.4 million in personnel services, \$0.8 million in depreciation, and an aggregate of \$0.1 million in all other accounts offset by increases of \$1.2 million in professional fees and \$1.0 million in bad debt expense.

Nonoperating Revenues (Net of Expenses)

Nonoperating revenues, net of expenses, consist primarily of payments due to Lottery for Education Account, interest revenue, and the change in the fair value of grand prize investments held by the GLC for funding of future grand prize payments. The increases or decreases in the fair value of grand prize investments are the result of current period market fluctuations. For fiscal year 2023, nonoperating expenses, net of revenues, increased \$28.2 million from \$1.491 billion in 2022 to \$1.519 billion in 2023. The increase in nonoperating expenses, net of revenues is attributable to a \$42.4 million increase in payments due to Lottery for Education Account offset by a favorable change of \$8.9 million in the fair value of grand prize investments held by the

GLC for funding of future grand prize payments and a \$5.1 million increase in interest revenue.

For fiscal year 2022, nonoperating expenses, net of revenues, decreased \$64.7 million from \$1.555 billion in 2021 to \$1.491 billion in 2022. The decrease in nonoperating expenses, net of revenues is attributable to a \$71.0 million reduction in payments due to Lottery for Education Account and an increase of \$0.3 million in interest revenue offset by an unfavorable change of \$6.6 million in the fair value of grand prize investments held by the GLC for funding of future grand prize payments.

Significant Factors Impacting Next Year

The GLC strives to stay relevant in the marketplace by providing lottery products and regulatory oversight of COAMs that align with our mission of maximizing revenues for the State of Georgia and its specific education programs funded through our proceeds.

Like most of the United States, the Georgia Lottery was impacted by the Covid-19 pandemic. The GLC operated in a hybrid environment during fiscal year 2023. We continue to consider Covid-19 health guidelines and economic conditions in our operational and financial decision-making process.

In March 2020 the GLC executed the Sixth contract amendment with IGT to initiate upgrade of our interactive (“iLottery”) platform. This upgrade allowed the GLC to integrate and launch Diggi products faster, create a targeted interactive advertising program and permit additional draw games to be added to the channel. Interactive channel sales contributed \$782.4 million in 2023, an increase of \$337.1 million, or 75.7% compared the 2022. Our ability to successfully execute in the interactive space will continue to be a major contributing factor to our success in 2024.

On September 30, 2022, the GLC signed the Seventh Amendment to the contract with IGT. The highlights of the contract amendment are: (1) The end date is extended from September 11, 2025 to September 11, 2032; (2) Effective September 12, 2025, the base rate on retail sales will decrease from 0.8477% to 0.7629% and the base rate on e-Instant sales will decrease from 3.52% to 2.268%; (3) Vendor will provide new gaming equipment, including retail terminals, self-service merchandising machines, playstations, customer facing scanners, and digital menu boards; (4) Vendor will deploy debit card readers integrated with retailer terminals to support universal cashless functionality; and (5) Vendor will upgrade the retail (Aurora) and interactive (iLottery) gaming systems.

On January 26, 2023, the GLC signed the Sixth Amendment to the contract with Scientific Games. The highlights of the contract amendment are: (1) The end date is extended from September 11, 2025 to September 10, 2032; (2) Effective September 11, 2025, the base rate on activated adjusted ticket sales will decrease from 0.793% to 0.699%; (3) Vendor will no longer be required to provide instant ticket dispenser facings at no cost; and (4) Vendor will be entitled to an incentive of 1.149% on annual adjusted activated ticket sales in excess of \$4.5 billion. This provision will be reviewed in 2029.

Contacting the GLC’s Financial Management

This financial report is designed to provide the state of Georgia, the public, and other interested parties with an overview of the financial results of the GLC’s activities and to show the GLC’s accountability for conducting business in a fiscally responsible manner. If you have questions about this report or require additional financial information, contact the GLC’s Corporate Affairs Division at the Georgia Lottery.

GEORGIA LOTTERY CORPORATION
(A Component Unit of the State of Georgia)
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2023 AND 2022

	2023	2022
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 306,690,000	\$ 294,267,000
Restricted fidelity fund cash	212,000	365,000
Restricted retailers' escrow fund cash	20,357,000	20,903,000
Retailer accounts receivable—net	201,441,000	196,064,000
Lease receivable - Current Portion	315,000	181,000
Prepaid expenses and other assets	2,609,000	10,372,000
	<u>531,624,000</u>	<u>522,152,000</u>
NONCURRENT ASSETS:		
Grand prize investments	154,955,000	172,478,000
Lease Receivable	4,641,000	6,895,000
Capital assets - net	39,934,000	42,892,000
	<u>199,530,000</u>	<u>222,265,000</u>
TOTAL ASSETS	<u>731,154,000</u>	<u>744,417,000</u>
Deferred Outflows of Resources:		
Deferred outflows of resources related to pensions	77,000	51,000
Total Deferred Outflows of Resources	<u>77,000</u>	<u>51,000</u>
LIABILITIES		
CURRENT LIABILITIES:		
Due to Lottery for Education Account	346,736,000	365,474,000
Prizes payable	104,925,000	82,125,000
Grand Prizes Payable - Due in One Years	22,302,000	22,055,000
Lease Liability - Due in One Year	(623,000)	1,415,000
Accounts payable and accrued liabilities	39,319,000	42,410,000
Restricted fidelity fund	212,000	365,000
Restricted retailers' escrow fund	20,357,000	20,903,000
Total current liabilities	<u>533,228,000</u>	<u>534,747,000</u>
NONCURRENT LIABILITIES:		
Grand prizes payable	144,159,000	153,995,000
Noncurrent portion of compensated absences	4,742,000	4,825,000
Net pension liability	196,000	105,000
Long term lease liability	39,933,000	37,582,000
	<u>189,030,000</u>	<u>196,507,000</u>
Total liabilities	<u>722,258,000</u>	<u>731,254,000</u>
Deferred Inflows of Resources:		
Deferred Revenue	13,990,000	7,739,000
Deferred inflows of resources related to leases	4,331,000	6,546,000
Deferred inflows of resources related to pensions	42,000	122,000
Total deferred inflows of resources	<u>18,363,000</u>	<u>14,407,000</u>
NET POSITION		
Invested in capital assets	624,000	3,895,000
Unrestricted	(10,014,000)	(5,088,000)
Total net position	<u>\$ (9,390,000)</u>	<u>\$ (1,193,000)</u>

See Notes to financial statements.

GEORGIA LOTTERY CORPORATION

(A Component Unit of the State of Georgia)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES:		
Ticket sales	\$ 6,136,899,000	\$ 5,793,909,000
Less tickets provided as prizes	<u>(367,923,000)</u>	<u>(372,773,000)</u>
Net ticket sales	5,768,976,000	5,421,136,000
Online fees	3,159,000	3,450,000
COAM fees	159,178,000	167,135,000
Rental income	585,000	409,000
Interest revenue- leases	97,000	416,000
Other	<u>98,000</u>	<u>98,000</u>
Net operating revenues	<u>5,932,093,000</u>	<u>5,592,644,000</u>
OPERATING EXPENSES:		
Prizes	3,852,942,000	3,585,304,000
Retailer commissions	320,492,000	320,112,000
Contractor fees	141,849,000	117,849,000
Advertising	39,076,000	30,366,000
Salaries and benefits	37,675,000	35,148,000
Retailer merchandising and marketing	9,769,000	9,022,000
Rent, utilities, and maintenance	3,108,000	3,030,000
Depreciation and amortization	5,617,000	5,789,000
Professional fees	3,094,000	4,566,000
Gaming equipment	98,000	781,000
Interest expense- leases	2,211,000	2,246,000
Other	<u>5,380,000</u>	<u>5,055,000</u>
Total operating expenses	<u>4,421,311,000</u>	<u>4,119,268,000</u>
Operating income	<u>1,510,782,000</u>	<u>1,473,376,000</u>
NONOPERATING REVENUES (EXPENSES):		
Payments to and due to Lottery for Education Account	(1,516,383,000)	(1,474,003,000)
Interest revenue	5,592,000	500,000
Net decrease in fair value of grand prize investments	<u>(8,188,000)</u>	<u>(17,127,000)</u>
Total nonoperating expenses	<u>(1,518,979,000)</u>	<u>(1,490,630,000)</u>
Change in net position	(8,197,000)	(17,254,000)
NET POSITION (Deficit) — Beginning of year	<u>(1,193,000)</u>	<u>16,061,000</u>
NET POSITION (Deficit) — End of year	<u>\$ (9,390,000)</u>	<u>\$ (1,193,000)</u>

See Notes to financial statements.

GEORGIA LOTTERY CORPORATION
(A Component Unit of the State of Georgia)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
OPERATING ACTIVITIES:		
Cash received from customers	\$ 5,770,150,000	\$ 5,428,988,000
Other operational cash received	3,939,000	4,373,000
COAM cash received	159,178,000	167,135,000
Cash paid to prize winners	(3,839,531,000)	(3,593,591,000)
Cash paid to retailers	(320,492,000)	(320,112,000)
Cash paid to contractors and employees	(218,603,000)	(183,106,000)
Other operating payments	(20,177,000)	(21,891,000)
	<u>1,534,464,000</u>	<u>1,481,796,000</u>
Net cash provided by operating activities		
NONCAPITAL FINANCING ACTIVITIES:		
Payments to Lottery for Education Account	(1,535,122,000)	(1,506,376,000)
Payments to DHBDD	(200,000)	(200,000)
	<u>(1,535,322,000)</u>	<u>(1,506,576,000)</u>
Net cash used in noncapital financing activities		
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of property and equipment	(931,000)	(964,000)
Capital Lease	(1,415,000)	(1,227,000)
Proceeds from disposals of property and equipment	-	559,000
	<u>(2,346,000)</u>	<u>(1,632,000)</u>
Net cash used in capital and related financing activities		
INVESTING ACTIVITIES:		
Interest received	5,592,000	500,000
Purchase of grand prize investments	(6,950,000)	(15,685,000)
Maturities of grand prize investments	16,286,000	14,933,000
	<u>14,928,000</u>	<u>(252,000)</u>
Net cash provided by/used in investing activities		
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	11,724,000	(26,664,000)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—Beginning of year	<u>315,535,000</u>	<u>342,199,000</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—End of year	<u>\$ 327,259,000</u>	<u>\$ 315,535,000</u>

See Notes to financial statements.

GEORGIA LOTTERY CORPORATION

(A Component Unit of the State of Georgia)

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

	<u>2023</u>	<u>2022</u>
Operating income	\$ 1,510,782,000	\$ 1,473,376,000
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	5,617,000	5,741,000
Provision for doubtful retailer accounts	(300,000)	(104,000)
Losses on disposals of property and equipment	-	44,000
Changes in assets and liabilities:		
Retailer accounts receivable	(5,077,000)	7,994,000
Lease assets	2,120,000	171,000
Prepaid expenses and other assets	7,763,000	(4,175,000)
Accounts payable and accrued liabilities	(3,091,000)	6,288,000
Prizes payable	23,000,000	(9,936,000)
Grand prizes payable	(9,589,000)	1,649,000
Restricted fidelity fund	(153,000)	146,000
Restricted Retailer Escrow	(546,000)	728,000
Deferred Revenue - COAM	6,251,000	(142,000)
Net asset related to lease incentive	(2,215,000)	(20,000)
Net pension liability and related deferred inflows and outflows	(15,000)	(27,000)
LT Portion of Compensated Absences	(83,000)	63,000
	<u>\$ 1,534,464,000</u>	<u>\$ 1,481,796,000</u>

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND

RELATED FINANCING ACTIVITIES:

Decrease in fair value of investments	\$ (8,188,000)	\$ (17,127,000)
Additions of right-to-use assets	1,728,000	766,000
Accretion of grand prizes payable	<u>4,872,000</u>	<u>5,095,000</u>
	<u>\$ (1,588,000)</u>	<u>\$ (11,266,000)</u>

See Notes to financial statements.

GEORGIA LOTTERY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

1. REPORTING ENTITY

The Georgia Lottery Corporation (the “GLC”) was established as an instrumentality of the state with the enactment of the Georgia Lottery for Education Act (the “Act”) on November 2, 1992. The GLC is responsible for the provision of lotteries on behalf of the State of Georgia in accordance with the Act and is a component unit of the State of Georgia.

Additionally, House Bill 487 was signed into law in April 2013 which transferred oversight responsibility for licensing and regulating coin operated amusement machines (COAMs) across the state of Georgia from the Georgia Department of Revenue to the GLC. The COAM industry is comprised of masters (machine owners) and locations (machine operators). A COAM is any machine that requires some sort of payment (cash, tickets, tokens, etc.) and whose operation depends in whole or in part on the skill of the player. COAM’s are classified as Class A or Class B machines. The distinguishing characteristic between the two classes is that Class B machines afford the player an award, e.g., a free play or redemption coupon. Cash awards are prohibited.

The GLC’s ticket sales include scratcher ticket sales, Diggi games and draw ticket sales for *Cash 3, Cash 4, Georgia FIVE, Fantasy 5, Cash Match, Keno!, Mega Millions, Powerball, Jumbo Bucks Lotto with Cash Match, Cash 4 Life , Print N Play* and *Cash Pop*.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The GLC is accounted for as an enterprise fund. Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises: (1) where the costs of providing goods and services to the general public on a continuing basis are to be financed through user charges or (2) where the periodic determination of net income is considered appropriate.

Basis of Accounting—The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”). Under this method, revenues are recognized when earned and expenses are recognized and recorded when a liability is incurred, regardless of the timing of cash flows. The Governmental Accounting Standards Board (“GASB”) establishes generally accepted accounting principles for governmental entities and pronouncements of the GASB are followed by the GLC.

Use of Estimates—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and disclosures 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.

Revenue Recognition—Lottery games are sold to the public by contracted retailers. Revenue is recognized for draw games when tickets are sold to players and the related draw has occurred. Revenue is recognized for scratcher games when the product is made available for sale to the public, which is based on ticket activations by the retailers. Certain games include free tickets in the prize structure, which entitles the holder to receive one ticket of equal value. The selling price of tickets provided as prizes reduces gross ticket revenue when the prize is claimed by a player. Centralized accounting system revenue is recognized for COAM based the GLC percentage of the net daily revenues collected from individual Class B machines throughout the state. GLC also receives revenue from COAM owners and operators for renewing existing licenses and obtaining additional licenses. During fiscal year 2014 and prior, these licenses were considered an exchange transaction as the funds were used to pay for the GLC’s establishment of the monitoring system related to COAM. Once the system was established in fiscal year 2015, the license revenue is considered a non-exchange transaction. As a non-exchange transaction, this revenue is treated as a deferred inflow of resources until the applicable licensing period is reached. Licenses are currently granted on a fiscal year basis.

Revenue and Expenses—Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues generally result from providing services in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the Georgia Lottery Corporation’s enterprise fund are primarily revenues from ticket sales, COAM licensing fees, online fees and lease rental income. “Operating expenses” are defined under the Act as “all costs of doing business, including, but not limited to, prizes, commissions, and other compensation paid to retailers, advertising and marketing costs, personnel costs, capital costs, depreciation of property and equipment, funds for compulsive gambling education and treatment, amounts held in or paid from a fidelity fund, and other operating costs.” All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal nonoperating revenues and expenses of the Georgia Lottery Corporation’s enterprise fund are interest income revenue related to investments, payments to and due to the Lottery for Education Account (an expense), and the net increase (revenue) or decrease (expense) in the fair value of grand prize investments.

Commissions and Bonuses— During fiscal years 2023 and 2022, retailers received a sales commission of 6% on all games. On March 15, 2011, Georgia House Bill 326 was enacted into law, which effectively eliminated all cashing bonuses and retailer incentive payments and provided for sales commissions at a rate of 6% for all games. Retailer incentive payments for winning jackpot tickets were reinstated with GLC Board of Director’s approval in April 2019.

Contractor Fees—The GLC has contracted with two vendors for most of the gaming systems and supplies. Additionally, the GLC has contracted with one vendor for operation and maintenance of the centralized COAM accounting system.

For fiscal years 2023 and 2022, the IGT Corporation (“IGT”) rate remained 0.8477% of net sales. In September 2022, the contract with IGT was amended through September 11, 2032. The amendment contains several major provisions, including (1) A reduction in the base rate of net retail sales from 0.8477% to 0.7629% beginning September 12, 2025; (2) A reduction in the base rate of e-Instant sales from 3.52% to 2.268% beginning September 12, 2025; (3) Provision for new gaming equipment, including playstations, retail terminals, self-service merchandising units, integrated debit card readers, and customer facing scanners; and (4) upgrades to the retail and interactive gaming platforms. Delivery of the new equipment will begin in fiscal year 2024.

In fiscal year 2023, the Scientific Games, Inc. (“SGI”) rate remained 0.793% of scratcher game tickets distributed to retailers, net of returns. In January 2023, the contract was amended through September 2032. The amendment contains three major provisions: (1) A reduction in the base rate on adjusted

activated scratcher ticket sales from 0.793% to 0.699% beginning September 11, 2025; (2) A vendor bonus incentive of 1.149% on annual adjusted activated scratcher ticket sales in excess of \$4.5 billion; and (3) Elimination of the vendor requirement to provide dispenser facings at no cost.

In October 2020, the GLC amended its contract with Intralot, Inc. for the development and maintenance of a centralized COAM accounting system. The primary terms of the amendment are as follows: (1) The contract is extended for seven years; (2) Intralot's base fee is reduced from 1.2489% to 1.0989% of net daily revenues generated by COAM machines effective January 1, 2023; and (3) Intralot agrees to provide technology infrastructure refreshments of approximately \$8.6 million. The new rate will remain fixed throughout the life of the extended agreement. The amended contract ends December 31, 2029.

Prizes—In accordance with the Act, as nearly as practical, at least 45% of ticket sales must be returned to the public in the form of prizes. Prize expense for scratcher games is recognized based on the predetermined prize structure for each game. Generally, prize expense for *Cash 3*, *Cash 4*, *Georgia FIVE*, *Cash Match*, *Keno!*, *Print N Play*, and *Cash Pop* draw games is recognized based on the estimated payout experience over the life of the games, theoretical game payout or the industry averages. Prize expense for *Fantasy 5* and *Jumbo Bucks Lotto* is recorded on a pari-mutuel basis according to the game structure based on a percentage of revenue recognized.

Cash 4 Life and *Mega Millions* are multi-state lottery games operated by member lotteries. Prizes costs are shared based on contributions to the prize pools by the member lotteries. Grand prize investments for jackpot winners who purchased tickets in Georgia are held by the GLC. In April 2019, the *Cash 4 Life* game rules were amended to limit sharing of prize costs to grand prizes only. Each member lottery is now responsible for funding its own fixed prize costs.

The *Powerball* grand prize is a shared prize from contributions to the prize pool by all member lotteries of the Multi-State Lottery Association ("MUSL") and certain Mega Millions states including Georgia which sell *Powerball* tickets without being a member of MUSL. All *Powerball* grand prizes won by players who purchased tickets in Georgia are funded by investments purchased by MUSL. The investments are held by MUSL in trust for the GLC and are paid in 20 annual installments. No investments were held in trust by MUSL in the statement of net position at June 30, 2023. The GLC withdrew from MUSL on August 31, 1996. During fiscal year 2010, the GLC, along with the other participating Mega Millions states, entered into an agreement with MUSL authorizing the cross-sell of tickets for the *Powerball* game. Ticket sales under the cross-sell agreement began on January 31, 2010, and the first *Powerball* drawing including participating Mega Millions states was held on February 1, 2010.

Unclaimed Prizes—Prizes must be claimed no later than 90 days after game-end for scratcher games and 180 days after the drawing for draw games. In response to shelter in place restrictions, a temporary extension for draw game claims changed the expiration period from 180 days to 300 days in April 2020. The temporary extension was lifted in March 2021. An estimate of the unclaimed prizes is based upon the historical experience rate as a percentage of prize expense. In accordance with the Act, \$200,000 of unclaimed prizes must be transferred to the Department of Behavioral Health and Developmental Disabilities for the treatment of compulsive gambling and related educational programs. Transfers for this purpose for each fiscal year have been \$200,000. The remainder of unclaimed prizes is used to fund future prizes or special prize promotions, as defined by the statute. The GLC also transferred \$200,000 on behalf of the COAM business unit as part of their operating expenses.

Net Position—Net position represents cumulative revenues less expenses in excess of net proceeds transferred to the Lottery for Education Account, as defined under the Act (see Note 7). Net position includes funds invested in capital assets and unrestricted net position. Unrestricted net position normally results from the inclusion of capital costs in the determination of net proceeds as required by the Act

and the cumulative effect of periodic adjustments to recognize the fair value of grand prize investments held to fund grand prizes payable. Grand prize investments are purchased to finance future payments to *Jumbo Bucks Lotto*, *Mega Millions*, *Powerball*, and certain scratcher game grand prize winners. Any increases or decreases in the fair value of these investments are determined to be unrealized and will not affect (i) the future ability to hold these investments or (ii) the amount of funds available for distribution to the Lottery for Education Account. Unrealized gains/(losses) on grand prize investments at June 30, 2023 and 2022 were (\$9,409,000) and (\$1,221,000), respectively, resulting in a net decrease of \$8,188,000 in the fair value of grand prize investments.

Cash and Cash Equivalents—The GLC considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. This includes cash in banks, petty cash, and balances on account in Georgia Fund 1.

Accounts Receivable—Accounts receivable represent lottery proceeds due from retailers for net ticket sales less commissions and prizes paid by the retailers and from COAM operators (Locations) for net revenues collected from COAM machines. Lottery proceeds are collected weekly from retailer and COAM operator bank accounts held in trust for the GLC. An allowance for doubtful accounts is established based on management’s estimate of retailer and COAM operator receivables that will not be collected. On June 30, 2023 and 2022, the allowance for uncollectible retailer receivables was \$1,494,000 and \$1,794,000, respectively.

Capital Assets—Capital assets are stated at cost less accumulated depreciation. Depreciation on capital assets is computed using the straight-line method over the estimated useful lives of three to ten years. Leasehold improvements are amortized over their expected useful lives or the lease term, whichever is shorter. When assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the results from operations in the period of disposal. In 2021, the GLC implemented GASB 87 which requires that leases beyond one year be accounted for as intangible capital assets at net present value and amortized over the life of the lease. In 2023, the GLC implemented GASB 96 which requires that subscription agreements lasting greater than one year be accounted for as intangible assets at net present value and amortized over the life of the agreement.

Fidelity Fund—In accordance with the Act, retailers and COAM locations contribute a fee to a fidelity fund upon acceptance as a GLC retailer or COAM operator. The GLC is reimbursed from available funds for any losses incurred as a result of the misfeasance or malfeasance of GLC retailers or COAM locations. At the end of each year, any amount in the fund in excess of \$500,000 is treated as net proceeds from the GLC subject to transfer to the Lottery for Education Account. There were no fidelity funds available for transfer as net proceeds for the years ended June 30, 2023 and 2022. The fidelity fund proceeds are held in a separate account and are presented in the statements of net position as restricted fidelity fund cash and in liabilities as restricted fidelity funds.

Escrow Fund—Retailers and COAM locations pledge cash deposits to an escrow funds management service offered by a commercial bank selected by the GLC. This is one of the acceptable forms of Financial Security Deposits from Retailers pursuant to Section 19 of the Georgia Lottery for Education Act, Chapter 2 of the GLC Policies entitled ‘Retailer Rules and Regulations,’ Chapter 8.2 of the GLC Policies entitled ‘Retailer Credit and Financial Security Policy,’ and appropriate Executive Orders. The GLC is reimbursed from available funds for any losses incurred as a result of the misfeasance or malfeasance of GLC retailers or COAM operators. The retailers’ escrow funds are not subject to transfer to the Lottery for Education Account. The retailer escrow fund proceeds are held in a separate account and are presented in the statements of net position as restricted retailer escrow fund cash and in liabilities as restricted retailer escrow funds.

Coin Operated Amusement Machines (COAM)

The GLC deployed an internally developed licensing application system in May 2014. The GLC granted 255 Class A and 191 Class B master licenses in fiscal year 2023. COAM Operations issued 18,859 Class A decals for 15,873 active machines and 45,328 Class B decals for 43,594 active machines. During fiscal year 2023, COAM contributed \$141.8 million in COAM revenue sharing, \$10.4 million in licensing fees, \$6.0 million in fines and penalties, and \$0.9 million in other income.

COAM collected an additional \$11.8 million in renewal fees received in advance of the fiscal year 2024 licensing period, which is \$4.0 million more than the 2023 licensing period.

Compensated Absences—Employees earn the right to be compensated during absences for vacation and illness. Unused leave benefits are paid to employees upon separation from service. The cost of vacation and vested sick leave benefits is accrued in the period in which it was earned. In March 2005, the GLC adopted a new policy concerning payments of accrued sick leave upon termination. Sick leave accrued by employees prior to March 1, 2005, and not used prior to termination is paid at a 50% rate upon termination. No payments will be made for sick leave accrued after March 1, 2005, and not used by the employee before termination.

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 Employees' Retirement System (ERS) and additions to/deductions from ERS' fiduciary net position have been determined on the same basis as they are reported by ERS. 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.

Budget—Georgia Statute requires the GLC to submit to the Office of Planning and Budget ("OPB") and the State Auditor, annually by June 30, a proposed operating budget for the next fiscal year. Additionally, the GLC is required to submit to the OPB annually, on September 1, a proposed operating budget for the GLC and an estimate of net proceeds for the succeeding fiscal year. The GLC complied with these requirements in 2023 and 2022.

Deferred inflows/ outflows of resources — In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. Deferred outflows or resources represent a consumption of net assets that applies to future periods and will not be recognized as an outflow of resources (expense) until then. Georgia lottery has one item that qualifies for reporting in this category that pertain to the recording of changes in the Georgia Lottery's net pension liability. The deferred amounts related to pension differences between estimated and actual investment earnings are amortized against pension expense over a five-year period. The differences between expected and actual experience are amortized into pension expense over the expected remaining service lives of plan members. The contributions subsequent to measurement date are presented as a deferred outflow of resources and will be recognized as a reduction of the Georgia Lottery's net pension liability in the next fiscal year.

In addition to liabilities, the statement of net position includes a separate section for the deferred inflows of resources. Deferred inflows of resources represent an acquisition of net assets that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. Georgia lottery has three items that qualify for reporting in this category. Unearned revenue is

reported for COAM licenses related to the next fiscal year. In the government-wide financial statements the Georgia Lottery reports deferred amounts related to leases that will be recognized as noted in the amortization schedule. The Georgia Lottery also has deferred inflows of resources that pertain to the recording of changes in the Georgia Lottery's net pension liability. The differences between expected and actual experience and the changes in the proportion and differences between Employer contributions and proportionate share of contributions are amortized into pension expense over the expected remaining service lives of plan members.

3. CASH, CASH EQUIVALENTS, AND GRAND PRIZE INVESTMENTS

During the year ended June 30, 2005, the GLC adopted the provisions of SGAS No. 40, *Deposit and Investment Risk Disclosures*, which amends SGAS No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, which recognizes that deposits and investments of state and local governments are exposed to risks that have the potential to result in losses. This statement establishes and modifies disclosure requirements related to investment and deposit risks; accordingly, the GLC's note disclosures on cash, cash equivalents, and investments are in conformity with the provisions of SGAS No. 40. Following "exception-based reporting," the GLC is not required to disclose risks that do not apply to it. In 2016 the Georgia Lottery changed banking service providers from Bank of America to SunTrust Bank. This change was effective January 1, 2016 and included a nine-month transition period. The escrow accounts were transferred in September 2016 and the Safekeeping account transferred in November 2016 in sync with the quarterly annuity payments. In December 2020, SunTrust Bank merged with BB&T Bank and changed its name to Truist Bank. Integration of all banking systems was completed in February 2022. We do not expect any changes to our current banking relationship.

Cash—Cash is primarily held in demand deposits at Truist Bank. The GLC's daily operating cash and other cash accounts for accounts payable, prizes payable, retailer return items, district offices, promotions, payroll, escrow, merchant processor transactions and petty cash are held in accounts with Truist. At June 30, 2023, the Master Operating Account had a book balance of \$62,410,000 and a bank balance of \$61,873,000. This includes COAM cash consisting of a book balance of \$50,331,000 and a bank balance of \$50,839,000. On June 30, 2023, all other accounts had a net book balance of (\$2,859,000). The book balance was due to outstanding checks for the accounts payable and prize check accounts of (\$3,924,000) offset by a balance of \$1,065,000 for all other accounts. The net carrying value and bank balance of all GLC cash accounts as of June 30, 2023 was \$59,551,000 and \$62,913,000 respectively. These deposits were entirely insured by FDIC insurance or collateralized by investment securities held by the GLC's agent in the GLC's name.

At June 30, 2022, the Master Operating Account had a book balance of \$59,233,000 and a bank balance of \$60,758,000. This includes COAM cash consisting of a book balance of \$50,476,000 and a bank balance of \$52,133,000. On June 30, 2022, all other accounts had a net book balance of (\$2,655,000). The book balance was due to outstanding checks for the accounts payable and prize check accounts of (\$3,535,000) offset by a balance of \$880,000 for all other accounts. The net carrying value and bank balance of all GLC cash accounts as of June 30, 2022 was \$56,578,000 and \$62,574,000 respectively. These deposits were entirely insured by FDIC insurance or collateralized by investment securities held by the GLC's agent in the GLC's name.

Cash Equivalents—Cash equivalents represent surplus cash invested in Georgia Fund 1 administered by

the State of Georgia’s Office of the State Treasurer. The voluntary fund is a short-term investment vehicle that is available for use by state entities and local governments. Georgia Fund 1 invests its assets in U.S. Treasury bills, U.S. Treasury notes, securities issued by federal agencies and instrumentalities, banker’s acceptances, and repurchase agreements.

The Georgia Fund 1 is an external investment pool managed by the Office of the State Treasurer in accordance with policies and procedures established by state law and the State Depository Board, the oversight Board for the Office of the State Treasurer. This investment is valued at fair value. The Georgia Fund 1 is an AAAf/S1 rated investment pool by Standard & Poor’s, and the portfolio’s weighted average maturity is twenty-eight (28) days at June 30, 2023. Under SGAS No. 40, since these funds represent an externally managed pool it is not exposed to custodial credit risk, and therefore, no custodial credit risk disclosures are required. The GLC’s investment in Georgia Fund 1 was approximately \$247,139,000 and \$237,689,000 at June 30, 2023 and 2022, respectively. Interest earned on the GLC’s investments was approximately \$5,592,000 and \$500,000 for the years ended June 30, 2023 and 2022, respectively.

Other Deposits— Cash maintained in the Retailer Escrow Fund bank account had bank and book balances of \$22,170,000 and \$20,357,000 respectively, as of June 30, 2023. Cash maintained in the Fidelity Fund bank account has bank and book balances of \$532,000 and \$212,000, respectively, as of June 30, 2023. All accounts continue to be entirely insured by FDIC insurance or collateralized by investment securities held by the GLC’s agent in the GLC’s name.

Cash maintained in the Retailer Escrow Fund bank account had bank and book balances of \$22,150,000 and \$20,903,000 respectively, as of June 30, 2022. Cash maintained in the Fidelity Fund bank account has bank and book balances of \$420,000 and \$365,000, respectively, as of June 30, 2022. All accounts continue to be entirely insured by FDIC insurance or collateralized by investment securities held by the GLC’s agent in the GLC’s name.

Grand Prize Investments—All grand prize investments represent funds held to pay grand prize winners who are entitled to multiyear payments. Grand prize investments at June 30, 2023 and 2022, consist of the following:

	Fair Value	
	2023	2022
U.S. Treasury securities	\$ <u>154,955,000</u>	\$ <u>172,478,000</u>
	<u>\$ 154,955,000</u>	<u>\$ 172,478,000</u>

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Grand prize investments are not presented as current assets, as they are not part of the GLC's current operations. Changes in grand prize investments for the years ended June 30, 2023 and 2022 consisted of the following:

Fair value—June 30, 2021	188,853,000
Purchases	15,685,000
Payments to grand prize winners	(20,028,000)
Interest earned on current-year maturities	5,095,000
Change in fair value	<u>(17,127,000)</u>
Fair value—June 30, 2022	<u>\$ 172,478,000</u>
Purchases	6,950,000
Payments to grand prize winners	(21,157,000)
Interest earned on current-year maturities	4,872,000
Change in fair value	<u>(8,188,000)</u>
Fair value—June 30, 2023	<u><u>\$ 154,955,000</u></u>

Grand prize investments are recorded at their fair values. Increases or decreases in the fair value of these investments are recorded as nonoperating revenue (expense). The GLC categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is 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; and Level 3 inputs are significant unobservable inputs. The GLC has the following recurring fair value measurements as of June 30, 2023 and 2022:

<u>Investment</u>	<u>2023</u>		<u>2022</u>	
	<u>Level 2</u>	<u>Fair Value</u>	<u>Level 2</u>	<u>Fair Value</u>
United States Treasuries	<u>\$ 154,955,000</u>	<u>\$ 154,955,000</u>	<u>\$ 172,478,000</u>	<u>\$ 172,478,000</u>
Total Investments at fair value	<u><u>\$ 154,955,000</u></u>	154,955,000	<u><u>\$ 172,478,000</u></u>	172,478,000
Investments not subjected to level disclosure:				
Georgia Fund 1		<u>247,139,000</u>		<u>237,689,000</u>
Total Investments		<u><u>\$ 402,094,000</u></u>		<u><u>\$ 410,167,000</u></u>

The investment in United States Treasuries classified as Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

The Georgia Fund 1 is an investment pool which does not meet the criteria of GASB Statement No. 79 and is thus valued at fair value in accordance with GASB Statement No. 31. As a result, the GLC does not

disclose investment in the Georgia Fund 1 within the fair value hierarchy.

Custodial credit risk for Deposits—Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes require all deposits and investments (other than federal or state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities. As of June 30, 2023, all deposits are considered insured.

Investments—In November 2016, the GLC transferred safekeeping responsibilities from Bank of America to SunTrust, completing the banking transition begun in FY 2016. SunTrust merged with BB&T in December 2020 forming Truist. There was no change to GLC banking services because of the merger. The GLC’s investments consist of U.S. Treasury Strips (principal and interest) that are held to maturity to fund grand prize winners for several draw games, including *Lotto Georgia*, *The Big Game*, *Mega Millions*, *Lotto South*, *Win For Life*, and *Jumbo Bucks Lotto*, and various Scratch Games with annuity prizes such as *Georgia’s \$500 Million Club*, *Georgia Lottery Black*, *Super Millions*, and *Maximum Green*. As of June 30, 2023 and 2022, the GLC’s investment balances consisted of:

<u>Investment Type</u>	<u>2023 Fair Value</u>	<u>2023 Maturity</u>
U.S Treasury Strips	\$ <u>154,955,000</u>	Weighted average maturity of 5.4 years
Total	\$ <u>154,955,000</u>	
<u>Investment Type</u>	<u>2022 Fair Value</u>	<u>2022 Maturity</u>
U.S Treasury Strips	\$ <u>172,478,000</u>	Weighted average maturity of 5.7 years
Total	\$ <u>172,478,000</u>	

U.S Treasury Strips held by the GLC are AAA-rated and current holdings mature quarterly beginning November 2023 through November 2048.

Interest Rate Risk—The GLC’s deposits in the master operating account with Truist are subject to fluctuations in short-term interest rates. The GLC purchases investments to fund future prize payments at fixed amounts for grand prize winner obligations, as detailed in Note 5, Grand Prizes Payable. Periodic market fluctuations affect the fair value of grand prize investments. The GLC expects to hold grand prize investments to maturity to meet future grand prize payments and, therefore, will not realize any gains or losses related to the changes in the market. The only exposure that the GLC has in regard to interest rate sensitivity is for the GLC’s master operating account, since there is no investment related impact on the GLC resulting from the effect of interest rate changes on grand prize investments.

Credit Risk—State laws limit the investment sources available to the GLC to United States Treasury securities, federal agency securities, state of Georgia securities, repurchase or reverse repurchase agreements, bank certificates of deposits, Georgia Fund 1, life insurance annuity contracts, and investments that would be permissible for the legal reserves of domestic life insurance companies under the laws of the state of Georgia.

Custodial Credit Risk—For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the GLC will not be able to recover the value of its investments in the possession of

an outside party. The GLC entered into a Collateral pool agreement with SunTrust (now Truist) on January 26, 2016. Effective July 1, 2017, banks with \$50 billion or more will be required to participate in the Secure Deposit Program per Senate Bill 283. Truist falls into this category. The program will be administered by the State Treasurer for the State Depository Board. Collateralization of public deposits will no longer be permitted. Custodial risk will be mitigated by FDIC insurance, liquidation of collateral pledged to the State Treasurer by the Covered Depository and assessments made by the State Treasurer on remaining Covered Depositories to the extent necessary to cover any shortfall.

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4. CAPITAL ASSETS

Capital assets as of June 30, 2023 and 2022 consisted of the following:

	Balance at June 30, 2022	Increases	Decreases	Balance at June 30, 2023
Capital assets:				
Furniture and fixtures	\$ 2,947,000	\$ -	\$ (47,000)	\$ 2,900,000
Computer equipment	17,654,000	398,000	(419,000)	17,633,000
Communications equipment	4,558,000	-	(69,000)	4,489,000
Vehicles	4,581,000	372,000	(30,000)	4,923,000
Leasehold improvements	7,176,000	-	-	7,176,000
Software	4,924,000	161,000	-	5,085,000
Other assets	1,747,000	-	-	1,747,000
Gaming Equipment	10,241,000	-	-	10,241,000
Right-to-use lease of office space	40,660,000	1,728,000	-	42,388,000
Total capital assets at historical cost	94,488,000	2,659,000	(565,000)	96,582,000
Less accumulated depreciation and amortization	(51,596,000)	(5,617,000)	565,000	(56,648,000)
Capital assets—net	\$ 42,892,000	\$ (2,958,000)	\$ -	\$ 39,934,000

	Balance at June 30, 2021	Increases	Decreases	Balance at June 30, 2022
Capital assets:				
Furniture and fixtures	\$ 2,947,000	\$ -	\$ -	\$ 2,947,000
Computer and communications equipment	21,537,000	675,000	-	22,212,000
Vehicles	4,631,000	285,000	(335,000)	4,581,000
Leasehold improvements	7,716,000	47,000	(587,000)	7,176,000
Software	4,968,000	(44,000)	-	4,924,000
Other assets	1,747,000	-	-	1,747,000
Gaming Equipment	10,241,000	-	-	10,241,000
Right-to-use lease of office space	39,894,000	766,000	-	40,660,000
Total capital assets at historical cost	93,681,000	1,728,000	(922,000)	94,488,000
Less accumulated depreciation and amortization	(46,222,000)	(5,741,000)	367,000	(51,596,000)
Capital assets—net	\$ 47,459,000	\$ (4,013,000)	\$ (555,000)	\$ 42,892,000

5. GRAND PRIZES PAYABLE

Grand prizes payable is recorded at the net present value of the U.S. Treasury securities purchased for each jackpot winner. Grand prizes payable was accreted by approximately \$4,871,000 and \$5,095,000 for the years ended June 30, 2023 and 2022, respectively. Grand prizes payable is not presented as a current liability, as it is not part of the GLC's current operations.

Future payments of grand prizes payable at June 30, 2023, are scheduled as follows:

2024	\$ 22,302,000
2025	21,034,000
2026	18,835,000
2027	15,953,000
2028	14,258,000
2029-2033	58,196,000
2034-2038	31,683,000
2039-2043	15,439,000
2044-2048	733,000
2049	147,000
	<u>198,580,000</u>
Less imputed interest	<u>(32,119,000)</u>
Net present value of grand prizes payable	<u>\$ 166,461,000</u>

The Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999 (the "Omnibus Act") was enacted into federal law on October 21, 1998. Included in this Omnibus Act is a Special Rule for Cash Options for Receipt of Qualified Prizes ("Special Rule"). Pursuant to the Special Rule, the GLC may extend to recipients of "qualified prizes" the opportunity, within a certain period after the drawing, to select a lump-sum payment equivalent to the cash value of an annuitized prize. Qualified prizes, as defined in the Omnibus Act, include multiple-year payments of a minimum of ten years.

Claimants of qualified prizes, as defined in the GLC Rules and Regulations, on or after the date of enactment of the Omnibus Act, can make an irrevocable election to receive a lump-sum cash payment equivalent of the annuitized prize within 60 days of the claim date. Grand prizes payable at June 30, 2023, consist of no qualified prizes under this provision of the Special Rule.

6. LONG TERM LEASES

The Georgia Lottery is a lessee for a series of noncancellable leases of office space for its headquarters and district offices. In fiscal year 2021, the Georgia Lottery adopted GASB 87 to account for all such leases. As such, the Georgia Lottery recognized a lease liability and a right-to-use intangible asset. The liability was initially measured at the present value of the payments expected to be made over the terms of the various leases. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The Georgia Lottery utilized the State of Georgia's incremental borrowing rate to establish the initial discount rate. Lease-related interest expense under all capital leases totaled approximately \$2,211,000 for the year ended June 30, 2023. Lease-related interest expense under all

capital leases totaled approximately \$2,113,000 for the year ended June 30, 2022. The lease asset was initially measured at the value of the lease liability. Subsequently the asset is amortized on a straight-line basis over the life of the lease. Lease-related amortization expense of \$2,597,000 was recorded in fiscal year 2023.

The aggregate amortization schedule for the non-cancellable lease liability is as follows:

Year Ending June, 30	Principal	Interest	Total
2024*	\$ (623,000)	\$ 2,308,000	\$ 1,685,000
2025	1,678,000	2,274,000	3,952,000
2026	1,869,000	2,173,000	4,042,000
2027	2,006,000	2,062,000	4,068,000
2028	2,036,000	1,946,000	3,982,000
2029 -2033	13,311,000	7,623,000	20,934,000
2034 -2038	19,033,000	2,992,000	22,025,000
Total	\$ 39,310,000	\$ 21,378,000	\$ 60,688,000

*Includes rental abatement of \$2,180,000

The Georgia Lottery is lessor for a noncancellable lease of office space. The Georgia Lottery recognizes a lease receivable and a deferred inflow of resources in the Statement of Net Position. Upon implementation of GASB 87, the Georgia Lottery initially measured the receivable at the present value of the payments expected to be received over the life of the lease. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term on a straight-line basis. The GLC recognized \$97,000 in lease-related interest revenue and \$585,000 in lease revenue associated with the vendor lease in fiscal year 2023.

The aggregate amortization schedule for the non-cancellable lease receivable is as follows:

Year Ending June, 30	Principal	Interest	Total
2024	\$ 315,000	\$ 279,000	\$ 594,000
2025	393,000	259,000	652,000
2026	434,000	235,000	669,000
2027	477,000	209,000	686,000
2028	523,000	180,000	703,000
2029-2033	2,814,000	374,000	3,188,000
Total	\$ 4,956,000	\$ 1,536,000	\$ 6,492,000

An agreement was reached to amend the lease terms for the GLC headquarters office space effective September 30, 2019. The major terms of the amendment are as follows: (1) The lease term was extended by fifteen (15) years to 2038; (2) The amendment provides for an additional 24,974 square feet

of contiguous space; (3) The amendment allows for a tenant improvement allowance of \$5.1 million of which the full amount is currently available; and (4) The amendment includes a lease abatement of \$2,932,000. The remaining available allowance was recognized in fiscal year 2023. The net asset associated with the allowance for tenant improvements increased by \$100,000 from \$180,000 to \$280,000 in fiscal year 2023.

7. DUE TO LOTTERY FOR EDUCATION ACCOUNT

In accordance with the Act, all net proceeds of the GLC are due to the Lottery for Education Account within the state of Georgia Treasury. Net proceeds is defined under the Act as “all revenue derived from the sale of lottery tickets or shares and all other monies derived from the GLC less operating expenses.” Any unrealized gain or loss resulting from changes in fair value of grand prize investments does not represent funds received from GLC operations and is excluded from determination of “net proceeds.”

“Operating expenses” are defined under the Act as “all costs of doing business, including, but not limited to, prizes, commissions, and other compensation paid to retailers, advertising and marketing costs, personnel costs, capital costs, depreciation of property and equipment, funds for compulsive gambling education and treatment, amounts held in or paid from a fidelity fund, and other operating costs.”

Net proceeds and operating expenses for the years ended June 30, 2023 and 2022, are summarized as follows:

	<u>2023</u>	<u>2022</u>
Operating revenues:		
Ticket sales	\$ 6,136,899,000	\$ 5,793,909,000
Less tickets provided as prizes	<u>(367,923,000)</u>	<u>(372,773,000)</u>
Net ticket sales	5,768,976,000	5,421,136,000
Online fees and other revenues	3,939,000	3,450,000
COAM fees	159,178,000	167,135,000
Interest revenue and other	<u>5,592,000</u>	<u>1,370,000</u>
GLC proceeds	<u>5,937,685,000</u>	<u>5,593,091,000</u>
Operating expenses—as defined:		
Gaming	4,364,226,000	4,063,434,000
Operating	57,076,000	55,654,000
Other	<u>1,131,000</u>	<u>1,164,000</u>
Total operating expenses—as defined	<u>4,422,433,000</u>	<u>4,120,252,000</u>
Net proceeds before distribution of unrestricted net position	<u>1,515,252,000</u>	<u>1,472,839,000</u>
Other:		
Funds resulting from current year capital purchases	931,000	964,000
Funds for current year compulsive gambling education and treatment	<u>200,000</u>	<u>200,000</u>
Total other	<u>1,131,000</u>	<u>1,164,000</u>
Net proceeds subject to transfer	<u>\$ 1,516,383,000</u>	<u>\$ 1,474,003,000</u>
Amount due to Lottery for Education Account for year	\$ 1,516,383,000	\$ 1,474,003,000
Amount paid during year	<u>(1,169,647,000)</u>	<u>(1,108,529,000)</u>
Amount due to Lottery for Education Account for year	<u>\$ 346,736,000</u>	<u>\$ 365,474,000</u>

8. EMPLOYEE BENEFITS

401(k) Defined Contribution Plan—Effective July 1, 1998, House Bill 441 was enacted into law, allowing the Georgia Lottery Corporation to participate in the Deferred Compensation Plan offered by the state of Georgia for public employees pursuant to Section 401(k) of the Internal Revenue Code.

There were 365 GLC employees participating in the 401(k) plan on June 30, 2023. For the years ended June 30, 2023 and 2022, GLC contributed \$2,877,000 and \$1,875,000 to the plan, respectively. Contributions by plan participants during fiscal years ended June 30, 2023 and 2022 were \$2,188,000 and \$1,616,000, respectively.

457 Deferred Compensation Plan—Beginning in December 1994, the GLC offered its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

Section 1448 of the Small Business Job Protection Act of 1996 added Subsection (g) to Section 457 of the Internal Revenue Service Code to provide that all assets and income under a Section 457(b) plan that are maintained by a state or local government employer must be held in trust for the exclusive benefit of plan participants and their beneficiaries. In September 2013, the GLC transferred custodianship of the plan's assets from Nationwide Retirement Services to Great-West Financial. As of June 30, 2023 and 2022, the fair value of the plan's assets was \$5,525,000 and \$5,202,000, respectively. Contributions by participants during the years ended June 30, 2023 and 2022 were \$175,000 and \$149,000, respectively.

Compensated Absences— At June 30, 2023 and 2022, the balance for compensated absences was \$4,923,000 and \$4,940,000, respectively. The year-end balances are comprised of earned and unused vacation and sick leave hours. At separation, employees are compensated for all earned vacation and any remaining sick leave hours accrued prior to March 1, 2005. Increases to the compensated absences balance represent vacation and sick leave hours earned by employees and decreases represent their usage of leave.

During the year ended June 30, 2023, employees earned and used leave totaling \$1,923,000 and \$1,940,000, respectively. During the year ended June 30, 2022 employees earned and used leave totaling \$1,872,000 and \$1,804,000 respectively. The current portion of the compensated absence liability, expected to be due within one year of the statement date, June 30, 2023, is estimated using historical trends. At June 30, 2023 and 2022, the estimated current portion of the compensated absences liability was \$181,000 and \$115,000, respectively.

Defined Benefit Plan – Employees' Retirement System

General Information

Plan description: ERS is a cost-sharing multiple-employer defined benefit pension plan established by the Georgia General Assembly during the 1949 Legislative Session for the purpose of providing retirement allowances for employees of the State of Georgia and its political subdivisions. ERS is directed by a Board of Trustees. Title 47 of the O.C.G.A. assigns the authority to establish and amend the benefit provisions to the State Legislature. ERS issues a publicly available financial report that can be obtained at www.ers.ga.gov/financials.

Benefits provided: The ERS Plan supports three benefit tiers: Old Plan, New Plan, and Georgia State Employees' Pension and Savings Plan (GSEPS). Employees under the old plan started membership prior to July 1, 1982 and are subject to plan provisions in effect prior to July 1, 1982. Members hired on or after July 1, 1982 but prior to January 1, 2009 are new plan members subject to modified plan provisions. Effective January 1, 2009, new state employees and rehired state employees who did not retain membership rights under the Old or New Plans are members of GSEPS. ERS members hired prior to January 1, 2009 also have the option to irrevocably change their membership to GSEPS. The GLC has two employees that participate in this plan.

Under the old plan, the new plan, and GSEPS, a member may retire and receive normal retirement benefits after completion of 10 years of creditable service and attainment of age 60 or 30 years of creditable service regardless of age. Additionally, there are some provisions allowing for early retirement after 25 years of creditable service for members under age 60.

Retirement benefits paid to members are based upon the monthly average of the member's highest 24 consecutive calendar months, multiplied by the number of years of creditable service, multiplied by the applicable benefit factor. Annually, postretirement cost-of-living adjustments may also be made to members' benefits, provided the members were hired prior to July 1, 2009. The normal retirement pension is payable monthly for life; however, options are available for distribution of the member's monthly pension, at reduced rates, to a designated beneficiary upon the member's death. Death and disability benefits are also available through ERS.

Contributions: Member contributions under the old plan are 4% of annual compensation, up to \$4,200, plus 6% of annual compensation in excess of \$4,200. Under the old plan, the state pays member contributions in excess of 1.25% of annual compensation. Under the old plan, these state contributions are included in the members' accounts for refund purposes and are used in the computation of the members' earnable compensation for the purpose of computing retirement benefits. Member contributions under the new plan and GSEPS are 1.25% of annual compensation. The GLC's contractually required contribution rate, actuarially determined annually, for the year ended June 30, 2023 was 31.01% of annual covered payroll for old and new plan members and 27.47% for GSEPS members. The rates include the annual actuarially determined employer contribution rate of 24.67% of annual covered payroll for old and new plan members and 21.59% for GSEPS members, plus a 6.34% adjustment to the old and new plan and a 5.88% adjustment to the GSEPS plan for the commencement of COLA prefunding for certain retired ERS members. The GLC's contributions to ERS totaled \$19,000 for the year ended June 30, 2023. Contributions are expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2023, the GLC reported a liability for its proportionate share of the net pension liability in the amount of \$196,000. The net pension liability was measured as of June 30, 2022. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2021. An expected total pension liability as of June 30, 2022 was determined using standard roll-forward techniques. The GLC's proportion of the net pension liability was based on contributions to ERS during the fiscal year ended June 30, 2022. At June 30, 2022 the Employer's proportion was 0.002941%, which was a decrease of 0.001566 % from its proportion measured as of June 30, 2021 of 0.004507%.

At June 30, 2022, the GLC reported a liability for its proportionate share of the net pension liability in the amount of \$105,000. The net pension liability was measured as of June 30, 2021. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2019.

An expected total pension liability as of June 30, 2021 was determined using standard roll-forward techniques. The GLC's proportion of the net pension liability was based on contributions to ERS during the fiscal year ended June 30, 2021. At June 30, 2021 the Employer's proportion was 0.004507%, which was a decrease of 0.001048 % from its proportion measured as of June 30, 2020 of 0.005555%.

For the years ended June 30, 2023 and 2022, the GLC recognized pension expense of \$4,000 and (\$9,000), respectively. At June 30, 2023, the GLC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 23,000	\$ 2,000
Net difference between projected and actual earnings on pension investments	35,000	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	-	40,000
Employer contributions subsequent to the measurement date	19,000	-
Total	<u>\$ 77,000</u>	<u>\$ 42,000</u>

GLC contributions subsequent to the measurement date of \$19,000 are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ending June 30, 2024. 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:	
2024	(3,000)
2025	1,000
2026	-
2027	18,000
Total	<u>16,000</u>

At June 30, 2022, the GLC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 2,000	\$ -
Net difference between projected and actual earnings on pension investments	30,000	97,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	1,000	25,000
Employer contributions subsequent to the measurement date	18,000	-
Total	<u>\$ 51,000</u>	<u>\$ 122,000</u>

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

Inflation	2.50%
Salary increases	3.00 – 6.75%, including inflation
Investment rate of return	7.00%, net of pension plan investment expense, including inflation

Mortality rates are as follows:

- The Pub-2010 General Employee Table, with no adjustments, projected generationally with the MP-2019 scale is used for both males and females while in active service.
- The Pub-2010 Family of Tables projected generationally with the MP-2019 Scale and with further adjustments are used for postretirement mortality assumptions as follows:

Participant Type	Membership Table	Set Forward (+)/Setback(-)	Adjustment to Rates
Service Retirees	General Healthy Annuitant	Male: +1; Female: +1	Male: 105%; Female: 108%
Disability Retirees	General Disabled	Male: +3; Female: +0	Male: 103%; Female: 106%
Beneficiaries	General Contingent Survivors	Male: +2; Female: +2	Male: 106%; Female: 105%

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period July 1, 2014 – June 30, 2019. The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of 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 asset allocation and best estimates of arithmetic real rates of return for each major asset class based on the most recent experience study are summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return*
Fixed income	30.00%	0.20%
Domestic large equities	46.30%	9.40%
Domestic small equities	1.20%	13.40%
International developed market equities	12.30%	9.40%
International emerging market equities	5.20%	11.40%
Alternatives	5.00%	10.50%
Total	100.00%	

* Net of inflation

Discount rate: The discount rate used to measure the total pension liability was 7.00%. This was unchanged from the discount rate used in the prior year. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the GLC’s proportionate share of the net pension liability to changes in the discount rate:

The following presents the GLC’s proportionate share of the net pension liability, reported as of June 30, 2023, calculated using the discount rate of 7.00 %, as well as what the GLC’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00 %) or 1-percentage-point higher (8.00 %) than the current rate:

	1% Decrease (6.00%)	Current discount rate (7.00%)	1% Increase (8.00%)
Employer’s proportionate share of the net pension liability	\$ 261,000	\$ 196,000	\$ 142,000

The following presents the GLC’s proportionate share of the net pension liability, reported as of June 30, 2022, calculated using the discount rate of 7.00 %, as well as what the GLC’s proportionate share of the

net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00 %) or 1-percentage-point higher (8.00 %) than the current rate:

	<u>1% Decrease (6.00%)</u>	<u>Current discount rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Employer's proportionate share of the net pension liability	\$ 193,000	\$ 105,000	\$ 31,000

Pension plan fiduciary net position: Detailed information about the pension plan’s fiduciary net position is available in the separately issued ERS financial report which is publicly available at www.ers.ga.gov/financials.

9. CONTINGENCIES

The GLC is subject to litigation in the ordinary course of its business. In the opinion of management and legal counsel, the outcome of such litigation will not have a material impact on the financial position or cash flows of the GLC.

10. RISK MANAGEMENT

The GLC is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and injuries to employees. The GLC obtains umbrella insurance coverage for property, liability, vehicle fleet, workers’ compensation, and unemployment compensation through the State of Georgia’s Department of Administrative Services (“DOAS”). The GLC purchased additional commercial insurance for certain company-owned vehicles. DOAS, as a component of the State of Georgia, utilizes self-insurance programs established by individual agreement, statute or administrative action to provide property insurance covering fire and extended coverage and automobile insurance and to pay losses that might occur from such causes; liability insurance for employees against personal liability for damages arising out of performance of their duties; survivors’ benefits for eligible members of the Employees’ Retirement System; consolidating processing of unemployment compensation claims against state agencies and the payment of sums due to the Department of Labor; and workers’ compensation statutes of the State of Georgia. These self-insurance funds are accounted for as internal service funds of the State of Georgia where assets are set aside for claim settlements. Most risk management programs are funded by assessments charged to participating organizations. A limited amount of commercial insurance is purchased by the self-insurance funds applicable to property, employee and automobile liability, fidelity, and certain other risks to limit the exposure to catastrophic losses. Otherwise, the risk management programs service all claims against the state for injuries and property damage.

Financial information relative to self-insurance funds is presented in the financial reports of the Department of Administrative Services and the Employees’ Retirement System for the years ended June 30, 2023 and 2022.

The GLC negotiated a service contract with Blue Cross Blue Shield of Georgia to provide its employee health insurance, dental and vision coverage effective January 1, 2017. In January 2022, the GLC negotiated a service contract with ReliaStar Life Insurance Company to provide stop loss coverage. Unum is the provider for short- term disability, long-term disability, and term life insurance coverage. The GLC’s health, dental, and vision insurance plans are funded by contributions from plan participants and by GLC employer contributions.

**Georgia Lottery Corporation
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
Employees' Retirement System
For the Year Ended June 30**

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
GLC's proportion of the net pension liability	0.002941%	0.004507%	0.005550%	0.005480%	0.005946%	0.009434%	0.012860%	0.018400%	0.023993%
GLC's proportionate share of the net pension liability	\$ 196,000	\$ 105,000	\$ 234,000	\$ 226,000	\$ 244,000	383,000	608,000	746,000	900,000
GLC's covered-employee payroll	\$ 73,000	\$ 109,000	\$ 140,000	\$ 122,000	\$ 130,000	232,000	303,000	472,000	534,000
GLC's proportionate share of the net pension liability as a percentage of its covered-employee payroll	268.49%	96.33%	167.14%	185.25%	187.69%	165.09%	200.67%	158.05%	168.54%
Plan fiduciary net position as a percentage of the total pension liability	67.44%	87.62%	76.21%	76.74%	76.68%	76.33%	72.34%	76.20%	77.99%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**Georgia Lottery Corporation
Required Supplementary Information
Schedule of Contributions
Employees' Retirement System
For the Year Ended June 30:**

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 19,000	\$ 18,000	\$ 27,000	34,000	30,000	32,000	57,000	77,000	101,000	100,000
Contribution in relation to the contractually required contribution	\$ 19,000	\$ 18,000	\$ 27,000	34,000	30,000	32,000	57,000	77,000	101,000	100,000
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
GLC's covered-employee payroll	\$ 63,000	\$ 73,000	\$ 109,000	140,000	122,000	130,000	232,000	303,000	472,000	534,000
Contribution as a percentage of covered-employee payroll	30.16%	24.66%	24.77%	24.29%	24.59%	24.62%	24.57%	25.41%	21.50%	18.67%

Georgia Lottery Corporation
Notes to Required Supplementary Information
For the Year Ended June 30, 2023
(Dollar amounts in thousands)

Changes of assumptions: On December 17, 2015, the Board adopted recommended changes to the economic and demographic assumptions utilized by the System. Primary among the changes were the updates to rates of mortality, retirement, disability, withdrawal, and salary increases. The expectation of retired life mortality was changed from the RP-2000 Mortality Table to the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB (set forward 2 years for both males and females).

A new funding policy was initially adopted by the Board on March 15, 2018, and most recently amended on June 18, 2020. Because of this new funding policy, the assumed investment rate of return was reduced from 7.50% to 7.40% for the June 30, 2017 actuarial valuation and further reduced from 7.40% to 7.30% for the June 30, 2018 actuarial valuation.

On December 17, 2020, the Board adopted recommended changes to the economic and demographic assumptions utilized by the System based on the experience study prepared for the five-year period ending June 30, 2019. Primary among the changes were the updates to rates of mortality, retirement, withdrawal, and salary increases. This also included a change to the long-term assumed investment rate of return to 7.00%. These assumption changes are reflected in the calculation of the June 30, 2021 Total Pension Liability.

On April 21, 2022, the Board adopted a new funding policy which, in part, provides that the Actuarial Accrued Liability and Normal Cost of the System will include a prefunded variable Cost-Of-Living Adjustment (COLA) for eligible retirees and beneficiaries of the System. Under the new policy, future COLAs are provided through a profit-sharing mechanism using the System's asset performance. After studying the parameters of this new policy, the assumption for future COLAs was set at 1.05%. Previously, no future COLAs were assumed. In addition, the funding policy set the assumed rate of return at 7.20% for the June 30, 2021 valuation and established a new Transitional Unfunded Actuarial Accrued Liability as of June 30, 2021 which will be amortized over a closed 20-year period.

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