



FLORIDA LOTTERY®

An Enterprise Fund of the State of Florida



# Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2017, and 2016

# **FLORIDA LOTTERY**

An Enterprise Fund of the State of Florida

## **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

For the Fiscal Years Ended June 30, 2017, and 2016

**JIM POPPELL**

SECRETARY

**Prepared by:**

**General Accounting**

Gina Ballard, CPA, Director of Accounting

Cindie McKenzie

Nicole Davis

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## **INTRODUCTORY SECTION**

RICK SCOTT  
Governor



JIM POPPELL  
Secretary

December 21, 2017

The Honorable Rick Scott, Governor  
The Honorable Joe Negron, President of the Senate  
The Honorable Richard Corcoran, Speaker of the House of Representatives

To Governor Scott, President Negron, and Speaker Corcoran:

We are pleased to submit the Florida Lottery's (Lottery) Comprehensive Annual Financial Report (CAFR) for the fiscal years ended June 30, 2017, and 2016 in accordance with Section 24.123, Florida Statutes (F.S.). This report is prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

Lottery management is responsible for the accuracy and completeness of all data and disclosures in this report. To the best of our knowledge, the information presented is accurate and complete in all material respects and fairly depicts the financial activities and position of the Lottery.

The Auditor General has issued an opinion on the Lottery's financial statements for the fiscal years ended June 30, 2017, and 2016. The independent auditor's report is located at the front of the financial section of this report. Also, the Auditor General has issued an opinion on internal control over financial reporting for the fiscal year ended June 30, 2017, which is located after the statistical section of this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

## **PROFILE OF THE LOTTERY**

The operation of the Lottery by the State of Florida was authorized by a constitutional amendment approved by Florida voters in November of 1986. The Lottery was established as a state agency in 1987 with the enactment of the Florida Public Education Lottery Act, as amended, the purpose of which is to implement Section 15, Article X of the Florida Constitution. The Lottery's mission is to maximize revenues for the enhancement of public education while upholding the highest standards of integrity and public trust.

The Lottery is included within the financial reporting entity of the State of Florida as an enterprise fund. The fund is operated in a manner similar to a private business enterprise.

During its 29 years of operation, the Lottery has offered a variety of Scratch-Off and Draw game products and promotions, which have generated over \$96.6 billion in revenues. Since inception, the Lottery has transferred approximately \$31.8 billion to education. In fiscal year ended June 30, 2017, the Lottery had its sixth consecutive all-time record-breaking sales year of approximately \$6.2 billion which provided \$1.6 billion in contributions to education.

To date the Lottery has introduced more than 1,000 new Scratch-Off games and continues to market approximately 42 new games each year. The portfolio of games offered at any given time provides a wide range of play styles, game themes, and price points to appeal to a wide range of players. Prizes have included free tickets, merchandise, vacations, and jackpots of up to \$10 million. Annual Scratch-Off sales have increased annually in the past 18 years except once where sales dipped 12.9% in fiscal year 2009 during the height of the Great Recession. The Lottery has had measurable success strategically launching several “families of games” and has highlighted several key Scratch-Off games in the total advertising efforts.

Draw games were expanded during the fiscal year to include CASH4LIFE<sup>®</sup> and two new daily games, PICK 2<sup>™</sup> and PICK 5<sup>™</sup>, in addition to renaming Cash 3<sup>™</sup> and Play 4<sup>™</sup> to PICK 3<sup>™</sup> and PICK 4<sup>™</sup> to complete the new line of daily PICK games. The Lottery currently offers the following Draw games: FLORIDA LOTTO<sup>®</sup>, FANTASY 5<sup>®</sup>, PICK 2, PICK 3, PICK 4, PICK 5, LUCKY MONEY<sup>™</sup>, POWERBALL<sup>®</sup>, MEGA MILLIONS<sup>®</sup>, and CASH4LIFE. FLORIDA LOTTO, FANTASY 5, AND LUCKY MONEY are pari-mutuel games in which the actual prize amounts depend on the sales and the number of winners for the draws. Prizes are divided among the winners in each prize category. POWERBALL, MEGA MILLIONS, and CASH4LIFE are set prize payout games except that the jackpot is shared among winners in all participating states. PICK 2, PICK 3, PICK 4, PICK 5 and MILLIONAIRE RAFFLE<sup>™</sup> are set prize payout games. The Lottery also offers add-on features, such as EZmatch<sup>™</sup>, Power Play<sup>®</sup>, Megaplier<sup>®</sup>, 1-OFF<sup>™</sup> and XTRA, in conjunction with certain games to increase a player’s prize amount for additional dollars.

The Lottery’s budget is prepared using the processes set forth in Chapter 216, F.S. The budgetary process for state agencies is outlined in the Other Required Supplementary Information Section of the State of Florida’s CAFR or publications of the State of Florida Department of Financial Services, Office of the Chief Financial Officer.

## **ECONOMIC CONDITION AND FINANCIAL INFORMATION**

The main economic factors affecting lottery sales are population growth, personal income growth and employment. Based on the July 2017 Florida Economic Estimating Conference (Conference), Florida’s population is forecasted to increase 1.588% and 1.577% for the fiscal years ending June 30, 2018, and 2019, respectively. Additionally, the Conference produced forecasts for real personal income growth of 4.40% and 5.10%, for the fiscal years ended June 30, 2018, and 2019, respectively, while total non-farm employment is forecasted to increase by 2.40% and 1.80%, respectively. According to the Conference, Florida’s unemployment rate of 4.10% in July was lower than the nation as a whole. Currently, the Revenue Estimating Conference (REC) assumes Florida is close to the “full employment” unemployment rate (about 4%). The REC projected forecasts for unemployment rate to slightly improve to 4.10% and 4.05% for the fiscal years ending June 30, 2018, and 2019, respectively.

## **ACCOUNTING SYSTEMS AND POLICIES**

As an enterprise fund of the State of Florida, the Lottery operates as a business within the state government structure. The Lottery uses the accrual basis of accounting, following GAAP and GASB pronouncements.



## INTERNAL CONTROLS

The Lottery maintains a system of internal controls to safeguard assets, prevent fraud and abuse, and ensure the accuracy of financial information. Employee, retailer, and contractor standards are in place to minimize risk of loss or theft.

## DEBT ADMINISTRATION

Long-term liabilities are primarily installment payments owed to certain prize winners. Prize liabilities are funded by investments in U.S. Treasury Strips. These liabilities are paid as the securities mature (refer to Note 2 and Note 7 to the financial statements for additional details).

## CASH MANAGEMENT

Cash from retailers is collected on a weekly basis through electronic funds transfer and is deposited into the Lottery's bank account. Cash balances are used to fund daily operations, including prize and vendor payments. Surplus cash is maintained in the State Treasury's general pool of investments (refer to Note 2 to the financial statements for additional details).

## MAJOR INITIATIVES

The Lottery continuously works on new ways to attract players and increase sales to support its goal of maximizing contributions to education. Some of the strategies that we continue to actively pursue are:

- Increase the Lottery's player base with innovative new products;
- Refresh the Lottery brand through innovative approaches to technology;
- Improve market penetration through expansion of the Lottery's retailer network;
- Increase the focus of research and development for the Draw game product segment; and
- Maximize the effectiveness of the Lottery.


## ACKNOWLEDGMENTS

Preparation of the CAFR requires a significant investment of time and resources and would not be possible without the efficient and dedicated efforts of our accounting staff. Their remarkable efforts make this report possible.

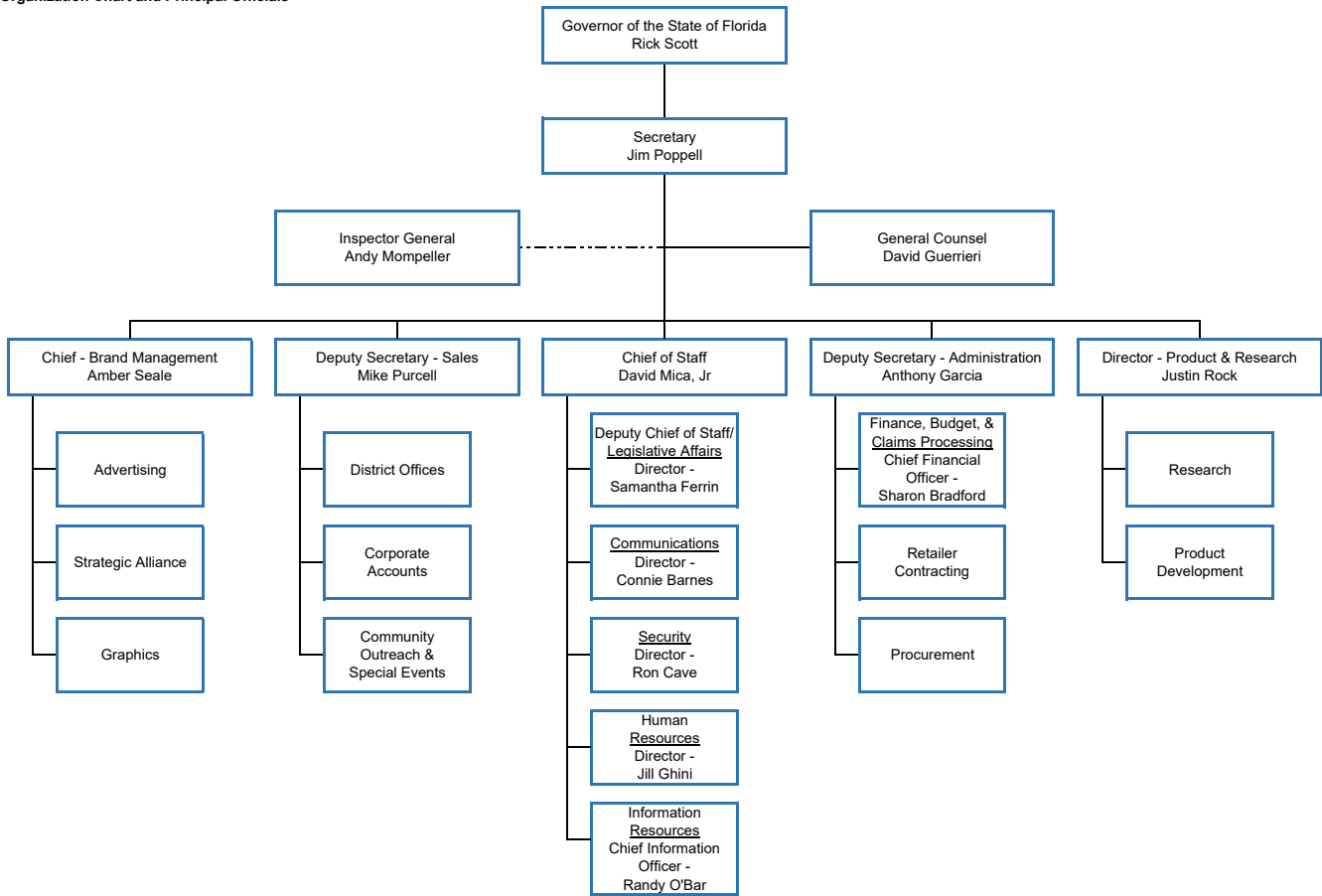
Respectfully submitted,

  
Jim Poppell,  
Secretary

  
Sharon Bradford,  
Chief Financial Officer

  
Gina Ballard, CPA,  
Accounting Director

**Organization Chart and Principal Officials**



*Note: Principal Officials in the chart are as of the issue date of this report.*

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## **FINANCIAL SECTION**



Sherrill F. Norman, CPA  
Auditor General

# AUDITOR GENERAL STATE OF FLORIDA

Claude Denson Pepper Building, Suite G74  
111 West Madison Street  
Tallahassee, Florida 32399-1450



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The President of the Senate, the Speaker of the  
House of Representatives, and the  
Legislative Auditing Committee

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of the Department of the Lottery (Lottery), an enterprise fund of the State of Florida, as of and for the fiscal years ended June 30, 2017, and June 30, 2016, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting

policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the Lottery as of June 30, 2017, and June 30, 2016, and the respective changes in financial position and cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1, the financial statements of the Lottery present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities and major funds of the State that is attributable to the transactions of the Lottery. These financial statements do not purport to, and do not, present fairly the operations of the State of Florida as of June 30, 2017, and June 30, 2016, or the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 15 through 23) and schedules of the Lottery's proportionate share of the net pension liability and contributions (pages 54 through 55) be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lottery's basic financial statements. The Introductory Section, on pages 6 through 9, and the Statistical Section, on pages 59 through 83, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with auditing standards generally accepted in the United States of America and applicable *Government Auditing Standards*, we have also issued our report dated December 21, 2017, on our audit of the Lottery's internal control over financial reporting, and on our tests of the Lottery's compliance with certain provisions of laws, rules, regulations, contracts, and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that report is to describe the scope of our testing of the Lottery's internal control over financial reporting as of June 30, 2017, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and to express an opinion on the effectiveness of the Lottery's internal control over financial reporting. With respect to compliance, the purpose of that report is not to provide an opinion on compliance, but rather to describe the scope of our testing of compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lottery's internal control over financial reporting and compliance.

Respectfully submitted,



Sherrill F. Norman, CPA  
Tallahassee, Florida  
December 21, 2017  
Audit Report No. 2018-078

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The information presented in the Management's Discussion and Analysis (MD&A) introduces the Florida Lottery's (Lottery) financial statements and provides readers an analytical overview of the Lottery's financial activities and performance for the fiscal years ended June 30, 2017, and 2016. We encourage readers to consider the information presented here in conjunction with the financial statements and notes to the financial statements, which begin on page 24.

#### **Financial Highlights**

The Lottery has as its mission the maximization of revenues for the benefit of education in a manner consistent with the dignity of the State of Florida and the welfare of its citizens. The Lottery is considered a mature lottery and offers its players a full range of both Scratch-Off and Draw products. The Lottery has been successful in sustaining ticket sales in excess of \$2 billion for the twenty-eighth consecutive fiscal year, with the past five fiscal years exceeding \$5 billion. During the same twenty-eight year period, the transfer to the Educational Enhancement Trust Fund (EETF) has been a minimum of \$800 million annually, with the fiscal year 2017 transfer exceeding \$1 billion for the fifteenth consecutive year.

For the fiscal year ended June 30, 2017:

- Transfers to the EETF were approximately \$1.66 billion this fiscal year compared to \$1.69 billion in the prior fiscal year.
- The Lottery's ticket sales increased by 1.55 percent over the prior fiscal year from approximately \$6.06 billion to \$6.16 billion.
- Approximately 68.93 percent of total sales were provided by the Scratch-Off product line. This shift in product mix from the higher profit-margin Draw product to the lower profit-margin Scratch-Off product directly impacts the amount transferred to the EETF.
- Prize expense increased \$127.66 million, which represents a 3.30 percent increase during fiscal year 2017. The Lottery has the authority to vary the prize expense in order to maximize transfers. This expense typically increases or decreases in proportion to ticket sales and represented approximately 64.92 percent of ticket sales.
- The gaming vendors' fees and retailer commissions are based on sales and therefore fluctuate in direct correlation with sales revenue. Fiscal year 2017 expenses for these items increased 1.71 percent over the prior fiscal year expenses in conjunction with the increase in sales.
- Administrative operating expenses, which include advertising, salaries and benefits, rent, utilities and maintenance, professional fees, depreciation, and other administrative expenses, experienced an increase of \$684,000. Administrative operating expenses for fiscal years 2017 and 2016 were \$80.80 million and \$80.12 million, respectively.
- Nonoperating income decreased \$50.03 million over the prior fiscal year. The decrease was primarily due to a decrease of \$52.07 million in net appreciation (depreciation) in fair value of investments.
- EETF transfers from unclaimed prize money increased \$9.83 million over the prior fiscal year. Transfers from unclaimed Draw games decreased \$3.93 million while transfers from unclaimed Scratch-Off games increased \$13.76 million compared to fiscal year 2016. This increase can be attributed to the fact that during fiscal year 2017 the Lottery closed 40 games compared to 36 games closed during fiscal year 2016.



## 2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

### **Overview of the Financial Statements**

The Lottery is accounted for as an enterprise fund, reporting transactions using the accrual basis of accounting similar to the method used by business entities. This MD&A is intended to serve as an introduction to the Lottery's basic financial statements, including the notes to the financial statements. The Statements of Net Position on page 24, the Statements of Revenues, Expenses, and Changes in Net Position on page 26, and the Statements of Cash Flows on page 27 report the Lottery's net position and changes therein. The notes to the financial statements provide additional information that is essential to a reader's understanding of the data provided in the financial statements.

The Lottery transfers its net profits each fiscal year to the EETF. As a result, the Lottery's net position consists of funds invested in capital assets, unrestricted net position, and restricted net position. Unrestricted net position consists of liabilities for which no cash payments will be made. The restricted net position consists of the investments being held by the Lottery to fund deferred prize payouts, 20 percent of unclaimed prizes designated for future prize payouts or promotions, and the Multi-State Lottery Association (MUSL) deposit amounts. The financial statements do include the cumulative effect of periodic adjustments to recognize the fair value of the grand prize investments despite the fact that the Lottery purchased the investments with the intention of holding the investments until maturity in order to meet the future obligations and, therefore, would not realize any gains or losses related to these investments for distribution as net proceeds.

### **Summary of Net Position**

Table 1 presents a comparative summary of the Lottery's Statements of Net Position for fiscal years 2017, 2016, and 2015.

**Table 1 - Condensed Statements of Net Position  
As of June 30, 2017, 2016, and 2015  
(In Thousands)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current Assets	\$ 219,147	\$ 302,231	\$ 205,746
Restricted Assets	352,429	399,191	732,727
Capital Assets, Net of Depreciation	6,264	6,106	5,820
<b>Total Assets</b>	<u>577,840</u>	<u>707,528</u>	<u>944,293</u>
Total Deferred Outflows of Resources	<u>9,872</u>	<u>5,007</u>	<u>3,969</u>
Current Liabilities	221,636	298,831	206,321
Current Liabilities Payable from Restricted Assets	25,540	43,294	383,503
Noncurrent Liabilities	261,133	260,801	271,186
<b>Total Liabilities</b>	<u>508,309</u>	<u>602,926</u>	<u>861,010</u>
Total Deferred Inflows of Resources	<u>1,006</u>	<u>2,179</u>	<u>5,709</u>
Net Position:			
Invested in Capital Assets	6,264	6,106	5,820
Restricted Net Position	95,499	121,932	95,094
Unrestricted Net Position	(23,366)	(20,608)	(19,371)
<b>Total Net Position</b>	<u>\$ 78,397</u>	<u>\$ 107,430</u>	<u>\$ 81,543</u>

## 2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

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### **Financial Analysis**

#### **Assets**

Total assets at the end of fiscal year 2017 decreased \$129.69 million from \$707.53 million at June 30, 2016, to \$577.84 million at June 30, 2017. At the end of fiscal year 2016, total assets were \$236.76 million less than the \$944.29 million at the end of fiscal year 2015.

- Current assets decreased from \$302.23 million in 2016 to \$219.15 million in 2017, representing a decrease of \$83.08 million. The decrease was primarily due to a decrease of \$91.65 million in cash and cash equivalents for fiscal year 2017 due to a reduction in the Due to EETF between years.
- Restricted assets decreased \$46.76 million from \$399.19 million in 2016 to \$352.43 million in 2017. A continued decline in grand prizewinners choosing the annuity option led to a reduction in the size of investments held at the State Board of Administration.

#### **Deferred Outflows of Resources**

Total deferred outflows of resources as of June 30, 2017, were \$9.87 million reflecting an increase of \$4.86 million over the June 30, 2016, amount of \$5.01 million for pension related items (refer to Note 9 to the financial statements for additional details).

#### **Liabilities**

Total liabilities at June 30, 2017, were \$508.31 million, which was approximately \$94.62 million lower than the total liabilities of \$602.93 million at June 30, 2016. The total liabilities at June 30, 2016, were \$258.08 million lower than the June 30, 2015, amount of \$861.01 million.

- Current liabilities decreased by \$77.19 million from \$298.83 million on June 30, 2016, to \$221.64 million on June 30, 2017. This decrease can be primarily attributed to the decrease in the amount owed to the EETF. The current liabilities payable from restricted assets decreased \$17.75 million from \$43.29 million at June 30, 2016, to \$25.54 million at June 30, 2017. This decrease is related to final payments being made from the grand prizes payable and fewer grand prize winners selecting the annuity option. At June 30, 2016, current liabilities payable from restricted assets balance of \$43.29 million was \$340.21 million less than the balance of \$383.50 million at June 30, 2015.
- Noncurrent liabilities principally consist of the long-term portion of grand prizes payable, which represents the amount to be paid to grand prizewinners in future years. Correlative to current grand prizes payable, the long-term grand prizes payable decreased \$8.31 million from June 30, 2016, to June 30, 2017, and decreased \$16.19 million from June 30, 2015, to June 30, 2016.

#### **Deferred Inflows of Resources**

Total deferred inflows of resources as of June 30, 2017, were \$1.01 million reflecting a decrease of \$1.17 million over the June 30, 2016, amount of \$2.18 million for pension related items (refer to Note 9 to the financial statements for additional details).

## 2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

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### **Net Position**

Net position decreased \$29.03 million from June 30, 2016, to June 30, 2017. Net position at June 30, 2017, 2016, and 2015 were \$78.40 million, \$107.43 million, and \$81.54 million, respectively. The decrease at June 30, 2017, can be attributed to a \$30.43 million decrease in the amount restricted for undistributed depreciation on restricted investments. The decrease is due to the decrease in the fair market value of both the grand prize investments held by the Lottery and investments held at the State Treasury.

The Lottery joined MUSL eight years ago in order to participate in the Powerball® with Powerplay® game and on May 15, 2013, the Lottery began participating in Mega Millions® with Megaplier®. In accordance with MUSL's rules, the Lottery must contribute to various prize reserve funds maintained by MUSL for unforeseen prize payouts related to the Powerball with Powerplay and Mega Millions with Megaplier games. The Lottery's deposits in reserve funds with MUSL totaled \$24.18 million and \$22.79 million as of June 30, 2017, and June 30, 2016, respectively. Refer to Note 6 to the financial statements for further details.

### ***Summary of Revenues, Expenses, and Changes in Net Position***

The most important element demonstrated with the Lottery's financial statements is the transfer to the EETF. Accordingly, the primary focus of these financial statements is determining net income available for transfer, rather than the change in net position of the Lottery, which primarily reflects the changes in fair value of restricted investments.

Table 2 presents the Condensed Statements of Revenues, Expenses, and Changes in Net Position for the fiscal year ended June 30, 2017, and the prior fiscal years ended June 30, 2016, and June 30, 2015, as derived from the Lottery's Statements of Revenues, Expenses, and Changes in Net Position.

## 2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

**Table 2 - Condensed Statements of Revenues, Expenses, and Changes in Net Position  
For the Years Ended June 30, 2017, 2016, and 2015  
(In Thousands)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating Revenues:			
Ticket Sales	\$ 6,156,479	\$ 6,062,354	\$ 5,583,331
Bad Debt Expense	(1,073)	(1,487)	(1,263)
Terminal & Retailer Fees and Miscellaneous	7,611	7,620	7,652
Total Operating Revenues	<u>6,163,017</u>	<u>6,068,487</u>	<u>5,589,720</u>
Operating Expenses:			
Prizes	3,996,632	3,868,970	3,627,939
Retailer Commissions	343,608	337,007	311,981
Vendor Commissions	88,916	88,241	81,635
Other Expenses	80,805	80,121	75,696
Total Operating Expenses	<u>4,509,961</u>	<u>4,374,339</u>	<u>4,097,251</u>
Income from Operations	<u>1,653,056</u>	<u>1,694,148</u>	<u>1,492,469</u>
Nonoperating Revenue, Net of Expenses	<u>(25,741)</u>	<u>24,290</u>	<u>(1,218)</u>
Income Before Operating Transfers	1,627,315	1,718,438	1,491,251
Total Transfers to EETF	<u>(1,656,348)</u>	<u>(1,692,551)</u>	<u>(1,496,371)</u>
Change in Net Position	<u>(29,033)</u>	<u>25,887</u>	<u>(5,120)</u>
Net Position, Beginning Restated	107,430	81,543	86,663
Net Position, End of Year	<u>\$ 78,397</u>	<u>\$ 107,430</u>	<u>\$ 81,543</u>

### **Financial Analysis**

#### **Sales**

For the fiscal year ended June 30, 2017, ticket sales increased by \$94.13 million over fiscal year 2016, which experienced a sales increase of \$479.02 million over fiscal year 2015. The Draw game ticket sales decreased 9.24 percent from the prior year. The Lottery not only continued to utilize proven techniques, but also created new promotions for players.

- On August 1, 2016, PICK 2™ and PICK 5™ were introduced as additional daily games. CASH 3™ and PLAY 4™ were renamed to PICK 3™ and PICK 4™. The PICK Family Daily Games™ generated combined sales of \$672.96 million.
- On February 17, 2017, CASH4LIFE® was added to the portfolio of Draw games. CASH4LIFE is a multi-state game offering two lifetime prizes with a chance to win \$1,000 a Day for Life or \$1,000 a Week for Life. CASH4LIFE sales contributed \$28.77 million to Draw game sales for the fiscal year.
- Full Service Vending Machines (FSVMs) generated sales of \$442.23 million during the fiscal year, an increase of \$148.41 million or 50.51 percent over fiscal year 2016 sales.

## 2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

The increase was due in-part to the addition of approximately 480 FSVMs during the fiscal year.

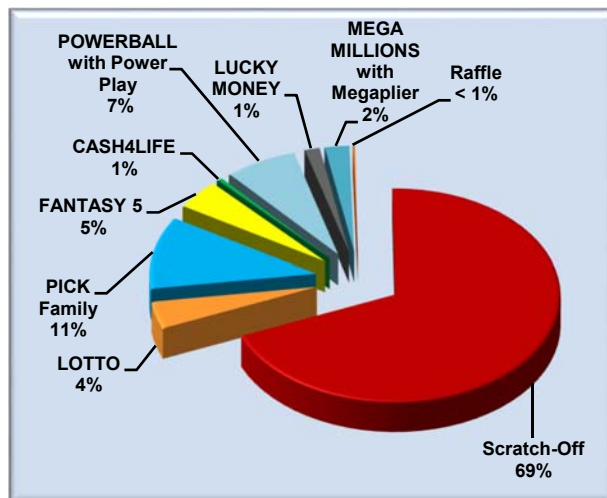
Sales of Scratch-Off tickets increased \$288.90 million from \$3.95 billion sales in fiscal year 2016 to \$4.24 billion sales in fiscal year 2017.

- Scratch-Off ticket sales experienced an increase of 7.31 percent over prior year sales, with increases being reflected in most price points. The largest increase was seen in the \$20 price point. The \$20 price point was led by the \$5,000,000 Gold Rush Doubler ticket with sales totaling \$499.68 million.
- Instant Ticket Vending Machines have proven successful in increasing the visibility of Scratch-Off ticket products and offering a convenience to players. There were 1,500 machines in use during the year contributing \$266.26 million to Scratch-Off sales.

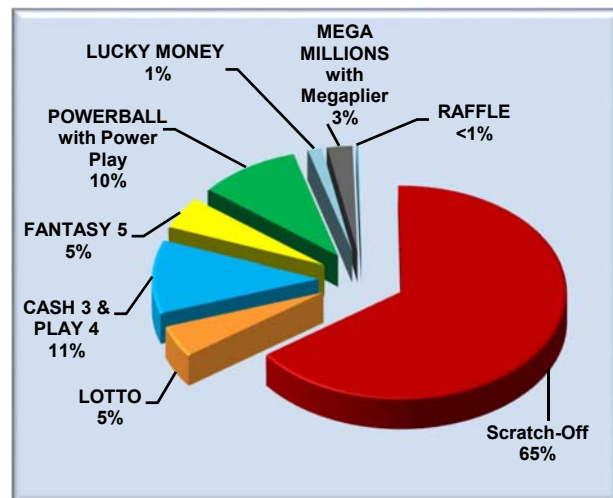
Bad debt expense is reported as a reduction in gross revenue in accordance with Governmental Accounting Standards Board requirements. The amount of bad debt expense for the fiscal years ended June 30, 2017, and 2016, was \$1.07 million and \$1.49 million, respectively.

The following charts show sales by product for the various Lottery games during the fiscal years 2017 and 2016:

**Sales by Product for Fiscal Year 2016-17**



**Sales by Product for Fiscal Year 2015-16**

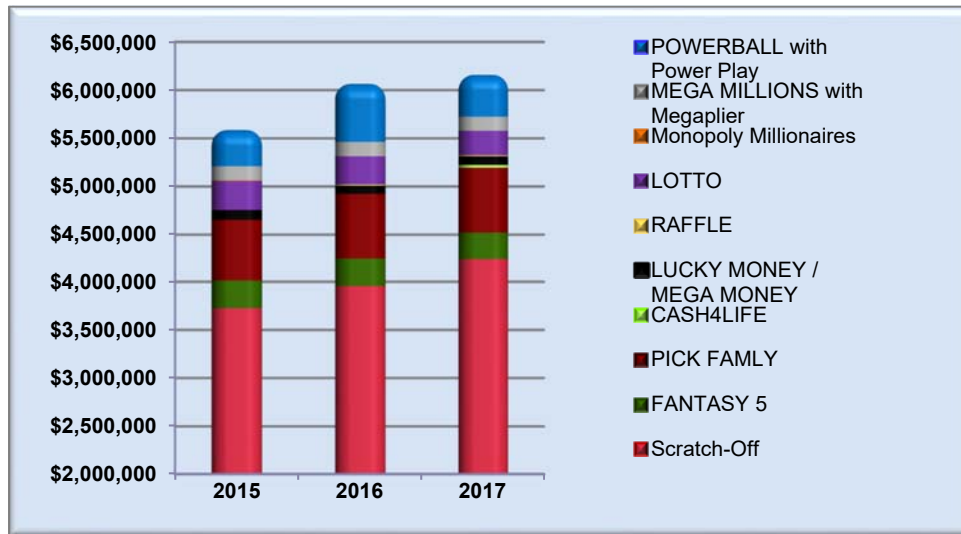


CASH 3 and PLAY 4 were changed to PICK 3 and PICK 4 when PICK 2 and PICK 5 were introduced in August 2016. They are represented as a family of games on the fiscal year 2016-17 chart above.

## 2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

The following chart and table show sales by game for the last three fiscal years:

**Department of the Lottery  
Historical Lottery Sales by Game  
(In Thousands)**



**Table 3  
Department of the Lottery  
Historical Lottery Sales by Game  
Last Three Fiscal Years  
(In Thousands)**

Fiscal Year Ended June 30	LOTTO	FANTASY 5	CASH 3 & PLAY 4 / PICK FAMILY	CASH4LIFE	LUCKY MONEY / MEGA MONEY	RAFFLE	POWERBALL with Power Play	MEGA MILLIONS with Megaplier	Monopoly Millionaires	Scratch-Off	Combined Sales
2015	\$ 300,961	\$ 287,803	\$639,468	\$ -	\$ 103,196	\$ -	\$ 375,057	\$ 147,370	\$ 5,481	\$ 3,723,995	\$5,583,331
2016	291,382	296,307	671,408	-	84,881	11,724	602,001	149,950	-	3,954,701	6,062,354
2017	253,039	275,663	672,963	28,775	89,436	11,357	434,263	147,381	-	4,243,602	6,156,479

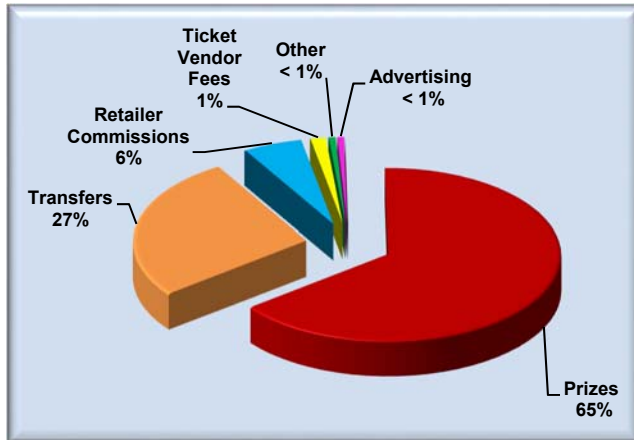
### Expenses

Section 24.121, Florida Statutes, stipulates that funds remaining in the Operating Trust Fund after the transfer to the EETF shall be used for the payment of administrative expenses of the Lottery. These expenses include Draw game expenses, Scratch-Off ticket expenses, advertising, and other expenses required for the day-to-day operations of the Lottery.

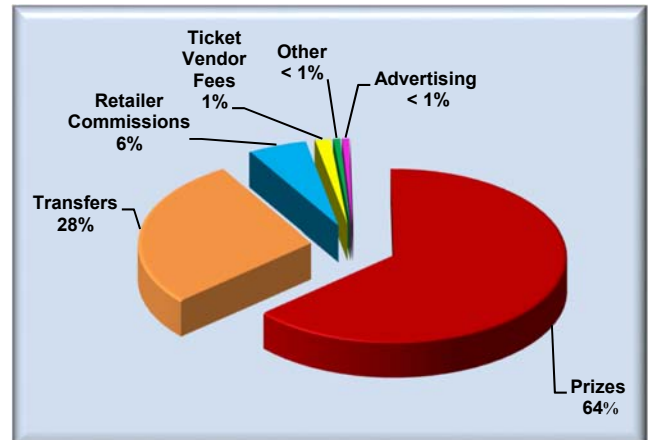
## 2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

The following charts show the major components of Lottery operating expenses and transfers as a percentage of ticket sales for the 2017 and 2016 fiscal years:

**Operating Expenses and Transfers  
Fiscal Year 2016-17**



**Operating Expenses and Transfers  
Fiscal Year 2015-16**



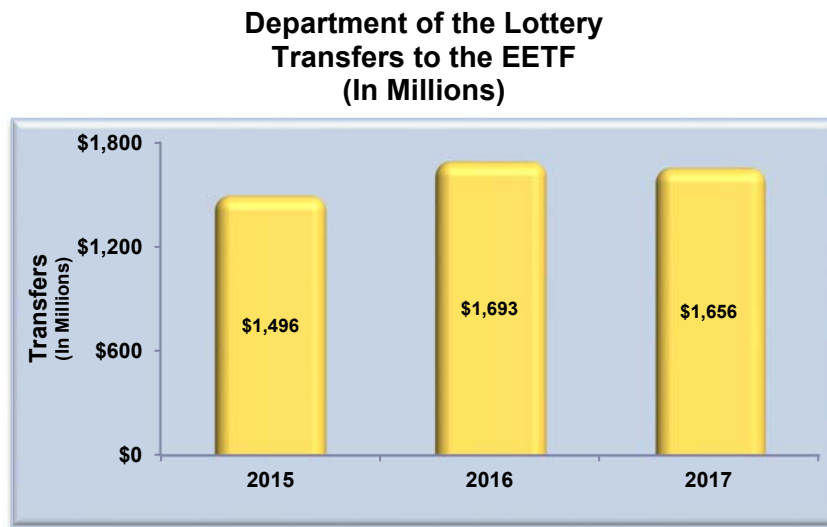
Prizes, commissions, and gaming vendor fees are directly related to sales and fluctuate accordingly. In fiscal year 2017, these expenses changed proportionally; yet as a percentage of total expenses they remained constant. The other expenses, which consisted of advertising, salary and benefits, professional fees, rent, maintenance, and depreciation, increased slightly. Fiscal year 2017 and 2016 administrative expenses were \$80.80 million and \$80.12 million, respectively.

### **Transfers**

Since its inception, the Lottery's total transfers to the EETF were \$31.79 billion. The Lottery's contribution to the EETF for fiscal year ended June 30, 2017, was \$1.66 billion. The Lottery contributed over \$1 billion for the fifteenth consecutive year.

## 2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

The following chart shows the total transfers to the EETF for the past three years:



### **Economic Factors and Future Impacts**

The main economic factors affecting lottery sales are population growth, personal income changes, tourism, and competition for discretionary consumer spending. Florida's unemployment rate dropped from 4.7 percent in fiscal year 2016 to 4.1 percent during fiscal year 2017. In fiscal year 2017, Lottery sales exceeded \$6.15 billion, setting new sales records for Scratch-Off and total game sales. The Lottery's strategies have revolved around enhancing Draw and Scratch-Off games, increasing retailer penetration in the State, and refreshing the Lottery's brand.

### **Financial Contact**

The Lottery's financial statements and this MD&A are designed to give a general overview to the reader. If you have any questions regarding this report or require additional information, please contact the State of Florida, Department of the Lottery, Chief Financial Officer, 250 Marriott Drive, Capitol Complex, Tallahassee, Florida 32399.



# 2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

## BASIC FINANCIAL STATEMENTS

### STATEMENTS OF NET POSITION AS OF JUNE 30, 2017, AND 2016 (in thousands)

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 174,362	\$ 266,010
Interest receivable	496	423
Accounts receivable, net	40,472	31,924
Prepaid expenses	-	21
Inventories	1,426	1,485
Security deposits	2,391	2,368
Total Current Assets	<u>219,147</u>	<u>302,231</u>
Noncurrent Assets:		
Restricted Assets		
Cash and cash equivalents	30,882	28,268
Deposit with MUSL	24,177	22,793
Investments, grand prize	297,370	348,130
Total Restricted Assets	<u>352,429</u>	<u>399,191</u>
Capital assets, net	6,264	6,106
Total Noncurrent Assets	<u>358,693</u>	<u>405,297</u>
<b>Total Assets</b>	<u>577,840</u>	<u>707,528</u>
<b>Deferred Outflows of Resources</b>		
Pension related items	9,872	5,007
<b>Total Deferred Outflows of Resources</b>	<u>9,872</u>	<u>5,007</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<u>\$ 587,712</u>	<u>\$ 712,535</u>

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

(Continued)

## 2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

### STATEMENTS OF NET POSITION

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<b>Liabilities</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 3,163	\$ 6,138
Prizes payable	143,556	131,094
Due to Educational Enhancement Trust Fund	71,648	158,551
Deposits payable	2,509	2,445
Compensated absences payable	558	384
Net pension liability	202	219
<b>Total Current Liabilities</b>	<b>221,636</b>	<b>298,831</b>
Current Liabilities Payable from Restricted Assets:		
Grand prizes payable	25,540	43,294
<b>Total Current Liabilities Payable from Restricted Assets</b>	<b>25,540</b>	<b>43,294</b>
Noncurrent Liabilities:		
Grand prizes payable from restricted assets	229,662	237,968
Compensated absences payable	3,230	3,456
Net pension liability	20,008	12,694
Other long-term liabilities	8,233	6,683
<b>Total Noncurrent Liabilities</b>	<b>261,133</b>	<b>260,801</b>
<b>Total Liabilities</b>	<b>508,309</b>	<b>602,926</b>
<b>Deferred Inflows of Resources</b>		
Pension related items	1,006	2,179
<b>Total Deferred Inflows of Resources</b>	<b>1,006</b>	<b>2,179</b>
<b>Net Position</b>		
Invested in capital assets	6,264	6,106
Restricted for undistributed appreciation on restricted investments	40,440	70,871
Restricted for MUSL	24,177	22,793
Restricted for future prizes or special prize promotions	30,882	28,268
Unrestricted	(23,366)	(20,608)
<b>Total Net Position</b>	<b>78,397</b>	<b>107,430</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	<b>\$ 587,712</b>	<b>\$ 712,535</b>

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

## 2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

### STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2017, AND 2016 (in thousands)

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<b>Operating Revenues</b>		
Ticket sales	\$ 6,156,479	\$ 6,062,354
Bad debt expense	(1,073)	(1,487)
Terminal fees and miscellaneous	7,436	7,439
Retailer fees	175	181
<b>Total Operating Revenues</b>	<u>6,163,017</u>	<u>6,068,487</u>
<b>Operating Expenses</b>		
Prizes	3,996,632	3,868,970
Retailer commissions	343,608	337,007
Scratch-Off tickets	58,615	55,591
Draw games	30,301	32,650
Advertising	39,452	41,180
Personal services	30,117	28,379
Other contractual services	7,486	7,941
Materials and supplies	2,180	1,662
Depreciation	1,570	959
<b>Total Operating Expenses</b>	<u>4,509,961</u>	<u>4,374,339</u>
<b>Operating Income</b>	<u>1,653,056</u>	<u>1,694,148</u>
<b>Nonoperating Revenues (Expenses)</b>		
Interest	4,829	4,695
Securities lending income	-	1,163
Securities lending fees	-	(645)
Investment management fees	(418)	(405)
Net appreciation (depreciation) in fair value of investments	(17,825)	34,246
Property disposition (loss)	(57)	15
Amortization of grand prizes payable	(12,270)	(14,779)
<b>Total Nonoperating Revenues (Expenses), Net</b>	<u>(25,741)</u>	<u>24,290</u>
<b>Income Before Operating Transfers</b>	<u>1,627,315</u>	<u>1,718,438</u>
<b>Transfers to Educational Enhancement Trust Fund</b>	(1,656,348)	(1,692,551)
<b>Change in Net Position</b>	(29,033)	25,887
Net Position, Beginning of Year	107,430	81,543
Net Position, End of Year	<u>\$ 78,397</u>	<u>\$ 107,430</u>

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

# 2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2017, AND 2016 (in thousands)

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<b>Operating Activities</b>		
Ticket sales	\$ 6,146,858	\$ 6,094,588
Prizes paid to winners	(3,985,553)	(3,867,418)
Commissions paid and payments to retailers	(343,608)	(337,007)
Paid to vendors for goods and services	(140,949)	(141,026)
Paid to employees	(27,340)	(27,001)
Other operating revenue	7,652	7,695
<b>Net Cash Provided by Operating Activities</b>	<u>1,657,060</u>	<u>1,729,831</u>
<b>Noncapital Financing Activities</b>		
Payments to Educational Enhancement Trust Fund	(1,743,251)	(1,601,371)
<b>Net Cash Used in Noncapital Financing Activities</b>	<u>(1,743,251)</u>	<u>(1,601,371)</u>
<b>Capital and Related Financing Activities</b>		
Purchase of capital assets	(1,786)	(1,229)
<b>Net Cash Used in Capital and Related Financing Activities</b>	<u>(1,786)</u>	<u>(1,229)</u>
<b>Investing Activities</b>		
Cash received from maturity of grand prize investments	45,459	66,419
Cash paid to grand prizewinners upon maturity of grand prize investments	(45,459)	(66,419)
Security lending	-	(13,600)
Investment income, net of fees	(1,057)	8,791
<b>Net Cash Provided by Investing Activities</b>	<u>(1,057)</u>	<u>(4,809)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>(89,034)</u>	<u>122,422</u>
Cash and Cash Equivalents, Beginning of Year	294,278	171,856
Cash and Cash Equivalents, End of Year	<u>\$ 205,244</u>	<u>\$ 294,278</u>
<b>Reconciliation of Income from Operations to Net Cash Provided by Operating Activities:</b>		
Income from operations	\$ 1,653,056	\$ 1,694,148
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	1,570	959
Changes in assets and liabilities		
(Increase) decrease in:		
Accounts receivable	(9,540)	32,505
Inventories	58	(394)
Prepaid expenses	21	127
Increase (decrease) in:		
Allowance for uncollectible accounts	(414)	(75)
Accounts payable and accrued liabilities	(2,911)	(1,253)
Prizes payable	12,462	2,579
Compensated absences payable	(51)	(23)
Net pension liability and related deferred outflows and inflows	1,259	(339)
Postemployment healthcare benefits payable	1,550	1,597
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 1,657,060</u>	<u>\$ 1,729,831</u>
Noncash Investing, Capital and Financing Activities:		
Increase/(decrease) in fair value of investments	\$ (39,533)	\$ (6,655)

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

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**NOTES TO FINANCIAL STATEMENTS**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The State of Florida, Department of the Lottery (the Lottery) was established as a State agency with the enactment of the Florida Public Education Lottery Act (the Act) in 1987. The purpose of the Act is “to implement Section 15, Article X of the State Constitution in a manner that enables the people of the State to benefit from significant additional moneys for education and also enables the people of the State to play the best lottery games available.”

In evaluating the Lottery as a reporting entity, management has addressed all potential component units for which the Lottery may be financially accountable and, as such, be includable in the Lottery’s financial statements. The Lottery is financially accountable if it appoints a voting majority of the organization’s governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the Lottery. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. Management’s analysis has disclosed no component units that should be included in the Lottery’s financial statements.

**B. Basis of Presentation**

The Lottery is accounted for as a proprietary type 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. The Lottery is reported as an enterprise fund within the State of Florida’s Comprehensive Annual Financial Report.

**C. Basis of Accounting**

Basis of accounting refers to when the revenues, expenses, transfers, and related assets, deferred outflows of resources, liabilities, and deferred inflows of resources are recognized in the accounts and reported in the financial statements. The financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Under this method, revenues are recognized when they are earned and expenses are recognized when they are incurred.

## 2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

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The measurement focus of proprietary fund types is on a flow of economic resources method, which emphasizes the determination of net income, financial position, and cash flows. All fund assets and liabilities, current and noncurrent, are accounted for on the Statements of Net Position.

The Lottery's operating revenues and expenses generally result from the sale and marketing of lottery tickets and the payment of related prizes. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### **D. Cash and Cash Equivalents**

The Lottery considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. This includes cash in banks, repurchase agreements with financial institutions, petty cash, balances held by the State Board of Administration (SBA), and pooled investments in the State Treasury.

### **E. Investments**

Florida Statutes authorize the Lottery to invest in certain instruments. The Lottery reports investments at fair value. Investments that are not publicly quoted are priced by a third party through a discounted cash flow method. Details of investments are included in Note 2.

### **F. Allowance for Doubtful Accounts**

The allowance for doubtful accounts is based on an analysis of collectability of accounts receivable, which considers the age of the accounts.

### **G. Inventories**

Supply inventory and promotional items are valued at cost, using the first-in, first-out method. Supply inventory comprised game merchandise, prepaid postage, and prepaid tolls.

### **H. Prepaid Expenses**

Prepaid expenses represent warranty agreements paid for during the current year but will not be consumed or used up until a future period.

### **I. Capital Assets**

Capital assets are stated at cost less accumulated depreciation. As required by Chapter 273, Florida Statutes, a capitalization threshold of \$1,000 and useful life extending beyond one year are employed for tangible personal property. The Lottery's capitalization threshold for intangible assets is \$100,000. Depreciation on all capital assets is computed using the straight-line method over the following estimated useful lives:

Data processing equipment	3 to 5 years
Office furniture and fixtures	3 to 15 years
Vehicles and other equipment	3 to 20 years
Software	3 to 15 years

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When capital 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 Statements of Revenues, Expenses, and Changes in Net Position in the period of disposal. See Note 5 for more detailed information on capital assets.

### **J. Deferred Outflows of Resources**

A consumption of net assets by the government that is applicable to a future reporting period is presented as a deferred outflow of resources. See Note 9 for more information on deferred outflows of resources.

### **K. Long-term Liabilities**

Refer to Note 7 for information on grand prizes payable, compensated absences payable, postemployment healthcare benefits payable, and net pension liability, along with changes in long-term liabilities. Also, refer to Note 9 for additional information on net pension liability and postemployment healthcare benefits payable.

### **L. Compensated Absences**

Employees earn the right to be compensated during absences for vacation, illness, and unused special compensatory leave earned for hours worked on legal holidays. Compensated absences for annual leave are recorded as a liability when the benefits are earned. Compensated absences for sick leave are calculated based on the vesting method. Within the limits established by law or rule, unused leave benefits are paid to employees upon separation from State service. The cost of vacation and calculated sick leave benefits is accrued in the period in which the benefits are earned. The compensated absences are based on current fiscal year-end salary rates and include employer social security and pension contributions at current rates.

### **M. Deferred Inflows of Resources**

A deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period. See Note 9 for more information on deferred inflows of resources.

### **N. Net Position**

Net position includes categories for invested in capital assets, restricted for undistributed appreciation on restricted investments, restricted for future prizes or special prize promotions, restricted for the Multi-State Lottery Association (MUSL), and unrestricted net position resulting from liabilities for which no cash payments will be made. See Note 1.U. for more information on unrestricted net position.

The invested in capital assets category represents the investment in capital assets, recorded at cost less accumulated depreciation.

## 2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

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The restricted for undistributed appreciation on restricted investments category primarily represents the undistributed appreciation for all restricted asset accounts.

The restricted for future prizes or special prize promotions category represents the portion of unclaimed prize obligations legally reverted back to the Lottery and restricted for use in the payment of future prize pools or special prize promotions in accordance with Section 24.115(2), Florida Statutes.

The restricted for MUSL category represents the amount placed into reserve for the Florida Lottery by the MUSL. See Note 6 for more information on MUSL.

### **O. Revenue Recognition**

Lottery games are sold to the public by contracted retailers. Revenue is recognized when Draw game tickets are sold to players and when books of Scratch-Off tickets are settled. Certain games include tickets that entitle the holder to exchange one ticket for another (free tickets). Such tickets are deemed to be replacements and, therefore, are not included in ticket sales.

### **P. Commissions**

Retailers receive a commission of 5 percent on ticket sales. The commission on ticket sales for games is based upon total tickets distributed to the players (including free tickets) which, when compared to revenue, causes the percentage to be slightly higher or lower than 5 percent at any given time. Additionally, retailers are paid commissions through a 1 percent cashing bonus on redemption of tickets (including free tickets).

### **Q. Prizes**

In accordance with the Act, variable percentages of the gross revenue from the sale of Draw and Scratch-Off lottery tickets shall be returned to the public in the form of prizes paid by the Lottery or retailers as authorized.

Prize expense for Draw games is recorded based on prizes won by the players, as revenue is recognized. Any prize that remains unclaimed at the end of a 180-day period following a draw is considered unclaimed.

Prize expense for Scratch-Off games is recorded based on the predetermined prize structure for each game, as revenue is recognized. Any prize that remains unclaimed 60 days after a Scratch-Off game is closed is considered unclaimed.

Effective July 1, 2005, 80 percent of all unclaimed prize money is deposited in the Educational Enhancement Trust Fund (EETF). The remaining 20 percent of unclaimed prize money is added to the pool from which future prizes are to be awarded or used for special prize promotions and is reported as restricted for future prizes or special prize promotions.



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All prizes are recorded at the actual amount except for the annuity-funded prizes, which are paid out on a deferred basis. The actual prize expense for these types of prizes is based on the present value of an annuity using the interest yield on the investments acquired to fund the annuity.

### **R. Self-Insurance**

The Lottery participates in the various self-insurance programs established by the State of Florida for property and casualty losses and employee health insurance. Coverage includes property, general liability, automobile liability, workers' compensation, court-awarded attorney fees, and Federal civil rights actions. The property insurance program self-insures the first \$2 million per occurrence for all perils except named windstorm and flood. For named windstorm and flood, the property insurance program self-insures the first \$2 million per occurrence but with an annual aggregate retention of \$40 million. Commercial excess insurance is purchased for losses over the self-insured retention up to \$92.5 million per occurrence for named windstorm and flood losses and \$225 million per occurrence for all other perils. Workers' compensation is provided to comply with the applicable law. The employee health and dental insurance program provides for payment of medical claims of employees and covered dependents.

### **S. 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, restricted net position, revenues, and expenses, and disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

### **T. Bad Debt Expense**

Bad debt expense is reported as a reduction in gross revenue. Bad debt expense is recognized when a Lottery retailer's uncollected revenue is past due. The amount of expense is based on an accounts receivable age analysis. The bad debt expense for the fiscal years ended June 30, 2017, and June 30, 2016, was \$1,073,000 and \$1,487,000, respectively.

### **U. Unrestricted Net Position Deficit**

The unrestricted net position deficit of \$23,366,000 includes the cumulative effect of the Lottery's postemployment healthcare benefits, compensated absences, and net pension liabilities, along with the deferred outflows of resources and deferred inflows of resources for pension related items. As a result of these items being recorded for reporting purposes only and being excluded from the calculation of transfers to the EETF, the effect is a deficit balance in unrestricted net position.

### 2. CASH AND INVESTMENTS

#### A. Cash and Cash Equivalents

Cash is held in demand deposits at various financial institutions. These deposits, with a book value of approximately \$672,000 at June 30, 2017, and \$350,000 at June 30, 2016, were insured by either the State's collateral for public deposits in accordance with Section 280.04, Florida Statutes, or Federal depository insurance.

Chapter 280, Florida Statutes, generally requires public funds to be deposited in a Qualified Public Depository, which is a bank or savings association that is designated by the State of Florida Chief Financial Officer (State CFO) as authorized to receive deposits in the State and that meets the collateral requirements. The State CFO determines the collateral requirements and collateral pledging level for each Qualified Public Depository following guidelines outlined in Section 280.04, Florida Statutes, and Chapter 69C-2, Florida Administrative Code. Collateral pledging levels include 25, 50, 110, and 150 percent of a Qualified Public Depository's average daily deposit balance or, if needed, an amount as prescribed by the State CFO. Collateral may be held by another custodian with approval of the State CFO if conditions are met that protect the State's interest. Eligible collateral includes federal, federally-guaranteed, state and local government obligations, corporate bonds, and other securities designated allowable under conditions set by the State CFO.

Florida Statutes provide that if a loss to public depositors is not covered by deposit insurance and the proceeds from the sale of securities pledged by the defaulting depository, the difference will be provided by an assessment levied against other Qualified Public Depositories of the same type as the depository in default.

Due to the investing policy of the Lottery, book overdrafts were approximately \$4,422,000 at June 30, 2017, and \$157,000 at June 30, 2016, representing outstanding prize payment checks and retailer payment checks. These outstanding checks are included as a component of prizes payable and accounts payable. The Lottery has an agreement with a financial institution to honor prize payments and retailer payments, as they are presented to the bank, up to \$75 million.

Surplus cash is maintained in the State Treasury's general pool of investments. The State CFO pools funds from all State agencies. Included in the pool are primarily time deposits, U.S. Government securities, federal agency securities, commercial paper, corporate bonds and notes, and repurchase agreements. The Lottery's share of this investment pool was approximately \$204,572,000 and \$293,927,000 at June 30, 2017, and 2016, respectively. No allocation will be made as to the Lottery's share of the types of investments or their risk categories. The Lottery's share of the assets and liabilities arising from the securities lending agreements administered by the State Treasury will likewise not be carried on the Statements of Net Position since the State Treasury operates on a pooled basis and to do so may give the misleading impression that the Lottery itself has entered into such agreements. For further

## 2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

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information, refer to the State of Florida's Comprehensive Annual Financial Report or publications of the State of Florida Department of Financial Services, Office of the Chief Financial Officer.

### **B. Investments, Grand Prize**

The grand prize investments primarily consist of U.S. Government obligations held on the Lottery's behalf by the SBA. Grand prize investments and related grand prizes payable are not presented in current assets or liabilities. They are not part of current operations but instead are restricted assets and liabilities that are held by the Lottery for grand prize winnings to be paid on a deferred basis if the cash payment option is not selected.

Grand prize investments are shown at fair value, and the related grand prizes payable are adjusted to the net present value using the yield on the investments. The difference between the fair value of the investments and the net present value of the grand prizes payable is reflected as restricted for undistributed appreciation on restricted investments in net position. This represents the unrealized gains on the investments. Because these investments are held restrictively for grand prizewinners, this balance is not available for transfer to the EETF.

Interest accreted on grand prize investments during the year is reflected as an increase in the carrying value of grand prizes payable on the Statements of Net Position, and as a nonoperating revenue (expense) on the Statements of Revenues, Expenses, and Changes in Net Position. Net appreciation (depreciation) in fair value of investments is reflected as a nonoperating revenue (expense) on the Statements of Revenues, Expenses, and Changes in Net Position, and includes all changes in fair value that occurred during the year, including purchases, maturities, and sales.

### **C. Investment Credit Risk**

Lottery grand prizewinner investments have been limited to U.S. Government guaranteed securities.

The State Treasury Investment Pool's credit rating by Standard and Poor's was A+f as of June 30, 2017, and June 30, 2016.

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### D. Investment Interest Rate Risk

The investment policy objective is to match maturities of investments with the maturities of the Lottery prizewinner annuities. Therefore, investments are held to maturity after they are purchased thereby eliminating interest rate risk. Listed below are the Lottery's investments in U.S. Treasury Strips (in thousands):

As of June 30, 2017		As of June 30, 2016	
Time to Maturity	Fair Value	Time to Maturity	Fair Value
< 1 year	\$ 26,601	< 1 year	\$ 45,503
> 1 year to 3 years	40,501	> 1 year to 3 years	46,319
> 3 years to 5 years	38,777	> 3 years to 5 years	39,466
> 5 years to 10 years	94,227	> 5 years to 10 years	96,913
> 10 years to 15 years	65,515	> 10 years to 15 years	83,622
> 15 years to 20 years	17,895	> 15 years to 20 years	19,187
> 20 years to 25 years	10,252	> 20 years to 25 years	12,471
> 25 years	3,602	> 25 years	4,649
<b>Total</b>	<b>\$ 297,370</b>	<b>Total</b>	<b>\$ 348,130</b>

The effective duration of the State Treasury Investment Pool at June 30, 2017, and June 30, 2016, was approximately 2.80 years and 2.61 years, respectively.

### E. Investment Concentration of Credit Risk

Since all long-term investments are in U.S. Government guaranteed securities, the Lottery has not adopted a policy regarding concentration of credit risk.

### F. Investment Custodial Credit Risk

Custodial credit risk is defined as the risk that an entity may not recover securities held by another party. The Lottery does not have a formal policy regarding custodial credit risk.

At June 30, 2017, and June 30, 2016, all investments held were either insured or registered and held by the Lottery or its agents in the Lottery's name and thus were not subject to custodial credit risk.

### G. Foreign Currency Risk

The Lottery had no exposure to foreign currency risk as of June 30, 2017, and June 30, 2016.

### H. Fair Value Hierarchy

The Lottery categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

The Lottery's investments are measured and reported at fair value and classified according to the following hierarchy:

Level 1 – Investments reflect unadjusted quoted prices in active markets for identical assets.

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Level 2 – Investments reflect prices that are based on inputs that are either directly or indirectly observable for an asset (including quoted prices for similar assets), which may include inputs in markets that are not considered to be active.

Level 3 – Investments reflect prices based upon unobservable inputs for an asset.

The categorization of investments within the hierarchy is based upon the pricing transparency of this instrument and should not be perceived as the particular investment's risk.

Level 1 – Debt securities classified in Level 1 of the fair value hierarchy are valued by the custodian bank's external pricing vendors using prices quoted in active market for those securities.

Level 2 – Debt securities classified in Level 2 of the fair value hierarchy are valued by the custodian bank's external pricing vendors using pricing methodology that involves the use of evaluation models such as matrix pricing, which is based on a security's relationship to benchmark quoted prices.

Level 3 – Debt securities classified in Level 3 of the fair value hierarchy are valued by the custodian bank's external pricing vendors and are subject to being priced by an alternative pricing source utilizing discounted cash flow models and broker bids, or may have an estimated fair value equal to cost, due to a lack of an independent pricing source.

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The following schedules summarize all investments by fair value hierarchy level at June 30 (in thousands):

		Fair Value Measurements Using		
		Quoted prices in active market for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
<b>Investments by fair value level:</b>	<b>June 30, 2017</b>			
Debt securities:				
U.S. Treasury Strips	\$ 297,370	\$ 291,818	\$ 5,552	\$ -
Pooled Investments with State Treasury	204,572	-	-	204,572
Total securities measured at fair value	<u>\$ 501,942</u>	<u>\$ 291,818</u>	<u>\$ 5,552</u>	<u>\$ 204,572</u>

		Fair Value Measurements Using		
		Quoted prices in active market for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
<b>Investments by fair value level:</b>	<b>June 30, 2016</b>			
Debt securities:				
U.S. Treasury Strips	\$ 348,130	\$ 342,069	\$ 6,061	\$ -
Pooled Investments with State Treasury	293,927	-	-	293,927
Total securities measured at fair value	<u>\$ 642,057</u>	<u>\$ 342,069</u>	<u>\$ 6,061</u>	<u>\$ 293,927</u>

### I. Investment Summary

The following schedule summarizes all investments at June 30 (in thousands):

Investment Type	June 30, 2017 Carrying Value	June 30, 2016 Carrying Value
U.S. Government Obligations & Federally Guaranteed Obligations	\$ 297,370	\$ 348,130
Pooled Investments with State Treasury	204,572	293,927
<b>Total Investments</b>	<u>\$ 501,942</u>	<u>\$ 642,057</u>

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The following schedules reconcile cash and investments to the Statements of Net Position at June 30 (in thousands):

June 30, 2017				
	Investments	Cash at Financial Institutions	Cash at State Treasury	Totals
Cash and cash equivalents	\$ 173,690	\$ 342	\$ 330	\$ 174,362
Restricted cash and cash equivalents	30,882	-	-	30,882
Investments, grand prize	297,370	-	-	297,370
<b>Total</b>	<b>\$ 501,942</b>	<b>\$ 342</b>	<b>\$ 330</b>	<b>\$ 502,614</b>

June 30, 2016				
	Investments	Cash at Financial Institutions	Cash at State Treasury	Totals
Cash and cash equivalents	\$ 265,659	\$ 316	\$ 35	\$ 266,010
Restricted cash and cash equivalents	28,268	-	-	28,268
Investments, grand prize	348,130	-	-	348,130
<b>Total</b>	<b>\$ 642,057</b>	<b>\$ 316</b>	<b>\$ 35</b>	<b>\$ 642,408</b>

### 3. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, consisted of (in thousands):

	2017	2016
Ticket sales receivable	\$ 42,717	\$ 34,663
Other receivables	139	59
Total receivables	42,856	34,722
Less allowance for doubtful accounts	(2,384)	(2,798)
<b>Accounts receivable, net</b>	<b>\$ 40,472</b>	<b>\$ 31,924</b>

### 4. SECURITY DEPOSITS AND DEPOSITS PAYABLE

The Lottery receives certificates of deposit and cashier's checks from certain vendors and retailers in order to secure contract performance. Certificates of deposit are held in trust by the State with any interest earnings being credited to the vendor or retailer. Cashier's checks are held as cash by the Lottery. These deposits are established to reduce the potential financial risk to the Lottery in the event of a breach of contract. The certificates appear on the

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Statements of Net Position, in assets as security deposits, and in liabilities, as deposits payable. The checks appear on the Statements of Net Position, in assets as cash, and in liabilities, as deposits payable.

### 5. CAPITAL ASSETS

Changes in capital assets are summarized as follows (in thousands):

	Balance 30-Jun-15	2015-16		Balance 30-Jun-16	2016-17		Balance 30-Jun-17
		Increase	Decrease		Increase	Decrease	
<b>Capital assets, not being depreciated:</b>							
Non-amortizable intangibles	\$ 2,409	\$ 317	\$ -	\$ 2,726	\$ 496	\$ -	\$ 3,222
<b>Total capital assets, not being depreciated</b>	<b>\$ 2,409</b>	<b>\$ 317</b>	<b>\$ -</b>	<b>\$ 2,726</b>	<b>\$ 496</b>	<b>\$ -</b>	<b>\$ 3,222</b>
<b>Capital assets, being depreciated:</b>							
Vehicles and equipment	\$ 12,754	\$ 1,859	\$ (3,168)	\$ 11,445	\$ 1,318	\$ (468)	\$ 12,295
Intangible assets and other	591	2	-	593	1	-	594
<b>Total capital assets, being depreciated</b>	<b>13,345</b>	<b>1,861</b>	<b>(3,168)</b>	<b>12,038</b>	<b>1,319</b>	<b>(468)</b>	<b>12,889</b>
Depreciation	9,934	959	(2,235)	8,658	1,570	(381)	9,847
<b>Total capital assets, being depreciated, net</b>	<b>3,411</b>	<b>902</b>	<b>(933)</b>	<b>3,380</b>	<b>(251)</b>	<b>(87)</b>	<b>3,042</b>
<b>Total capital assets, net</b>	<b>\$ 5,820</b>	<b>\$ 1,219</b>	<b>\$ (933)</b>	<b>\$ 6,106</b>	<b>\$ 245</b>	<b>\$ (87)</b>	<b>\$ 6,264</b>

### 6. MULTI-STATE LOTTERY ASSOCIATION

MUSL is a non-profit government-benefit association created for the purpose of administering joint lottery games. MUSL included 33 state lottery entities, the District of Columbia, Puerto Rico, and the Virgin Islands during fiscal year 2017. This association offers the Powerball with Powerplay, Mega Millions with Megaplier, and several other Draw games in participating states. The chief executive officer of each member lottery serves on the MUSL board of directors.

As a member of MUSL, the Lottery is required to contribute to various prize reserve funds maintained by MUSL. The prize reserve funds serve as a contingency reserve to protect MUSL from unforeseen prize payments. MUSL periodically reallocates the prize reserve funds among the states based on relative Powerball with Powerplay and Mega Millions with Megaplier sales levels. All remaining funds remitted, and the related interest earnings (net of administrative costs), will be returned to the Lottery upon leaving MUSL, less any portion of unanticipated prize claims that may have been paid from the fund.

As of June 30, 2017, and June 30, 2016, the Lottery had deposits with MUSL of \$24,176,654, and \$22,793,295, respectively, representing the Lottery's deposits of reserve funds.

A copy of the MUSL financial statements may be obtained by submitting a written request to MUSL, 4400 N.W. Urbandale Drive, Urbandale, Iowa 50322.



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### 7. LONG-TERM LIABILITIES

#### A. Grand Prizes Payable

Grand prizes payable at June 30, consisted of (in thousands):

	<u>2017</u>	<u>2016</u>
FLORIDA LOTTO grand prizes (face value)	\$ 250,160	\$ 282,240
MEGA MONEY grand prizes (face value)	8,143	8,848
Win for Life grand prizes (face value)	4,372	6,019
Flamingo Fortune Game Show grand prizes (face value)	100	200
Win a Million grand prizes (face value)	50	100
Lucky for Life grand prizes (face value)	18,750	19,650
Set for Life grand prizes (face value)	1,200	1,380
Cash Spectacular grand prizes (face value)	300	350
Cash for Life grand prizes (face value)	160	170
Loaded for Life grand prizes (face value)	2,350	2,450
Billion Dollar Blockbuster grand prizes (face value)	6,250	6,800
Gas for Life grand prizes (face value)	156	162
2 Million Dollar Casino Action grand prizes (face value)	1,300	1,400
Million Dollar Holiday grand prizes (face value)	700	750
Week for Life grand prizes (face value)	47,372	48,386
Monopoly grand prizes (face value)	2,900	3,100
Million Wishes grand prizes (face value)	750	800
X's The Cash grand prizes (face value)	3,270	3,440
Flamingo grand prizes (face value)	4,320	2,550
Gold Rush grand prizes (face value)	8,640	8,070
Super Millions grand prizes (face value)	5,520	5,760
Less imputed interest	(111,561)	(121,363)
Net present value of grand prizes payable	<u>\$ 255,202</u>	<u>\$ 281,262</u>
Current prizes payable from restricted assets	\$ 25,540	\$ 43,294
Noncurrent prizes payable from restricted assets	229,662	237,968
<b>Total grand prizes payable</b>	<u><u>\$ 255,202</u></u>	<u><u>\$ 281,262</u></u>

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The following depicts by fiscal year the value (in thousands) of the grand prize annuities to pay prizewinners:

Year Ending June 30,	Amount
2018	\$ 26,712
2019	20,847
2020	20,847
2021	20,847
2022	20,847
2023-2027	111,827
2028-2032	88,893
2033-2037	28,698
2038-2042	19,451
2043-2047	7,794
Grand prizes (face value)	366,763
Less imputed interest	(111,561)
<b>Net present value of grand prizes payable</b>	<b>\$ 255,202</b>

### B. Compensated Absences Payable

Compensated absences payable at June 30 consisted of (in thousands):

	2017	2016
Current compensated absences	\$ 558	\$ 384
Noncurrent compensated absences	3,230	3,456
<b>Total</b>	<b>\$ 3,788</b>	<b>\$ 3,840</b>

### C. Changes in Long-Term Liabilities

Changes in long-term liabilities are summarized as follows (in thousands):

	2016-17				Amount Due Within One Year
	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	
	Grand prizes payable	\$ 281,262	\$ 20,374	\$ (46,434)	
Compensated absences payable	3,840	1,795	(1,847)	3,788	558
Postemployment healthcare benefits payable	6,683	1,550	-	8,233	-
Pension liability - HIS	5,739	813	-	6,552	202
Pension liability - FRS	7,174	6,484	-	13,658	-
<b>Total long-term liabilities</b>	<b>\$ 304,698</b>	<b>\$ 31,016</b>	<b>\$ (48,281)</b>	<b>\$ 287,433</b>	<b>\$ 26,300</b>

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	2015-16				
	Balance	Additions	Reductions	Balance	Amount Due Within One Year
	June 30, 2015			June 30, 2016	
Grand prizes payable	\$ 320,566	\$ 27,115	\$ (66,419)	\$ 281,262	\$ 43,294
Compensated absences payable	3,864	1,588	(1,612)	3,840	384
Postemployment healthcare benefits payable	5,085	1,598	-	6,683	-
Pension liability - HIS	5,385	354	-	5,739	219
Pension liability - FRS	3,299	3,875	-	7,174	-
<b>Total long-term liabilities</b>	<b>\$ 338,199</b>	<b>\$ 34,530</b>	<b>\$ (68,031)</b>	<b>\$ 304,698</b>	<b>\$ 43,897</b>

### 8. DUE TO EDUCATIONAL ENHANCEMENT TRUST FUND

In accordance with the Act, effective July 1, 2005, variable percentages of the gross revenue from the sale of Draw games and Scratch-Off lottery tickets as determined by the Lottery, and other earned revenue, excluding application processing fees, shall be deposited in the EETF as provided in Section 24.121, Florida Statutes, as amended. The amount transferred to the EETF was \$1,656,348,000 for the fiscal year ended June 30, 2017, (26.9 percent of revenues), and \$1,692,551,000 (27.9 percent of revenues) for the fiscal year ended June 30, 2016.

Because the net appreciation in fair value of investments and amortization of grand prizes payable, included in nonoperating revenue and expenses, relate to valuations of the restricted grand prize investments and grand prizes payable, they are excluded from the determination of transfers to the EETF.

Effective July 1, 2005, provisions of the Act relating to the allocation of revenues for public education were revised. The changes in the provisions were designed to maximize the transfers of moneys to the EETF. These revisions resulted in changes in the methodology used to calculate the transfer based on a business model of revenue minus expenses rather than a percent of revenue.

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The amount due to the EETF at June 30 consisted of (in thousands):

	<b>June 30, 2017</b>	<b>June 30, 2016</b>
Draw ticket sales	\$ 1,912,877	\$ 2,107,653
Average percent transferred	38%	39%
Transfer of Draw ticket sales <sup>1</sup>	<u>729,537</u>	<u>823,534</u>
Unclaimed Draw ticket prizes	30,563	35,480
Percent transferred	80%	80%
Transfer of unclaimed Draw ticket prizes	<u>24,450</u>	<u>28,384</u>
Scratch-Off ticket sales	4,243,602	3,954,701
Average percent transferred	20%	20%
Transfer of Scratch-Off ticket sales <sup>1</sup>	<u>843,038</u>	<u>796,118</u>
Unclaimed Scratch-Off ticket prizes	55,751	38,546
Percent transferred	80%	80%
Transfer of unclaimed Scratch-Off ticket prizes	<u>44,601</u>	<u>30,837</u>
Nonoperating revenues (expenses), net	(25,741)	24,290
Add:		
Net (appreciation) depreciation in fair value of investments	17,825	(34,246)
Amortization of grand prizes payable	<u>12,270</u>	<u>14,779</u>
Total Nonoperating revenues, net	<u>4,354</u>	<u>4,823</u>
Change in methodology for addressing pension, postemployment healthcare, and compensated absences expenses	2,757	1,235
Terminal fees and miscellaneous revenue	<u>7,611</u>	<u>7,620</u>
Due for the year	<u>1,656,348</u>	<u>1,692,551</u>
Balance due, beginning of year	158,551	67,371
Paid during the year	<u>(1,743,251)</u>	<u>(1,601,371)</u>
<b>Due to Educational Enhancement Trust Fund, June 30</b>	<u><u>\$ 71,648</u></u>	<u><u>\$ 158,551</u></u>

<sup>1</sup> Amounts do not foot due to rounding of average percent transferred.

## 9. PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

### A. Retirement Programs

The Florida Department of Management Services (DMS) administers the State's pension plans referenced below. Financial statements and other required supplementary information for the plans are included in the Florida Department of Management Services' Florida Retirement System Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report (Pension CAFR). Copies of the Pension CAFR can be obtained from the DMS, Division of Retirement (Division), Research and Education Section, P.O. Box 9000, Tallahassee, Florida 32315-9000; by telephone at 844-377-1888 or 850-907-6500; by e-mail at [rep@dms.myflorida.com](mailto:rep@dms.myflorida.com); or at the Division's Web site ([www.frs.myflorida.com](http://www.frs.myflorida.com)).

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**Florida Retirement System.** The Florida Retirement System (FRS) is a State-administered cost-sharing multiple-employer retirement plan administered by the DMS that offers members (Regular Class, Special Risk Class, and Senior Management Service Class)<sup>1</sup> an initial choice between participating in a defined benefit plan (FRS Pension Plan) or a defined contribution plan (FRS Investment Plan) and one additional choice to change plans before retirement. FRS provisions are established by Chapters 121, 122, and 238, Florida Statutes; Chapter 112, Part IV, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, required employer and employee contributions, and benefits are defined and described in detail. Unless otherwise provided, all employees of participating employers in regularly established positions must be enrolled as members of the FRS or other non-integrated defined contribution plans in lieu of FRS membership.

Benefits in the FRS Pension Plan vest at six years of service for members initially enrolled before July 1, 2011, and at eight years for members initially enrolled on or after July 1, 2011. For members initially enrolled before July 1, 2011, Special Risk Class members are eligible for normal retirement benefits at age 55 and vested or after 25 years of service at any age. All other members initially enrolled before July 1, 2011, are eligible for normal retirement benefits at age 62 and vested or at any age after 30 years of service. For members initially enrolled on or after July 1, 2011, Special Risk Class members are eligible for normal retirement benefits at age 60 and vested or after 30 years of service at any age. All other members initially enrolled on or after July 1, 2011, are eligible for normal retirement benefits at age 65 and vested or at any age after 33 years of service.

Early retirement is available but imposes a penalty for each year a member retires before his or her normal retirement age. Retirement, disability, and death benefits are provided. Retirees with service prior to July 1, 2011, receive annual cost-of-living adjustments. Retirees only with service accrued on or after July 1, 2011, do not receive annual cost-of-living adjustments. Benefits are calculated at retirement based on the age, years of service, accrual value by membership class, and average final compensation (average of highest five fiscal years' salaries if initially enrolled before July 1, 2011, or the average of highest eight fiscal years' salaries if initially enrolled on or after July 1, 2011).

Members of the FRS Pension Plan who reach normal retirement may participate in the Deferred Retirement Option Program (DROP), subject to provisions of Section 121.091(13), Florida Statutes. DROP participants are technically retired, deferring termination and receipt of monthly retirement benefits for up to 60 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

FRS Investment Plan benefits are established in Part II, Chapter 121, Florida Statutes, and participation is available to all FRS members in lieu of the FRS Pension Plan. Members vest

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<sup>1</sup> Regular Class includes members of the FRS who do not qualify for membership in the other classes. Special Risk Class includes members who are employed as law enforcement officers and the Senior Management Service Class includes members in senior management level positions.

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after one year of creditable service for Investment Plan contributions. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the FRS Investment Plan, six years or eight years, depending upon initial enrollment date of service (including the service credit represented by the transferred funds), is required to be vested for these funds and the earnings on the funds. Benefits under the FRS Investment Plan are based on the account balance at retirement composed of contributions plus investment gains less investment losses and fees. If the member is totally and permanently disabled from all employment, the member can transfer the account balance to the Pension Plan to receive a monthly disability benefit. Employer and employee contributions are a percentage of salary based on membership class. Contributions are directed to individual member accounts and the individual members allocate contributions and account balances among various approved investment choices offered under the plan.

The Florida Legislature established uniform contribution rates for participating FRS employees. FRS employers pay the same contribution rate by membership class regardless of whether the members participate in the FRS Pension Plan or FRS Investment Plan. Contribution rates as a percentage of gross salary are as follows:

Class	Employee Rate Fiscal Year Ended June 30, 2017	Employer Rate Fiscal Year Ended June 30, 2017 <sup>(1)</sup>	Employee Rate Fiscal Year Ended June 30, 2016	Employer Rate Fiscal Year Ended June 30, 2016 <sup>(1)</sup>
Senior Management Service	3.00 percent	21.77 percent	3.00 percent	21.43 percent
Regular	3.00 percent	7.52 percent	3.00 percent	7.26 percent
Special Risk	3.00 percent	22.57 percent	3.00 percent	22.04 percent
DROP - Applicable to members from all of the above classes	0.00 percent	12.99 percent	0.00 percent	12.88 percent

Note: (1) Total employer contribution rates above include 1.66 percent for the fiscal years ended June 30, 2017, and June 30, 2016, for the Retiree Health Insurance Subsidy Program. Also, employer rates, other than for DROP participants, include 0.06 percent and 0.04 percent for fiscal years ended June 30, 2017, and June 30, 2016, respectively, for administration costs of the financial education program and the FRS Investment Plan. Required employee contributions are deducted on a pre-tax basis.

***FRS Contributions and Contributions as a Percentage of Covered Payroll.*** The Lottery's employer contributions and contribution as a percentage of covered payroll for the FRS Pension Plan and FRS Investment Plan for the fiscal years ended June 30, 2017, June 30, 2016, and June 30, 2015, are as follows:

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Plan	Fiscal Year Ended June 30, 2017	Fiscal Year Ended June 30, 2016	Fiscal Year Ended June 30, 2015
Employer Contributions:			
FRS Pension Plan	\$ 1,376,838	\$ 1,319,074	\$ 1,354,333
FRS Investment Plan	\$ 402,691	\$ 153,887	\$ 328,836
Contributions as a Percentage of Covered Payroll:			
FRS Pension Plan	7.90%	8.25%	8.47%
FRS Investment Plan	9.61%	4.56%	9.75%

**Senior Management Service Optional Annuity Program.** Some Lottery employees also participate in the Senior Management Service Optional Annuity Program (SMSOAP). Offered in lieu of FRS participation, the SMSOAP is a defined contribution plan that provides retirement and death benefits to the participant pursuant to Section 121.055, Florida Statutes. Participants have full and immediate vesting of all contributions paid on their behalf to the participating provider companies to invest as directed by the participants. Employees in eligible State positions may make an irrevocable election to participate in the SMSOAP in lieu of the Senior Management Service Class. Employers contributed 6.27 percent of covered payroll for July 2014 through June 2017. This contribution rate includes a contribution that would otherwise be paid to the Retiree Health Insurance Subsidy Program (HIS) described below so the SMSOAP retiree is not eligible to receive monthly HIS benefits. Additionally, state agencies are required to make a contribution as a percent of covered payroll that is transferred to the FRS Trust Fund to help amortize the unfunded actuarial liability (UAL). The required UAL contribution rate for fiscal year ended June 30, 2017, was 15.67 percent. A participant may contribute by salary reduction an amount not to exceed the percentage contributed by the employer. The Lottery's contributions for the fiscal years ended June 30, 2017, June 30, 2016, and June 30, 2015, totaled \$47,344, \$13,015, and \$40,134 respectively.

**Retiree Health Insurance Subsidy Program.** The HIS was created by the Florida Legislature in 1987 to assist FRS retirees in paying health insurance costs. HIS is a non-qualified, cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes. For the fiscal years ended June 30, 2017, June 30, 2016, and June 30, 2015, eligible retirees or beneficiaries received a monthly HIS payment equal to the number of years of creditable service completed at the time of retirement multiplied by \$5. The payments to individual retirees or beneficiaries were at least \$30 but not more than \$150 per month. To be eligible to receive HIS, an FRS retiree must apply for the benefit, certify health insurance coverage, which can include Medicare or TRICARE, and be approved.

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HIS is funded by required contributions from FRS participating employers. For the fiscal years ended June 30, 2017, June 30, 2016, and June 30, 2015, required contributions were 1.66 percent, 1.66 percent, and 1.26 percent, respectively, of payroll for all active employees covered by the FRS, pursuant to Section 112.363, Florida Statutes. For the fiscal years ended June 30, 2017, June 30, 2016, and June 30, 2015, the Lottery contributed \$285,895, \$288,150, and \$215,070, respectively, in employer contributions to the HIS. HIS contributions are deposited in a DMS trust fund from which HIS payments are authorized. HIS benefits are not guaranteed and are subject to legislative appropriation. If these contributions or appropriation fail to provide full subsidy benefits to all participants, the Legislature may reduce or cancel the subsidy payments.

***Deferred Compensation Plan.*** The Lottery, through the State of Florida, offers its employees a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code. The plan (refer to Section 112.215, Florida Statutes), available to all regular payroll State employees, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseen emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in trust for the exclusive benefit of participants and their beneficiaries as mandated by Title 26, Section 457(g)(1), United States Code.

The Lottery does not contribute to the plan. Participation under the plan is solely at the discretion of the employee.

The State has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary and prudent investor. Pursuant to Section 112.215, Florida Statutes, the Deferred Compensation Trust Fund is created in the State Treasury.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.*** Effective July 1, 2014, the Lottery implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, which significantly changed the Lottery's accounting for pension amounts related to the two defined benefit plans it participates in, the FRS Pension Plan and the HIS (Plans).

For purposes of measuring the net pension liabilities, pension expense, and related deferred outflows/inflows of resources, information about the fiduciary net position of the Plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the DMS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. Detailed information about the Plans' fiduciary net position is available in the Pension CAFR.



## 2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

At June 30, 2017, the Lottery reported a net pension liability of \$13,657,797 for its proportionate share of the FRS Pension Plan's net pension liability and \$6,551,910 for its proportionate share of the HIS net pension liability, for a total net pension liability of \$20,209,707. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was based on actuarial valuations as of July 1, 2016, for the Plans. The Lottery's proportionate share of the net pension liability was based on 2015-16 fiscal year contributions to the Plans relative to the total 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the Lottery's proportionate share of the FRS Pension Plan net pension liability was 0.054090117 percent, which was a 2.63 percent decrease from its proportionate share measured as of June 30, 2015, of 0.055549065 percent. The Lottery's proportionate share of the HIS net pension liability at June 30, 2016, was 0.056217445 percent, which was a 0.08 percent decrease from its proportion as of June 30, 2015, of 0.056262384 percent. For the fiscal year ended June 30, 2017, the Lottery recognized pension expense of \$2,394,152 for the FRS Pension Plan and \$528,046 for the HIS, for pension expense totaling \$2,922,198. At June 30, 2017, the Lottery reported deferred outflows of resources and deferred inflows of resources related to the Plans from the following sources:

	<b>FRS Pension Plan</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$ 1,045,746.00	\$ 127,163
Changes in assumptions	826,256	-
Net difference between projected and actual earnings on pension plan investments	3,530,374	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,580,697	583,396
Employer contributions subsequent to the measurement date	1,376,838	-
	<u>1,376,838</u>	<u>-</u>
<b>Total</b>	<b>\$ 8,359,911</b>	<b>\$ 710,559</b>
	<u><u>8,359,911</u></u>	<u><u>710,559</u></u>
 <b>HIS</b>		
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$ -	\$ 14,923
Changes in assumptions	1,028,161	-
Net difference between projected and actual earnings on pension plan investments	3,313	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	194,641	281,016
Employer contributions subsequent to the measurement date	285,895	-
	<u>285,895</u>	<u>-</u>
<b>Total</b>	<b>\$ 1,512,010</b>	<b>\$ 295,939</b>
	<u><u>1,512,010</u></u>	<u><u>295,939</u></u>

## 2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

The Lottery's contributions subsequent to the measurement date of \$1,376,838 for the FRS Pension Plan and \$285,895 for the HIS are reported as deferred outflows of resources and will be recognized as a reduction of the total net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<b>FRS Pension Plan</b>	<b>HIS</b>	<b>Totals</b>
2018	\$ 1,038,262	\$ 165,697	\$ 1,203,959
2019	1,038,262	165,697	1,203,959
2020	2,414,621	165,066	2,579,687
2021	1,535,737	164,764	1,700,501
2022	190,497	139,656	330,153
2023-24	55,136	129,296	184,432
	<u>\$ 6,272,514</u>	<u>\$ 930,176</u>	<u>\$ 7,202,690</u>

**Actuarial Methods and Assumptions.** Actuarial assumptions for both defined benefit cost-sharing plans, the FRS Pension Plan and the HIS, are reviewed annually by the Florida Retirement System Actuarial Assumptions Conference. The most recent experience study for the FRS Pension Plan was completed in 2014 for the period July 1, 2008, through June 30, 2013. Because the HIS is funded on a pay-as-you-go basis, no experience study has been completed for this program.

The total pension liability for FRS Pension Plan and HIS were determined by actuarial valuations as of July 1, 2016, using the entry age normal actuarial cost method. Inflation increases for both plans is assumed at 2.60 percent. Payroll growth for both Plans is assumed at 3.25 percent.

Both the discount rate and the long-term expected rate of return used for FRS Pension Plan investments are 7.60 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from participating employers will be made at the statutorily required rates. Based on these assumptions, the FRS Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return and was applied to all periods of projected benefit payments to determine the total pension liability.

Because the HIS uses a pay-as-you-go funding structure, a municipal bond rate of 2.85 percent was used to determine the total pension liability for the plan. Mortality assumptions for both plans were based on the Generational RP-2000 with Projection Scale BB tables (refer to the valuation reports at [www.frs.myflorida.com](http://www.frs.myflorida.com) for more information).

There were no changes in benefit terms for either the FRS Pension Plan or the HIS that affected the total pension liability since the prior measurement date. There were no changes

## 2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

between the measurement date and the reporting date which significantly impact the Lottery's proportionate share of the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense for either the FRS Pension Plan or the HIS.

The following changes in actuarial assumptions occurred in 2016:

FRS Pension Plan: As of June 30, 2016, the long-term expected rate of return decreased from 7.65 percent to 7.60 percent. The mortality assumption for plan members during the period while they are in FRS-covered employment was updated.

HIS: The municipal rate used to determine total pension liability decreased from 3.80 percent to 2.85 percent.

The long-term expected rate of return on FRS Pension Plan investments was determined using a forward-looking capital market economic model, which includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Cash	1.00%	3.00%
Fixed income	18.00%	4.70%
Global equity	53.00%	8.10%
Real estate (property)	10.00%	6.40%
Private equity	6.00%	11.50%
Strategic investments	12.00%	6.10%
	100.00%	

**Sensitivity Analysis.** The following tables demonstrate the sensitivity of the net pension liability to changes in the discount rate. The sensitivity analysis shows the impact to the Lottery's proportionate share of each plan's net pension liability if the discount rate was 1.00 percent higher or 1.00 percent lower than the current discount rate at June 30, 2016.

FRS Pension Plan			HIS		
Current			Current		
1% Decrease	Discount Rate	1% Increase	1% Decrease	Discount Rate	1% Increase
6.60%	7.60%	8.60%	1.85%	2.85%	3.85%
\$ 25,144,929	\$ 13,657,797	\$ 4,096,277	\$ 7,516,530	\$ 6,551,910	\$ 5,751,329

### B. Postemployment Healthcare Benefits

The Lottery participates in the State Employees' Group Health Insurance Program, a cost-sharing multiple-employer defined benefit healthcare plan administered by the DMS, Division of State Group Insurance, to provide group health benefits. Section 110.123, Florida Statutes, provides that retirees may participate in the State's group health insurance programs. Benefit provisions are described by the statute, and along with contributions, can be amended by the Florida Legislature. Although retirees pay 100 percent of the premium

## 2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

amounts, the premium cost to the retiree is implicitly subsidized due to increasing healthcare costs with age and the commingling of claims experience in a single risk pool with a single premium determination for active employees and retirees under age 65. An actuarial valuation has been performed for the plan and the Lottery's employees were included in the actuarial analysis. For more information on the plan regarding the funding policy and actuarial methods and assumptions, see the State of Florida's Comprehensive Annual Financial Report, which is available from the Department of Financial Services.

In accordance with GASB Codification Section Po50, *Postemployment Benefit Plans Other Than Pension Plans - Defined Benefit*, the Lottery is required to record its portion of the implicit postemployment health benefit liability. Postemployment health benefits payable at June 30, 2017, June 30, 2016, and June 30, 2015, was \$8,233,000, \$6,683,000, and \$5,085,000, respectively.

### 10. OPERATING LEASES

The Lottery has entered into operating leases for the rental of office and warehouse space for the headquarters and district offices as well as the rental of office equipment. Certain leases are renewable at the option of the Lottery.

Future minimum rental payments as of June 30, 2017, are scheduled as follows (in thousands):

<u>Year Ending June 30</u>	<u>Headquarters</u>	<u>Districts</u>	<u>Office Equipment</u>	<u>Total</u>
2018	\$ 2,801	\$ 1,148	\$ 56	\$ 4,005
2019	234	1,187	56	1,477
2020	-	1,032	55	1,087
2021	-	847	14	861
2022	-	843	-	843
2023-2027	-	4,099	-	4,099
2028-2032	-	3,951	-	3,951
2033-2034	-	836	-	836
<b>Total</b>	<u>\$ 3,035</u>	<u>\$ 13,943</u>	<u>\$ 181</u>	<u>\$ 17,159</u>

Rental expense under all operating leases totaled approximately \$3,957,000 and \$3,928,000 for the fiscal years ended June 30, 2017, and June 30, 2016, respectively.

### 11. VENDOR SUPPORT FUNDS

Each of the gaming vendor contracts requires the vendors to provide a fund for marketing support activities as directed by the Lottery. The vendors are required to make deposits into the designated accounts either weekly or monthly and distribute the funds as directed by the Lottery. The funds are used for market research and other expenses directly linked to product sales. Vendor balances committed for marketing research vary with timing of marketing initiatives, industry developments, and changes in technology. Actual cash balances for these funds at June 30, 2006, through June 30, 2017, ranged from \$1,058,000 to \$5,196,000. Each

## 2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

contract requires that any funds remaining in the accounts at the end of each contract's term will be returned to the Lottery for transfer to the EETF. Historically, no balances have reverted to the Lottery. The contract with IGT was extended in December 2016.

Vendor support fund activities are summarized as follows (in thousands):

<b>2016-17 Vendor Support Funds</b>				
	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
IGT	\$ 307	\$ 360	\$ (520)	\$ 147
Scientific Games	4,354	5,517	(4,822)	5,049
<b>Total Vendor Support</b>	<b>\$ 4,661</b>	<b>\$ 5,877</b>	<b>\$ (5,342)</b>	<b>\$ 5,196</b>

<b>2015-16 Vendor Support Funds</b>				
	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
IGT	\$ 229	\$ 360	\$ (282)	\$ 307
Scientific Games	1,840	5,200	(2,686)	4,354
<b>Total Vendor Support</b>	<b>\$ 2,069</b>	<b>\$ 5,560</b>	<b>\$ (2,968)</b>	<b>\$ 4,661</b>

### 12. OTHER COMMITMENTS

The Lottery has contractual agreements under which Draw and Scratch-Off lottery game vendors provide gaming systems, tickets, and related services. The Lottery's Draw gaming vendor is compensated at a rate of 1.0699 percent of net Draw game ticket sales. The vendor's compensation for Draw games and for the provision of full service vending machines for the fiscal years ended June 30, 2017, and June 30, 2016, was \$30,301,000 and \$32,650,000, respectively.

The Lottery's Scratch-Off ticket vendor is currently compensated at rates that range from 0.9776 percent to 2.3421 percent based on ticket price points and total annual sales. Compensation under this agreement and the agreement for the provision of instant ticket vending machines amounted to \$58,615,000 for the fiscal year ended June 30, 2017, and \$55,591,000 for the fiscal year ended June 30, 2016.

### 13. LITIGATION

The Lottery is involved in litigation and other claims incidental to the ordinary course of its operations. In the opinion of Lottery management, based on the advice of legal counsel, the ultimate disposition of these lawsuits and claims will not have a material adverse effect on the financial position of the Lottery.

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# 2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

## OTHER REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEARS ENDED JUNE 30

### FLORIDA RETIREMENT SYSTEM Schedule of the Lottery's Proportionate Share of the Net Pension Liability and Related Ratios Last Ten Fiscal Years <sup>(1)</sup>

	2016 <sup>(2)</sup>	2015 <sup>(2)</sup>	2014 <sup>(2)</sup>
Lottery's proportion of the net pension liability	0.054090117%	0.055549065%	0.054080631%
Lottery's proportionate share of the net pension liability	\$ 13,657,797	\$ 7,174,907	\$ 3,299,714
Lottery's covered-employee payroll	\$ 17,562,079	\$ 15,985,814	\$ 16,266,000
Lottery's proportionate share of the net pension liability as a percentage of its covered-employee payroll	77.77%	44.88%	20.29%
Plan fiduciary net position as a percentage of the total pension liability	84.88%	92.00%	96.09%

(1) This schedule is intended to report information for ten years. Additional information will be displayed as it becomes available.

(2) The amounts presented for the fiscal year were determined as of 6/30.

### Schedule of the Lottery's Contributions Last Ten Fiscal Years <sup>(1)</sup>

	2017 <sup>(2)</sup>	2016 <sup>(2)</sup>	2015 <sup>(2)</sup>	2014 <sup>(2)</sup>
Contractually required contribution	\$ 1,376,838	\$ 1,319,074	\$ 1,354,333	\$ 1,184,595
Contributions in relation to the contractually required contribution	(1,376,838)	(1,319,074)	(1,354,333)	(1,184,595)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Lottery's covered-employee payroll	\$ 17,435,001	\$ 17,562,079	\$ 15,985,814	\$ 16,266,000
Contributions as a percentage of covered-employee payroll	7.90%	7.51%	8.47%	7.28%

(1) This schedule is intended to report information for ten years. Additional information will be displayed as it becomes available.

(2) The amounts presented for the fiscal year were determined as of 6/30.

# 2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

**RETIREE HEALTH INSURANCE SUBSIDY PROGRAM**  
**Schedule of the Lottery's Proportionate Share of Net Pension Liability**  
**and Related Ratios**  
**Last Ten Fiscal Years <sup>(1)</sup>**

	2016 <sup>(2)</sup>	2015 <sup>(2)</sup>	2014 <sup>(2)</sup>
Lottery's proportion of the net pension liability	0.056217445%	0.056262384%	0.057588909%
Lottery's proportionate share of the net pension liability	\$ 6,551,910	\$ 5,737,878	\$ 5,384,704
Lottery's covered-employee payroll	\$ 17,354,507	\$ 15,969,897	\$ 16,175,000
Lottery's proportionate share of the net pension liability as a percentage of its covered-employee payroll	37.75%	35.93%	33.29%
Plan fiduciary net position as a percentage of the total pension liability	0.97%	0.50%	0.99%

(1) This schedule is intended to report information for ten years. Additional information will be displayed as it becomes available.

(2) The amounts presented for the fiscal year were determined as of 6/30.

**Schedule of the Lottery's Contributions**  
**Last Ten Fiscal Years <sup>(1)</sup>**

	2017 <sup>(2)</sup>	2016 <sup>(2)</sup>	2015 <sup>(2)</sup>	2014 <sup>(2)</sup>
Contractually required contribution	\$ 285,895	\$ 288,150	\$ 215,070	\$ 197,280
Contributions in relation to the contractually required contribution	(285,895)	(288,150)	(215,070)	(197,280)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Lottery's covered-employee payroll	\$ 17,219,001	\$ 17,354,507	\$ 15,969,897	\$ 16,175,000
Contributions as a percentage of covered-employee payroll	1.66%	1.66%	1.35%	1.22%

(1) This schedule is intended to report information for ten years. Additional information will be displayed as it becomes available.

(2) The amounts presented for the fiscal year were determined as of 6/30.



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## **STATISTICAL SECTION**

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# 2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

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## Overview

This part of the Lottery’s Comprehensive Annual Financial Report provides additional detailed information for use in assessing its financial condition.

Financial Trends – These schedules contain trend information to help assess how the Lottery’s financial position has changed over time.

Schedule A-1 - Net Position by Component .....	60
Schedule A-2 - Changes in Net Position.....	62
Schedule A-3 - Transfers to EETF, Ticket Sales, Prize Expense, and Retailer Commissions .....	64

Revenue Capacity – These schedules present information on the Lottery’s most significant revenue sources and can assist with evaluating the government’s ability to produce its own-source revenues.

Schedule B-1 - Sales by Game.....	66
Schedule B-2 - Ticket Sales Percentages .....	67
Schedule B-3 - Scratch-Off Game Launches and Sales by Price Point.....	68
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Demographic and Economic Information – These schedules include demographic and economic information to communicate the Lottery’s socioeconomic environment.

Schedule C-1 - Demographic and Economic Statistics.....	72
Schedule C-2 - Industry Sector Employment.....	74
Schedule C-3 - Lottery Player Demographics.....	76

Operating Information – These schedules include operating data to assist with understanding how information in the Lottery’s financial reports relate to services provided or activities performed by the Lottery.

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**Net Position by Component  
For the Last Ten Fiscal Years  
(in thousands)**

Schedule A-1

	Fiscal Year				
	2008	2009	2010	2011	2012
Invested in capital assets	\$ 1,279	\$ 1,235	\$ 1,421	\$ 1,248	\$ 1,356
Restricted for undistributed appreciation on restricted investments	85,206	67,281	109,494	86,237	110,012
Restricted for Restricted Prize Pool	44,662	32,661	-	-	-
Restricted for MUSL <sup>1</sup>	-	3,073	9,336	15,926	19,995
Restricted for future prizes or special prize promotions	28,663	17,929	13,857	18,559	5,238
Unrestricted	-	-	-	-	-
<b>Total Net Position</b>	<b>\$ 159,810</b>	<b>\$ 122,179</b>	<b>\$ 134,108</b>	<b>\$ 121,970</b>	<b>\$ 136,601</b>
Percent change from prior year	72%	-24%	10%	-9%	12%

Note: Reporting standards require that net position be reported in three components in the financial statements: net investment in capital assets; restricted; and unrestricted. See Schedule A-2 for changes in net position from year to year.

<sup>1</sup> Multi-State Lottery Association

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Schedule A-1

Fiscal Year				
2013	2014	2015	2016	2017
\$ 3,215	\$ 4,243	\$ 5,820	\$ 6,106	\$ 6,264
67,195	58,009	51,800	70,871	40,440
-	-	-	-	-
19,037	19,817	21,766	22,793	24,177
15,854	15,592	21,528	28,268	30,882
-	-	(19,371)	(20,608)	(23,366)
<u>\$ 105,301</u>	<u>\$ 97,661</u>	<u>\$ 81,543</u>	<u>\$ 107,430</u>	<u>\$ 78,397</u>
-23%	-7%	-17%	32%	-27%

**2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**Changes in Net Position  
For the Last Ten Fiscal Years  
(in thousands)**

Schedule A-2

	Fiscal Year			
	2008	2009	2010	2011
<b>Operating Revenues</b>				
Scratch-Off	\$ 2,368,781	\$ 2,064,135	\$ 2,078,133	\$ 2,225,676
LOTTO	778,954	650,603	445,881	411,389
FANTASY 5	309,445	287,285	281,963	282,777
PICK 3/CASH 3	336,096	320,157	304,039	313,270
PICK 4/PLAY 4	227,940	238,957	235,027	235,692
RAFFLE	30,818	41,314	29,334	12,603
MEGA MONEY/LUCKY MONEY	122,742	102,190	92,060	88,971
LUCKY LINES	-	-	-	45,369
MEGA MILLIONS with Megaplier	-	-	-	-
POWERBALL with Power Play	-	233,396	434,062	392,969
Monopoly Millionaires	-	-	-	-
PICK 2	-	-	-	-
PICK 5	-	-	-	-
CASH4LIFE	-	-	-	-
Total ticket sales	4,174,776	3,938,037	3,900,499	4,008,716
Bad debt expense	(674)	(1,256)	(1,075)	(1,212)
<b>Net Ticket Sales</b>	4,174,102	3,936,781	3,899,424	4,007,504
Terminal fees and miscellaneous	7,482	7,198	7,373	7,237
Retailer fees	242	210	226	199
<b>Total Operating Revenues</b>	4,181,826	3,944,189	3,907,023	4,014,940
<b>Operating Expenses</b>				
Prizes	2,476,032	2,340,372	2,346,162	2,460,219
Retailer commissions	235,651	220,548	216,207	223,390
Scratch-Off tickets	55,135	31,893	30,896	35,520
Draw games	26,165	27,982	27,390	27,740
Advertising	34,706	34,353	34,197	33,159
Personal services	27,240	26,857	27,045	27,204
Other contractual services	8,546	7,082	7,474	8,855
Materials and supplies	1,400	2,247	2,309	1,921
Depreciation	695	684	494	310
<b>Total Operating Expenses</b>	2,865,570	2,692,018	2,692,174	2,818,318
<b>Operating Income</b>	1,316,256	1,252,171	1,214,849	1,196,622
<b>Non-Operating Revenue (Expenses)</b>				
Interest	13,465	7,133	6,057	4,893
Securities lending income	53,189	18,183	2,909	3,120
Securities lending fees	(44,888)	(8,980)	(1,520)	(1,400)
Investment management fees	(290)	(327)	(364)	(284)
Net appreciation (depreciation) in fair value of investments	89,149	46,832	90,875	21,662
Property disposition (loss)	(51)	(31)	(4)	(15)
Amortization of grand prizes payable	(76,383)	(64,757)	(54,079)	(44,918)
<b>Total Nonoperating Revenues (Expenses), Net</b>	34,191	(1,947)	43,874	(16,942)
<b>Income Before Operating Transfers</b>	1,350,447	1,250,224	1,258,723	1,179,680
<b>Total Transfers to Educational Enhancement Trust Fund</b>	(1,283,414)	(1,287,855)	(1,246,794)	(1,191,818)
<b>Change in Net Position</b>	67,033	(37,631)	11,929	(12,138)
Net Position, Beginning of Year	92,777	159,810	122,179	134,108
Implementation effect of GASB Statement No. 68	-	-	-	-
<b>Net Position, End of Year</b>	\$ 159,810	\$ 122,179	\$ 134,108	\$ 121,970

**2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT**

Schedule A-2

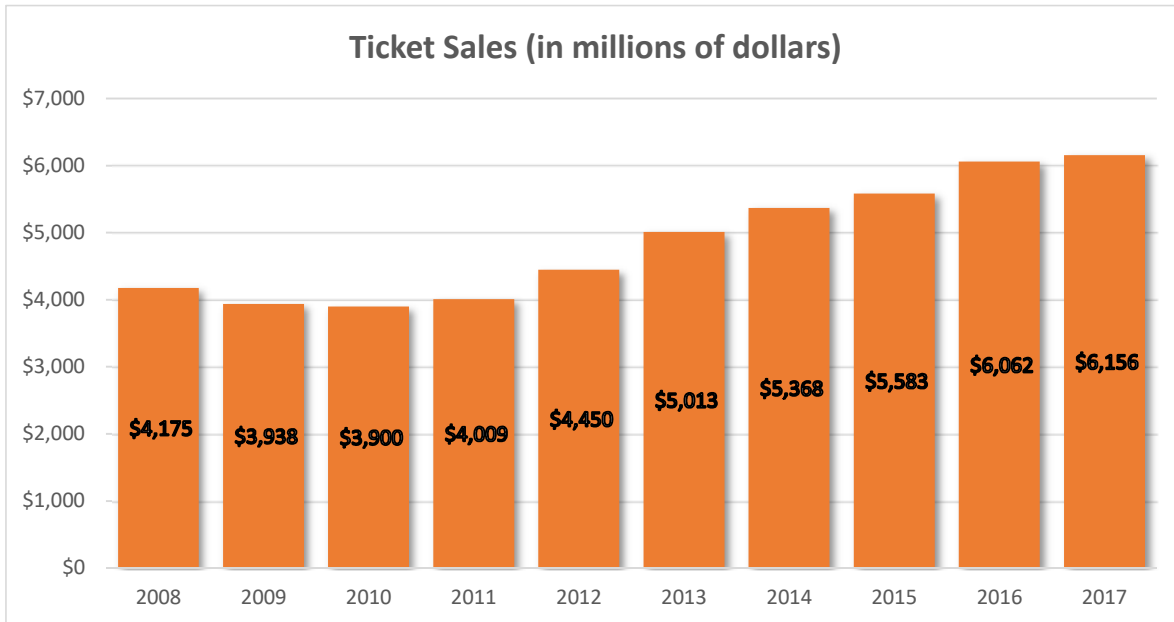
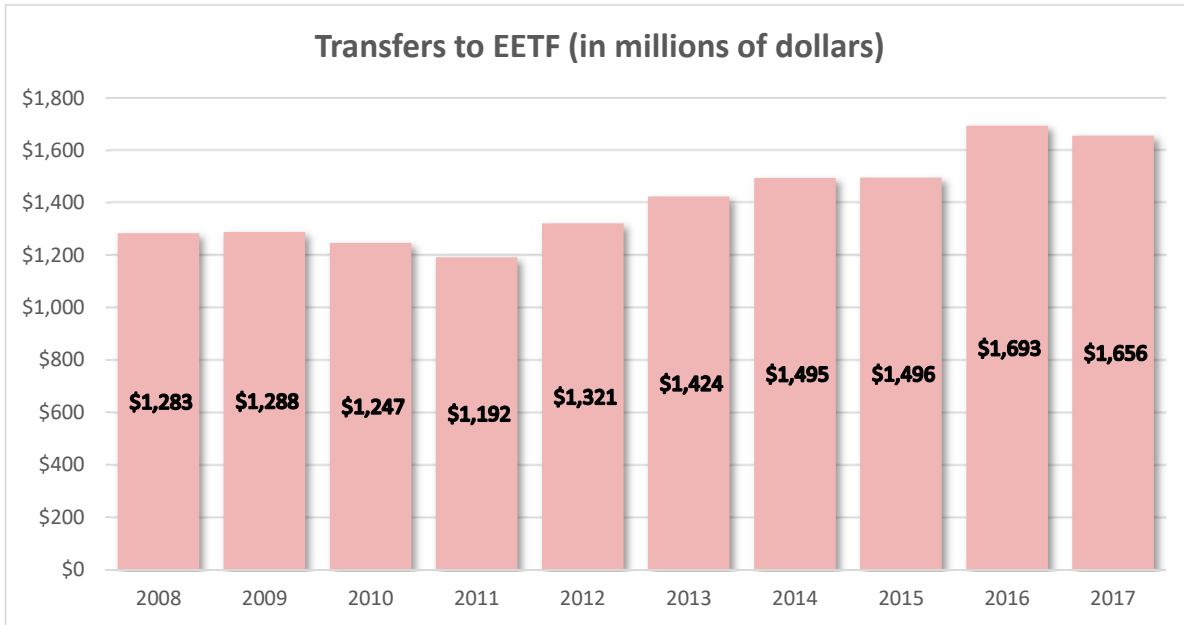
Fiscal Year					
2012	2013	2014	2015	2016	2017
\$ 2,566,991	\$ 3,028,527	\$ 3,417,143	\$ 3,723,995	\$ 3,954,701	\$ 4,243,602
419,040	352,375	349,114	300,961	291,382	253,039
290,672	281,492	288,237	287,803	296,307	275,663
314,747	324,539	339,636	363,251	379,757	348,724
244,711	244,141	257,752	276,217	291,651	249,312
-	12,879	-	-	11,724	11,357
92,346	89,500	79,483	103,196	84,881	89,436
17,692	8,582	-	-	-	-
-	16,698	167,573	147,370	149,950	147,381
503,697	654,263	469,292	375,057	602,001	434,263
-	-	-	5,481	-	-
-	-	-	-	-	23,931
-	-	-	-	-	50,996
-	-	-	-	-	28,775
4,449,896	5,012,996	5,368,230	5,583,331	6,062,354	6,156,479
(1,360)	(912)	(1,337)	(1,263)	(1,487)	(1,073)
4,448,536	5,012,084	5,366,893	5,582,068	6,060,867	6,155,406
7,465	7,773	7,611	7,456	7,439	7,436
193	206	206	196	181	175
4,456,194	5,020,063	5,374,710	5,589,720	6,068,487	6,163,017
2,766,119	3,162,889	3,431,092	3,627,939	3,868,970	3,996,632
247,690	278,493	298,651	311,981	337,007	343,608
38,906	44,193	48,157	51,665	55,591	58,615
27,622	31,012	28,895	29,970	32,650	30,301
33,540	37,696	37,486	37,513	41,180	39,452
26,139	25,730	27,614	27,320	28,379	30,117
8,210	6,801	7,656	8,344	7,941	7,486
1,969	2,156	1,057	2,078	1,662	2,180
446	270	715	441	959	1,570
3,150,641	3,589,240	3,881,323	4,097,251	4,374,339	4,509,961
1,305,553	1,430,823	1,493,387	1,492,469	1,694,148	1,653,056
5,024	3,984	2,776	4,032	4,695	4,829
3,007	2,543	1,534	997	1,163	-
(824)	(1,090)	(327)	(505)	(645)	-
(296)	(376)	(532)	(370)	(405)	(418)
60,221	(13,749)	13,718	12,604	34,246	(17,825)
(4)	(60)	124	64	15	(57)
(36,446)	(29,068)	(22,911)	(18,040)	(14,779)	(12,270)
30,682	(37,816)	(5,618)	(1,218)	24,290	(25,741)
1,336,235	1,393,007	1,487,769	1,491,251	1,718,438	1,627,315
(1,321,604)	(1,424,307)	(1,495,409)	(1,496,371)	(1,692,551)	(1,656,348)
14,631	(31,300)	(7,640)	(5,120)	25,887	(29,033)
121,970	136,601	105,301	97,661	81,543	107,430
-	-	-	(10,998)	-	-
\$ 136,601	\$ 105,301	\$ 97,661	\$ 81,543	\$ 107,430	\$ 78,397



# 2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

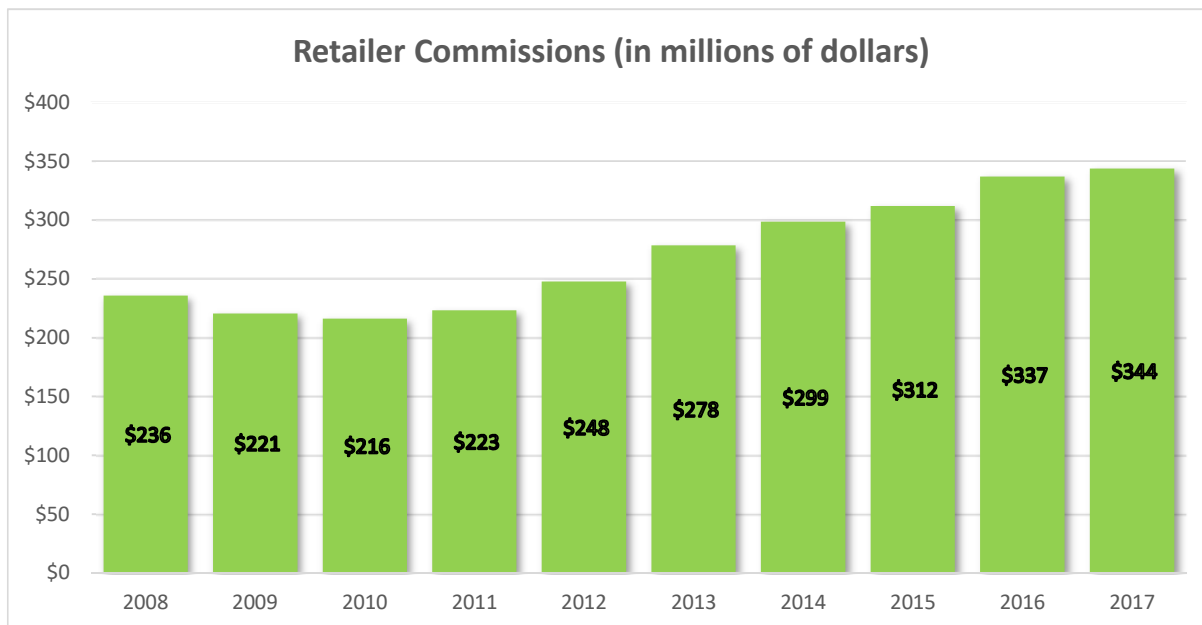
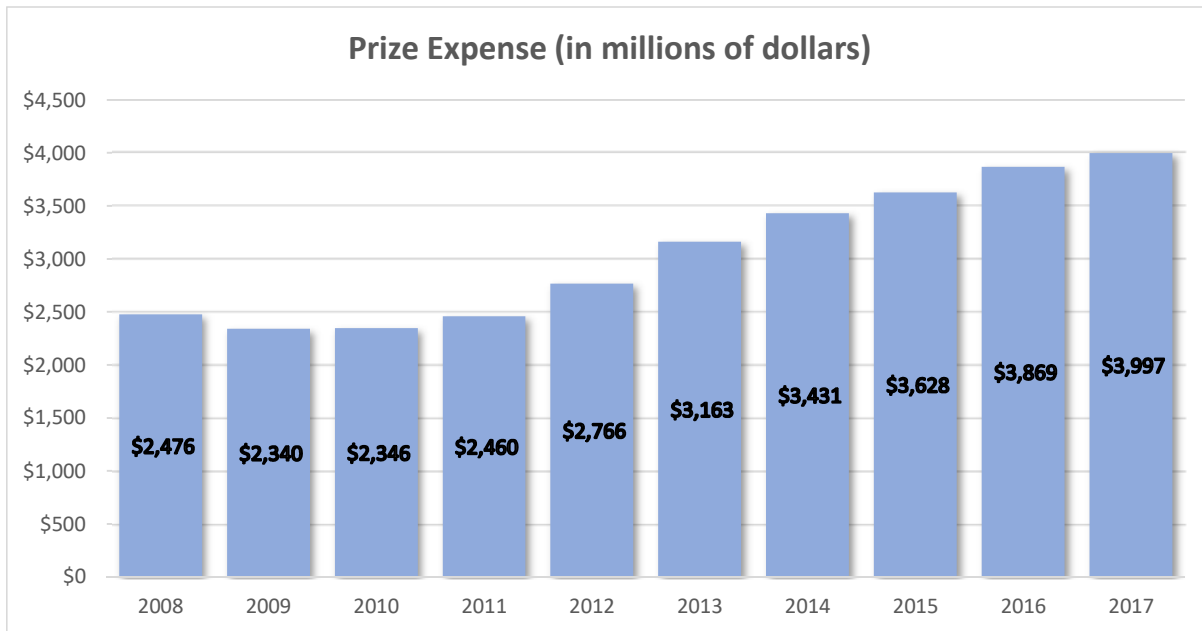
## Transfers to EETF, Ticket Sales, Prize Expense, and Retailer Commissions For the Last Ten Fiscal Years

Schedule A-3



# 2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

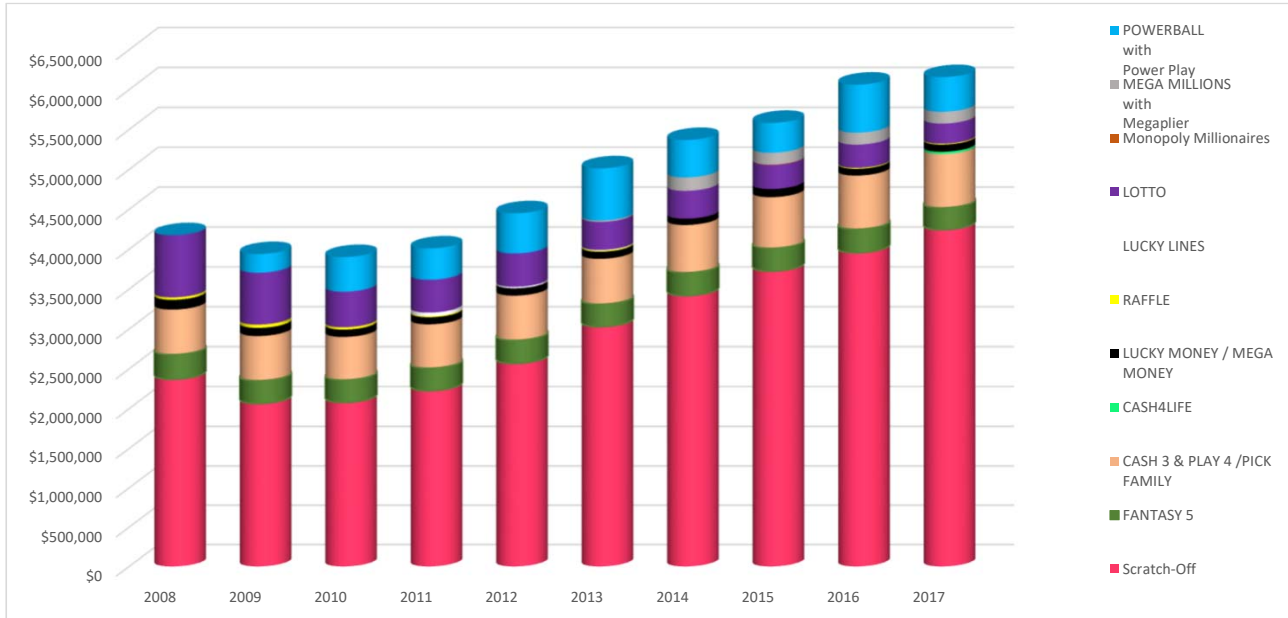
Schedule A-3



2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

Sales by Game  
For the Last Ten Fiscal Years  
(in thousands)

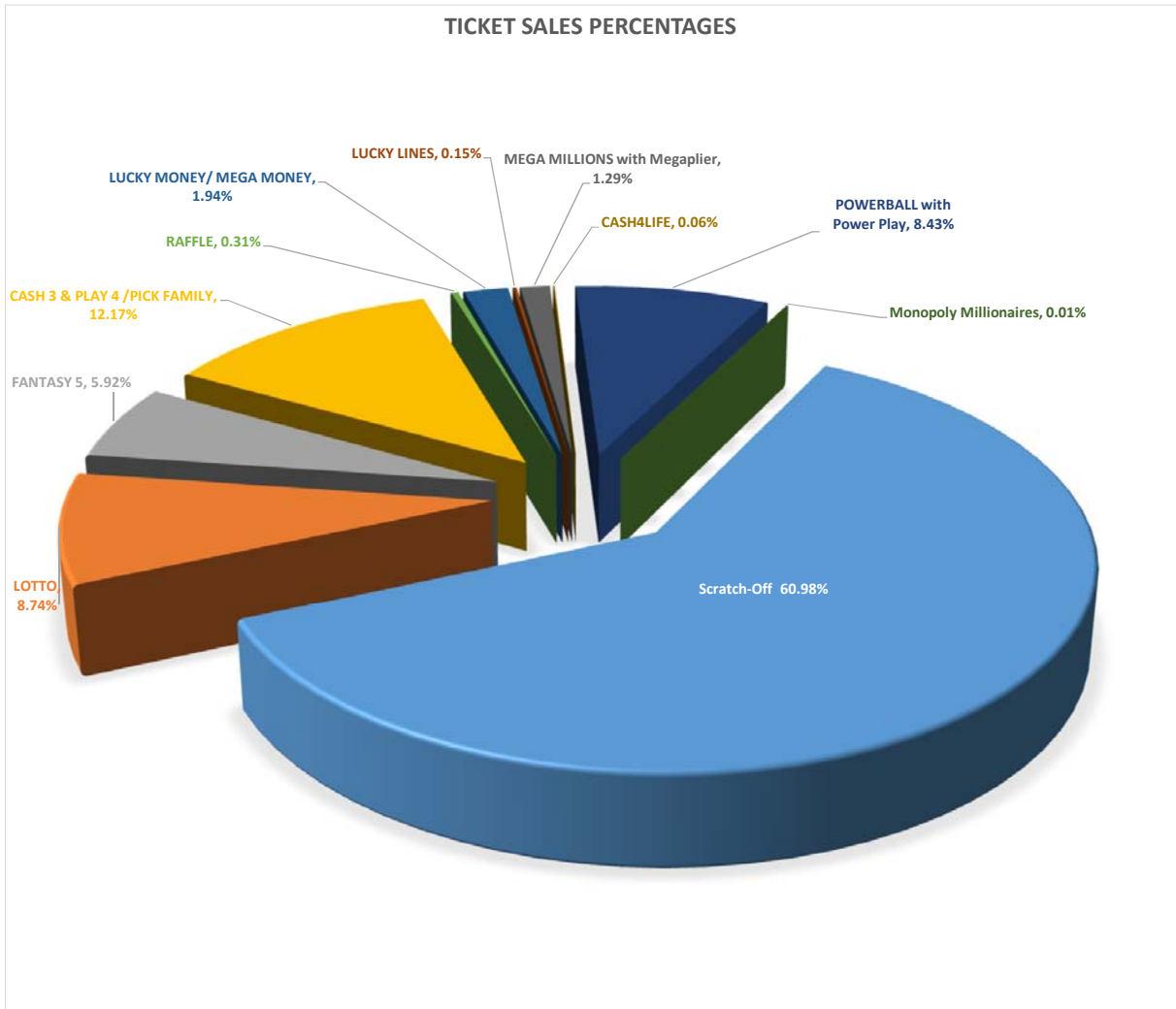
Schedule B-1



Fiscal Year Ended June 30	Scratch-Off	LOTTO	FANTASY 5	CASH 3 & PLAY 4 / PICK FAMILY	CASH4LIFE	LUCKY MONEY / MEGA MONEY	RAFFLE	LUCKY LINES	POWERBALL with Power Play	MEGA MILLIONS with Megaplier	Monopoly Millionaires	Combined Sales
2008	\$ 2,368,781	\$ 778,954	\$ 309,445	\$ 564,036	\$ -	\$ 122,742	\$ 30,818	\$ -	\$ -	\$ -	\$ -	\$ 4,174,776
2009	2,064,135	650,603	287,285	559,114	-	102,190	41,314	-	233,396	-	-	3,938,037
2010	2,078,133	445,881	281,963	539,066	-	92,060	29,334	-	434,062	-	-	3,900,499
2011	2,225,676	411,389	282,777	548,962	-	88,971	12,603	45,369	392,969	-	-	4,008,716
2012	2,566,991	419,040	290,672	559,458	-	92,346	-	17,692	503,697	-	-	4,449,896
2013	3,028,527	352,375	281,492	568,680	-	89,500	12,879	8,582	654,263	16,698	-	5,012,996
2014	3,417,143	349,114	288,237	597,388	-	79,483	-	-	469,292	167,573	-	5,368,230
2015	3,723,995	300,961	287,803	639,468	-	103,196	-	-	375,057	147,370	5,481	5,583,331
2016	3,954,701	291,382	296,307	671,408	-	84,881	11,724	-	602,001	149,950	-	6,062,354
2017	4,243,602	253,039	275,663	672,963	28,775	89,436	11,357	-	434,263	147,381	-	6,156,479

Ticket Sales Percentages  
For the Last Ten Fiscal Years

Schedule B-2



## 2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

### Scratch-Off Game Launches and Sales by Price Point For the Last Ten Fiscal Years

Schedule B-3

Price Point	Fiscal Year					
	2008	2009	2010	2011	2012	2013
<b>Number of Game Launches</b>						
\$1	13	13	11	12	12	9
\$2	15	18	11	12	14	14
\$3	-	3	3	5	5	3
\$5	14	13	10	15	12	10
\$10	4	4	2	3	3	3
\$20	2	2	3	2	2	1
\$25	-	-	-	-	-	1
\$30	1	-	-	-	-	-
	<u>49</u>	<u>53</u>	<u>40</u>	<u>49</u>	<u>48</u>	<u>41</u>
<b>Sales (in thousands)</b>						
\$1	\$ 159,999	\$ 145,816	\$ 170,760	\$ 165,628	\$ 172,780	\$ 182,095
\$2	353,582	329,235	328,764	319,795	389,265	426,216
\$3	-	51,954	124,819	172,642	178,627	198,364
\$5	532,473	432,448	404,513	481,494	539,443	605,275
\$10	384,945	303,311	297,754	333,783	345,680	411,888
\$20	781,525	672,192	680,113	752,334	941,196	829,443
\$25	-	-	-	-	-	375,246
\$30	156,257	129,179	71,410	-	-	-
	<u>\$ 2,368,781</u>	<u>\$ 2,064,135</u>	<u>\$ 2,078,133</u>	<u>\$ 2,225,676</u>	<u>\$ 2,566,991</u>	<u>\$ 3,028,527</u>

## 2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

Schedule B-3

Fiscal Year					
2014	2015	2016	2017	Total	% of Total 2017
<b>Number of Game Launches</b>					
10	10	8	9	107	21.95%
12	12	9	11	128	26.83%
3	2	1	3	28	7.32%
10	10	9	11	114	26.83%
3	4	3	4	33	9.76%
2	1	1	2	18	4.88%
1	1	1	1	5	2.44%
-	-	-	-	1	-
41	40	32	41	434	100.00%
<b>Sales (in thousands)</b>					
\$ 181,772	\$ 186,155	\$ 196,556	\$ 194,399	\$ 1,755,960	4.58%
444,056	477,036	502,346	508,240	4,078,535	11.98%
173,207	157,783	135,399	154,243	1,347,038	3.63%
702,937	743,071	875,444	867,577	6,184,675	20.44%
404,989	501,139	567,977	655,227	4,206,693	15.44%
969,861	1,002,548	973,527	1,146,288	8,749,027	27.01%
540,321	656,263	703,452	717,628	2,992,910	16.91%
-	-	-	-	356,846	0.00%
\$ 3,417,143	\$ 3,723,995	\$ 3,954,701	\$ 4,243,602	\$ 29,671,684	100.00%

**2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**Number of Retailers and Sales by District  
For the Last Ten Fiscal Years**

Schedule B-4

Number of Retailers by District	Fiscal Year					
	2008	2009	2010	2011	2012	2013
District						
Fort Myers	1,247	1,238	1,238	1,236	1,251	1,252
Gainesville	840	840	835	838	836	835
Jacksonville	1,018	1,046	1,024	1,013	1,009	1,013
Miami	3,242	3,219	3,259	3,265	3,245	3,272
Orlando	2,181	2,162	2,149	2,160	2,168	2,190
Pensacola	673	656	673	668	672	685
Tallahassee	381	385	380	374	377	387
Tampa	2,455	2,403	2,414	2,448	2,472	2,445
West Palm Beach	1,278	1,252	1,221	1,224	1,225	1,249
	<u>13,315</u>	<u>13,201</u>	<u>13,193</u>	<u>13,226</u>	<u>13,255</u>	<u>13,328</u>

**Sales by District\*  
(in thousands)**

District	2011	2012	2013
Fort Myers	\$ 389,193	\$ 436,665	\$ 495,289
Gainesville	230,462	248,080	272,634
Jacksonville	284,052	312,540	359,187
Miami	911,981	1,021,417	1,152,468
Orlando	683,344	751,233	850,547
Pensacola	243,161	269,702	298,756
Tallahassee	121,308	129,598	146,996
Tampa	731,470	815,607	907,782
West Palm Beach	413,745	465,054	529,337
	<u>\$ 4,008,716</u>	<u>\$ 4,449,896</u>	<u>\$ 5,012,996</u>

\*Sales by District is not readily available prior to 2011.

**2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT**

Schedule B-4

Fiscal Year			
2014	2015	2016	2017
1,247	1,250	1,257	1,266
842	839	829	823
1,026	1,016	1,018	1,020
3,231	3,193	3,202	3,172
2,202	2,179	2,183	2,197
666	658	665	681
383	382	389	386
2,415	2,363	2,375	2,355
1,254	1,241	1,245	1,254
<u>13,266</u>	<u>13,121</u>	<u>13,163</u>	<u>13,154</u>

2014	2015	2016	2017	Total	% of Total Sales
\$ 537,065	\$ 565,408	\$ 615,229	\$ 628,123	\$ 3,666,972	10.01%
299,433	317,574	343,318	356,612	2,068,113	5.64%
404,505	428,266	458,174	477,954	2,724,678	7.44%
1,208,118	1,227,125	1,367,195	1,333,364	8,221,668	22.44%
928,474	981,175	1,050,312	1,071,251	6,316,336	17.24%
309,236	321,788	351,814	364,132	2,158,589	5.89%
167,641	180,174	189,304	191,233	1,126,254	3.07%
943,959	981,708	1,052,556	1,088,431	6,521,513	17.80%
569,799	580,113	634,452	645,379	3,837,879	10.47%
<u>\$ 5,368,230</u>	<u>\$ 5,583,331</u>	<u>\$ 6,062,354</u>	<u>\$ 6,156,479</u>	<u>\$ 36,642,002</u>	<u>100.00%</u>



**2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**Demographic and Economic Statistics  
For the Last Ten Calendar Years**

Schedule C-1

Year <sup>(3)</sup>	Population				Personal Income (in millions)	
	Florida - April 1	Percent Change from Prior Year	U.S. - July 1	Percent Change from Prior Year	Florida	U.S.
2007	18,446,768	1.61%	301,231,207	0.96%	\$ 730,814	\$ 12,000,175
2008	18,613,905	0.91%	304,093,966	0.95%	734,691	12,502,225
2009	18,687,425	0.39%	306,771,529	0.88%	691,356	12,094,800
2010	18,801,332	0.61%	309,346,863	0.84%	728,064	12,477,125
2011	18,905,070	0.55%	311,718,857	0.77%	773,316	13,254,525
2012	19,074,434	0.90%	314,102,623	0.76%	793,104	13,915,125
2013	19,259,543	0.97%	316,427,395	0.74%	798,886	14,073,675
2014	19,507,369	1.29%	318,907,401	0.78%	853,318	14,809,750
2015	19,815,183	1.58%	321,418,820	0.79%	900,636	15,458,525
2016	20,148,654	1.68%	323,889,854	0.77%	940,615	15,970,750

<sup>(1)</sup> Unemployment Assistance rates are annualized (average of monthly rates).

<sup>(2)</sup> School enrollment is by state fiscal year and other data are by calendar year, April 1, or July 1.

<sup>(3)</sup> Demographic data for calendar year 2017 is unavailable as of the issue date of this report.

Note: Historical data are from the: U.S. Department of Commerce, University of Florida, U.S. Department of Labor, and Florida Department of Education. Forecast data are based on the Florida Demographic Estimating Conference, and the National and Florida Economic Estimating Conferences, November 2016.

Source: Florida Department of Financial Services, Bureau of Financial Reporting

# 2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

Schedule C-1

Per Capita Personal Income		Unemployment Assistance Rate <sup>(1)</sup>		Median Age	Public School Enrollment <sup>(2)</sup>
Florida	U.S.	Florida	U.S.	Florida	Florida
\$ 39,617	\$ 39,837	4.0%	4.6%	39.9	2,662,701
39,470	41,113	6.3%	5.8%	40.1	2,652,684
36,996	39,426	10.4%	9.3%	40.4	2,628,754
38,724	40,334	11.1%	9.6%	40.6	2,634,382
40,905	42,521	10.0%	8.9%	40.9	2,643,396
41,579	44,301	8.5%	8.1%	41.0	2,667,830
41,480	44,477	7.3%	7.4%	41.1	2,691,322
43,743	46,439	6.3%	6.2%	41.3	2,720,074
45,452	48,095	5.4%	5.3%	41.5	2,756,127
46,684	49,309	4.8%	4.9%	41.6	2,791,244

## 2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

### Industry Sector Employment For Calendar Years 2016 and 2007 (in thousands)

Schedule C-2

Industry	Calendar Year 2016		Calendar Year 2007	
	Employment	Percentage of Total Employment <sup>(1)</sup>	Employment	Percentage of Total Employment <sup>(1)</sup>
Retail Trade	1,101	13.02%	1,027	12.69%
Health Care and Social Assistance	1,087	12.85%	898	11.10%
Accommodation and Food Services	952	11.26%	788	9.74%
Local Government	746	8.82%	780	9.64%
Administrative and Waste Services	655	7.74%	615	7.60%
Professional, Scientific, and Technical Services	530	6.27%	460	5.69%
Construction	473	5.59%	623	7.70%
Finance and Insurance	366	4.33%	373	4.61%
Manufacturing	355	4.20%	399	4.93%
Wholesale Trade	339	4.01%	361	4.46%
<b>Total</b>	<b>6,604</b>	<b>78.08%</b>	<b>6,324</b>	<b>78.16%</b>

Note: Privacy requirements prevent the state from obtaining and reporting specific information about the largest employers in the state's jurisdiction. Reporting by industry reveals the degree of concentration in the state's total employment base.

In December 2016 Florida's seasonally adjusted total nonagricultural employment was 8,492,400, an increase of 244,400 jobs (+3.0 percent) over the year. Florida's annual job growth rate had been positive for 77 consecutive months. Prior to August 2010, the state had been losing jobs for three years. In December 2016, nine of the ten major industries gained jobs over the year with professional and business services (+51,800 jobs) gaining the most followed by education and health services (+41,800 jobs).

(1) "Employment" is being calculated based on average total employment by industry for each calendar year. Percentages of "Total" employment are based on the following:

	2016	2007
Total non-agricultural employment	8,383	7,998
Total agricultural employment	75	93
<b>Total employment</b>	<b>8,458</b>	<b>8,091</b>

Source: Florida Department of Financial Services, Bureau of Financial Reporting

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## 2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

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**Lottery Player Demographics  
For the Last 10 Fiscal Years**

Schedule C-3

	Fiscal Year					
	2008	2009	2010	2011	2012	2013
<b>Gender</b>						
Male	50%	51%	51%	52%	51%	51%
Female	50%	49%	49%	48%	49%	49%
<b>Age</b>						
18 to 34	24%	26%	25%	25%	26%	24%
35 to 54	41%	39%	39%	47%	38%	39%
55+	35%	35%	36%	28%	36%	37%
<b>Education</b>						
HS or Less	31%	32%	31%	25%	34%	28%
Some Post Secondary	27%	26%	24%	33%	29%	29%
University+	42%	42%	45%	42%	37%	43%
<b>Race</b>						
White	74%	73%	73%	86%	84%	85%
Other	26%	27%	27%	14%	16%	15%
<b>Hispanic</b>						
Yes	16%	16%	16%	24%	23%	22%
No	84%	84%	84%	76%	77%	78%
<b>Income</b>						
<\$20K	12%	13%	17%	12%	14%	14%
\$20K-\$29K	10%	11%	10%	13%	12%	12%
\$30K-\$49K	24%	24%	23%	28%	26%	26%
\$50K-\$69K	18%	16%	16%	18%	18%	21%
\$70K+	36%	36%	34%	29%	30%	27%

Source: The Lottery's marketing and research firm, Ipsos-Reid, Inc., based on surveys conducted during the fiscal years.

# 2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

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Schedule C-3

Fiscal Year			
2014	2015	2016	2017
51%	51%	51%	51%
49%	49%	49%	49%
24%	25%	24%	25%
38%	38%	39%	38%
38%	37%	37%	37%
21%	20%	15%	15%
29%	26%	22%	20%
50%	54%	63%	65%
84%	86%	84%	84%
16%	14%	16%	16%
21%	21%	20%	21%
79%	79%	80%	79%
17%	13%	12%	11%
14%	12%	10%	8%
25%	25%	21%	21%
20%	20%	21%	21%
24%	30%	36%	39%

## 2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

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**Schedule of Lottery Employees  
For the Last Ten Fiscal Years**

Schedule D-1

	Fiscal Year					
	2008	2009	2010	2011	2012	2013
<b>Sales:</b>						
Tallahassee	11	11	11	11	10	11
Fort Myers	17	17	17	17	18	16
West Palm Beach	20	20	20	20	19	17
Miami	38	38	38	38	36	39
Pensacola	13	14	14	14	13	13
Jacksonville	14	15	14	15	13	16
Gainesville	14	13	13	13	13	13
Orlando	26	27	25	26	26	27
Tampa	31	30	29	31	30	31
<b>Sales Subtotal</b>	184	185	181	185	178	183
<b>Administrative and Other</b>	243	244	242	239	236	220
<b>Total</b>	<b>427</b>	<b>429</b>	<b>423</b>	<b>424</b>	<b>414</b>	<b>403</b>

Note: Figures above are as of June 30 of the respective fiscal years.

## 2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

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Schedule D-1

Fiscal Year			
<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
11	11	11	10
15	17	16	18
19	19	19	18
38	37	38	36
14	14	14	14
16	15	16	15
13	12	13	13
27	26	27	28
30	30	26	31
<u>183</u>	<u>181</u>	<u>180</u>	<u>183</u>
<u>220</u>	<u>227</u>	<u>232</u>	<u>230</u>
<u><b>403</b></u>	<u><b>408</b></u>	<u><b>412</b></u>	<u><b>413</b></u>



**2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**Operating Indicators  
Last Ten Fiscal Years  
(dollar values in thousands)**

Schedule D-2

	Fiscal Year					
	2008	2009	2010	2011	2012	2013
<b><u>Scratch-Off Games</u></b>						
Sales	\$2,368,781	\$2,064,136	\$2,078,133	\$2,225,676	\$2,566,991	\$3,028,527
Prize Expense	\$1,407,224	\$1,473,616	\$1,487,729	\$1,609,232	\$1,841,816	\$2,207,780
Percent of Sales	59.41%	71.39%	71.59%	72.30%	71.75%	72.90%
Vendor Fees	\$ 55,135	\$ 31,893	\$ 30,896	\$ 35,520	\$ 38,906	\$ 44,193
Percent of Sales	2.33%	1.55%	1.49%	1.60%	1.52%	1.46%
<b><u>Draw Games</u></b>						
Sales	\$1,805,995	\$1,873,901	\$1,822,366	\$1,783,040	\$1,882,905	\$1,984,469
Prize Expense	\$1,195,045	\$ 948,927	\$ 910,256	\$ 906,303	\$ 950,655	\$1,015,405
Percent of Sales	66.17%	50.64%	49.95%	50.83%	50.49%	51.17%
Vendor Fees	\$ 26,165	\$ 27,982	\$ 27,390	\$ 27,740	\$ 27,622	\$ 31,012
Percent of Sales	1.45%	1.49%	1.50%	1.56%	1.47%	1.56%
<b><u>Total Games</u></b>						
Sales	\$4,174,776	\$3,938,037	\$3,900,499	\$4,008,716	\$4,449,896	\$5,012,996
Commissions	\$ 235,651	\$ 220,548	\$ 216,207	\$ 223,390	\$ 247,690	\$ 278,493
Percent of Sales	5.64%	5.60%	5.54%	5.57%	5.57%	5.56%
Administrative Costs	\$ 73,261	\$ 71,223	\$ 71,519	\$ 71,449	\$ 70,304	\$ 72,653
Percent of Sales	1.75%	1.81%	1.83%	1.78%	1.58%	1.45%
<b>Number of Employees</b>	427	429	423	424	414	403
<b>Number of Retailers</b>	13,315	13,201	13,193	13,226	13,255	13,328

**2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT**

Schedule D-2

Fiscal Year			
2014	2015	2016	2017
\$3,417,143	\$3,723,995	\$3,954,701	\$4,243,602
\$2,484,259 72.70%	\$2,712,474 72.84%	\$2,880,963 72.85%	\$3,103,450 73.13%
\$ 48,157 1.41%	\$ 51,665 1.39%	\$ 55,591 1.41%	\$ 58,615 1.38%
\$1,951,087	\$1,859,336	\$2,107,653	\$1,912,877
\$ 995,240 51.01%	\$ 962,779 51.78%	\$1,054,995 50.06%	\$ 966,230 50.51%
\$ 28,895 1.48%	\$ 29,970 1.61%	\$ 32,650 1.55%	\$ 30,301 1.58%
\$5,368,230	\$5,583,331	\$6,062,354	\$6,156,479
\$ 298,651 5.56%	\$ 311,981 5.59%	\$ 337,007 5.56%	\$ 343,608 5.58%
\$ 74,528 1.39%	\$ 75,696 1.36%	\$ 80,121 1.32%	\$ 80,805 1.31%
403 13,266	408 13,121	412 13,163	413 13,154

**2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**Capital Assets by Category  
Last Ten Fiscal Years  
(in thousands)**

Schedule D-3

	Fiscal Year					
	2008	2009	2010	2011	2012	2013
Vehicles and equipment	\$ 18,260	\$ 14,474	\$ 12,843	\$ 12,502	\$ 12,693	\$ 12,787
Intangible assets and other	-	-	651	703	763	2,123
<b>Total Capital Assets</b>	<u>18,260</u>	<u>14,474</u>	<u>13,494</u>	<u>13,205</u>	<u>13,456</u>	<u>14,910</u>
Less accumulated depreciation	16,981	13,239	12,073	11,957	12,100	11,695
<b>Total Capital Assets, net</b>	<u>\$ 1,279</u>	<u>\$ 1,235</u>	<u>\$ 1,421</u>	<u>\$ 1,248</u>	<u>\$ 1,356</u>	<u>\$ 3,215</u>

2017 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

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Schedule D-3

Fiscal Year			
2014	2015	2016	2017
\$ 11,732	\$ 12,754	\$ 11,445	\$ 12,295
2,855	3,000	3,319	3,816
14,587	15,754	14,764	16,111
10,344	9,934	8,658	9,847
<u>\$ 4,243</u>	<u>\$ 5,820</u>	<u>\$ 6,106</u>	<u>\$ 6,264</u>



Sherrill F. Norman, CPA  
Auditor General

# AUDITOR GENERAL STATE OF FLORIDA

Claude Denson Pepper Building, Suite G74  
111 West Madison Street  
Tallahassee, Florida 32399-1450



Phone: (850) 412-2722  
Fax: (850) 488-6975

The President of the Senate, the Speaker of the  
House of Representatives, and the  
Legislative Auditing Committee

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

### Report on Internal Control Over Financial Reporting

We have audited the Department of the Lottery's (Lottery's) internal control over financial reporting as of June 30, 2017, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

#### ***Management's Responsibility for Internal Control Over Financial Reporting***

Management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying **MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the Lottery's internal control over financial reporting based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

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

### ***Definition and Inherent Limitations of Internal Control Over Financial Reporting***

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### ***Opinion***

In our opinion, the Lottery maintained, in all material respects, effective internal control over financial reporting as of June 30, 2017, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by COSO.

### ***Report on Financial Statements***

We have also audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Lottery, as of and for the fiscal year ended June 30, 2017, and the related notes to financial statements, which collectively comprise the Lottery's basic financial statements, and our report dated December 21, 2017, expressed an unmodified opinion.

### ***Compliance and Other Matters***

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

### **Additional Matters**

We noted certain additional matters related to information technology controls and minority retailer participation that we reported to management as Findings 1 and 2 in the ***FINDINGS AND RECOMMENDATIONS*** accompanying this report.

### **Management's Response to Findings**

The Lottery's response to the findings described in the ***FINDINGS AND RECOMMENDATIONS*** accompanying this report is included as ***MANAGEMENT'S RESPONSE***. The Lottery's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

### **Purpose of this Report**

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

Respectfully submitted,



Sherrill F. Norman, CPA  
Tallahassee, Florida  
December 21, 2017  
Audit Report No. 2018-078

RICK SCOTT  
Governor



JIM POPPELL  
Secretary

### **Management's Report on Internal Control Over Financial Reporting**

The Florida Lottery's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Management is responsible for designing, implementing, and maintaining effective internal control over financial reporting. Management assessed the effectiveness of the Florida Lottery's internal control over financial reporting as of June 30, 2017, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework* (2013). Based on that assessment, management concluded that, as of June 30, 2017, the Florida Lottery's internal control over financial reporting is effective based on the criteria established in *Internal Control – Integrated Framework* (2013).

Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control also can be circumvented by collusion or improper management override. Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Florida Lottery

A handwritten signature in blue ink that reads "Jim Poppell".

December 21, 2017



## ***FINDINGS AND RECOMMENDATIONS***

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### ADDITIONAL MATTERS

#### **Finding 1: Information Technology Controls**

Information technology (IT) controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. During our audit, we identified the need for enhancements to certain Lottery IT control practices. To avoid the possibility of compromising Lottery information, specific details of these issues are not disclosed in this report. However, we have notified appropriate Lottery management of the specific issues.

**Recommendation:** We recommend that Lottery management make the necessary IT control enhancements to address the issues identified.

#### **Finding 2: Minority Retailer Participation**

Section 24.113, Florida Statutes, requires that 15 percent of the Lottery's retailers be minority business enterprises, as defined in Section 288.703(3), Florida Statutes; however, no more than 35 percent of such retailers shall be owned by the same type of minority person, as defined by Section 288.703(4), Florida Statutes.

In prior audit reports, most recently in our report No. 2017-103 (Finding 2), we disclosed that retailers comprising one minority type totaled more than 35 percent of the total number of the Lottery's minority retailers. Although the Lottery has developed an outreach program to increase retailer participation in under-represented minority groups, our audit disclosed that, as of July 3, 2017, retailers comprising one minority type totaled approximately 66.5 percent of the total number of minority retailers.

**Recommendation:** We recommend that the Lottery enhance its efforts to increase retailer participation in under-represented minority groups.

RICK SCOTT  
Governor



JIM POPPELL  
Secretary

December 21, 2017

Sherrill F. Norman, CPA  
Florida Auditor General  
Claude Pepper Building, Suite G74  
111 West Madison Street  
Tallahassee, Florida 32399-1450

Dear Ms. Norman:

The Lottery has received your December 12, 2017, list of preliminary and tentative audit findings and recommendations resulting from your audit of the Lottery's Financial Statements for the fiscal year ended June 30, 2017. Below is our response to each finding and recommendation:

**Finding 1: Information Technology Controls**

**Recommendation:** We recommend that Lottery management make the necessary IT control enhancements to address the issues identified.

**Lottery's Response:** The Lottery has made the necessary enhancements presented by this audit or is in the process of implementing the enhancements. The Lottery has an ongoing process to improve IT controls and will continue to reengineer where necessary to tighten controls.

**Finding 2: Minority Retailer Participation**

**Recommendation:** We recommend that the Lottery continue its efforts to increase retailer participation in under-represented minority groups.

**Lottery's Response:** We will continue to look for opportunities to recruit retailers, including those in under-represented minority groups. We will continue to utilize advertising in both minority and general market trade magazines and newspapers. We will also continue to work with retailer trade associations to reach out to minority-owned businesses. Finally, our sales force will continue to recruit minority-owned businesses as a part of their standard sales practices.

Thank you for your audit efforts and recommendations. I look forward to receiving your final report.

Sincerely,

A handwritten signature in blue ink that reads "Jim Poppell".

Jim Poppell  
Secretary

Cc: David Mica, Jr, Chief of Staff  
Anthony Garcia, Deputy Secretary  
Andy Mompeller, Inspector General



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