

FLORIDA LOTTERY

An Enterprise Fund of the State of Florida



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Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2020, and 2019

FLORIDA LOTTERY

An Enterprise Fund of the State of Florida

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Years Ended June 30, 2020, and 2019

JOHN F. DAVIS

SECRETARY

Prepared by:

General Accounting

Gina Ballard, CPA, Chief Financial Officer

Table of Contents

INTRODUCTORY SECTION

Letter of Transmittal6
Organization Chart and Principal Officials9
Certificate of Achievement for Excellence in Financial Reporting 10

FINANCIAL SECTION

Independent Auditor’s Report 13
Management’s Discussion and Analysis17
Basic Financial Statements
 Statements of Net Position26
 Statements of Revenues, Expenses, and Changes in Net Position.....28
 Statements of Cash Flows29
 Notes to Financial Statements30
Other Required Supplementary Information.....60

STATISTICAL SECTION

Overview67
Schedule A-1 - Net Position by Component.....68
Schedule A-2 - Changes in Net Position70
Schedule A-3 - Transfers to EETF, Ticket Sales, Prize Expense, and
 Retailer Commissions72
Schedule B-1 - Sales by Game.....74
Schedule B-2 - Ticket Sales Percentages75
Schedule B-3 - Scratch-Off Game Launches and Sales by Price Point.....76
Schedule B-4 - Number of Retailers and Sales by District78
Schedule C-1 - Demographic and Economic Statistics80
Schedule C-2 - Industry Sector Employment82
Schedule C-3 - Lottery Player Demographics84
Schedule D-1 - Schedule of Lottery Employees.....86
Schedule D-2 - Operating Indicators.....88
Schedule D-3 - Capital Assets by Category90

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*93

MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING ...97

FINDINGS AND RECOMMENDATIONS98

MANAGEMENT’S RESPONSE99

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INTRODUCTORY SECTION

RON DESANTIS
Governor



JOHN F. DAVIS
Secretary

December 30, 2020

The Honorable Ron DeSantis, Governor
The Honorable Wilton Simpson, President of the Senate
The Honorable Chris Sprowls, Speaker of the House of Representatives

To Governor DeSantis, President Simpson, and Speaker Sprowls:

We are pleased to submit the Florida Lottery's (Lottery) Comprehensive Annual Financial Report (CAFR) for the fiscal years ended June 30, 2020, and 2019 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, 2020, and 2019. 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, 2020, 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 32 years of operation, the Lottery has offered a variety of Scratch-Off and Terminal game products and promotions, which have generated over \$117.9 billion in revenues. Since inception, the Lottery has transferred approximately \$37.4 billion to education. In fiscal year ended June 30, 2020, the Lottery had its ninth consecutive all-time record-breaking sales year of approximately \$7.51 billion which provided more than \$1.91 billion in contributions to education.

To date the Lottery has introduced more than 1,100 new Scratch-Off games and continues to market approximately 40 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 \$15 million. With the exception of fiscal year 2009 during the height of the Great Recession, Scratch-Off sales have increased annually over the past 20 years. Scratch-Off sales surpassed \$5.66 billion

in fiscal year 2019-20. The Lottery has had measurable success strategically launching several “families of games” and has highlighted several key Scratch-Off games in its total advertising efforts. Product placement initiatives focused on increased facings/footprint at the point-of-sale.

Terminal games were expanded to include eight new FAST PLAY™ games in fiscal year 2019-20 offering players a chance to win prizes instantly. In July of 2019, drawings were expanded for the multi-state game, CASH4LIFE™ from twice a week to nightly. This gave players more opportunities to play and win. The Lottery currently offers the following Terminal games: FLORIDA LOTTO®, FANTASY 5®, PICK 2™, PICK 3™, PICK 4™, PICK 5™, JACKPOT TRIPLE PLAY™, POWERBALL®, MEGA MILLIONS®, FAST PLAY, and CASH4LIFE™. FLORIDA LOTTO, FANTASY 5, and JACKPOT TRIPLE PLAY 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 FAST PLAY are set prize payout games. The Lottery also continues to offer add-on features, such as EZmatch™, Power Play®, Megaplier®, XTRA®, and Combo™ 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 November 2020 Florida Economic Estimating Conference (Conference), Florida’s population is forecasted to increase 1.519 percent and 1.431 percent for the fiscal years ending June 30, 2021, and 2022, respectively. Additionally, the Conference produced forecasts for personal income growth of 5.5 percent for both fiscal years ended June 30, 2021, and 2022, respectively, with total non-farm employment reduction of 0.8 percent and growth of 4.3 percent, respectively. According to the July 2020 Conference, the Coronavirus outbreak caused Florida’s unemployment rate to shift from a 50-year low of 2.8 percent in February of 2020 to a near 50-year high of 13.8 percent in April 2020. By July 2020 the state’s actual unemployment rate of 10.4 percent-while still extremely high-was lower than the 11.1 percent for the nation as a whole. The conference expects the rate to peak in early fiscal year 2020-21 and then continue a slow downward drift until it gets close to 4 percent, near full-employment level, by fiscal year 2029-30.

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, waste, and abuse, and ensure the accuracy of financial information. Employee, retailer, and contractor standards are in place to minimize risk of loss or theft. There are inherent limitations with internal controls. Because the cost of an internal control should not exceed the benefits derived from it, the objective is to provide reasonable, rather than absolute assurance, that the financial statements are free of any material misstatements. A second inherent limitation of internal control is the risk of management override due to their levels of access. In addition, internal controls are primarily designed to prevent one individual from being able to steal assets, commit fraud, waste, or abuse, or to manipulate the financial records of an entity. Some internal controls can be circumvented when two or more employees collude together.

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 supports its goal of maximizing contributions to enhance education. Some of the strategies that the Lottery continues 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 recruitment and diversification of the Lottery's retailer network; and
- Maximize the effectiveness of the Lottery through execution of best practices.

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Lottery for its CAFR for the fiscal year ended June 30, 2019. This was the third year that the Lottery achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and are submitting it to the GFOA to determine its eligibility for another certificate.

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,

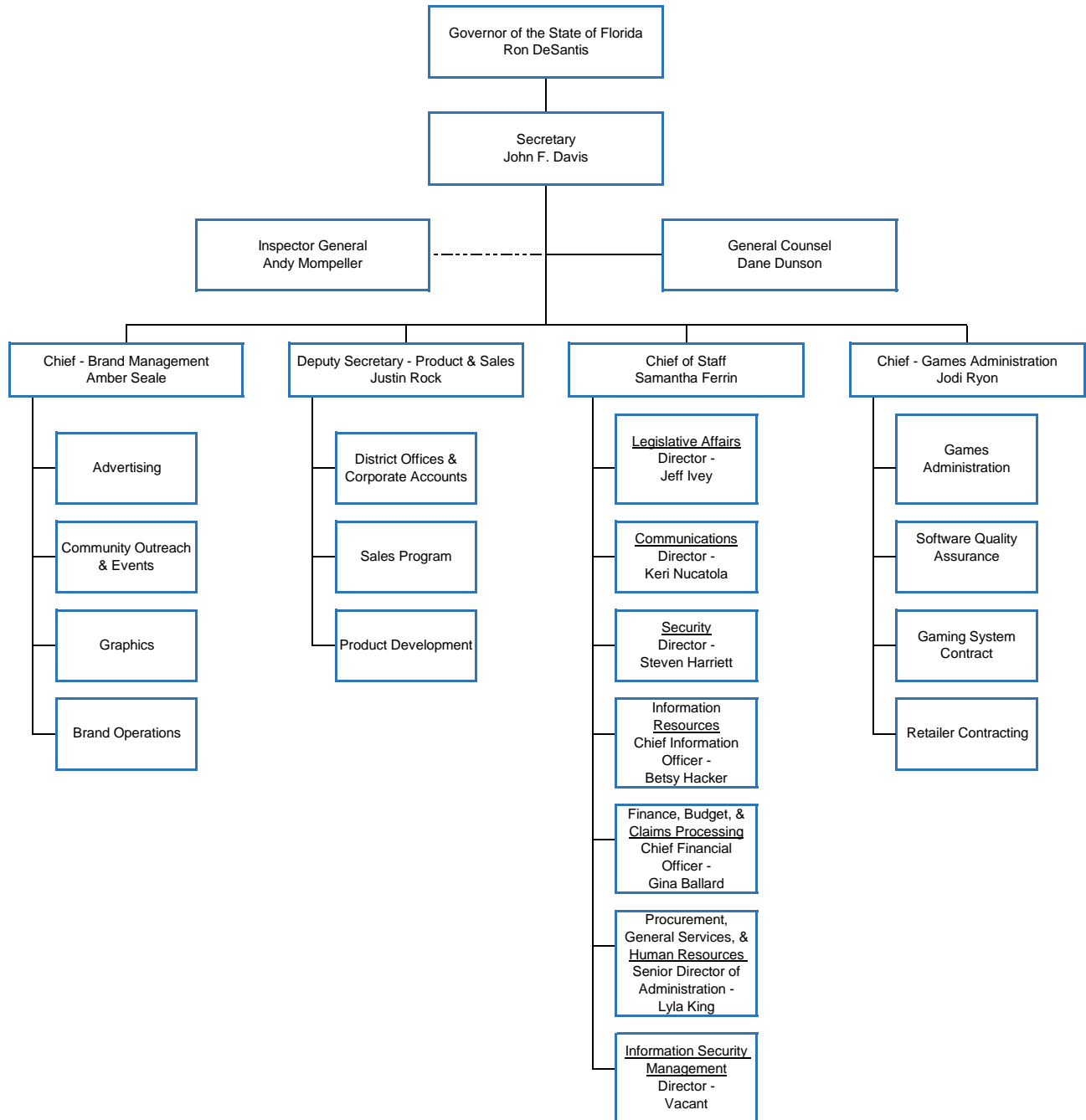


John F. Davis
Secretary



Gina Ballard, CPA
Chief Financial Officer

Organization Chart and Principal Officials



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



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Florida Lottery

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2019

Christopher P. Morill

Executive Director/CEO

FINANCIAL SECTION

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Sherrill F. Norman, CPA
Auditor General

AUDITOR GENERAL STATE OF FLORIDA

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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, 2020, and June 30, 2019, 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, 2020, and June 30, 2019, 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, 2020, and June 30, 2019, 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** on pages 17 through 25 and schedules of the Lottery's proportionate share of the net pension liability and contributions (pages 60 through 63) and the Lottery's proportionate share of the other postemployment benefits liability (page 64) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and 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 5 through 10, and the Statistical Section, on pages 65 through 91, 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 30, 2020, 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, 2020, based on criteria established in the *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 30, 2020
Audit Report No. 2021-088

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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, 2020, and 2019. We encourage readers to consider the information presented here in conjunction with the transmittal letter beginning on page 6 of this report and Lottery's financial statements and notes to the financial statements, which begin on page 26.

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 thirty-first consecutive fiscal year, with the past eight fiscal years exceeding \$5 billion. During the same thirty one year period, the transfer to the Educational Enhancement Trust Fund (EETF) has been a minimum of \$800 million annually, with the fiscal year 2020 transfer exceeding \$1 billion for the eighteenth consecutive year.

For the fiscal year ended June 30, 2020:

- Transfers to the EETF were approximately \$1.91 billion this fiscal year compared to \$1.93 billion in the prior fiscal year.
- The Lottery's ticket sales increased by 4.95 percent over the prior fiscal year from approximately \$7.15 billion to \$7.51 billion.
- Approximately 75.49 percent of total sales were provided by the Scratch-Off product line which increased 6.44 percent from the prior fiscal year.
- Prize expense increased \$391.75 million, which represents an 8.45 percent increase during fiscal year 2020. 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 67.02 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 2020 expenses for these items increased 5.54 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 approximately \$255,000. Administrative operating expenses for fiscal years 2020 and 2019 were \$82.45 million and \$82.20 million, respectively.
- Nonoperating income increased \$20.55 million over the prior fiscal year. The increase was primarily due to an increase of \$16.19 million in net appreciation (depreciation) in fair value of investments.
- EETF transfers from unclaimed prize money decreased by \$12.18 million over the prior fiscal year. This decrease was due to an emergency order being issued to extend the period of time for prizewinners to claim their prize due to office closures during the COVID-19 pandemic.

2020 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 26, the Statements of Revenues, Expenses, and Changes in Net Position on page 28, and the Statements of Cash Flows on page 29 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. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

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 2020, 2019, and 2018.

**Table 1 - Condensed Statements of Net Position
As of June 30, 2020, 2019, and 2018
(In Thousands)**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current Assets	\$ 437,511	\$ 257,392	\$ 234,485
Restricted Assets	382,416	386,966	357,206
Capital Assets, Net of Depreciation	<u>7,273</u>	<u>7,170</u>	<u>6,987</u>
Total Assets	<u>827,200</u>	<u>651,528</u>	<u>598,678</u>
Total Deferred Outflows of Resources	<u>15,341</u>	<u>11,968</u>	<u>11,245</u>
Current Liabilities	427,193	255,348	237,155
Current Liabilities Payable from Restricted Assets	22,095	21,792	22,143
Noncurrent Liabilities	<u>295,127</u>	<u>292,701</u>	<u>295,812</u>
Total Liabilities	<u>744,415</u>	<u>569,841</u>	<u>555,110</u>
Total Deferred Inflows of Resources	<u>9,483</u>	<u>9,092</u>	<u>6,578</u>
Net Position:			
Invested in Capital Assets	7,273	7,170	6,987
Restricted Net Position	139,270	130,558	91,991
Unrestricted Net Position	<u>(57,900)</u>	<u>(53,165)</u>	<u>(50,743)</u>
Total Net Position	<u>\$ 88,643</u>	<u>\$ 84,563</u>	<u>\$ 48,235</u>

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

Financial Analysis

Assets

Total assets at the end of fiscal year 2020 increased \$175.67 million from \$651.53 million at June 30, 2019, to \$827.20 million at June 30, 2020. At the end of fiscal year 2019, total assets were \$52.85 million more than the \$598.68 million at the end of fiscal year 2018.

- The increase in total assets from 2019 to 2020 is primarily related to an increase of \$129.87 million of investments in the State Treasury.
- The increase in total assets from 2018 to 2019 is primarily related to an increase of \$40.24 million of investments in the State Treasury.

Deferred Outflows of Resources

Total deferred outflows of resources as of June 30, 2020, were \$15.34 million reflecting an increase of \$3.37 million over the June 30, 2019, amount of \$11.97 million due, in part, to an increase of 4.34 million in Other postemployment benefits related items (refer to Note 9 to the financial statements for additional details). At the end of fiscal year 2019, deferred outflows increased \$723,000 over June 30, 2018.

Liabilities

Total liabilities at June 30, 2020, were \$744.42 million, which was approximately \$174.58 million higher than the total liabilities of \$569.84 million at June 30, 2019. The total liabilities at June 30, 2019, were \$14.73 million higher than the June 30, 2018, amount of \$555.11 million.

- Current liabilities increased by \$171.85 million from June 30, 2019, to June 30, 2020. This increase can be primarily attributed to the increase of \$116.45 million for the amount owed to prizewinners and \$51.85 million for the amount Due to the EETF.
- Current liabilities increased by \$18.19 million from June 30, 2018, to June 30, 2019. This increase can be primarily attributed to the increase of \$11.19 million for the amount owed to prizewinners.

Deferred Inflows of Resources

Total deferred inflows of resources as of June 30, 2020, were \$9.48 million reflecting an increase of \$391,000 over the June 30, 2019, amount of \$9.09 million. At the end of fiscal year 2019, deferred inflows increased \$2.51 million over June 30, 2018, which was \$1.71 million for Other postemployment benefits related items (refer to Note 9 to the financial statements for additional details).

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

Net Position

Net position increased \$4.08 million from June 30, 2019, to June 30, 2020. Net position at June 30, 2020, 2019, and 2018 were \$88.64 million, \$84.56 million, and \$48.24 million, respectively.

- The \$4.08 million increase in net position at June 30, 2020, is primarily due to a \$35.48 million increase in the amount restricted for undistributed appreciation on restricted investments and a \$27.21 million decrease in the amount of restricted cash and cash equivalents for future prize promotions.
- The \$36.33 million increase in net position at June 30, 2019, is primarily due to a \$12.22 million increase in the amount of restricted cash and cash equivalents for future prize promotions and a \$19.28 million increase in the amount restricted for undistributed appreciation on restricted investments due to an increase in net appreciation (depreciation) in fair value of investments.

The Lottery joined MUSL eleven 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 \$34.18 million and \$33.75 million as of June 30, 2020, and June 30, 2019, 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, 2020, and the prior fiscal years ended June 30, 2019, and June 30, 2018, as derived from the Lottery's Statements of Revenues, Expenses, and Changes in Net Position.

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

**Table 2 - Condensed Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2020, 2019, and 2018
(In Thousands)**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating Revenues:			
Ticket Sales	\$ 7,505,112	\$ 7,151,236	\$ 6,700,811
Bad Debt Expense	(1,318)	(1,041)	(1,158)
Terminal & Retailer Fees and Miscellaneous	7,833	7,688	8,222
Total Operating Revenues	<u>7,511,627</u>	<u>7,157,883</u>	<u>6,707,875</u>
Operating Expenses:			
Prizes	5,030,240	4,638,488	4,394,400
Retailer Commissions	420,843	398,162	373,819
Vendor Commissions	108,314	103,210	95,517
Other Expenses	82,450	82,195	81,201
Total Operating Expenses	<u>5,641,847</u>	<u>5,222,055</u>	<u>4,944,937</u>
Income from Operations	<u>1,869,780</u>	<u>1,935,828</u>	<u>1,762,938</u>
Nonoperating Revenue, Net of Expenses	48,099	27,554	(10,156)
Income Before Operating Transfers	1,917,879	1,963,382	1,752,782
Total Transfers to EETF	<u>(1,913,799)</u>	<u>(1,927,054)</u>	<u>(1,758,329)</u>
Change in Net Position	4,080	36,328	(5,547)
Net Position, Beginning Restated	84,563	48,235	53,782
Net Position, End of Year	<u>\$ 88,643</u>	<u>\$ 84,563</u>	<u>\$ 48,235</u>

Financial Analysis

Sales

Total sales for the fiscal year 2020 increased \$353.88 million from \$7.15 billion for the fiscal year 2019, to \$7.51 billion for fiscal year 2020. At the end of fiscal year 2019, total sales were \$450.53 million more than the \$6.70 billion for the fiscal year 2018.

- Scratch-Off sales increased by \$727.55 million in fiscal year 2020. The introduction of the popular Week for Life, Holiday Luck, and X Multiplier families of games contributed \$1.1 billion to sales. Draw Game sales decreased by \$373.67 million in fiscal year 2020. The decrease was primarily related to a decline in Powerball and Mega Millions sales of \$369.17 million over the prior year.
- Scratch-Off sales increased by \$285.48 million in fiscal year 2019. The introduction of the Gold Rush Classic family of games and the Gold Rush Special Edition \$30 ticket contributed \$1.19 billion to sales, and the Monopoly™ Jackpot family of games contributed \$622.01 million. Draw Game sales increased by \$164.94 million in fiscal year 2019. The increase was primarily related to an increase in Mega Millions sales

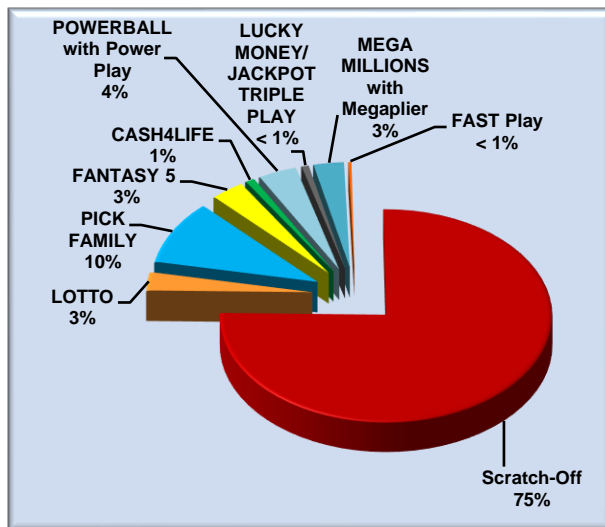
2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

of \$196.34 million over the prior year with a jackpot that reached \$1.54 billion in October 2018.

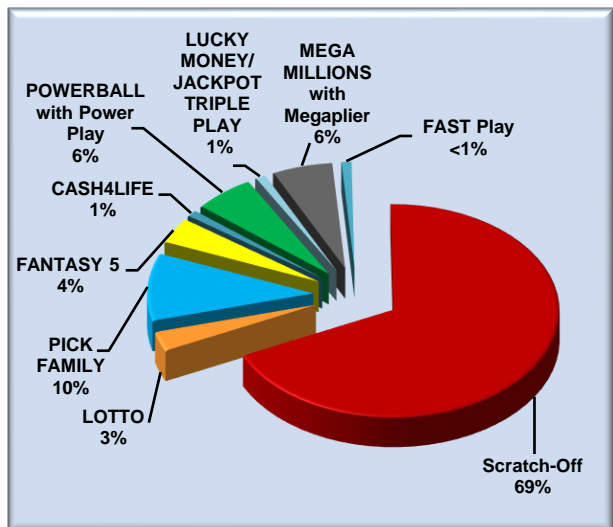
Bad debt expense is reported as a reduction in gross revenue in accordance with GASB requirements. The amount of bad debt expense for the fiscal years ended June 30, 2020, 2019, and 2018, was \$1.32 million, \$1.04 million, and \$1.16 million, respectively.

The following charts show sales by product for the various Lottery games during the fiscal years 2020 and 2019:

Sales by Product for Fiscal Year 2019-20



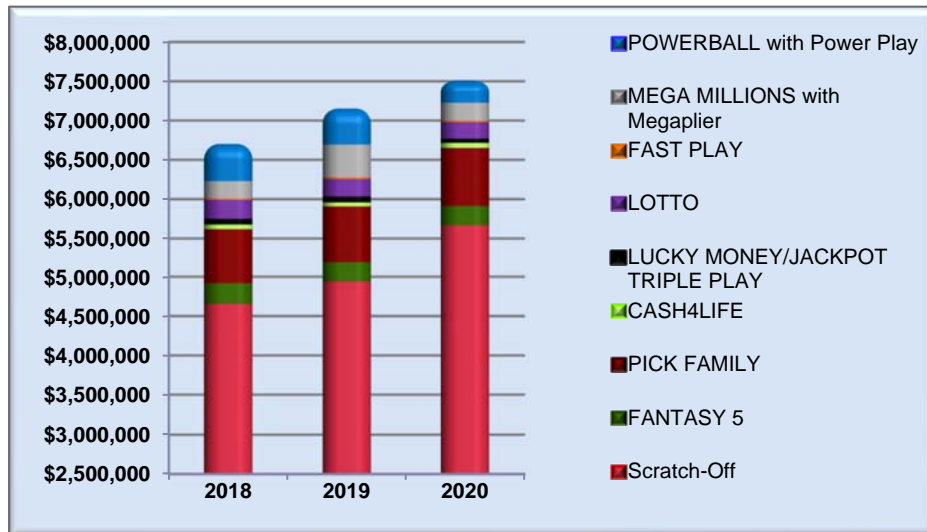
Sales by Product for Fiscal Year 2018-19



2020 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	PICK FAMILY	CASH4LIFE	LUCKY MONEY/JACKPOT TRIPLE PLAY	POWERBALL with Power Play	MEGA MILLIONS with Megaplier	Fast Play	Scratch-Off	Combined Sales
2018	\$ 240,015	\$ 264,418	\$ 698,229	\$ 59,219	\$ 74,193	\$ 474,039	\$ 220,619	\$ 17,784	\$ 4,652,295	\$ 6,700,811
2019	223,504	258,409	709,262	50,337	74,632	459,392	416,963	20,958	4,937,779	7,151,236
2020	210,098	245,842	736,863	65,321	54,452	282,151	225,035	20,026	5,665,324	7,505,112

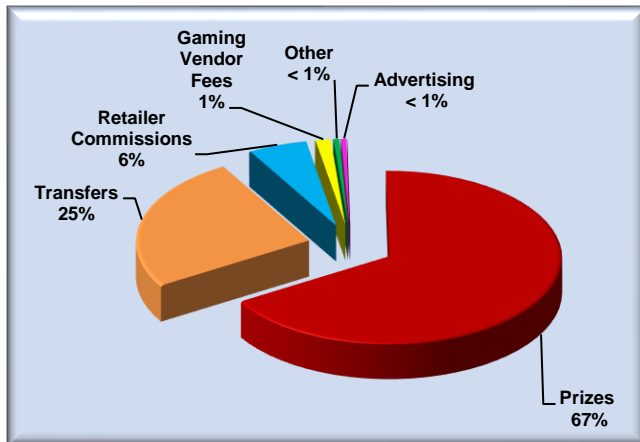
Expenses

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.

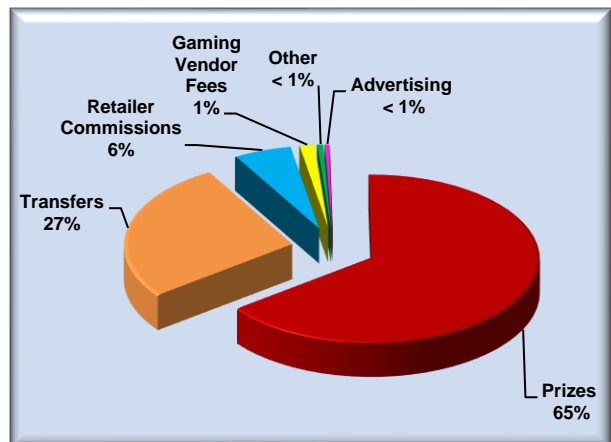
2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

The following charts show the major components of Lottery operating expenses and transfers as a percentage of ticket sales for the 2020 and 2019 fiscal years:

**Operating Expenses and Transfers
Fiscal Year 2019-20**



**Operating Expenses and Transfers
Fiscal Year 2018-19**



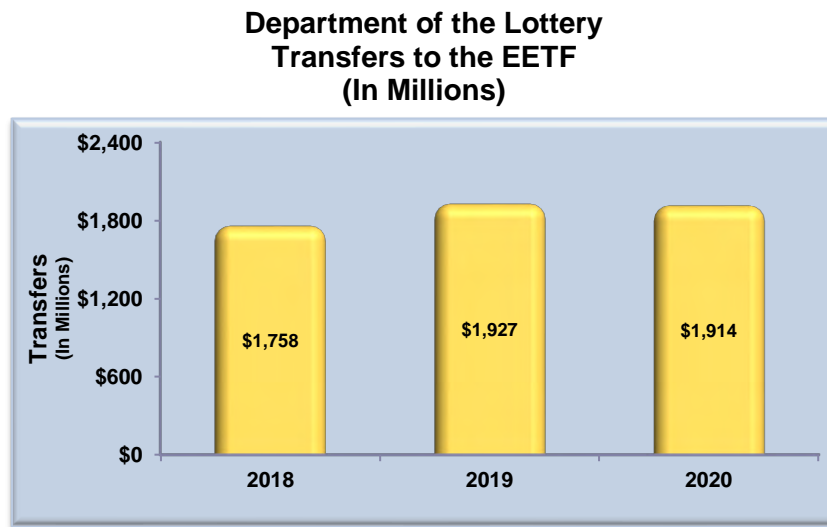
Prizes, commissions, and gaming vendor fees are directly related to sales and fluctuate accordingly. In fiscal year 2020, these expenses changed proportionally; yet as a percentage of total expenses they remained constant. The other expenses, which consisted of advertising, salary and benefits, professional fees, rent, maintenance, and depreciation, increased slightly. Fiscal year 2020, 2019, and 2018 administrative expenses were \$82.45 million, \$82.20 million, and \$81.20 million, respectively.

Transfers

Since its inception, the Lottery's total transfers to the EETF were \$37.38 billion. The Lottery's contribution to the EETF for fiscal year ended June 30, 2020, was \$1.91 billion. The Lottery has contributed over \$1 billion for the eighteenth consecutive year.

2020 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 increased from 3.4 percent in fiscal year 2019 to 10.4 percent during fiscal year 2020. In fiscal year 2020, Lottery sales exceeded \$7.50 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, Director of Accounting, 250 Marriott Drive, Capitol Complex, Tallahassee, Florida 32399.

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

BASIC FINANCIAL STATEMENTS

**STATEMENTS OF NET POSITION
AS OF JUNE 30, 2020, AND 2019 (in thousands)**

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 355,506	\$ 198,682
Interest receivable	1,011	1,015
Accounts receivable, net	75,764	54,230
Inventories	2,848	1,209
Prepaid expenses	533	424
Security deposits	1,849	1,832
Total Current Assets	<u>437,511</u>	<u>257,392</u>
Noncurrent Assets:		
Restricted Assets		
Cash and cash equivalents	24,239	51,445
Deposit with MUSL	34,181	33,745
Investments, grand prize	323,996	301,776
Total Restricted Assets	<u>382,416</u>	<u>386,966</u>
Capital assets, net	7,273	7,170
Total Noncurrent Assets	<u>389,689</u>	<u>394,136</u>
Total Assets	<u>827,200</u>	<u>651,528</u>
Deferred Outflows of Resources		
Pension related items	9,619	10,582
Other postemployment benefits related items	5,722	1,386
Total Deferred Outflows of Resources	<u>15,341</u>	<u>11,968</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 842,541</u>	<u>\$ 663,496</u>

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

(Continued)

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

STATEMENTS OF NET POSITION

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Liabilities		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 11,758	\$ 8,060
Prizes payable	284,958	168,509
Due to Educational Enhancement Trust Fund	127,299	75,454
Deposits payable	1,850	1,853
Compensated absences payable	751	765
Net pension liability	117	151
Other postemployment benefits liability	460	556
Total Current Liabilities	427,193	255,348
Current Liabilities Payable from Restricted Assets:		
Grand prizes payable	22,095	21,792
Total Current Liabilities Payable from Restricted Assets	22,095	21,792
Noncurrent Liabilities:		
Grand prizes payable from restricted assets	232,696	238,132
Compensated absences payable	2,739	2,849
Net pension liability	24,592	21,858
Other postemployment benefits liability	35,100	29,862
Total Noncurrent Liabilities	295,127	292,701
Total Liabilities	744,415	569,841
Deferred Inflows of Resources		
Pension related items	2,564	2,878
Other postemployment benefits related items	6,919	6,214
Total Deferred Inflows of Resources	9,483	9,092
Net Position		
Invested in capital assets	7,273	7,170
Restricted for future prizes or special prize promotions	24,239	51,445
Restricted for MUSL	34,181	33,745
Restricted for undistributed appreciation on restricted investments	80,850	45,368
Unrestricted	(57,900)	(53,165)
Total Net Position	88,643	84,563
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 842,541	\$ 663,496

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

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2020, AND 2019 (in thousands)

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Operating Revenues		
Ticket sales	\$ 7,505,112	\$ 7,151,236
Bad debt expense	(1,318)	(1,041)
Terminal fees and miscellaneous	7,702	7,513
Retailer fees	131	175
Total Operating Revenues	<u>7,511,627</u>	<u>7,157,883</u>
Operating Expenses		
Prizes	5,030,240	4,638,488
Retailer commissions	420,843	398,162
Scratch-Off tickets	52,409	64,935
Draw games	55,905	38,275
Advertising	39,455	39,649
Personal services	33,047	31,273
Other contractual services	8,517	8,176
Materials and supplies	574	2,019
Depreciation	857	1,078
Total Operating Expenses	<u>5,641,847</u>	<u>5,222,055</u>
Operating Income	<u>1,869,780</u>	<u>1,935,828</u>
Nonoperating Revenues (Expenses)		
Interest	13,102	8,933
Investment management fees	(524)	(479)
Net appreciation (depreciation) in fair value of investments	46,596	30,405
Property disposition (loss)	(16)	5
Amortization of grand prizes payable	(11,059)	(11,310)
Total Nonoperating Revenues (Expenses), Net	<u>48,099</u>	<u>27,554</u>
Income Before Operating Transfers	<u>1,917,879</u>	<u>1,963,382</u>
Transfers to Educational Enhancement Trust Fund	<u>(1,913,799)</u>	<u>(1,927,054)</u>
Change in Net Position	4,080	36,328
Net Position, Beginning of Year	84,563	48,235
Net Position, End of Year	<u>\$ 88,643</u>	<u>\$ 84,563</u>

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

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2020, AND 2019 (in thousands)

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Operating Activities		
Ticket sales	\$ 7,482,259	\$ 7,146,658
Prizes paid to winners	(4,914,226)	(4,634,368)
Commissions paid and payments to retailers	(420,843)	(398,162)
Paid to vendors for goods and services	(154,909)	(152,468)
Paid to employees	(28,313)	(28,851)
Other operating revenue	7,813	7,629
Net Cash Provided by Operating Activities	<u>1,971,781</u>	<u>1,940,438</u>
Noncapital Financing Activities		
Payments to Educational Enhancement Trust Fund	(1,861,954)	(1,919,930)
Net Cash Used in Noncapital Financing Activities	<u>(1,861,954)</u>	<u>(1,919,930)</u>
Capital and Related Financing Activities		
Purchase of capital assets	(976)	(1,256)
Net Cash Used in Capital and Related Financing Activities	<u>(976)</u>	<u>(1,256)</u>
Investing Activities		
Cash received from maturity of grand prize investments	22,297	21,955
Cash paid to grand prize winners upon maturity of grand prize investments	(22,297)	(21,955)
Investment income, net of fees	20,767	12,533
Net Cash Provided by Investing Activities	<u>20,767</u>	<u>12,533</u>
Net Increase (Decrease) in Cash and Cash Equivalents	129,618	31,785
Cash and Cash Equivalents, Beginning of Year	250,127	218,342
Cash and Cash Equivalents, End of Year	<u>\$ 379,745</u>	<u>\$ 250,127</u>
Reconciliation of Income from Operations to Net Cash Provided by Operating Activities:		
Income from operations	\$ 1,869,780	\$ 1,935,828
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	857	1,078
Changes in assets and liabilities		
(Increase) decrease in:		
Accounts receivable	(23,284)	(11,466)
Inventories	(1,639)	65
Prepaid expenses	(109)	458
Increase (decrease) in:		
Allowance for uncollectible accounts	1,296	1,035
Accounts payable and accrued liabilities	3,697	(171)
Prizes payable	116,449	11,189
Compensated absences payable	(124)	(129)
Net pension liability and related deferred outflows and inflows	3,347	1,511
Other postemployment benefits liability and related deferred outflows and inflows	1,511	1,040
Net Cash Provided by Operating Activities	<u>\$ 1,971,781</u>	<u>\$ 1,940,438</u>
Noncash Investing, Capital and Financing Activities:		
Increase/(decrease) in fair value of investments	\$ 39,324	\$ 18,466

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

NOTES TO FINANCIAL STATEMENTS

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, 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.

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

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

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, 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. Fair values for investments that are not publicly quoted are estimated by the investment custodian using independent third-party pricing vendors. 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 and advanced payments for services 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 historical cost less accumulated depreciation. As required by Chapter 273, Florida Statutes, and Department of Financial Services Rules, Chapter 69I-72, Florida Administrative Code, a capitalization threshold of \$1,000 and useful life extending beyond one year are employed for tangible personal property. The Lottery's capitalization

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

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 position 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 liability, 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 liability.

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 position 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,

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

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.

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. For the June 30, 2020, fiscal year, two emergency orders were issued which extended the period of time for prizewinners to claim

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

their prize from Draw and Scratch-Off games after a game is closed to 360 and 240 days, respectively.

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.

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 \$62.75 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. Settlements of claims did not exceed insurance coverage in each of the past three fiscal years.

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, 2020, and June 30, 2019, was \$1,318,000 and \$1,041,000, respectively.

U. Unrestricted Net Position Deficit

The unrestricted net position deficits of \$57,900,000 and \$53,165,000 for the fiscal years ended June 30, 2020, and June 30, 2019, respectively, 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 and postemployment healthcare benefits 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 \$320,000 at June 30, 2020, and \$576,000 at June 30, 2019, 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 provides that if a loss to public depositors is not covered by deposit insurance, demands of payment under any letters of credit, 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 according to a statutory based ratio.

Due to the investing policy of the Lottery, book overdrafts were approximately \$8,463,000 at June 30, 2020, and \$3,949,000 at June 30, 2019, 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.

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

Surplus cash is maintained in the State Treasury's general pool of investments. The State CFO pools funds from all State agencies. Pooled investments with the State Treasury are not registered with the Securities and Exchange Commission. Oversight of the pooled investments with the State Treasury is provided by the Treasury Investment Council per Section 17.575, Florida Statutes. The authorized investment types are set forth in Section 17.57, Florida Statutes.

The Lottery's share of this investment pool was approximately \$379,425,000 and \$249,551,000 at June 30, 2020, and 2019, respectively. Participants contribute to the pool on a dollar basis. These funds are commingled, and a fair value of the pool is determined from the individual values of the securities. The fair value of the securities is summed, and a total pool fair value is determined. The fair value factor is calculated by dividing the pool's total fair value by the pool participant's total cash balances. The fair value factor is the ratio used to determine the fair value of an individual participant's pool balance.

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 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 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

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

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 current rating by S&P was AA-f as of June 30, 2020.

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, 2020		As of June 30, 2019	
Time to Maturity	Fair Value	Time to Maturity	Fair Value
< 1 year	\$ 22,598	< 1 year	\$ 22,078
> 1 year to 3 years	45,066	> 1 year to 3 years	43,108
> 3 years to 5 years	46,160	> 3 years to 5 years	42,433
> 5 years to 10 years	124,289	> 5 years to 10 years	98,907
> 10 years to 15 years	36,672	> 10 years to 15 years	54,716
> 15 years to 20 years	26,514	> 15 years to 20 years	21,633
> 20 years to 25 years	15,320	> 20 years to 25 years	13,294
> 25 years	7,377	> 25 years	5,607
Total	\$ 323,996	Total	\$ 301,776

The effective duration of the State Treasury Investment Pool at June 30, 2020, and June 30, 2019, was approximately 0.43 years and 2.71 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, 2020, and June 30, 2019, 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, 2020, and June 30, 2019.

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.

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.

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

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
<u>Investments by fair value level:</u>	<u>June 30, 2020</u>			
U.S. Treasury Strips	\$ 323,996	\$ -	\$ 323,996	\$ -
Pooled Investments with State Treasury	379,425	-	-	379,425
Total securities measured at fair value	<u>\$ 703,421</u>	<u>\$ -</u>	<u>\$ 323,996</u>	<u>\$ 379,425</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
<u>Investments by fair value level:</u>	<u>June 30, 2019</u>			
U.S. Treasury Strips	\$ 301,776	\$ -	\$ 301,776	\$ -
Pooled Investments with State Treasury	249,551	-	-	249,551
Total securities measured at fair value	<u>\$ 551,327</u>	<u>\$ -</u>	<u>\$ 301,776</u>	<u>\$ 249,551</u>

I. Investment Summary

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

<u>Investment Type</u>	<u>June 30, 2020 Carrying Value</u>	<u>June 30, 2019 Carrying Value</u>
U.S. Government Obligations & Federally Guaranteed Obligations	\$ 323,996	\$ 301,776
Pooled Investments with State Treasury	379,425	249,551
Total Investments	<u>\$ 703,421</u>	<u>\$ 551,327</u>

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

	June 30, 2020			
	Investments	Cash at Financial Institutions	Cash at State Treasury	Totals
Cash and cash equivalents	\$ 355,186	\$ 255	\$ 65	\$ 355,506
Restricted cash and cash equivalents	24,239	-	-	24,239
Investments, grand prize	323,996	-	-	323,996
Totals	\$ 703,421	\$ 255	\$ 65	\$ 703,741

	June 30, 2019			
	Investments	Cash at Financial Institutions	Cash at State Treasury	Totals
Cash and cash equivalents	\$ 198,106	\$ 330	\$ 246	\$ 198,682
Restricted cash and cash equivalents	51,445	-	-	51,445
Investments, grand prize	301,776	-	-	301,776
Totals	\$ 551,327	\$ 330	\$ 246	\$ 551,903

3. ACCOUNTS RECEIVABLE

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

	2020	2019
Ticket sales receivable	\$ 81,185	\$ 58,355
Less allowance for doubtful accounts	(5,421)	(4,125)
Accounts receivable, net	\$ 75,764	\$ 54,230

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 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 cash equivalents, and in liabilities as Deposits payable.

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

5. CAPITAL ASSETS

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

	2018-19			2019-20			Balance June 30, 2020
	Balance June 30, 2018	Increase	Decrease	Balance June 30, 2019	Increase	Decrease	
Capital assets, not being depreciated:							
Non-amortizable intangibles	\$ 3,566	\$ 321	\$ -	\$ 3,887	\$ 362	\$ -	\$ 4,249
Total capital assets, not being depreciated	<u>3,566</u>	<u>321</u>	<u>-</u>	<u>3,887</u>	<u>362</u>	<u>-</u>	<u>4,249</u>
Capital assets, being depreciated:							
Vehicles and equipment	12,970	942	(962)	12,950	628	(1,173)	12,405
Intangible assets and other	596	1	-	597	2	-	599
Total capital assets, being depreciated	<u>13,566</u>	<u>943</u>	<u>(962)</u>	<u>13,547</u>	<u>630</u>	<u>(1,173)</u>	<u>13,004</u>
Depreciation:							
Vehicles and equipment	9,829	1,038	(959)	9,908	818	(1,141)	9,585
Intangible assets and other	316	40	-	356	39	-	395
Total depreciation	<u>10,145</u>	<u>1,078</u>	<u>(959)</u>	<u>10,264</u>	<u>857</u>	<u>(1,141)</u>	<u>9,980</u>
Total capital assets, being depreciated, net	<u>3,421</u>	<u>(135)</u>	<u>(3)</u>	<u>3,283</u>	<u>(227)</u>	<u>(32)</u>	<u>3,024</u>
Total capital assets, net	<u>\$ 6,987</u>	<u>\$ 186</u>	<u>\$ (3)</u>	<u>\$ 7,170</u>	<u>\$ 135</u>	<u>\$ (32)</u>	<u>\$ 7,273</u>

6. MULTI-STATE LOTTERY ASSOCIATION

MUSL is a non-profit government-benefit association created for the purpose of administering joint lottery games. MUSL included 35 state lottery entities, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands during fiscal year 2020. Through membership in the association the Lottery is eligible to participate in 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, 2020, and June 30, 2019, the Lottery had deposits with MUSL of \$34,180,576 and \$33,745,088, 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.

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

7. LONG-TERM LIABILITIES

A. Grand Prizes Payable

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

	<u>2020</u>	<u>2019</u>
FLORIDA LOTTO grand prizes (face value)	\$ 199,003	\$ 214,137
MEGA MONEY grand prizes (face value)	6,028	6,733
Win for Life grand prizes (face value)	3,904	4,060
Lucky for Life grand prizes (face value)	16,050	16,950
Set for Life grand prizes (face value)	660	840
Cash Spectacular grand prizes (face value)	150	200
Cash for Life grand prizes (face value)	130	140
Loaded for Life grand prizes (face value)	2,050	2,150
Billion Dollar Blockbuster grand prizes (face value)	4,600	5,150
Gas for Life grand prizes (face value)	138	144
2 Million Dollar Casino Action grand prizes (face value)	1,000	1,100
Million Dollar Holiday grand prizes (face value)	550	600
Week for Life grand prizes (face value)	75,140	76,856
Monopoly grand prizes (face value)	3,180	3,420
Million Wishes grand prizes (face value)	600	650
X's The Cash grand prizes (face value)	6,360	6,690
Flamingo grand prizes (face value)	3,630	3,860
Gold Rush grand prizes (face value)	8,350	7,820
Super Millions grand prizes (face value)	4,800	5,040
\$10mm World Class Cash grand prizes (face value)	920	960
\$2,000,000 24 Karat Cash grand prizes (face value)	1,840	1,920
Cash4Life grand prizes (face value)	7,072	4,368
Jackpot Triple Play grand prizes (face value)	3,104	1,536
\$2,000,000 Cashword grand prizes (face value)	1,920	-
Less imputed interest	<u>(96,388)</u>	<u>(105,400)</u>
Net present value of grand prizes payable	<u>\$ 254,791</u>	<u>\$ 259,924</u>
Current prizes payable from restricted assets	\$ 22,095	\$ 21,792
Noncurrent prizes payable from restricted assets	<u>232,696</u>	<u>238,132</u>
Total grand prizes payable	<u><u>\$ 254,791</u></u>	<u><u>\$ 259,924</u></u>

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

Year Ending June 30	Amount
2021	\$ 22,615
2022	22,615
2023	22,615
2024	23,520
2025	23,229
2026-2030	130,564
2031-2035	41,234
2036-2040	32,663
2041-2045	21,068
2046-2050	11,056
Grand prizes (face value)	351,179
Less imputed interest	(96,388)
Net present value of grand prizes payable	\$ 254,791

B. Compensated Absences Payable

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

	2020	2019
Current compensated absences	\$ 751	\$ 765
Noncurrent compensated absences	2,739	2,849
Total	\$ 3,490	\$ 3,614

C. Changes in Long-Term Liabilities

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

	2019-20			Balance June 30, 2020	Amount Due Within One Year
	Balance June 30, 2019	Additions	Reductions		
	Grand prizes payable	\$ 259,924	\$ 17,164		
Compensated absences payable	3,614	1,807	(1,931)	3,490	751
Other postemployment benefits liability	30,418	5,142	-	35,560	460
Pension liability - HIS	5,780	327	-	6,107	117
Pension liability - FRS	16,229	2,373	-	18,602	-
Total	\$ 315,965	\$ 26,813	\$ (24,228)	\$ 318,550	\$ 23,423

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

	2018-19				
	Balance	Additions	Reductions	Balance	Amount Due Within One Year
	June 30, 2018			June 30, 2019	
Grand prizes payable	\$ 263,291	\$ 18,588	\$ (21,955)	\$ 259,924	\$ 21,792
Compensated absences payable	3,743	-	(129)	3,614	765
Other postemployment benefits liability	30,247	171	-	30,418	556
Pension liability - HIS	5,776	4	-	5,780	151
Pension liability - FRS	15,644	585	-	16,229	-
Total long-term liabilities	\$ 318,701	\$ 19,348	\$ (22,084)	\$ 315,965	\$ 23,264

D. Unused Lines of Credit

Under the State of Florida's purchasing card program, the Lottery has an unused line of credit in the amount of \$184,388. Also, pursuant to agreement with the Lottery's banking institution, the Lottery has up to \$75 million in overdraft protection in the event expected wire transfers are not received timely. Overdrafts are immediately due and payable, unless the banking institution agrees otherwise in writing, and result in overdraft fees, including attorney's fees and other costs and expenses the banking institution incurs in recovering the overdraft.

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 \$1,913,799,000 for the fiscal year ended June 30, 2020, (25.5 percent of revenues), and \$1,927,054,000 (26.9 percent of revenues) for the fiscal year ended June 30, 2019.

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.

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

The amount due to the EETF at June 30, 2020, and June 30, 2019, was as follows (in thousands):

	June 30, 2020	June 30, 2019
Draw ticket sales	\$ 1,839,788	\$ 2,213,457
Average percent transferred	37%	40%
Transfer of Draw ticket sales ¹	<u>674,753</u>	<u>874,956</u>
Unclaimed Draw ticket prizes	17,009	31,042
Percent transferred	80%	80%
Transfer of unclaimed Draw ticket prizes	<u>13,607</u>	<u>24,834</u>
Scratch-Off ticket sales	5,665,324	4,937,779
Average percent transferred	20%	20%
Transfer of Scratch-Off ticket sales ¹	<u>1,157,990</u>	<u>965,417</u>
Unclaimed Scratch-Off ticket prizes	52,901	54,098
Percent transferred	80%	80%
Transfer of unclaimed Scratch-Off ticket prizes	<u>42,321</u>	<u>43,278</u>
Nonoperating revenues (expenses), net	48,099	27,554
Add:		
Net (appreciation) depreciation in fair value of investments	(46,596)	(30,405)
Amortization of grand prizes payable	11,059	11,310
Total Nonoperating revenues, net	<u>12,562</u>	<u>8,459</u>
Pension, postemployment healthcare, and compensated absences expenses	4,733	2,422
Terminal fees and miscellaneous revenue	<u>7,833</u>	<u>7,688</u>
Due for the year	<u>1,913,799</u>	<u>1,927,054</u>
Balance due, beginning of year	75,454	68,330
Paid during the year	<u>(1,861,954)</u>	<u>(1,919,930)</u>
Due to Educational Enhancement Trust Fund, June 30	<u><u>\$ 127,299</u></u>	<u><u>\$ 75,454</u></u>

¹ 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.fl.gov; or at the Division's Web site (www.frs.myflorida.com).

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

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

(Regular Class, Special Risk Class, and Senior Management Service Class)¹ 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 DMS 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 five percent benefit reduction 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 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

¹ 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.

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

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 FRS 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. Additionally, the Lottery is 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 rates for the fiscal year ended June 30, 2020, were 3.56 percent for regular class, 11.15 percent for special risk class, and 19.09 percent for senior management service class.

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, 2020	Employer Rate Fiscal Year Ended June 30, 2020 ⁽¹⁾	Employee Rate Fiscal Year Ended June 30, 2019	Employer Rate Fiscal Year Ended June 30, 2019 ⁽¹⁾
Senior Management Service	3.00 percent	25.41 percent	3.00 percent	24.06 percent
Regular	3.00 percent	8.47 percent	3.00 percent	8.26 percent
Special Risk	3.00 percent	25.48 percent	3.00 percent	24.50 percent
DROP - Applicable to members from all of the above classes	0.00 percent	14.60 percent	0.00 percent	14.03 percent

¹ Total employer contribution rates above include 1.66 percent for the fiscal years ended June 30, 2020, and June 30, 2019, for the Retiree Health Insurance Subsidy Program. Also, employer rates, other than for DROP participants, include 0.06 percent for fiscal years ended June 30, 2020, and June 30, 2019, for administration costs of the financial education program and the FRS Investment Plan. Required employee contributions are deducted on a pre-tax basis.

The Lottery's contributions to the FRS Pension Plan for fiscal years ended June 30, 2020, 2019, and 2018, totaled \$1,660,729, \$1,674,809, and \$1,535,630, respectively. The Lottery's contributions to the FRS Investment Plan for the fiscal years ended June 30, 2020, 2019, and 2018, totaled \$642,880, \$603,035, and \$540,210, respectively.

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.

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

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 the SMSOAP participants for July 2016 through June 2020. 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 UAL. The required UAL contribution rate for the fiscal year ended June 30, 2020, was 19.09 percent. A participant may contribute by salary reduction an amount not to exceed the percentage contributed by the employer. The Lottery did not have participating employees in this plan for the fiscal year ended June 30, 2020, but contributions for participating employees for fiscal years ended June 30, 2019, and June 30, 2018, totaled \$5,456 and \$25,025, 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, 2020, 2019, and 2018, 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, and be approved.

HIS is funded by required contributions from FRS participating employers. For the fiscal years ended June 30, 2020, 2019, and 2018, required contributions were 1.66 percent of payroll for all active employees covered by the FRS, pursuant to Section 112.363, Florida Statutes. For the fiscal years ended June 30, 2020, 2019, and 2018, the Lottery contributed \$291,008, \$303,072, and \$296,152, 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.

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

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 State 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. 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.

At June 30, 2020, the Lottery reported a net pension liability of \$18,601,510 for its proportionate share of the FRS Pension Plan's net pension liability and \$6,106,850 for its proportionate share of the HIS net pension liability, for a total net pension liability of \$24,708,360. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was based on actuarial valuations as of July 1, 2019, for the FRS Pension Plan and HIS. The Lottery's proportionate share of the net pension liability was based on 2018-19 fiscal year contributions to the Plans relative to the total 2018-19 fiscal year contributions of all participating members. At June 30, 2019, the Lottery's proportionate share of the FRS Pension Plan net pension liability was 0.054013536 percent, which was a 0.24 percent increase from its proportionate share measured as of June 30, 2018, of 0.053883272 percent. The Lottery's proportionate share of the HIS net pension liability at June 30, 2019, was 0.054579054 percent, which was a 0.06 percent decrease from its proportion as of June 30, 2018, of 0.054610115 percent. For the fiscal year ended June 30, 2020, the Lottery recognized pension expense of \$4,868,402 for the FRS Pension Plan and \$429,847 for the HIS, for pension expense totaling \$5,298,249. At June 30, 2020, the Lottery reported deferred outflows of resources and deferred inflows of resources related to the Plans from the following sources:

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

FRS Pension Plan

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 1,103,309	\$ 11,544
Changes in assumptions	4,777,668	-
Net difference between projected and actual earnings on pension plan investments	-	1,029,133
Changes in proportion and differences between employer contributions and proportionate share of contributions	792,712	685,164
Employer contributions subsequent to the measurement date	1,660,729	-
Totals	\$ 8,334,418	\$ 1,725,841

HIS

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 74,175	\$ 7,478
Changes in assumptions	707,116	499,124
Net difference between projected and actual earnings on pension plan investments	3,941	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	208,230	331,437
Employer contributions subsequent to the measurement date	291,008	-
Totals	\$ 1,284,470	\$ 838,039

The Lottery's contributions subsequent to the measurement date of \$1,660,729 for the FRS Pension Plan and \$291,008 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 ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	FRS Pension Plan	HIS	Totals
2021	\$ 1,854,561	\$ 80,214	\$ 1,934,775
2022	511,059	55,816	566,875
2023	1,269,301	25,917	1,295,218
2024	985,317	(60,089)	925,288
2025	264,087	8,695	272,782
Thereafter	63,523	44,870	108,393
Totals	\$ 4,947,848	\$ 155,423	\$ 5,103,271

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

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 Assumption Conference. The most recent experience study for the FRS Pension Plan was completed in 2019 for the period July 1, 2013, through June 30, 2018. 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 was determined by an actuarial valuation as of July 1, 2019, using the entry age normal actuarial cost method. The HIS was determined by an actuarial valuation prepared as of July 1, 2018, with update procedures applied to determine the total pension liability as of July 1, 2019. 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 6.90 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 3.50 percent was used to determine the total pension liability for the plan. Mortality assumptions were based on PUB-2010 base tables projected generationally with Scale MP-2018 and Generational RP-2000 with Projection Scale BB tables for the FRS Pension Plan and HIS, respectively (refer to the valuation reports at 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 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 2019:

FRS Pension Plan: As of June 30, 2019, the discount rate and the long-term expected rate of return decreased from 7.00 percent to 6.90 percent.

HIS: The municipal rate used to determine total pension liability decreased from 3.87 percent to 3.50 percent.

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

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:

Asset Class	Target Allocation	Arithmetic Real Rates of Return
Cash	1.00%	3.30%
Fixed income	18.00%	4.10%
Global equity	54.00%	8.00%
Real estate (property)	10.00%	6.70%
Private equity	11.00%	11.20%
Strategic investments	6.00%	5.90%
	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, 2019.

FRS Pension Plan			HIS		
Current			Current		
1% Decrease	Discount Rate	1% Increase	1% Decrease	Discount Rate	1% Increase
5.90%	6.90%	7.90%	2.50%	3.50%	4.50%
\$ 32,155,816	\$ 18,601,510	\$ 7,281,371	\$ 6,971,282	\$ 6,106,850	\$ 5,386,876

B. Postemployment Healthcare Benefits

Effective July 1, 2017, the Lottery implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for certain postemployment healthcare benefits administered by the State of Florida's State Employees' Group Health Insurance Program (Program) which significantly changed the Lottery's accounting for Other Postemployment Benefits (OPEB).

General Information about the OPEB Plan

Plan Description. The Lottery participates in the Program, a multiple-employer defined benefit plan that provides group health benefits. Pursuant to the provisions of Section 112.0801, Florida Statutes, all employees who retire from the State of Florida are eligible to participate in the Program. Retirees and their eligible dependents shall be offered the same health and hospitalization insurance coverage as is offered to active employees at a premium

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

cost of no more than the premium cost applicable to active employees. A retiree means any officer or employee who retires under a State retirement system or State optional annuity or retirement program or is placed on disability retirement and who begins receiving retirement benefits immediately after retirement from employment. In addition, any officer or employee who retires under the Florida Retirement System Investment Plan is considered a “retiree” if he or she meets the age and service requirements to qualify for normal retirement or has attained the age of 59.5 years and has the years of service required for vesting. The State of Florida subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because retiree healthcare costs are generally greater than active employee healthcare costs. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. The OPEB Plan contribution requirements and benefit terms necessary for funding the OPEB Plan each year is on a pay-as-you-go basis as established by the Governor’s recommended budget and the General Appropriations Act. Retirees are required to enroll in the Medicare program for their primary coverage as soon as they are eligible.

Benefits Provided. The OPEB Plan provides healthcare benefits for retirees and their dependents. The OPEB Plan only provides an implicit subsidy as described above.

The total number of OPEB Plan employees covered by the benefit terms at July 1, 2019, were as follows:

Inactive plan members or beneficiaries currently receiving benefits	35,456
Inactive plan members entitled to, but not yet receiving benefits*	-
Active plan members	161,495
Total	<u>196,951</u>

*There are currently zero inactive plan members entitled to but not yet receiving benefits because the Program does not provide a vested termination benefit. As a part of normal retirement, a retiree has 60 days after separation to elect postretirement health coverage. After 60 days, they are no longer entitled to benefits.

Proportionate Share of the Total OPEB Liability

The Program’s total OPEB liability of \$12,670,100,000 was measured as of June 30, 2019, and was determined by an actuarial valuation as of July 1, 2019. The Lottery’s proportionate share of that liability reported at June 30, 2020, was \$35,560,179. At June 30, 2019, the Lottery’s proportionate share, determined by its proportion of total Lottery employees as compared to total OPEB Plan employees, was 0.280924936 percent, which was a 2.55 percent decrease from its proportionate share measured as of June 30, 2018, of 0.288278422 percent.

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

Actuarial Assumptions and Other Inputs. The total OPEB liability was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.6 percent
Discount rate	2.79 percent
Healthcare cost trend rates	6.7 percent for Preferred Provider Organizations (PPO) and 5.2 percent for Health Maintenance Organizations (HMO) for fiscal years 2019 to 2020, decreasing to an ultimate rate of 5.2 percent for Preferred Provider Organizations (PPO) and 5.3 percent for Health Maintenance Organizations (HMO) for fiscal year 2072 and later years
Retirees' share of benefit-related costs	5.9 percent of projected health insurance premiums for Pre-Medicare eligible and Medicare-Eligible employees

The discount rate was based on a 20-year S&P Municipal Bond Rate Index.

Mortality rates were based on the Generational RP-2000 with Projected Scale BB.

The demographic actuarial assumptions for retirement, disability incidence, and withdrawal used in the July 1, 2019, valuation were based on the results of an actuarial experience study for the period January 1, 2010, through December 31, 2014, adopted by the FRS. The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the July 1, 2019, valuation were based on a review of recent plan experience done concurrently with the July 1, 2019, valuation.

The following changes have been made since the July 1, 2017, valuation:

- The discount rate as of the measurement date for GASB Statement No. 75 purposes was changed to 2.79 percent. The prior GASB Statement No. 75 report used 3.87 percent. The discount rate is based on the 20-year S&P Municipal Bond Rate Index as of the measurement date.

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

The Lottery's changes in total OPEB Liability for the fiscal year are as follows:

	Increase(Decrease) Total OPEB Liability
Balance at June 30, 2019	\$ 30,417,848
Changes for the year:	
Service cost	1,267,027
Interest	1,143,622
Differences between expected and actual experience	(1,046,309)
Changes of assumptions or other inputs	5,140,135
Employer benefits payments	(553,453)
Changes in proportionate share	(808,691)
Net changes	5,142,331
Balance at June 30, 2020	\$ 35,560,179

Sensitivity of the Lottery's Share of the Total OPEB Liability to Changes in the Discount Rate. The following table presents the Lottery's proportionate share of the total OPEB liability, as well as what the Lottery's proportionate share of the total OPEB liability would be if it were calculated using a discount rate that is 1.00 percentage point lower (1.79 percent) or 1.00 percentage point higher (3.79 percent) than the current rate:

1% Decrease 1.79%	Current Discount Rate 2.79%	1% Increase 3.79%
\$ 44,503,930	\$ 35,560,179	\$ 28,768,494

Sensitivity of the Lottery's Share of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates. The following table presents the Lottery's proportionate share of the total OPEB liability, as well as what the Lottery's proportionate share of the total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1.00 percentage point lower or 1.00 percentage point higher than the current healthcare cost trend rates:

1% Decrease	Healthcare Cost Trend Rates	1% Increase
\$ 28,018,371	\$ 35,560,179	\$ 46,010,769

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB.

For the fiscal year ended June 30, 2020, the Lottery recognized OPEB expense of \$1,512,935. At June 30, 2020, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of assumptions or other inputs	\$ 4,458,582	\$ 5,028,618
Differences between expected and actual experience	-	\$ 915,520
Changes in proportions and differences between Lottery benefit payments and proportionate share of benefit payments	803,728	974,659
Transactions subsequent to the measurement date	459,816	-
Totals	\$ 5,722,126	\$ 6,918,797

Of the total amount reported as deferred outflows of resources related to OPEB, \$459,816 resulting from transactions (e.g., benefit payments and administrative expense) subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the total OPEB liability and included in OPEB expense in the year ended June 30, 2021. Other amounts reported as deferred inflows of resources and deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30	Amount
2021	\$ (448,982)
2022	(448,982)
2023	(448,982)
2024	(448,982)
2025	(448,982)
Thereafter	588,423
Totals	\$ (1,656,487)

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.

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

Future minimum rental payments as of June 30, 2020, are scheduled as follows (in thousands):

<u>Year Ending June 30</u>	<u>Headquarters</u>	<u>Districts</u>	<u>Office Equipment</u>	<u>Total¹</u>
2021	\$ 2,775	\$ 1,231	\$ 25	\$ 4,031
2022	2,804	1,227	3	4,034
2023	2,832	1,076	1	3,909
2024	2,861	902	-	3,763
2025	2,889	622	-	3,511
2026-2030	8,963	1,951	-	10,914
Totals	\$ 23,124	\$ 7,009	\$ 29	\$ 30,162

¹Amounts exclude future lease payments of optional lease renewals.

Rental expense under all operating leases totaled approximately \$4,059,000 and \$3,977,000 for the fiscal years ended June 30, 2020, and June 30, 2019, 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, 2020, ranged from \$1,058,000 to \$5,196,000. Each 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.

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

	2019-20 Vendor Support Funds			
	Balance			Balance
	June 30, 2019	Additions	Deletions	June 30, 2020
IGT	\$ 417	\$ 360	\$ (185)	\$ 592
Scientific Games	3,394	5,160	(4,888)	3,666
Total Vendor Support	\$ 3,811	\$ 5,520	\$ (5,073)	\$ 4,258

	2018-19 Vendor Support Funds			
	Balance			Balance
	June 30, 2018	Additions	Deletions	June 30, 2019
IGT	\$ 212	\$ 360	\$ (155)	\$ 417
Scientific Games	4,452	4,740	(5,798)	3,394
Total Vendor Support	\$ 4,664	\$ 5,100	\$ (5,953)	\$ 3,811

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 was compensated at a rate of 1.0699 percent of net Draw game ticket sales through April 14, 2019. The Draw gaming vendor was compensated at a rate of 0.7384 percent of net Draw and Scratch-Off ticket sales beginning April 15, 2019. The vendor's compensation for Draw games, gaming equipment, and for the provision of full service vending machines for the fiscal years ended June 30, 2020, and 2019, was \$55,905,000 and \$38,275,000, respectively.

The Lottery's Scratch-Off ticket vendor was compensated at rates that range from 0.9746 percent to 2.3421 percent based on ticket price points and total annual sales through September 30, 2019. The Scratch-Off vendor was compensated at rates that range from 0.6640 percent to 1.4980 percent beginning October 1, 2019. Compensation under this agreement and the agreement for the provision of instant ticket vending machines amounted to \$52,409,000 for the fiscal year ended June 30, 2020, and \$64,935,000 for the fiscal year ended June 30, 2019.

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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2020 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 ⁽¹⁾

	2019 ⁽²⁾	2018 ⁽²⁾	2017 ⁽²⁾
Lottery's proportion of the net pension liability	0.054013536%	0.053883272%	0.052889273%
Lottery's proportionate share of the net pension liability	\$ 18,601,510	\$ 16,229,921	\$ 15,644,292
Lottery's covered payroll	\$ 18,276,513	\$ 17,945,878	\$ 17,435,001
Lottery's proportionate share of the net pension liability as a percentage of its covered payroll	101.78%	90.44%	89.73%
Plan fiduciary net position as a percentage of the total pension liability	82.61%	84.26%	83.89%

(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.

Notes to Schedule:

Changes in actuarial assumptions: The long-term expected rate of return was decreased from 7.00% in 2018 to 6.90% in 2019.

Schedule of the Lottery's Contributions
Last Ten Fiscal Years ⁽¹⁾

	2020 ⁽²⁾	2019 ⁽²⁾	2018 ⁽²⁾	2017 ⁽²⁾
Contractually required contribution	\$ 1,660,729	\$ 1,674,809	\$ 1,535,630	\$ 1,376,838
Contributions in relation to the contractually required contribution	(1,660,729)	(1,674,809)	(1,535,630)	(1,376,838)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Lottery's covered payroll	\$ 17,527,166	\$ 18,276,513	\$ 17,945,878	\$ 17,435,001
Contributions as a percentage of covered payroll	9.48%	9.16%	8.56%	7.90%

(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.

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

2016⁽²⁾	2015⁽²⁾	2014⁽²⁾
0.054090117%	0.055549065%	0.054080631%
\$ 13,657,797	\$ 7,174,907	\$ 3,299,714
\$ 17,562,079	\$ 15,985,814	\$ 16,266,000
77.77%	44.88%	20.29%
84.88%	92.00%	96.09%

2016⁽²⁾	2015⁽²⁾	2014⁽²⁾
\$ 1,319,074	\$ 1,354,333	\$ 1,184,595
(1,319,074)	(1,354,333)	(1,184,595)
\$ -	\$ -	\$ -
\$ 17,562,079	\$ 15,985,814	\$ 16,266,000
7.51%	8.47%	7.28%

2020 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 ⁽¹⁾

	2019⁽²⁾	2018⁽²⁾	2017⁽²⁾
Lottery's proportion of the net pension liability	0.054579054%	0.054610115%	0.054020990%
Lottery's proportionate share of the net pension liability	\$ 6,106,850	\$ 5,779,995	\$ 5,776,174
Lottery's covered payroll	\$ 18,253,617	\$ 17,836,604	\$ 17,219,001
Lottery's proportionate share of the net pension liability as a percentage of its covered payroll	33.46%	32.41%	33.55%
Plan fiduciary net position as a percentage of the total pension liability	2.63%	2.15%	2.15%

(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.

Notes to Schedule:

Changes in actuarial assumptions: The municipal rate used to determine total pension liability was increased from 3.87% in 2018 to 3.50% in 2019.

Schedule of the Lottery's Contributions
Last Ten Fiscal Years ⁽¹⁾

	2020⁽²⁾	2019⁽²⁾	2018⁽²⁾	2017⁽²⁾
Contractually required contribution	\$ 291,008	\$ 303,072	\$ 296,152	\$ 285,895
Contributions in relation to the contractually required contribution	(291,008)	(303,072)	(296,152)	(285,895)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Lottery's covered payroll	\$ 17,527,166	\$ 18,253,617	\$ 17,836,604	\$ 17,219,001
Contributions as a percentage of covered payroll	1.66%	1.66%	1.66%	1.66%

(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.

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

2016 ⁽²⁾	2015 ⁽²⁾	2014 ⁽²⁾
0.056217445%	0.056262384%	0.057588909%
\$ 6,551,910	\$ 5,737,878	\$ 5,384,704
\$ 17,354,507	\$ 15,969,897	\$ 16,175,000
37.75%	35.93%	33.29%
0.97%	0.50%	0.50%

2016 ⁽²⁾	2015 ⁽²⁾	2014 ⁽²⁾
\$ 288,150	\$ 215,070	\$ 197,280
(288,150)	(215,070)	(197,280)
\$ -	\$ -	\$ -
\$ 17,354,507	\$ 15,969,897	\$ 16,175,000
1.66%	1.35%	1.22%

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

**Schedule of the Lottery's Proportionate Share of the
Total Other Postemployment Benefits (OPEB) Liability
and Related Ratios
Last Ten Fiscal Years ⁽¹⁾**

	2019⁽²⁾	2018⁽²⁾	2017⁽²⁾
Lottery's proportion of the total OPEB liability	0.280924900%	0.288278422%	0.279755700%
Lottery's proportionate share of the total OPEB liability	\$ 35,560,179	\$ 30,417,848	\$ 30,246,920
Lottery's covered payroll	\$ 18,276,513	\$ 17,945,878	\$ 17,435,001
Lottery's proportionate share of the total OPEB liability as a percentage of its covered payroll	194.57%	169.50%	173.48%
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	0.00%	0.00%

(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.

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

Changes of Assumptions. The amounts reported as changes of assumptions resulted from a change in the discount rate of return from 3.87 as of June 30, 2018, to 2.79 as of June 30, 2019. (Refer to Note 9 to the financial statements for further detail.)

STATISTICAL SECTION

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2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

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	68
Schedule A-2 - Changes in Net Position	70
Schedule A-3 - Transfers to EETF, Ticket Sales, Prize Expense, and Retailer Commissions.....	72

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	74
Schedule B-2 - Ticket Sales Percentages	75
Schedule B-3 - Scratch-Off Game Launches and Sales by Price Point	76
Schedule B-4 - Number of Retailers and Sales by District.....	78

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.....	80
Schedule C-2 - Industry Sector Employment.....	82
Schedule C-3 - Lottery Player Demographics.....	84

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.

Schedule D-1 - Schedule of Lottery Employees	86
Schedule D-2 - Operating Indicators	88
Schedule D-3 - Capital Assets by Category.....	90

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

Schedule A-1

	Fiscal Year			
	2011	2012	2013	2014
Invested in capital assets	\$ 1,248	\$ 1,356	\$ 3,215	\$ 4,243
Restricted for undistributed appreciation on restricted investments	86,237	110,012	67,195	58,009
Restricted for MUSL ⁽¹⁾	15,926	19,995	19,037	19,817
Restricted for future prizes or special prize promotions	18,559	5,238	15,854	15,592
Unrestricted	-	-	-	-
Total Net Position	\$ 121,970	\$ 136,601	\$ 105,301	\$ 97,661
Percent change from prior year	(9%)	12%	(23%)	(7%)

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.

Source: Florida Lottery, General Accounting

⁽¹⁾ Multi-State Lottery Association

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

Schedule A-1

Fiscal Year					
2015	2016	2017	2018	2019	2020
\$ 5,820	\$ 6,106	\$ 6,264	\$ 6,987	\$ 7,170	\$ 7,273
51,800	70,871	40,440	26,092	45,368	80,850
21,766	22,793	24,177	26,676	33,745	34,181
21,528	28,268	30,882	39,223	51,445	24,239
(19,371)	(20,608)	(23,366)	(50,743)	(53,165)	(57,900)
<u>\$ 81,543</u>	<u>\$ 107,430</u>	<u>\$ 78,397</u>	<u>\$ 48,235</u>	<u>\$ 84,563</u>	<u>\$ 88,643</u>
(17%)	32%	(27%)	(38%)	75%	5%

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

Schedule A-2

	Fiscal Year			
	2011	2012	2013	2014
Operating Revenues				
Scratch-Off	\$ 2,225,676	\$ 2,566,991	\$ 3,028,527	\$ 3,417,143
LOTTO	411,389	419,040	352,375	349,114
FANTASY 5	282,777	290,672	281,492	288,237
PICK 3/CASH 3	313,270	314,747	324,539	339,636
PICK 4/PLAY 4	235,692	244,711	244,141	257,752
RAFFLE	12,603	-	12,879	-
MEGA MONEY/LUCKY MONEY/JACKPOT TRIPLE PLAY	88,971	92,346	89,500	79,483
LUCKY LINES	45,369	17,692	8,582	-
MEGA MILLIONS with Megaplier	-	-	16,698	167,573
POWERBALL with Power Play	392,969	503,697	654,263	469,292
MONOPOLY MILLIONAIRES	-	-	-	-
PICK 2	-	-	-	-
PICK 5	-	-	-	-
CASH4LIFE	-	-	-	-
FAST PLAY	-	-	-	-
Total ticket sales	4,008,716	4,449,896	5,012,996	5,368,230
Bad debt expense	(1,212)	(1,360)	(912)	(1,337)
Net Ticket Sales	4,007,504	4,448,536	5,012,084	5,366,893
Terminal fees and miscellaneous	7,237	7,465	7,773	7,611
Retailer fees	199	193	206	206
Total Operating Revenues	4,014,940	4,456,194	5,020,063	5,374,710
Operating Expenses				
Prizes	2,460,219	2,766,119	3,162,889	3,431,092
Retailer commissions	223,390	247,690	278,493	298,651
Scratch-Off tickets	35,520	38,906	44,193	48,157
Draw games	27,740	27,622	31,012	28,895
Advertising	33,159	33,540	37,696	37,486
Personal services	27,204	26,139	25,730	27,614
Other contractual services	8,855	8,210	6,801	7,656
Materials and supplies	1,921	1,969	2,156	1,057
Depreciation	310	446	270	715
Total Operating Expenses	2,818,318	3,150,641	3,589,240	3,881,323
Operating Income	1,196,622	1,305,553	1,430,823	1,493,387
Non-Operating Revenue (Expenses)				
Interest	4,893	5,024	3,984	2,776
Securities lending income	3,120	3,007	2,543	1,534
Securities lending fees	(1,400)	(824)	(1,090)	(327)
Investment management fees	(284)	(296)	(376)	(532)
Net appreciation (depreciation) in fair value of investments	21,662	60,221	(13,749)	13,718
Property disposition (loss)	(15)	(4)	(60)	124
Amortization of grand prizes payable	(44,918)	(36,446)	(29,068)	(22,911)
Total Nonoperating Revenues (Expenses), Net	(16,942)	30,682	(37,816)	(5,618)
Income Before Operating Transfers	1,179,680	1,336,235	1,393,007	1,487,769
Total Transfers to Educational Enhancement Trust Fund	(1,191,818)	(1,321,604)	(1,424,307)	(1,495,409)
Change in Net Position	(12,138)	14,631	(31,300)	(7,640)
Net Position, Beginning of Year	134,108	121,970	136,601	105,301
Implementation effect of GASB Statements No. 68 & 75	-	-	-	-
Net Position, End of Year	\$ 121,970	\$ 136,601	\$ 105,301	\$ 97,661

Source: Florida Lottery, General Accounting

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

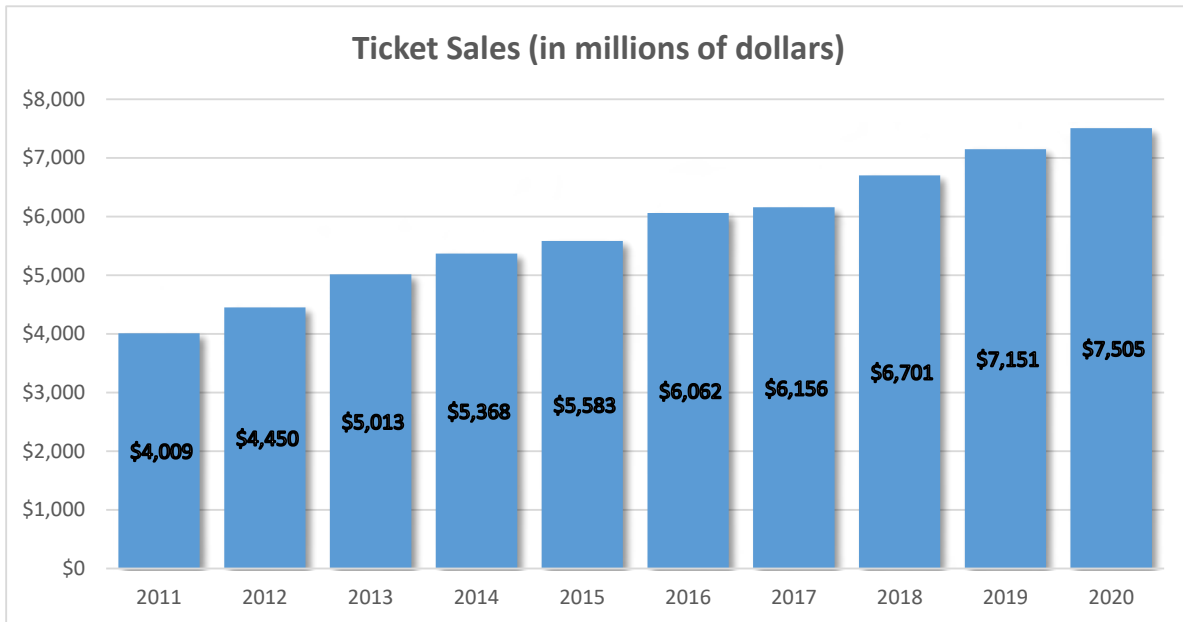
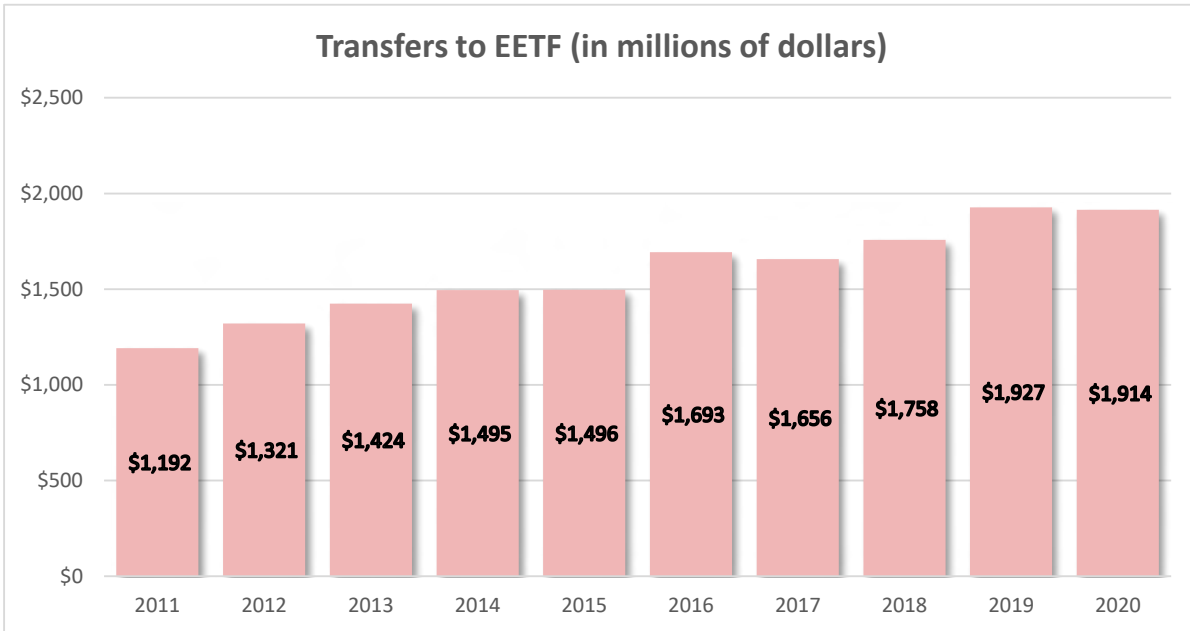
Schedule A-2

Fiscal Year					
2015	2016	2017	2018	2019	2020
\$ 3,723,995	\$ 3,954,701	\$ 4,243,602	\$ 4,652,295	\$ 4,937,779	\$ 5,665,324
300,961	291,382	253,039	240,015	223,504	210,098
287,803	296,307	275,663	264,417	258,409	245,842
363,251	379,757	348,724	366,073	380,330	396,338
276,217	291,651	249,312	259,271	253,423	258,571
-	11,724	11,357	-	-	-
103,196	84,881	89,436	74,193	74,632	54,452
-	-	-	-	-	-
147,370	149,950	147,381	220,619	416,963	225,035
375,057	602,001	434,263	474,039	459,392	282,152
5,481	-	-	-	-	-
-	-	23,931	20,267	20,860	22,280
-	-	50,996	52,618	54,649	59,673
-	-	28,775	59,219	50,337	65,321
-	-	-	17,785	20,958	20,026
<u>5,583,331</u>	<u>6,062,354</u>	<u>6,156,479</u>	<u>6,700,811</u>	<u>7,151,236</u>	<u>7,505,112</u>
<u>(1,263)</u>	<u>(1,487)</u>	<u>(1,073)</u>	<u>(1,158)</u>	<u>(1,041)</u>	<u>(1,318)</u>
5,582,068	6,060,867	6,155,406	6,699,653	7,150,195	7,503,794
7,456	7,439	7,436	8,014	7,513	7,702
196	181	175	208	175	131
<u>5,589,720</u>	<u>6,068,487</u>	<u>6,163,017</u>	<u>6,707,875</u>	<u>7,157,883</u>	<u>7,511,627</u>
3,627,939	3,868,970	3,996,632	4,394,400	4,638,488	5,030,240
311,981	337,007	343,608	373,819	398,162	420,843
51,665	55,591	58,615	63,654	64,935	52,409
29,970	32,650	30,301	31,863	38,275	55,905
37,513	41,180	39,452	38,323	39,649	39,455
27,320	28,379	30,117	31,064	31,273	33,047
8,344	7,941	7,486	8,802	8,176	8,517
2,078	1,662	2,180	1,904	2,019	574
441	959	1,570	1,108	1,078	857
<u>4,097,251</u>	<u>4,374,339</u>	<u>4,509,961</u>	<u>4,944,937</u>	<u>5,222,055</u>	<u>5,641,847</u>
<u>1,492,469</u>	<u>1,694,148</u>	<u>1,653,056</u>	<u>1,762,938</u>	<u>1,935,828</u>	<u>1,869,780</u>
4,032	4,695	4,829	5,551	8,933	13,102
997	1,163	-	-	-	-
(505)	(645)	-	-	-	-
(370)	(405)	(418)	(415)	(479)	(524)
12,604	34,246	(17,825)	(3,870)	30,405	46,596
64	15	(57)	(13)	5	(16)
<u>(18,040)</u>	<u>(14,779)</u>	<u>(12,270)</u>	<u>(11,409)</u>	<u>(11,310)</u>	<u>(11,059)</u>
<u>(1,218)</u>	<u>24,290</u>	<u>(25,741)</u>	<u>(10,156)</u>	<u>27,554</u>	<u>48,099</u>
1,491,251	1,718,438	1,627,315	1,752,782	1,963,382	1,917,879
(1,496,371)	(1,692,551)	(1,656,348)	(1,758,329)	(1,927,054)	(1,913,799)
(5,120)	25,887	(29,033)	(5,547)	36,328	4,080
97,661	81,543	107,430	78,397	48,235	84,563
<u>(10,998)</u>	<u>-</u>	<u>-</u>	<u>(24,615)</u>	<u>-</u>	<u>-</u>
<u>\$ 81,543</u>	<u>\$ 107,430</u>	<u>\$ 78,397</u>	<u>\$ 48,235</u>	<u>\$ 84,563</u>	<u>\$ 88,643</u>

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

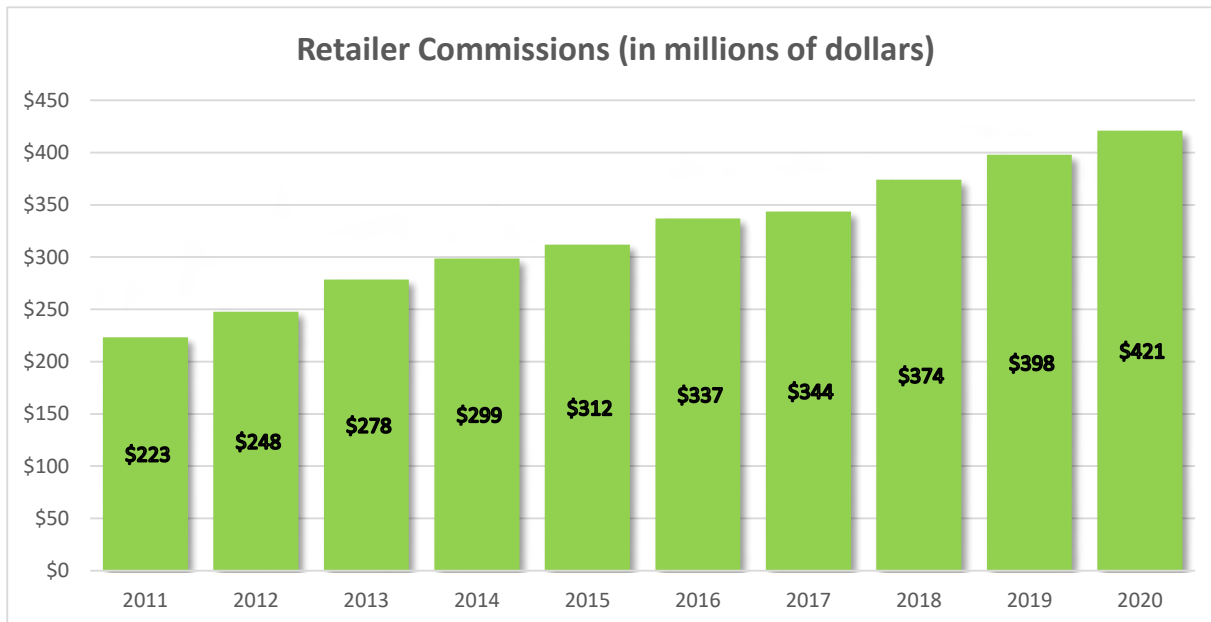
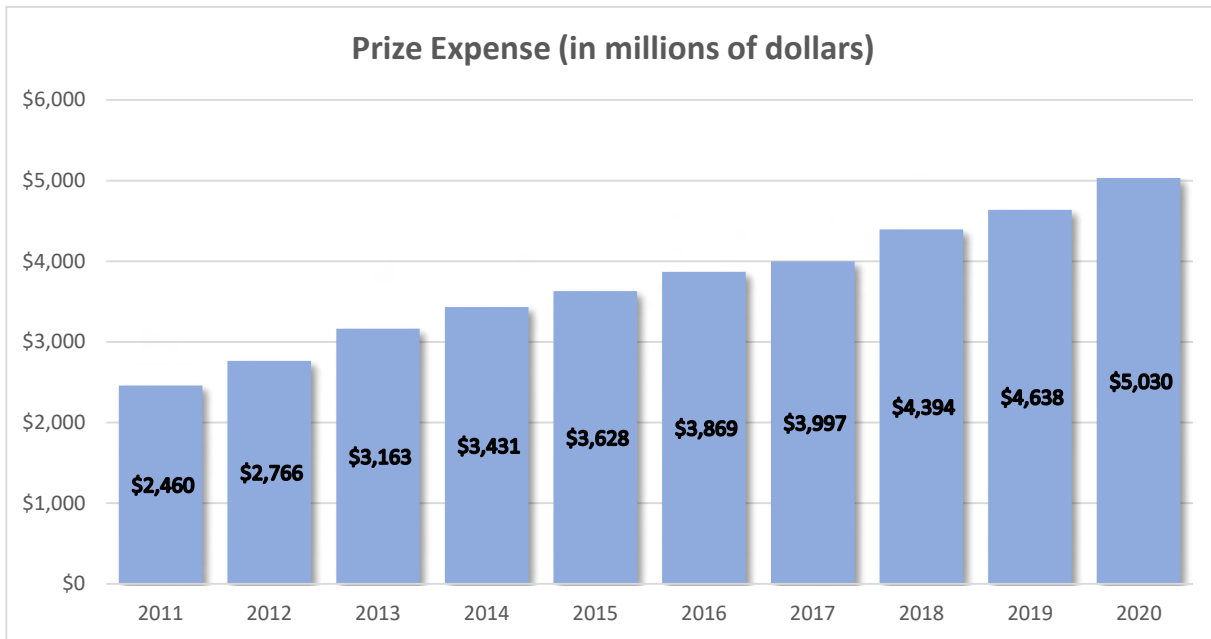
Schedule A-3



Source: Florida Lottery, General Accounting

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

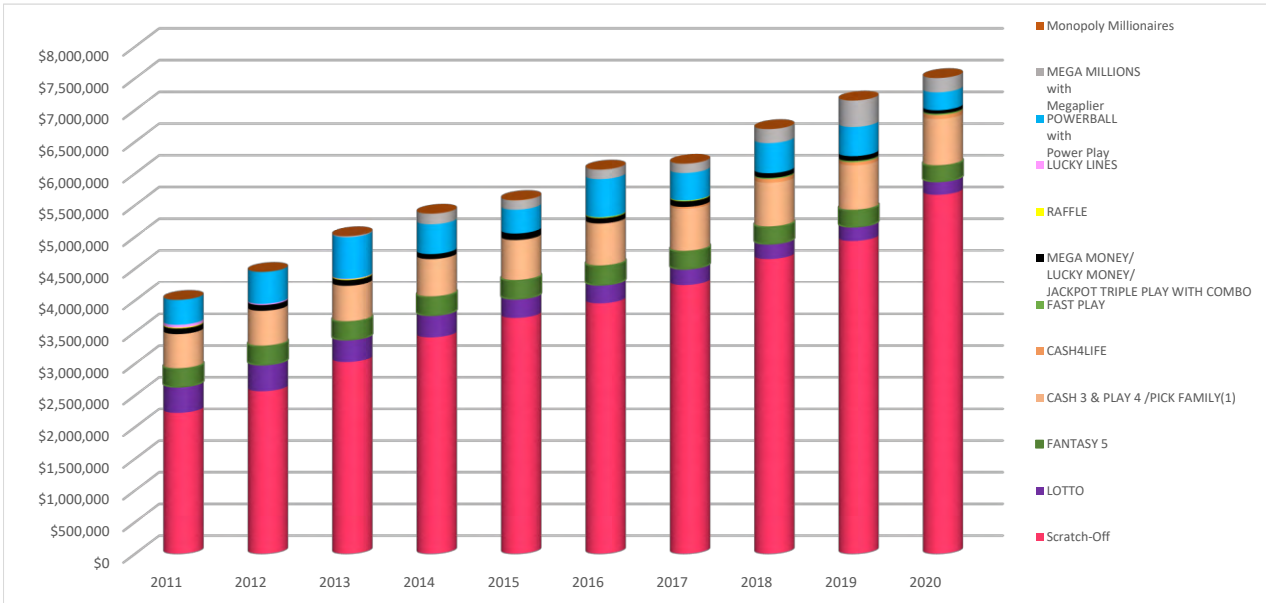
Schedule A-3



2020 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 ⁽¹⁾	CASH4LIFE	FAST PLAY	MEGA MONEY/ LUCKY MONEY/ JACKPOT TRIPLE PLAY WITH COMBO	RAFFLE	LUCKY LINES	POWERBALL with Power Play	MEGA MILLIONS with Megaplier	Monopoly Millionaires	Combined Sales
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
2018	4,652,295	240,015	264,418	698,229	59,219	17,784	74,193	-	-	474,039	220,619	-	6,700,811
2019	4,937,779	223,504	258,409	709,262	50,337	20,958	74,632	-	-	459,392	416,963	-	7,151,236
2020	5,665,324	210,098	245,842	736,863	65,321	20,026	54,452	-	-	282,151	225,035	-	7,505,112

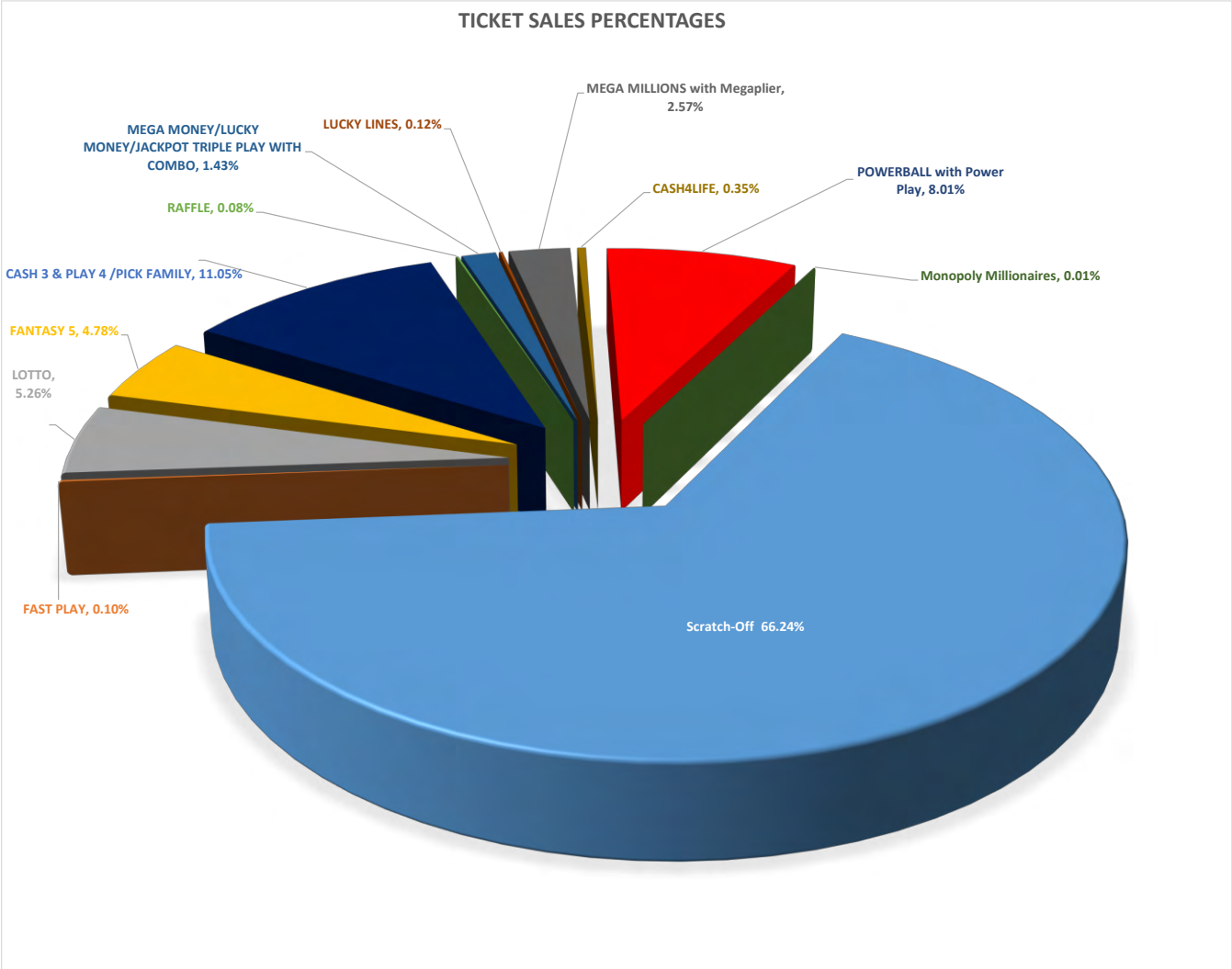
⁽¹⁾ CASH 3 and PLAY 4 were changed to PICK 3 and PICK 5 were introduced in August 2016. They are represented as a family of games - PICK FAMILY on the charts and tables above.

Source: Florida Lottery, General Accounting

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

Ticket Sales Percentages
For the Last Ten Fiscal Years

Schedule B-2



Source: Florida Lottery, General Accounting

2020 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					
	2011	2012	2013	2014	2015	2016
Number of Game Launches						
\$1	12	12	9	10	10	8
\$2	12	14	14	12	12	9
\$3	5	5	3	3	2	1
\$5	15	12	10	10	10	9
\$10	3	3	3	3	4	3
\$20	2	2	1	2	1	1
\$25	-	-	1	1	1	1
\$30	-	-	-	-	-	-
	<u>49</u>	<u>48</u>	<u>41</u>	<u>41</u>	<u>40</u>	<u>32</u>
Sales (in thousands)						
\$1	\$ 165,628	\$ 172,780	\$ 182,095	\$ 181,772	\$ 186,155	\$ 196,556
\$2	319,795	389,265	426,216	444,056	477,036	502,346
\$3	172,642	178,627	198,364	173,207	157,783	135,399
\$5	481,494	539,443	605,275	702,937	743,071	875,444
\$10	333,783	345,680	411,888	404,989	501,139	567,977
\$20	752,334	941,196	829,443	969,861	1,002,548	973,527
\$25	-	-	375,246	540,321	656,263	703,452
\$30	-	-	-	-	-	-
	<u>\$ 2,225,676</u>	<u>\$ 2,566,991</u>	<u>\$ 3,028,527</u>	<u>\$ 3,417,143</u>	<u>\$ 3,723,995</u>	<u>\$ 3,954,701</u>

Source: Florida Lottery, General Accounting

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

Schedule B-3

Fiscal Year					
2017	2018	2019	2020	Total	% of Total 2020
Number of Game Launches					
9	9	9	9	97	25.71%
11	10	10	10	114	28.57%
3	2	2	1	27	2.86%
11	9	9	8	103	22.86%
4	5	5	4	37	11.43%
2	1	2	2	16	5.71%
1	-	-	0	5	0.00%
-	1	1	1	3	2.86%
41	37	38	35	402	100.00%
Sales (in thousands)					
\$ 194,399	\$ 195,523	\$ 169,501	\$ 179,660	\$ 1,824,069	3.17%
508,240	558,165	564,103	624,658	4,813,880	11.03%
154,243	145,030	158,266	191,569	1,665,130	3.38%
867,577	1,036,310	1,013,246	1,044,741	7,909,538	18.44%
655,227	821,977	995,395	1,466,911	6,504,966	25.90%
1,146,288	959,818	1,142,781	1,199,024	9,916,820	21.16%
717,628	583,135	48,489	-	3,624,534	0.00%
-	352,337	845,998	958,761	2,157,096	16.92%
\$ 4,243,602	\$ 4,652,295	\$ 4,937,779	\$ 5,665,324	\$ 38,416,033	100.00%

2020 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					
	2011	2012	2013	2014	2015	2016
Fort Myers	1,236	1,251	1,252	1,247	1,250	1,257
Gainesville	838	836	835	842	839	829
Jacksonville	1,013	1,009	1,013	1,026	1,016	1,018
Miami	3,265	3,245	3,272	3,231	3,193	3,202
Orlando	2,160	2,168	2,190	2,202	2,179	2,183
Pensacola	668	672	685	666	658	665
Tallahassee	374	377	387	383	382	389
Tampa	2,448	2,472	2,445	2,415	2,363	2,375
West Palm Beach	1,224	1,225	1,249	1,254	1,241	1,245
	<u>13,226</u>	<u>13,255</u>	<u>13,328</u>	<u>13,266</u>	<u>13,121</u>	<u>13,163</u>

Source: Department generated from gaming vendor data

**Sales by District
(in thousands)**

District	2011	2012	2013	2014	2015	2016
Fort Myers	\$ 389,193	\$ 436,665	\$ 495,289	\$ 537,065	\$ 565,408	\$ 615,229
Gainesville	230,462	248,080	272,634	299,433	317,574	343,318
Jacksonville	284,052	312,540	359,187	404,505	428,266	458,174
Miami	911,981	1,021,417	1,152,468	1,208,118	1,227,125	1,367,195
Orlando	683,344	751,233	850,547	928,474	981,175	1,050,312
Pensacola	243,161	269,702	298,756	309,236	321,788	351,814
Tallahassee	121,308	129,598	146,996	167,641	180,174	189,304
Tampa	731,470	815,607	907,782	943,959	981,708	1,052,556
West Palm Beach	413,745	465,054	529,337	569,799	580,113	634,452
	<u>\$ 4,008,716</u>	<u>\$ 4,449,896</u>	<u>\$ 5,012,996</u>	<u>\$ 5,368,230</u>	<u>\$ 5,583,331</u>	<u>\$ 6,062,354</u>

Source: Department generated from gaming vendor data

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

Schedule B-4

Fiscal Year			
2017	2018	2019	2020
1,266	1,262	1,292	1,309
823	818	818	826
1,020	1,022	1,017	1,020
3,172	3,155	3,172	3,146
2,197	2,194	2,180	2,151
681	703	692	715
386	379	381	383
2,355	2,358	2,382	2,415
1,254	1,253	1,272	1,263
<u>13,154</u>	<u>13,144</u>	<u>13,206</u>	<u>13,228</u>

2017	2018	2019	2020	Total	% of Total Sales
\$ 628,123	\$ 697,588	\$ 759,736	\$ 801,054	\$ 5,536,157	10.25%
356,612	387,452	411,490	446,857	3,083,450	5.71%
477,954	522,998	551,029	626,094	4,140,747	7.67%
1,333,364	1,447,985	1,524,352	1,526,493	11,808,517	21.87%
1,071,251	1,157,163	1,227,247	1,278,238	9,295,640	17.22%
364,132	391,488	432,160	449,837	3,188,913	5.91%
191,233	201,239	218,261	230,358	1,654,804	3.06%
1,088,431	1,192,114	1,275,011	1,373,501	9,630,669	17.84%
645,379	702,784	751,950	772,680	5,651,548	10.47%
<u>\$ 6,156,479</u>	<u>\$ 6,700,811</u>	<u>\$ 7,151,236</u>	<u>\$ 7,505,112</u>	<u>\$ 53,990,445</u>	<u>100.00%</u>

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

Demographic and Economic Statistics For the Last Ten Calendar Years

Schedule C-1

Year ⁽³⁾	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.
2010	18,801,332	0.61%	309,326,085	1.72%	\$ 725,074	\$ 12,551,597
2011	18,905,070	0.55%	311,580,009	0.73%	764,634	13,326,770
2012	19,074,434	0.90%	313,874,218	0.74%	793,429	14,010,140
2013	19,259,543	0.97%	316,057,727	0.70%	795,425	14,181,095
2014	19,507,369	1.29%	318,386,421	0.74%	856,162	14,991,831
2015	19,815,183	1.58%	320,742,673	0.74%	915,896	15,717,760
2016	20,148,654	1.68%	323,071,342	0.73%	942,461	16,121,183
2017	20,484,142	1.67%	325,147,121	0.64%	1,004,144	16,878,796
2018	20,840,568	1.74%	327,167,434	0.62%	1,066,447	17,819,158
2019	21,208,589	1.77%	329,158,518	0.61%	1,123,269	18,620,382

⁽¹⁾ Unemployment Assistance rates are annualized (average of monthly rates).

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

⁽³⁾ Demographic data for calendar year 2020 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 (December 2019), and the National and Florida Economic Estimating Conferences (December 2019).

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

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

Schedule C-1

<u>Per Capita Personal Income</u>		<u>Unemployment Assistance Rate ⁽¹⁾</u>		<u>Median Age</u>	<u>Public School Enrollment ⁽²⁾</u>
<u>Florida</u>	<u>U.S.</u>	<u>Florida</u>	<u>U.S.</u>	<u>Florida</u>	<u>Florida</u>
\$ 38,565	\$ 40,577	11.1%	9.6%	40.6	2,634,382
40,446	42,772	10.0%	8.9%	40.9	2,643,396
41,596	44,636	8.5%	8.1%	41.0	2,667,830
41,300	44,869	7.2%	7.4%	41.1	2,691,322
43,889	47,087	6.3%	6.2%	41.3	2,720,074
46,222	49,004	5.5%	5.3%	41.5	2,756,127
46,775	49,900	4.8%	4.9%	41.6	2,791,244
49,021	51,911	4.2%	4.4%	41.6	2,817,076
51,172	54,465	3.6%	3.9%	41.7	2,833,115
52,963	56,570	3.4%	3.7%	41.7	2,846,857

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

Industry Sector Employment For Calendar Years 2019 and 2010 (in thousands)

Schedule C-2

Industry	Calendar Year 2019		Calendar Year 2010	
	Employment	Percentage of Total Employment ⁽¹⁾	Employment	Percentage of Total Employment ⁽¹⁾
Health Care and Social Assistance	1,167	12.94%	936	12.90%
Retail Trade	1,109	12.29%	934	12.87%
Accommodation and Food Services	1,015	11.25%	746	10.28%
Local Government	722	8.00%	724	9.98%
Administrative and Waste Services	683	7.57%	494	6.81%
Professional and Technical Services	594	6.59%	437	6.02%
Construction	566	6.27%	351	4.84%
Finance and Insurance	395	4.38%	328	4.52%
Manufacturing	385	4.27%	309	4.26%
Wholesale	353	3.91%	308	4.24%
Total	6,989	77.47%	5,567	76.72%

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 2019, Florida's seasonally adjusted total nonagricultural employment was 9,031,400, an increase of 167,200 jobs (+1.9 percent) over the year. Florida's annual job growth rate had been positive for 112 out of 113 months. The only month not positive was due to Hurricane Irma that hit the state in September 2017. Prior to August 2010, the state had been losing jobs for three years. In December 2019, eight of the ten major industries gained jobs over the year with education and health services (+36,600 jobs) gaining the most followed by trade, transportation, and utilities (+30,600 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:

	2019	2010
Total non-agricultural employment	8,953	7,175
Total agricultural employment	67	82
Total employment	9,020	7,257

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

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2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

Schedule C-3

	Fiscal Year					
	2011	2012	2013	2014	2015	2016
Gender						
Male	52%	51%	51%	51%	51%	51%
Female	48%	49%	49%	49%	49%	49%
Age						
18 to 34	25%	26%	24%	24%	25%	24%
35 to 54	47%	38%	39%	38%	38%	39%
55+	28%	36%	37%	38%	37%	37%
Education						
HS or Less	25%	34%	28%	21%	20%	15%
Some Post Secondary	33%	29%	29%	29%	26%	22%
University+	42%	37%	43%	50%	54%	63%
Race						
White	86%	84%	85%	84%	86%	84%
Other	14%	16%	15%	16%	14%	16%
Hispanic						
Yes	24%	23%	22%	21%	21%	20%
No	76%	77%	78%	79%	79%	80%
Income						
<\$20K	12%	14%	14%	17%	13%	12%
\$20K-\$29K	13%	12%	12%	14%	12%	10%
\$30K-\$49K	28%	26%	26%	25%	25%	21%
\$50K-\$69K	18%	18%	21%	20%	20%	21%
\$70K+	29%	30%	27%	24%	30%	36%

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

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

Schedule C-3

Fiscal Year			
2017	2018	2019	2020
51%	51%	51%	50%
49%	49%	49%	50%
25%	26%	25%	24%
38%	38%	39%	36%
37%	36%	36%	40%
15%	18%	21%	19%
20%	22%	23%	22%
65%	60%	56%	59%
84%	84%	84%	83%
16%	16%	16%	17%
21%	20%	20%	25%
79%	80%	80%	75%
11%	12%	12%	12%
8%	10%	10%	11%
21%	21%	23%	23%
21%	20%	19%	20%
39%	37%	36%	34%

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

Schedule D-1

	Fiscal Year					
	2011	2012	2013	2014	2015	2016
Sales:						
Tallahassee	11	10	11	11	11	11
Fort Myers	17	18	16	15	17	16
West Palm Beach	20	19	17	19	19	19
Miami	38	36	39	38	37	38
Pensacola	14	13	13	14	14	14
Jacksonville	15	13	16	16	15	16
Gainesville	13	13	13	13	12	13
Orlando	26	26	27	27	26	27
Tampa	31	30	31	30	30	26
Sales Subtotal	185	178	183	183	181	180
Administrative and Other	239	236	220	220	227	232
Total	424	414	403	403	408	412

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

Source: Florida Lottery, General Accounting

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

Schedule D-1

Fiscal Year			
<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
10	11	11	11
18	18	17	17
18	19	19	19
36	37	38	38
14	15	14	14
15	16	16	16
13	13	14	14
28	27	28	28
31	30	30	30
<u>183</u>	<u>186</u>	<u>187</u>	<u>187</u>
<u>230</u>	<u>233</u>	<u>232</u>	<u>232</u>
<u>413</u>	<u>419</u>	<u>419</u>	<u>419</u>

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

Schedule D-2

	Fiscal Year					
	2011	2012	2013	2014	2015	2016
<u>Scratch-Off Games</u>						
Sales	\$2,225,676	\$2,566,991	\$3,028,527	\$3,417,143	\$3,723,995	\$3,954,701
Prize Expense	\$1,609,232	\$1,841,816	\$2,207,780	\$2,484,259	\$2,712,474	\$2,880,963
Percent of Sales	72.30%	71.75%	72.90%	72.70%	72.84%	72.85%
Vendor Fees	\$ 35,520	\$ 38,906	\$ 44,193	\$ 48,157	\$ 51,665	\$ 55,591
Percent of Sales	1.60%	1.52%	1.46%	1.41%	1.39%	1.41%
<u>Draw Games</u>						
Sales	\$1,783,040	\$1,882,905	\$1,984,469	\$1,951,087	\$1,859,336	\$2,107,653
Prize Expense	\$ 906,303	\$ 950,655	\$1,015,405	\$ 995,240	\$ 962,779	\$1,054,995
Percent of Sales	50.83%	50.49%	51.17%	51.01%	51.78%	50.06%
Vendor Fees	\$ 27,740	\$ 27,622	\$ 31,012	\$ 28,895	\$ 29,970	\$ 32,650
Percent of Sales	1.56%	1.47%	1.56%	1.48%	1.61%	1.55%
<u>Total Games</u>						
Sales	\$4,008,716	\$4,449,896	\$5,012,996	\$5,368,230	\$5,583,331	\$6,062,354
Commissions	\$ 223,390	\$ 247,690	\$ 278,493	\$ 298,651	\$ 311,981	\$ 337,007
Percent of Sales	5.57%	5.57%	5.56%	5.56%	5.59%	5.56%
Administrative Costs	\$ 71,449	\$ 70,304	\$ 72,653	\$ 74,528	\$ 75,696	\$ 80,121
Percent of Sales	1.78%	1.58%	1.45%	1.39%	1.36%	1.32%
Number of Employees	424	414	403	403	408	412
Number of Retailers	13,226	13,255	13,328	13,266	13,121	13,163

Source: Florida Lottery, General Accounting

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

Schedule D-2

Fiscal Year			
2017	2018	2019	2020
\$4,243,602	\$4,652,295	\$4,937,779	\$5,665,324
\$3,103,450 73.13%	\$3,410,041 73.30%	\$3,629,531 73.51%	\$4,135,818 73.00%
\$ 58,615 1.38%	\$ 63,654 1.37%	\$ 64,935 1.32%	\$ 52,409 0.93%
\$1,912,877	\$2,048,516	\$2,213,457	\$1,839,788
\$ 966,230 50.51%	\$1,051,764 51.34%	\$1,096,540 49.54%	\$ 923,522 50.20%
\$ 30,301 1.58%	\$ 31,863 1.56%	\$ 38,275 1.73%	\$ 55,905 3.04%
\$6,156,479	\$6,700,811	\$7,151,236	\$7,505,112
\$ 343,608 5.58%	\$ 373,819 5.58%	\$ 398,162 5.57%	\$ 420,843 5.61%
\$ 80,805 1.31%	\$ 81,201 1.21%	\$ 82,195 1.15%	\$ 82,450 1.10%
413	419	419	419
13,154	13,144	13,206	13,228

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

Schedule D-3

	Fiscal Year					
	2011	2012	2013	2014	2015	2016
Vehicles and equipment	\$ 12,502	\$ 12,693	\$ 12,787	\$ 11,732	\$ 12,754	\$ 11,445
Intangible assets and other	703	763	2,123	2,855	3,000	3,319
Total Capital Assets	<u>13,205</u>	<u>13,456</u>	<u>14,910</u>	<u>14,587</u>	<u>15,754</u>	<u>14,764</u>
Less accumulated depreciation	11,957	12,100	11,695	10,344	9,934	8,658
Total Capital Assets, net	<u>\$ 1,248</u>	<u>\$ 1,356</u>	<u>\$ 3,215</u>	<u>\$ 4,243</u>	<u>\$ 5,820</u>	<u>\$ 6,106</u>

Source: Florida Lottery, General Accounting

2020 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

Schedule D-3

Fiscal Year			
2017	2018	2019	2020
\$ 12,295	\$ 12,970	\$ 12,950	\$ 12,405
<u>3,816</u>	<u>4,162</u>	<u>4,484</u>	<u>4,848</u>
16,111	17,132	17,434	17,253
9,847	10,145	10,264	9,980
<u>\$ 6,264</u>	<u>\$ 6,987</u>	<u>\$ 7,170</u>	<u>\$ 7,273</u>

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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*

We have audited the Department of the Lottery's (Department's) internal control over financial reporting as of June 30, 2020, based on criteria established in the *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 Department'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 the 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 Department maintained, in all material respects, effective internal control over financial reporting as of June 30, 2020, based on criteria established in the *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 Department, as of and for the fiscal year ended June 30, 2020, and the related notes to financial statements, which collectively comprise the Department's basic financial statements, and our report dated December 30, 2020, expressed an unmodified opinion.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of the Department'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 Department's response to the findings described in the ***FINDINGS AND RECOMMENDATIONS*** accompanying this report is included as ***MANAGEMENT'S RESPONSE***. The Department'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 results of that testing, and to provide an opinion on the effectiveness of the Department'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 Department's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
December 30, 2020
Audit Report No. 2021-088

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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, 2020, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in the *Internal Control – Integrated Framework* (2013). Based on that assessment, management concluded that, as of June 30, 2020, the Florida Lottery's internal control over financial reporting is effective based on the criteria established in the *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, appearing to read "John F. Davis".

John F. Davis
Secretary

December 30, 2020

FINDINGS AND RECOMMENDATIONS

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 controls. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising Lottery information. However, we have notified appropriate Lottery management of the specific issues.

Without adequate IT controls, the risk is increased that the confidentiality, integrity, and availability of Lottery data and IT resources may be compromised. Similar findings were communicated to Lottery management in connection with prior audits of the Lottery, most recently with our report No. 2020-086 (Finding 1).

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. 2020-086 (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, contrary to State law, as of June 30, 2020, retailers comprising one minority type totaled approximately 67.8 percent of the total number of minority retailers.

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

RON DESANTIS
Governor



JOHN F. DAVIS
Secretary

December 23, 2020

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 23, 2020, 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, 2020. 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: The Lottery will continue to look for opportunities to recruit retailers, including those in under-represented minority groups. 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, appearing to read "John F. Davis".

John F. Davis
Secretary

cc: Jodi Ryon, Acting Chief of Staff
Andy Mompeller, Inspector General



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