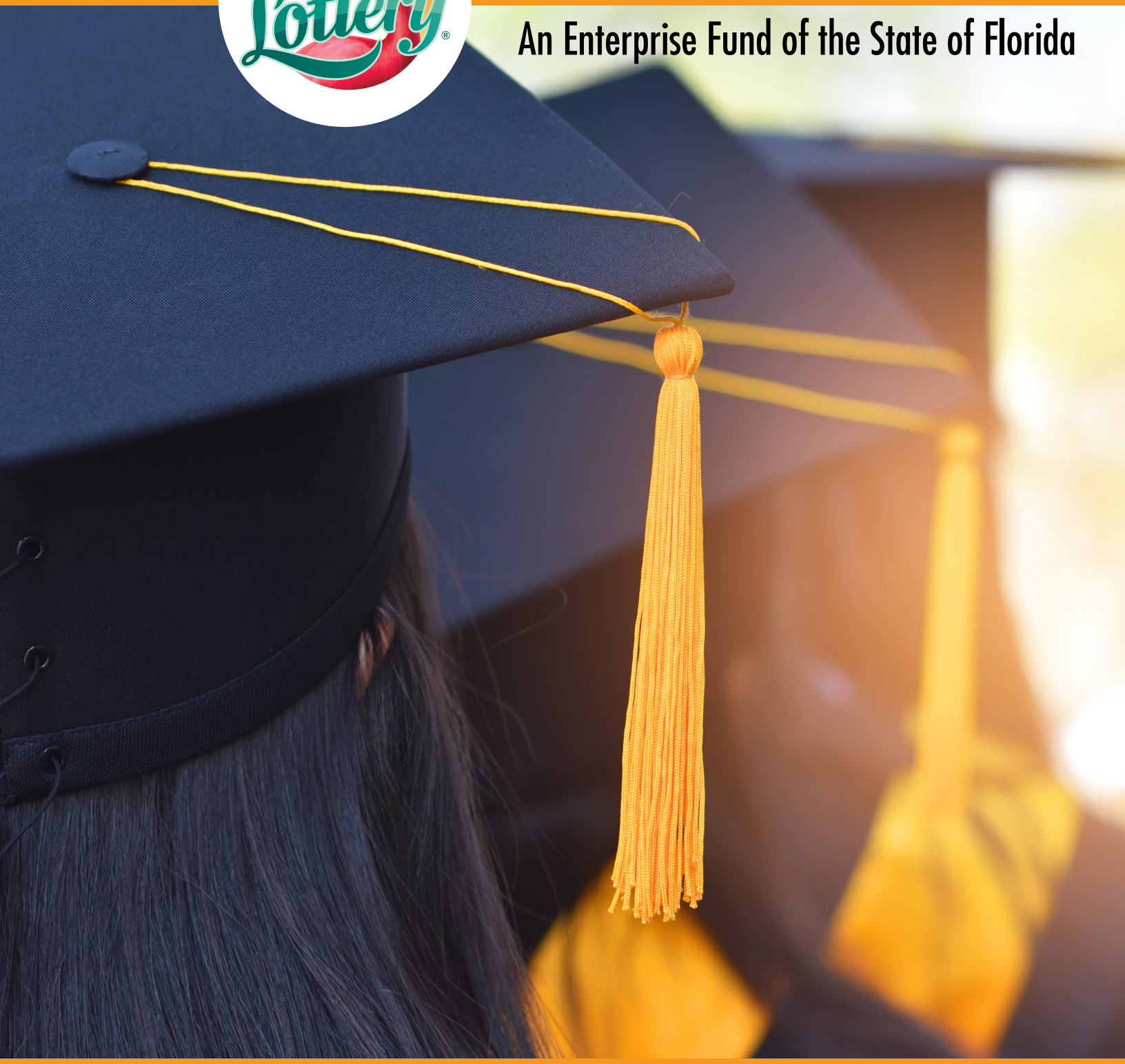
FLORIDA LOTTERY

An Enterprise Fund of the State of Florida



Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2018, and 2017

FLORIDA LOTTERY

An Enterprise Fund of the State of Florida

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Years Ended June 30, 2018, and 2017

JIM POPPELL
SECRETARY

Prepared by:

General Accounting

Gina Ballard, CPA, Director of Accounting

Cindie McKenzie

Nicole Davis

Cristian Guadamuz

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INTRODUCTORY SECTION

RICK SCOTT
Governor

JIM POPPELL
Secretary

December 21, 2018

The Honorable Rick Scott, Governor
The Honorable Bill Galvano, President of the Senate
The Honorable Jose Oliva, Speaker of the House of Representatives

To Governor Scott, President Galvano, and Speaker Oliva:

We are pleased to submit the Florida Lottery's (Lottery) Comprehensive Annual Financial Report (CAFR) for the fiscal years ended June 30, 2018, and 2017 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, 2018, and 2017. 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, 2018, 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 30 years of operation, the Lottery has offered a variety of Scratch-Off and Draw game products and promotions, which have generated over $103.2 billion in revenues. As of June 30, 2018, the Lottery has transferred approximately $33.5 billion to education since its inception. In fiscal year ended June 30, 2018, the Lottery had its seventh consecutive all-time record-breaking sales year of approximately $6.7 billion which provided more than $1.75 billion in contributions to education.

To date the Lottery has introduced more than 1,000 new Scratch-Off games and continues to market approximately 42 new games each year. The portfolio of games offered at any given time provides a wide range of play styles, game themes, and price points to appeal to a wide range of players. Prizes have included free tickets, merchandise, vacations, and jackpots of up to $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 19 years. Scratch-Off sales surpassed $4.65 billion in fiscal year 2017-18. The Lottery has had measurable success strategically launching several "families of games" and has highlighted several key Scratch-Off games in the total advertising efforts.

Draw games were expanded to include the new FAST PLAY™ game in fiscal year 2017-18. The Lottery currently offers the following Draw games: FLORIDA LOTTO®, FANTASY 5®, PICK 2, PICK 3, PICK 4, PICK 5, LUCKY MONEY™, POWERBALL®, MEGA MILLIONS®, FAST PLAY, and CASH4LIFE™. FLORIDA LOTTO, FANTASY 5, AND LUCKY MONEY are pari-mutuel games in which the actual prize amounts depend on the sales and the number of winners for the draws. Prizes are divided among the winners in each prize category. POWERBALL, MEGA MILLIONS, and CASH4LIFE are set prize payout games except that the jackpot is shared among winners in all participating states. PICK 2, PICK 3, PICK 4, PICK 5, MILLIONAIRE RAFFLE™, and FAST PLAY are set prize payout games. The Lottery also offers add-on features, such as EZmatch™, Power Play®, Megaplier®, 1-OFF™ and XTRA, in conjunction with certain games to increase a player's prize amount for additional dollars.

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

ECONOMIC CONDITION AND FINANCIAL INFORMATION

The main economic factors affecting lottery sales are population growth, personal income growth and employment. Based on the November 2018 Florida Economic Estimating Conference (Conference), Florida's population is forecasted to increase 1.660% and 1.544% for the fiscal years ending June 30, 2019, and 2020, respectively. Additionally, the Conference produced forecasts for real personal income growth of 5.2% and 5.5%, for the fiscal years ended June 30, 2019, and 2020, respectively, while total non-farm employment is forecasted to increase by 3.0% and 2.1%, respectively. According to the Conference, Florida's unemployment rate of 3.4% in October was lower than the nation as a whole. According to the Conference, Florida's unemployment rate is now below the "full employment" unemployment rate (assumed to be 4%).

ACCOUNTING SYSTEMS AND POLICIES

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

INTERNAL CONTROLS

The Lottery maintains a system of internal controls to safeguard assets, prevent fraud and abuse, and ensure the accuracy of financial information. Employee, retailer, and contractor standards are in place to minimize risk of loss or theft. Inherent limitations to internal controls include the consideration of the cost-to-benefit in establishing a certain internal control. Also, members of management regularly have the ability to override internal controls 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 or abuse, or to manipulate the financial records of an entity. Some internal controls can be circumvented when two or more employees collude together. Because of these limitations internal controls are designed to provide reasonable but not absolute assurance that the basic financial statements are free from material misstatement.

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 we continue to actively pursue are:

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

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, 2017. This was the first 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.

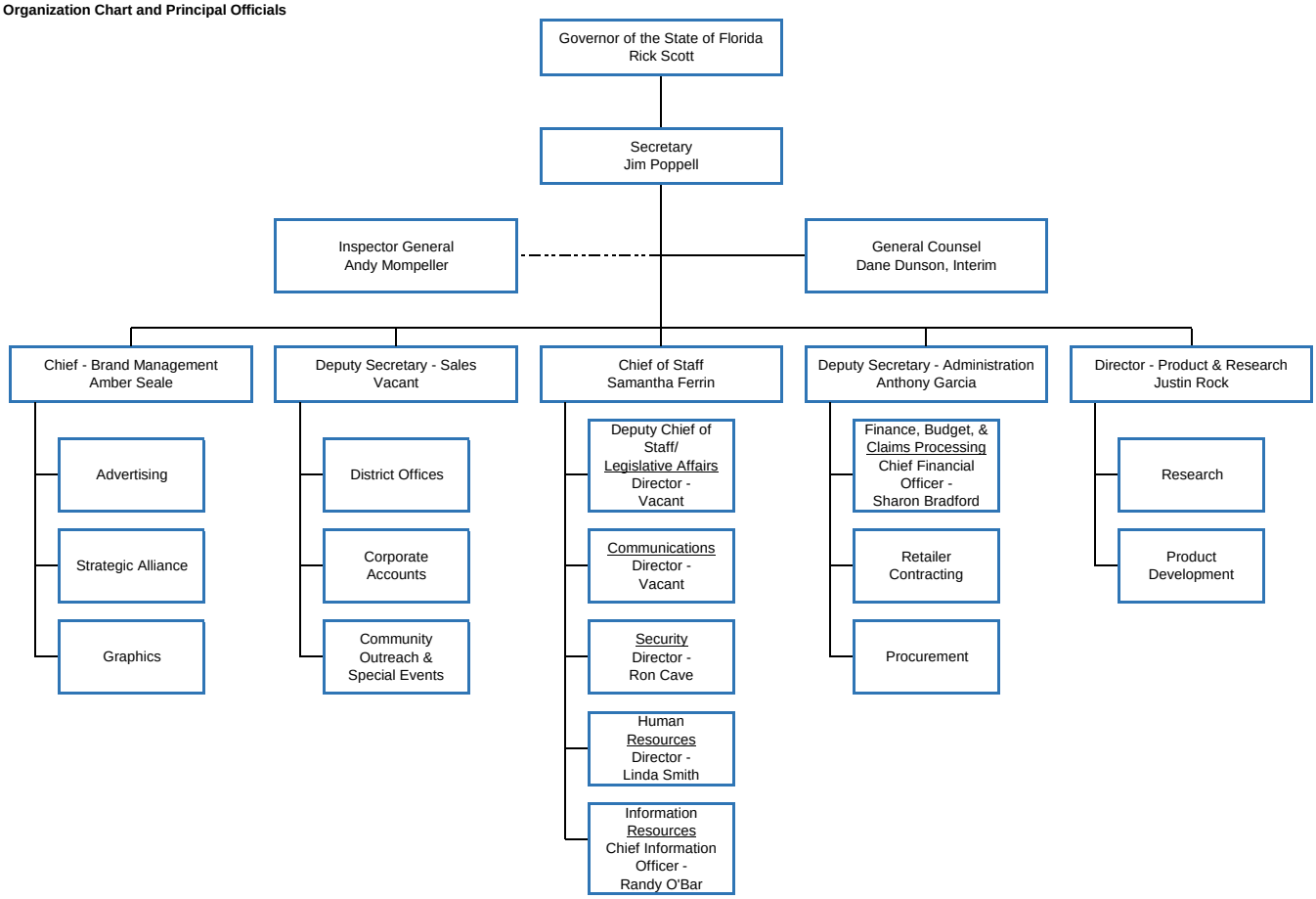
A Certificate of Achievement is valid for a period of one year. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and are submitting it to the GFOA to determine its eligibility for another certificate.

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,

Jim Poppell,	Sharon Bradford,	Gina Ballard, CPA,
Secretary	Chief Financial Officer	Accounting Director

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, 2017

Christopher P. Morrill

Executive Director/CEO

FINANCIAL SECTION

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AUDITOR GENERAL
STATE OF FLORIDA

Sherrill F. Norman, CPA
Auditor General

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

Phone: (850) 412-2722
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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, 2018, and June 30, 2017, 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, 2018, and June 30, 2017, 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 Matters

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, 2018, and June 30, 2017, 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.

As discussed in Notes 1.U. and 9.B. to the financial statements, the Lottery implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which is a change in accounting principle that addresses accounting and financial reporting for other postemployment benefits. This affects the comparability of amounts reported in the 2017-18 fiscal year with the amounts reported for the 2016-17 fiscal year. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 17 through 25) and schedules of the Lottery's proportionate share of the net pension liability and contributions (pages 60 through 61) and the Lottery's proportionate share of the other postemployment benefits liability (page 62) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

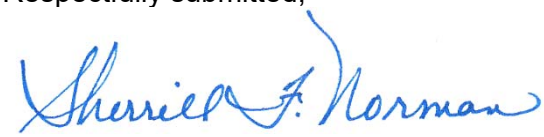
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lottery's basic financial statements. The Introductory Section, on pages 5 through 10, and the Statistical Section, on pages 63 through 89, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with auditing standards generally accepted in the United States of America and applicable *Government Auditing Standards*, we have also issued our report dated December 21, 2018, 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, 2018, 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 21, 2018
Audit Report No. 2019-090

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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, 2018, and 2017. 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 twenty-ninth consecutive fiscal year, with the past six fiscal years exceeding $5 billion. During the same twenty-nine year period, the transfer to the Educational Enhancement Trust Fund (EETF) has been a minimum of $800 million annually, with the fiscal year 2018 transfer exceeding $1 billion for the sixteenth consecutive year.

For the fiscal year ended June 30, 2018:

- Transfers to the EETF were approximately $1.76 billion this fiscal year compared to $1.66 billion in the prior fiscal year.
- The Lottery's ticket sales increased by 8.84 percent over the prior fiscal year from approximately $6.16 billion to $6.70 billion.
- Approximately 69.43 percent of total sales were provided by the Scratch-Off product line. This shift in product mix from the higher profit-margin Draw product to the lower profit-margin Scratch-Off product directly impacts the amount transferred to the EETF.
- Prize expense increased $397.77 million, which represents a 9.95 percent increase during fiscal year 2018. 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 65.58 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 2018 expenses for these items increased 8.51 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 $396,000. Administrative operating expenses for fiscal years 2018 and 2017 were $81.20 million and $80.80 million, respectively.
- Nonoperating income increased $15.59 million over the prior fiscal year. The increase was primarily due to an increase of $13.96 million in net appreciation (depreciation) in fair value of investments.
- EETF transfers from unclaimed prize money decreased $13.41 million over the prior fiscal year. This decrease can be primarily attributed to less Scratch-Off games being closed during fiscal year 2018.

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.

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 2018, 2017, and 2016.

Table 1 - Condensed Statements of Net Position
As of June 30, 2018, 2017, and 2016
(In Thousands)

	2018	2017	2016
Current Assets	$ 234,485	$ 219,147	$ 302,231
Restricted Assets	357,206	352,429	399,191
Capital Assets, Net of Depreciation	6,987	6,264	6,106
Total Assets	598,678	577,840	707,528
Total Deferred Outflows of Resources	11,245	9,872	5,007
Current Liabilities	237,155	221,636	298,831
Current Liabilities Payable from Restricted Assets	22,143	25,540	43,294
Noncurrent Liabilities	295,812	261,133	260,801
Total Liabilities	555,110	508,309	602,926
Total Deferred Inflows of Resources	6,578	1,006	2,179
Net Position:			
Invested in Capital Assets	6,987	6,264	6,106
Restricted Net Position	91,991	95,499	121,932
Unrestricted Net Position	(50,743)	(23,366)	(20,608)
Total Net Position	$ 48,235	$ 78,397	$ 107,430

Financial Analysis

Assets

Total assets at the end of fiscal year 2018 increased $20.84 million from $577.84 million at June 30, 2017, to $598.68 million at June 30, 2018. At the end of fiscal year 2017, total assets were $129.69 million less than the $707.53 million at the end of fiscal year 2016.

- The increase in total assets over 2017 is primarily related to an increase of $13.14 million of cash in the State Treasury.
- Current assets decreased from $302.23 million in 2016 to $219.15 million in 2017. The decrease was primarily due to a decrease of $91.65 million in cash and cash equivalents for fiscal year 2017 due to a reduction in the Due to EETF between years.

Deferred Outflows of Resources

Total deferred outflows of resources as of June 30, 2018, were $11.25 million reflecting an increase of $1.37 million over the June 30, 2017, amount of $9.87 million. At the end of fiscal year 2017, deferred outflows increased $4.86 million over June 30, 2016, which was $5.01 million for pension and other postemployment benefits related items (refer to Note 9 to the financial statements for additional details).

Liabilities

Total liabilities at June 30, 2018, were $555.11 million, which was approximately $46.80 million higher than the total liabilities of $508.31 million at June 30, 2017. The total liabilities at June 30, 2017, were $94.62 million lower than the June 30, 2016, amount of $602.93 million.

- Noncurrent liabilities principally consist of the long-term portion of grand prizes payable, which represents the amount to be paid to grand prizewinners in future years. Correlative to current grand prizes payable, the long-term grand prizes payable increased $12.16 million from $229.66 million June 30, 2017, to $241.82 million June 30, 2018. The purchase of $23.42 million in investments related to winners who chose installment payments for grand prizes contributed to this increase.
- Current liabilities decreased by $77.19 million from June 30, 2016, to June 30, 2017. This decrease can be primarily attributed to the decrease in the amount owed to the EETF.

Deferred Inflows of Resources

Total deferred inflows of resources as of June 30, 2018, were $6.58 million reflecting an increase of $5.57 million over the June 30, 2017, amount of $1.01 million. At the end of fiscal year 2017, deferred inflows decreased $1.17 million over June 30, 2016, which was $2.18 million for pension

and other postemployment benefits related items (refer to Note 9 to the financial statements for additional details).

Net Position

Net position decreased $30.16 million from June 30, 2017, to June 30, 2018. Net position at June 30, 2018, 2017, and 2016 were $48.24 million, $78.40 million, and $107.43 million, respectively.

- The $30.16 million decrease in net position at June 30, 2018, is primarily related to a prior period adjustment of $24.62 million for the implementation of GASB Statement No. 75 which relates to postemployment benefits other than pensions. (Refer to Note 9 to the financial statements for further details.)
- The decrease at June 30, 2017, can be attributed to a $30.43 million decrease in the amount restricted for undistributed depreciation on restricted investments. The decrease is due to the decrease in the fair market value of both the grand prize investments held by the Lottery and investments held at the State Treasury.

The Lottery joined MUSL nine 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 $26.68 million and $24.18 million as of June 30, 2018, and June 30, 2017, 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, 2018, and the prior fiscal years ended June 30, 2017, and June 30, 2016, as derived from the Lottery's Statements of Revenues, Expenses, and Changes in Net Position.

Table 2 - Condensed Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2018, 2017, and 2016
(In Thousands)

	2018	2017	2016
Operating Revenues:			
Ticket Sales	$ 6,700,811	$ 6,156,479	$ 6,062,354
Bad Debt Expense	(1,158)	(1,073)	(1,487)
Terminal & Retailer Fees and Miscellaneous	8,222	7,611	7,620
Total Operating Revenues	6,707,875	6,163,017	6,068,487
Operating Expenses:			
Prizes	4,394,400	3,996,632	3,868,970
Retailer Commissions	373,819	343,608	337,007
Vendor Commissions	95,517	88,916	88,241
Other Expenses	81,201	80,805	80,121
Total Operating Expenses	4,944,937	4,509,961	4,374,339
Income from Operations	1,762,938	1,653,056	1,694,148
Nonoperating Revenue, Net of Expenses	(10,156)	(25,741)	24,290
Income Before Operating Transfers	1,752,782	1,627,315	1,718,438
Total Transfers to EETF	(1,758,329)	(1,656,348)	(1,692,551)
Change in Net Position	(5,547)	(29,033)	25,887
Net Position, Beginning Restated	53,782	107,430	81,543
Net Position, End of Year	$ 48,235	$ 78,397	$ 107,430

Financial Analysis

Sales

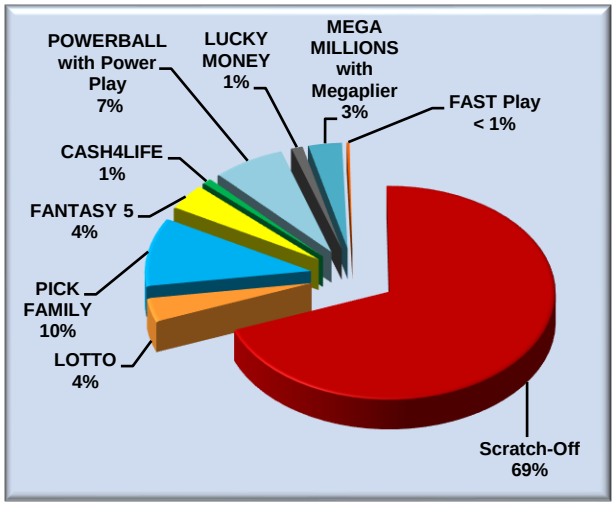
Total sales for the fiscal year 2018 increased $544.33 million from $6.16 billion for the fiscal year 2017, to $6.70 billion for fiscal year 2018. At the end of fiscal year 2017, total sales were $94.13 million more than the $6.06 billion for the fiscal year 2016.

- The increase in ticket sales from fiscal year 2017 to fiscal year 2018 include Mega Million sales which increased $73.24 million for a growing jackpot that reached $451 million in January 2018. A $30 Scratch-Off ticket was introduced in February 2018 with sales reaching $352.34 million in fiscal year 2018.
- The introduction of Pick 2™ and Pick 5™ in August of 2016 contributed $74.93 million to the overall sales increase in fiscal year 2017 when compared to fiscal year 2016. Also, in fiscal year 2017, Scratch-Off sales saw a large increase in the $20 price point that was led by the $5,000,000 Gold Rush Doubler with ticket sales totaling $499.68 million.

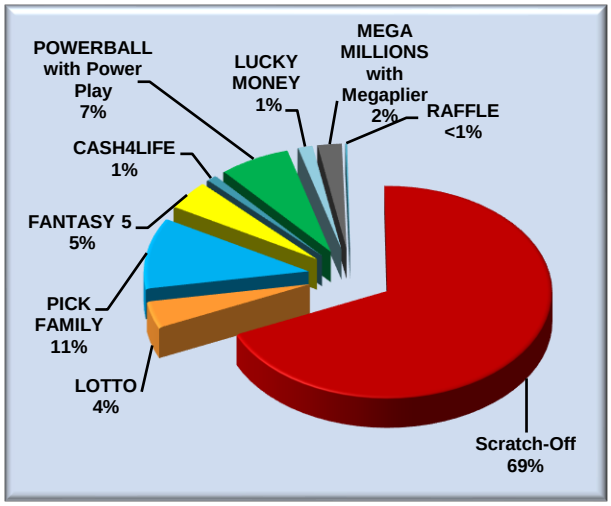
Bad debt expense is reported as a reduction in gross revenue in accordance with Governmental Accounting Standards Board requirements. The amount of bad debt expense for the fiscal years ended June 30, 2018, 2017, and 2016, was $1.16 million, $1.07 million, and $1.49 million, respectively.

The following charts show sales by product for the various Lottery games during the fiscal years 2018 and 2017:

Sales by Product for Fiscal Year 2017-18



Sales by Product for Fiscal Year 2016-17



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

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

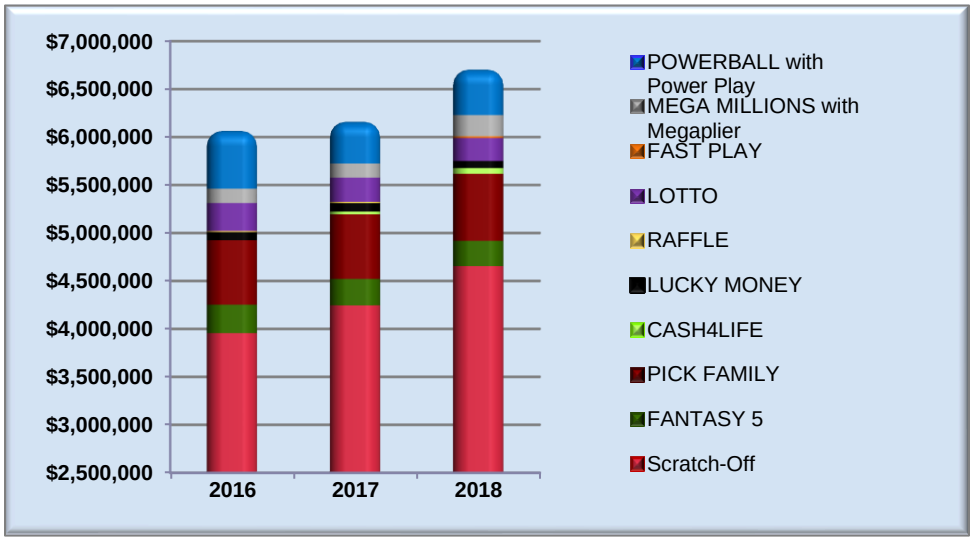


Table 3
Department of the Lottery
Historical Lottery Sales by Game
Last Three Fiscal Years
(In Thousands)

Fiscal Year Ended June 30	LOTTO	FANTASY 5	CASH 3 & PLAY 4 /PICK FAMILY	CASH4LIFE	LUCKY MONEY	RAFFLE	POWERBALL with Power Play	MEGA MILLIONS with Megaplier	Fast Play	Scratch-Off	Combined Sales
2016	$ 291,382	$ 296,307	$ 671,408	$ -	$ 84,881	$ 11,724	$ 602,001	$ 149,950	$ -	$ 3,954,701	$ 6,062,354
2017	253,039	275,663	672,963	28,775	89,436	11,357	434,263	147,381	-	4,243,602	6,156,479
2018	240,015	264,418	698,229	59,219	74,193	-	474,039	220,619	17,784	4,652,295	6,700,811

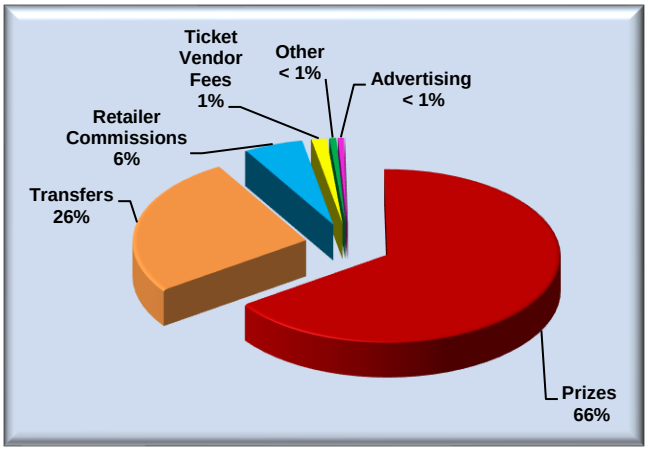
CASH 3 and PLAY 4 were changed to PICK 3 and PICK 4 when PICK 2 and PICK 5 were introduced in August 2016. They are represented as a family of games - PICK FAMILY on the charts and tables above.

Expenses

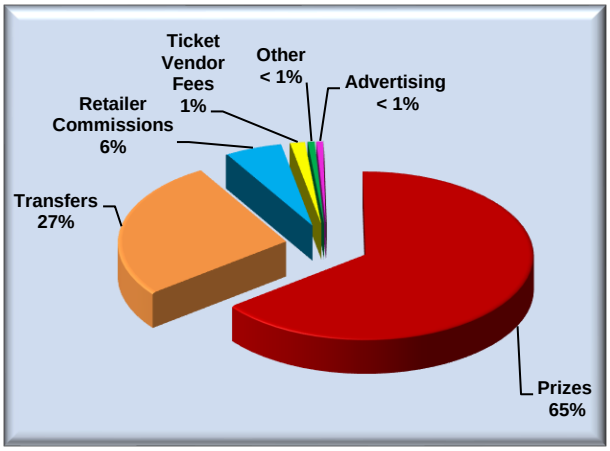
Section 24.121, Florida Statutes, stipulates that funds remaining in the Operating Trust Fund after the transfer to the EETF shall be used for the payment of administrative expenses of the Lottery. These expenses include Draw game expenses, Scratch-Off ticket expenses, advertising, and other expenses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

The following charts show the major components of Lottery operating expenses and transfers as a percentage of ticket sales for the 2018 and 2017 fiscal years:

Operating Expenses and Transfers
Fiscal Year 2017-18



Operating Expenses and Transfers
Fiscal Year 2016-17

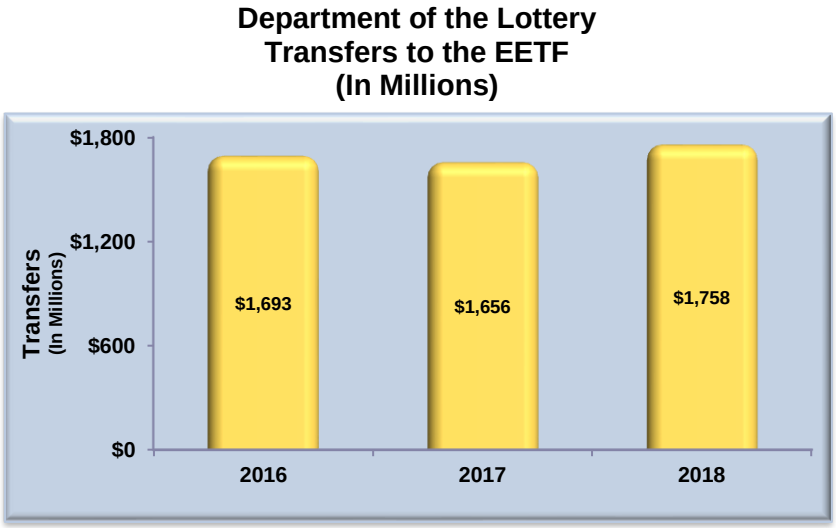


Prizes, commissions, and gaming vendor fees are directly related to sales and fluctuate accordingly. In fiscal year 2018, these expenses changed proportionally; yet as a percentage of total expenses they remained constant. The other expenses, which consisted of advertising, salary and benefits, professional fees, rent, maintenance, and depreciation, increased slightly. Fiscal year 2018, 2017, and 2016 administrative expenses were $81.20 million, $80.80 million, and $80.12 million, respectively.

Transfers

Since its inception, the Lottery's total transfers to the EETF were $33.54 billion. The Lottery's contribution to the EETF for fiscal year ended June 30, 2018, was $1.76 billion. The Lottery has contributed over $1 billion for the sixteenth consecutive year.

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



Economic Factors and Future Impacts

The main economic factors affecting lottery sales are population growth, personal income changes, tourism, and competition for discretionary consumer spending. Florida's unemployment rate dropped from 4.1 percent in fiscal year 2017 to 3.8 percent during fiscal year 2018. In fiscal year 2018, Lottery sales exceeded $6.70 billion, setting new sales records for Scratch-Off and total game sales. The Lottery's strategies have revolved around enhancing Draw and Scratch-Off games, increasing retailer penetration in the State, and refreshing the Lottery's brand.

Financial Contact

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

BASIC FINANCIAL STATEMENTS

STATEMENTS OF NET POSITION
AS OF JUNE 30, 2018, AND 2017 (in thousands)

	June 30, 2018	June 30, 2017
Assets		
Current Assets:		
Cash and cash equivalents	$ 179,119	$ 174,362
Interest receivable	510	496
Accounts receivable, net	50,693	40,472
Prepaid expenses	882	-
Inventories	1,274	1,426
Security deposits	2,007	2,391
Total Current Assets	234,485	219,147
Noncurrent Assets:		
Restricted Assets		
Cash and cash equivalents	39,223	30,882
Deposit with MUSL	26,676	24,177
Investments, grand prize	291,307	297,370
Total Restricted Assets	357,206	352,429
Capital assets, net	6,987	6,264
Total Noncurrent Assets	364,193	358,693
Total Assets	598,678	577,840
Deferred Outflows of Resources		
Pension related items	10,696	9,872
Other postempoyment benefits related items	549	-
Total Deferred Outflows of Resources	11,245	9,872
Total Assets and Deferred Outflows of Resources	$ 609,923	$ 587,712

The notes to the financial statements are an integral part of these statements. *(Continued)*

STATEMENTS OF NET POSITION

	June 30, 2018	June 30, 2017
Liabilities		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 7,997	$ 3,163
Prizes payable	157,320	143,556
Due to Educational Enhancement Trust Fund	68,330	71,648
Deposits payable	2,087	2,509
Compensated absences payable	740	558
Net pension liability	162	202
Other postemployment benefits liability	519	-
Total Current Liabilities	237,155	221,636
Current Liabilities Payable from Restricted Assets:		
Pending purchase payable	675	-
Grand prizes payable	21,468	25,540
Total Current Liabilities Payable from Restricted Assets	22,143	25,540
Noncurrent Liabilities:		
Grand prizes payable from restricted assets	241,823	229,662
Compensated absences payable	3,003	3,230
Net pension liability	21,258	20,008
Other postemployment benefits liability	29,728	8,233
Total Noncurrent Liabilities	295,812	261,133
Total Liabilities	555,110	508,309
Deferred Inflows of Resources		
Pension related items	2,070	1,006
Other postemployment benefits related items	4,508	-
Total Deferred Inflows of Resources	6,578	1,006
Net Position		
Invested in capital assets	6,987	6,264
Restricted for future prizes or special prize promotions	39,223	30,882
Restricted for MUSL	26,676	24,177
Restricted for undistributed appreciation on restricted investments	26,092	40,440
Unrestricted	(50,743)	(23,366)
Total Net Position	48,235	78,397
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 609,923	$ 587,712

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

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2018, AND 2017 (in thousands)

	June 30, 2018	June 30, 2017
Operating Revenues		
Ticket sales	$ 6,700,811	$ 6,156,479
Bad debt expense	(1,158)	(1,073)
Terminal fees and miscellaneous	8,014	7,436
Retailer fees	208	175
Total Operating Revenues	6,707,875	6,163,017
Operating Expenses		
Prizes	4,394,400	3,996,632
Retailer commissions	373,819	343,608
Scratch-Off tickets	63,654	58,615
Draw games	31,863	30,301
Advertising	38,323	39,452
Personal services	31,064	30,117
Other contractual services	8,802	7,486
Materials and supplies	1,904	2,180
Depreciation	1,108	1,570
Total Operating Expenses	4,944,937	4,509,961
Operating Income	1,762,938	1,653,056
Nonoperating Revenues (Expenses)		
Interest	5,551	4,829
Investment management fees	(415)	(418)
Net appreciation (depreciation) in fair value of investments	(3,870)	(17,825)
Property disposition (loss)	(13)	(57)
Amortization of grand prizes payable	(11,409)	(12,270)
Total Nonoperating Revenues (Expenses), Net	(10,156)	(25,741)
Income Before Operating Transfers	1,752,782	1,627,315
Transfers to Educational Enhancement Trust Fund	(1,758,329)	(1,656,348)
Change in Net Position	(5,547)	(29,033)
Net Position, Beginning of Year	78,397	107,430
Implementation effect of GASB Statement No. 75	(24,615)	-
Net Position, Beginning Restated	53,782	107,430
Net Position, End of Year	$ 48,235	$ 78,397

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

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018, AND 2017 (in thousands)

	June 30, 2018	June 30, 2017
Operating Activities		
Ticket sales	$ 6,689,432	$ 6,146,858
Prizes paid to w inners	(4,383,135)	(3,985,553)
Commissions paid and payments to retailers	(373,819)	(343,608)
Paid to vendors for goods and services	(140,442)	(140,949)
Paid to employees	(28,300)	(27,340)
Other operating revenue	8,184	7,652
Net Cash Provided by Operating Activities	1,771,920	1,657,060
Noncapital Financing Activities		
Payments to Educational Enhancement Trust Fund	(1,761,647)	(1,743,251)
Net Cash Used in Noncapital Financing Activities	(1,761,647)	(1,743,251)
Capital and Related Financing Activities		
Purchase of capital assets	(1,844)	(1,786)
Net Cash Used in Capital and Related Financing Activities	(1,844)	(1,786)
Investing Activities		
Cash received from maturity of grand prize investments	26,712	45,459
Cash paid to grand prizew inners upon maturity of grand prize investments	(26,712)	(45,459)
Investment income, net of fees	4,669	(1,057)
Net Cash Provided by Investing Activities	4,669	(1,057)
Net Increase (Decrease) in Cash and Cash Equivalents	13,098	(89,034)
Cash and Cash Equivalents, Beginning of Year	205,244	294,278
Cash and Cash Equivalents, End of Year	$ 218,342	$ 205,244
Reconciliation of Income from Operations to Net Cash Provided by Operating Activities:		
Income from operations	$ 1,762,938	$ 1,653,056
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	1,108	1,570
Changes in assets and liabilities		
(Increase) decrease in:		
Accounts receivable	(13,042)	(9,540)
Inventories	152	58
Prepaid expenses	(882)	21
Increase (decrease) in:		
Allow ance for uncollectible accounts	706	(414)
Accounts payable and accrued liabilities	4,412	(2,911)
Prizes payable	13,764	12,462
Compensated absences payable	(45)	(51)
Net pension liability and related deferred outflow s and inflow s	1,450	1,259
Other postemployment benefits liability and related deferred outflow s and inflow s	1,359	1,550
Net Cash Provided by Operating Activities	$ 1,771,920	$ 1,657,060
Noncash Investing, Capital and Financing Activities:		
Increase/(decrease) in fair value of investments	$ (17,962)	$ (39,533)

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

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 cost less accumulated depreciation. As required by Chapter 273, Florida Statutes, a capitalization threshold of $1,000 and useful life extending beyond one year are employed for tangible personal property. The Lottery's capitalization threshold

for intangible assets is $100,000. Depreciation on all capital assets is computed using the straight-line method over the following estimated useful lives:

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

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

L. Compensated Absences

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

M. Deferred Inflows of Resources

A deferred inflow of resources is an acquisition of net 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,

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.V. 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.

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 $78 million per occurrence for named windstorm and flood losses and $225 million per occurrence for all other perils. Workers' compensation is provided to comply with the applicable law. The employee health and dental insurance program provides for payment of medical claims of employees and covered dependents.

S. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, restricted net position, revenues, and expenses, and disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

T. Bad Debt Expense

Bad debt expense is reported as a reduction in gross revenue. Bad debt expense is recognized when a Lottery retailer's uncollected revenue is past due. The amount of expense is based on an accounts receivable age analysis. The bad debt expense for the fiscal years ended June 30, 2018, and June 30, 2017, was $1,158,000 and $1,073,000, respectively.

U. Accounting Change

The Lottery implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This standard establishes requirements for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to postemployment benefits. Implementation of this

standard required the Lottery to recognize its proportionate share of the plan's liability and related deferred outflows of resources and deferred inflows of resources on the Statements of Net Position. Also, refer to Note 9.B. to the financial statements for further detail on the impact of the implementation.

V. Unrestricted Net Position Deficit

The unrestricted net position deficit of $50,743,000 includes the cumulative effect of the Lottery's postemployment healthcare benefits, compensated absences, and net pension liabilities, along with the deferred outflows of resources and deferred inflows of resources for pension 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.

W. Net Position Restatement

Net Position, June 30, 2017, as previously reported (in thousands)	$78,397
Implementation effect of GASB Statement No. 75 (Refer to Note 9.)	(24,615)
Net Position, June 30, 2017, as restated	$53,782

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 $9,033,000 at June 30, 2018, and $672,000 at June 30, 2017, 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 and the proceeds from the sale of securities pledged by the defaulting depository, the

difference will be provided by an assessment levied against other Qualified Public Depositories of the same type as the depository in default.

Due to the investing policy of the Lottery, book overdrafts were approximately $853,000 at June 30, 2018, and $4,422,000 at June 30, 2017, representing outstanding prize payment checks and retailer payment checks. These outstanding checks are included as a component of prizes payable and accounts payable. The Lottery has an agreement with a financial institution to honor prize payments and retailer payments, as they are presented to the bank, up to $75 million.

Surplus cash is maintained in the State Treasury's general pool of investments. The State CFO pools funds from all State agencies. Included in the pool are primarily time deposits, U.S. Government securities, federal agency securities, commercial paper, corporate bonds and notes, and repurchase agreements. The Lottery's share of this investment pool was approximately $209,309,000 and $204,572,000 at June 30, 2018, and 2017, respectively. No allocation will be made as to the Lottery's share of the types of investments or their risk categories. The Lottery's share of the assets and liabilities arising from the securities lending agreements administered by the State Treasury will likewise not be carried on the Statements of Net Position since the State Treasury operates on a pooled basis and to do so may give the misleading impression that the Lottery itself has entered into such agreements. For further information, refer to the State of Florida's Comprehensive Annual Financial Report or publications of the State of Florida Department of Financial Services, Office of the Chief Financial Officer.

B. Investments, Grand Prize

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

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

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

Net Position, and includes all changes in fair value that occurred during the year, including purchases, maturities, and sales.

C. Investment Credit Risk

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

The State Treasury Investment Pool's current rating by S&P was A+f as of June 30, 2018.

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, 2018		As of June 30, 2017	
Time to Maturity	**Fair Value**	**Time to Maturity**	**Fair Value**
< 1 year	$ 21,713	< 1 year	$ 26,601
> 1 year to 3 years	41,798	> 1 year to 3 years	40,501
> 3 years to 5 years	39,445	> 3 years to 5 years	38,777
> 5 years to 10 years	92,260	> 5 years to 10 years	94,227
> 10 years to 15 years	58,979	> 10 years to 15 years	65,515
> 15 years to 20 years	19,690	> 15 years to 20 years	17,895
> 20 years to 25 years	12,937	> 20 years to 25 years	10,252
> 25 years	4,485	> 25 years	3,602
Total	**$ 291,307**	**Total**	**$ 297,370**

The effective duration of the State Treasury Investment Pool at June 30, 2018, and June 30, 2017, was approximately 3.00 years and 2.80 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, 2018, and June 30, 2017, 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, 2018, and June 30, 2017.

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.

Certain investments, such as money market funds and repurchase agreements are not included in the following schedules because they are carried at cost, and not priced at fair value.

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

		Fair Value Measurements Using		
Investments by fair value level:	**June 30, 2018**	**Quoted prices in active market for identical assets Level 1**	**Significant other observable inputs Level 2**	**Significant unobservable inputs Level 3**
U.S. Treasury Strips	$ 291,307	$ -	$ 291,307	$ -
Pooled Investments with State Treasury	209,309	-	-	209,309
Total securities measured at fair value	$ 500,616	$ -	$ 291,307	$ 209,309

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

I. Investment Summary

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

Investment Type	**June 30, 2018 Carrying Value**	**June 30, 2017 Carrying Value**
U.S. Government Obligations & Federally Guaranteed Obligations	$ 291,307	$ 297,370
Pooled Investments with State Treasury	209,309	204,572
Total Investments	$ 500,616	$ 501,942

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

	June 30, 2018			
	Investments	Cash at Financial Institutions	Cash at State Treasury	Totals
Cash and cash equivalents	$ 170,086	$ 303	$ 8,730	$ 179,119
Restricted cash and cash equivalents	39,223	-	-	39,223
Investments, grand prize	291,307	-	-	291,307
Totals	$ 500,616	$ 303	$ 8,730	$ 509,649

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

3. ACCOUNTS RECEIVABLE

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

	2018	2017
Ticket sales receivable	$ 53,610	$ 42,717
Other receivables	173	139
Total receivables	53,783	42,856
Less allowance for doubtful accounts	(3,090)	(2,384)
Accounts receivable, net	$ 50,693	$ 40,472

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 in liabilities as deposits payable.

5. CAPITAL ASSETS

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

		2016-17			2017-18		
	Balance 30-Jun-16	Increase	Decrease	Balance 30-Jun-17	Increase	Decrease	Balance 30-Jun-18
Capital assets, not being depreciated:							
Non-amortizable intangibles	$ 2,726	$ 496	$ -	$ 3,222	$ 344	$ -	$ 3,566
Total capital assets, not being depreciated	$ 2,726	$ 496	$ -	$ 3,222	$ 344	$ -	$ 3,566
Capital assets, being depreciated:							
Vehicles and equipment	$ 11,445	$ 1,318	$ (468)	$ 12,295	$ 1,500	$ (825)	$ 12,970
Intangible assets and other	593	1	-	594	2	-	596
Total capital assets, being depreciated	12,038	1,319	(468)	12,889	1,502	(825)	13,566
Depreciation	8,658	1,570	(381)	9,847	1,378	(1,080)	10,145
Total capital assets, being depreciated, net	3,380	(251)	(87)	3,042	124	255	3,421
Total capital assets, net	$ 6,106	$ 245	$ (87)	$ 6,264	$ 468	$ 255	$ 6,987

6. MULTI-STATE LOTTERY ASSOCIATION

MUSL is a non-profit government-benefit association created for the purpose of administering joint lottery games. MUSL included 33 state lottery entities, the District of Columbia, Puerto Rico, and the Virgin Islands during fiscal year 2018. 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, 2018, and June 30, 2017, the Lottery had deposits with MUSL of $26,675,900, and $24,176,654, 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.

7. LONG-TERM LIABILITIES

A. Grand Prizes Payable

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

	2018	2017
FLORIDA LOTTO grand prizes (face value)	$ 229,271	$ 250,160
MEGA MONEY grand prizes (face value)	7,438	8,143
Win for Life grand prizes (face value)	4,216	4,372
Flamingo Fortune Game Show grand prizes (face value)	-	100
Win a Million grand prizes (face value)	-	50
Lucky for Life grand prizes (face value)	17,850	18,750
Set for Life grand prizes (face value)	1,020	1,200
Cash Spectacular grand prizes (face value)	250	300
Cash for Life grand prizes (face value)	150	160
Loaded for Life grand prizes (face value)	2,250	2,350
Billion Dollar Blockbuster grand prizes (face value)	5,700	6,250
Gas for Life grand prizes (face value)	150	156
2 Million Dollar Casino Action grand prizes (face value)	1,200	1,300
Million Dollar Holiday grand prizes (face value)	650	700
Week for Life grand prizes (face value)	78,026	47,372
Monopoly grand prizes (face value)	3,660	2,900
Million Wishes grand prizes (face value)	700	750
X's The Cash grand prizes (face value)	5,020	3,270
Flamingo grand prizes (face value)	4,090	4,320
Gold Rush grand prizes (face value)	8,250	8,640
Super Millions grand prizes (face value)	5,280	5,520
$10mm World Class Cash grand prizes (face value)	960	-
Less imputed interest	(112,840)	(111,561)
Net present value of grand prizes payable	$ 263,291	$ 255,202
Current prizes payable from restricted assets	$ 21,468	$ 25,540
Noncurrent prizes payable from restricted assets	241,823	229,662
Total grand prizes payable	$ 263,291	$ 255,202

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

Year Ending June 30	Amount
2019	$ 21,955
2020	21,995
2021	21,995
2022	21,995
2023	21,995
2024-2028	114,134
2029-2033	83,365
2034-2038	33,062
2039-2043	25,477
2044-2048	10,158
Grand prizes (face value)	376,131
Less imputed interest	(112,840)
Net present value of grand prizes payable	$ 263,291

B. Compensated Absences Payable

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

	2018	2017
Current compensated absences	$ 740	$ 558
Noncurrent compensated absences	3,003	3,230
Total	$ 3,743	$ 3,788

C. Changes in Long-Term Liabilities

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

	2017-18				
	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Amount Due Within One Year
Grand prizes payable	$ 255,202	$ 34,801	$ (26,712)	$ 263,291	$ 21,468
Compensated absences payable	3,788	-	(45)	3,743	740
Other postemployment benefits liability	8,233	22,014	-	30,247	519
Pension liability - HIS	6,552	-	(776)	5,776	162
Pension liability - FRS	13,658	1,986	-	15,644	-
Total long-term liabilities	$ 287,433	$ 58,801	$ (27,533)	$ 318,701	$ 22,889

	2016-17				
	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Amount Due Within One Year
Grand prizes payable	$ 281,262	$ 20,374	$ (46,434)	$ 255,202	$ 25,540
Compensated absences payable	3,840	1,795	(1,847)	3,788	558
Other postemployment benefits liability	6,683	1,550	-	8,233	
Pension liability - HIS	5,739	813	-	6,552	202
Pension liability - FRS	7,174	6,484	-	13,658	-
Total long-term liabilities	$ 304,698	$ 31,016	$ (48,281)	$ 287,433	$ 26,300

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 $1,758,329,000 for the fiscal year ended June 30, 2018, (26.2 percent of revenues), and $1,656,348,000 (26.9 percent of revenues) for the fiscal year ended June 30, 2017.

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.

The amount due to the EETF at June 30, 2018, and June 30, 2017, was as follows (in thousands):

	June 30, 2018	June 30, 2017
Draw ticket sales	$ 2,048,516	$ 1,912,877
Average percent transferred	38%	38%
Transfer of Draw ticket sales [1]	769,427	729,537
Unclaimed Draw ticket prizes	26,773	30,563
Percent transferred	80%	80%
Transfer of unclaimed Draw ticket prizes	21,418	24,450
Scratch-Off ticket sales	4,652,295	4,243,602
Average percent transferred	20%	20%
Transfer of Scratch-Off ticket sales [1]	917,162	843,038
Unclaimed Scratch-Off ticket prizes	42,767	55,751
Percent transferred	80%	80%
Transfer of unclaimed Scratch-Off ticket prizes	34,214	44,601
Nonoperating revenues (expenses), net	(10,156)	(25,741)
Add:		
Net (appreciation) depreciation in fair value of investments	3,870	17,825
Amortization of grand prizes payable	11,409	12,270
Total Nonoperating revenues, net	5,123	4,354
Pension, postemployment healthcare, and compensated absences expenses	2,763	2,757
Terminal fees and miscellaneous revenue	8,222	7,611
Due for the year	1,758,329	1,656,348
Balance due, beginning of year	71,648	158,551
Paid during the year	(1,761,647)	(1,743,251)
Due to Educational Enhancement Trust Fund, June 30	$ 68,330	$ 71,648

[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.myflorida.com; 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

(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 Florida Retirement System Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, required employer and employee contributions, and benefits are defined and described in detail. Unless otherwise provided, all employees of participating employers in regularly established positions must be enrolled as members of the FRS or other non-integrated defined contribution plans in lieu of FRS membership.

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

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

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

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

transferred to the FRS Investment Plan, six years or eight years depending upon initial enrollment date of service (including the service credit represented by the transferred funds) is required to be vested for these funds and the earnings on the funds. Benefits under the FRS Investment Plan are based on the account balance at retirement composed of contributions plus investment gains less investment losses and fees. If the member is totally and permanently disabled from all employment, the member can transfer the account balance to the Pension Plan to receive a monthly disability benefit. Employer and employee contributions are a percentage of salary based on membership class. Contributions are directed to individual member accounts and the individual members allocate contributions and account balances among various approved investment choices offered under the plan. Additionally, state agencies are required to make a contribution as a percent of covered payroll that is transferred to the FRS Trust Fund to help amortize the unfunded actuarial liability (UAL). The required UAL contribution rate for the fiscal year ended June 30, 2018, was 16.70 percent. The Lottery's contributions for the fiscal years ended June 30, 2018, June 30, 2017, and June 30, 2016, totaled $540,210, $402,691, and $153,887, respectively.

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, 2018	Employer Rate Fiscal Year Ended June 30, 2018[1]	Employee Rate Fiscal Year Ended June 30, 2017	Employer Rate Fiscal Year Ended June 30, 2017[1]
Senior Management Service	3.00 percent	22.71 percent	3.00 percent	21.77 percent
Regular	3.00 percent	7.92 percent	3.00 percent	7.52 percent
Special Risk	3.00 percent	23.27 percent	3.00 percent	22.57 percent
DROP - Applicable to members from all of the above classes	0.00 percent	13.26 percent	0.00 percent	12.99 percent

[1] Total employer contribution rates above include 1.66 percent for the fiscal years ended June 30, 2018, and June 30, 2017, 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, 2018, and June 30, 2017, for administration costs of the financial education program and the FRS Investment Plan. Required employee contributions are deducted on a pre-tax basis.

Senior Management Service Optional Annuity Program. Some Lottery employees also participate in the Senior Management Service Optional Annuity Program (SMSOAP). Offered in lieu of FRS participation, the SMSOAP is a defined contribution plan that provides retirement and death benefits to the participant pursuant to Section 121.055, Florida Statutes. Participants have full and immediate vesting of all contributions paid on their behalf to the participating provider companies to invest as directed by the participants. Employees in eligible State positions may make an irrevocable election to participate in the SMSOAP in lieu of the Senior Management Service Class. Employers contributed 6.27 percent of covered payroll for July 2015 through June 2018. 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, 2018, was 16.70 percent. A participant may contribute by salary reduction an amount not to exceed the percentage contributed by the employer. The Lottery's contributions for the fiscal years ended June 30, 2018, June 30, 2017, and June 30, 2016, totaled $25,025, $47,344, and $13,015 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, 2018, 2017, and 2016, 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, 2018, 2017, and 2016, 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, 2018, 2017, and 2016, the Lottery contributed $296,152, $285,895, and $288,150, respectively, in employer contributions to the HIS. HIS contributions are deposited in a DMS trust fund from which HIS payments are authorized. HIS benefits are not guaranteed and are subject to legislative appropriation. If these contributions or appropriation fail to provide full subsidy benefits to all participants, the Legislature may reduce or cancel the subsidy payments.

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

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in trust for the exclusive benefit of participants and their beneficiaries as mandated by Title 26, Section 457(g)(1), United 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. Effective July 1, 2014, the Lottery implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, which significantly changed the Lottery's accounting for pension amounts related to the two defined benefit plans it participates in, the FRS Pension Plan and the HIS (Plans).

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

At June 30, 2018, the Lottery reported a net pension liability of $15,644,292 for its proportionate share of the FRS Pension Plan's net pension liability and $5,776,174 for its proportionate share of the HIS net pension liability, for a total net pension liability of $21,420,466. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was based on actuarial valuations as of July 1, 2016, and July 1, 2017, for the HIS and FRS Pension Plan, respectively. The Lottery's proportionate share of the net pension liability was based on 2016-17 fiscal year contributions to the Plans relative to the total 2016-17 fiscal year contributions of all participating members. At June 30, 2017, the Lottery's proportionate share of the FRS Pension Plan net pension liability was 0.052889273 percent, which was a 2.22 percent decrease from its proportionate share measured as of June 30, 2016, of 0.054090117 percent. The Lottery's proportionate share of the HIS net pension liability at June 30, 2017, was 0.054020990 percent, which was a 3.91 percent decrease from its proportion as of June 30, 2016, of 0.056217445 percent. For the fiscal year ended June 30, 2018, the Lottery recognized pension expense of $2,888,204 for the FRS Pension Plan and $392,974 for the HIS, for pension expense totaling $3,281,178. At June 30, 2018, the Lottery reported deferred outflows of resources and deferred inflows of resources related to the Plans from the following sources:

FRS Pension Plan

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 1,435,770	$ 86,661
Changes in assumptions	5,257,587	-
Net difference between projected and actual earnings on pension plan investments	-	387,705
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,191,376	662,724
Employer contributions subsequent to the measurement date	1,535,630	-
Totals	$ 9,420,363	$ 1,137,090

HIS

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 12,027
Changes in assumptions	811,931	499,472
Net difference between projected and actual earnings on pension plan investments	3,203	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	164,838	421,113
Employer contributions subsequent to the measurement date	296,152	-
Totals	$ 1,276,124	$ 932,612

The Lottery's contributions subsequent to the measurement date of $1,535,630 for the FRS Pension Plan and $296,152 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, 2019. 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
2019	$ 1,094,287	$ 48,286	$ 1,142,573
2020	2,440,090	47,679	2,487,769
2021	1,575,941	47,388	1,623,329
2022	257,953	23,235	281,188
2023	1,000,587	(6,225)	994,362
2024	378,784	(113,002)	265,782
	$ 6,747,642	$ 47,361	$ 6,795,003

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

The total pension liability for FRS Pension Plan and HIS were determined by actuarial valuations as of July 1, 2017, and July 1, 2016, respectively, using the entry age normal actuarial cost method. Inflation increases for both plans is assumed at 2.60 percent. Payroll growth for both Plans is assumed at 3.25 percent.

Both the discount rate and the long-term expected rate of return used for FRS Pension Plan investments are 7.10 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 3.58 percent was used to determine the total pension liability for the plan. Mortality assumptions for both plans were based on the Generational RP-2000 with Projection Scale BB tables (refer to the valuation reports at www.frs.myflorida.com 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 2017:

FRS Pension Plan: As of June 30, 2017, the discount rate and the long-term expected rate of return decreased from 7.60 percent to 7.10 percent.

HIS: The municipal rate used to determine total pension liability increased from 2.85 percent to 3.58 percent.

The long-term expected rate of return on FRS Pension Plan investments was determined using a forward-looking capital market economic model, which includes an adjustment for the inflation assumption.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Arithmetic Real Rates of Return
Cash	1.00%	3.00%
Fixed income	18.00%	4.50%
Global equity	53.00%	7.80%
Real estate (property)	10.00%	6.60%
Private equity	6.00%	11.50%
Strategic investments	12.00%	6.10%
	100.00%	

Sensitivity Analysis. The following tables demonstrate the sensitivity of the net pension liability to changes in the discount rate. The sensitivity analysis shows the impact to the Lottery's proportionate share of each plan's net pension liability if the discount rate was 1.00 percent higher or 1.00 percent lower than the current discount rate at June 30, 2017.

FRS Pension Plan			HIS		
1% Decrease 6.10%	Current Discount Rate 7.10%	1% Increase 8.10%	1% Decrease 2.58%	Current Discount Rate 3.58%	1% Increase 4.58%
$ 28,315,224	$ 15,644,292	$ 5,124,516	$ 6,591,379	$ 5,776,174	$ 5,097,153

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 Group Health Insurance 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 State Employees' Group Health Insurance 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 State Group Health Insurance 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 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 Federal Medicare (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.

At July 1, 2017, the total number of OPEB Plan employees covered by the benefit terms at July 1, 2017, were as follows:

Inactive plan members or beneficiaries currently receiving benefits	37,046
Inactive plan members entitled to, but not yet receiving benefits*	-
Active plan members	153,620
Total	190,666

*There are currently zero inactive plan members entitled to but not yet receiving benefits because the Sponsor does not provide a vested termimation 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 Sponsor's total OPEB liability of $10,820,060,000 was measured as of June 30, 2017, and was determined by an actuarial valuation as of July 1, 2017. The Lottery's proportionate share of that liability reported at June 30, 2018, was $30,246,920. At June 30, 2017, the Lottery's proportionate share, determined by its proportion of total Lottery employees as compared to total OPEB Plan employees, was 0.378457387 percent, which was a 0.552609850 percent decrease from its proportionate share measured as of June 30, 2016.

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
Payroll growth	3.25 percent, including inflation
Discount rate	3.58 percent
Healthcare cost trend rates	7.8 percent for Preferred Provider Organizations (PPO) and 5.2 percent for Health Maintenance Organizations (HMO) for fiscal years 2017 to 2018, decreasing to an ultimate rate of 3.8 percent for fiscal year 2075 and later years
Retirees' share of benefit-related costs	6.5 percent of projected health insurance premiums for Pre-Medicare eligible and Medicare-Eligible employees

The discount rate was based on the Bond Buyer General Obligation 20-year Municipal Bond 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, 2017, 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, 2017, valuation were based on a review of recent plan experience done concurrently with the July 1, 2017, valuation.

The following changes have been made since the prior valuation:

- The census data reflects changes in status for the twenty-four (24) month period since July 1, 2015.
- The annual per capita claims costs have been updated to reflect current age-adjusted premiums.
- The premium rates have been updated to use the rates effective for 2017.
- Healthcare inflation rates have been updated to reflect the recent Getzen model published by the Society of Actuaries. Additionally, the updated trend rates reflect the information from the Report on the Financial Outlook for the fiscal years ending June 30, 2017, through June 30, 2023, as adopted August 3, 2017, by the Self-Insurance Estimated Conference.
- The active mortality rates have been updated to use rates mandated by Chapter 2015-157, Laws of Florida for pension plans. This law mandates the use of the assumption in either of the two most recent FRS valuations. The rates are those outlined in the Milliman's July 1, 2016, FRS valuation report.
- The discount rate as of the measurement date for GASB Statement No. 75 purposes is 3.58 percent. The prior GASB Statement No. 45 valuation used 4.00 percent. The GASB Statement No. 75 discount rate is based on the 20-year municipal bond rate as of June 29, 2017.

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

	Increase(Decrease) Total OPEB Liability
Balance at June 30, 2017	$ 33,334,865
Changes for the year:	
Service cost	1,561,825
Interest	979,785
Changes in benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions or other inputs	(4,885,540)
Employer benefits payments	(476,883)
Changes in proportionate share	(267,132)
Net changes	(3,087,945)
Balance at June 30, 2018	$ 30,246,920

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 (2.58 percent) or 1.00 percentage point higher (4.58 percent) than the current rate:

1% Decrease 2.58%	Current Discount Rate 3.58%	1% Increase 4.58%
$ 37,197,962	$ 30,246,920	$ 24,907,722

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
$ 24,533,596	$ 30,246,920	$ 37,911,417

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

For the fiscal year ended June 30, 2018, the Lottery recognized OPEB expense of $1,358,891. At June 30, 2018, 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	$ -	$ 4,274,850
Changes in proportions and differences between Lottery benefit payments and proportionate share of benefit payments	-	233,740
Transactions subsequent to the measurement date	548,727	-
Totals	$ 548,727	$ 4,508,590

Of the total amount reported as deferred outflows of resources related to OPEB, $548,727 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, 2019. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30	Amount
2019	$ (644,084)
2020	(644,084)
2021	(644,084)
2022	(644,084)
2023	(644,084)
Thereafter	(1,288,170)
Total	$ (4,508,590)

10. OPERATING LEASES

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

Future minimum rental payments as of June 30, 2018, are scheduled as follows (in thousands):

Year Ending June 30	Headquarters	Districts	Office Equipment	Total
2019	$ 2,724	$ 1,187	$ 56	$ 3,967
2020	2,724	1,032	55	3,811
2021	2,777	847	14	3,638
2022	2,805	843	-	3,648
2023	2,834	800	-	3,634
2024-2028	14,600	4,153	-	18,753
2029-2033	112	3,591	-	3,703
2034	-	342	-	342
Totals	$ 28,576	$ 12,795	$ 125	$ 41,496

Rental expense under all operating leases totaled approximately $3,941,000 and $3,957,000 for the fiscal years ended June 30, 2018, and June 30, 2017, 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, 2018, 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):

	2017-18 Vendor Support Funds			
	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
IGT	$ 147	$ 360	$ (295)	$ 212
Scientific Games	5,049	5,200	(5,797)	4,452
Total Vendor Support	$ 5,196	$ 5,560	$ (6,092)	$ 4,664

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

12. OTHER COMMITMENTS

The Lottery has contractual agreements under which Draw and Scratch-Off lottery game vendors provide gaming systems, tickets, and related services. The Lottery's Draw gaming vendor is compensated at a rate of 1.0699 percent of net Draw game ticket sales. The vendor's compensation for Draw games and for the provision of full service vending machines for the fiscal years ended June 30, 2018, and 2017, was $31,863,000 and $30,301,000, respectively.

The Lottery's Scratch-Off ticket vendor is currently compensated at rates that range from 0.9746 percent to 2.3421 percent based on ticket price points and total annual sales. Compensation under this agreement and the agreement for the provision of instant ticket vending machines amounted to $63,654,000 for the fiscal year ended June 30, 2018, and $58,615,000 for the fiscal year ended June 30, 2017.

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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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]

	2017[2]	2016[2]	2015[2]	2014[2]
Lottery's proportion of the net pension liability	0.052889273%	0.054090117%	0.055549065%	0.054080631%
Lottery's proportionate share of the net pension liability	$ 15,644,292	$ 13,657,797	$ 7,174,907	$ 3,299,714
Lottery's covered payroll	$ 17,435,001	$ 17,562,079	$ 15,985,814	$ 16,266,000
Lottery's proportionate share of the net pension liability as a percentage of its covered payroll	89.73%	77.77%	44.88%	20.29%
Plan fiduciary net position as a percentage of the total pension liability	83.89%	84.88%	92.00%	96.09%

(1) This schedule is intended to report information for ten years. Additional information will be displayed as it becomes available.
(2) The amounts presented for the fiscal year were determined as of 6/30.

Notes to Schedule:
Changes in actuarial assumptions: The inflation rate assumption remained at 2.60% and the payroll growth assumption remained at 3.25%. The long-term expected rate of return was decreased from 7.60% in 2016 to 7.10% in 2017.

Schedule of the Lottery's Contributions
Last Ten Fiscal Years[1]

	2018[2]	2017[2]	2016[2]	2015[2]	2014[2]
Contractually required contribution	$ 1,535,630	$ 1,376,838	$ 1,319,074	$ 1,354,333	$ 1,184,595
Contributions in relation to the contractually required contribution	(1,535,630)	(1,376,838)	(1,319,074)	(1,354,333)	(1,184,595)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Lottery's covered payroll	$ 17,945,878	$ 17,435,001	$ 17,562,079	$ 15,985,814	$ 16,266,000
Contributions as a percentage of covered payroll	8.56%	7.90%	7.51%	8.47%	7.28%

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

RETIREE HEALTH INSURANCE SUBSIDY PROGRAM
Schedule of the Lottery's Proportionate Share of Net Pension Liability
and Related Ratios
Last Ten Fiscal Years [1]

	2017[2]	2016[2]	2015[2]	2014[2]
Lottery's proportion of the net pension liability	0.054020990%	0.056217445%	0.056262384%	0.057588909%
Lottery's proportionate share of the net pension liability	$ 5,776,174	$ 6,551,910	$ 5,737,878	$ 5,384,704
Lottery's covered payroll	$ 17,219,001	$ 17,354,507	$ 15,969,897	$ 16,175,000
Lottery's proportionate share of the net pension liability as a percentage of its covered payroll	33.55%	37.75%	35.93%	33.29%
Plan fiduciary net position as a percentage of the total pension liability	1.64%	0.97%	0.50%	0.50%

(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 2.85% in 2016 to 3.58% in 2017.

Schedule of the Lottery's Contributions
Last Ten Fiscal Years[1]

	2018[2]	2017[2]	2016[2]	2015[2]	2014[2]
Contractually required contribution	$ 296,152	$ 285,895	$ 288,150	$ 215,070	$ 197,280
Contributions in relation to the contractually required contribution	(296,152)	(285,895)	(288,150)	(215,070)	(197,280)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Lottery's covered payroll	$ 17,836,604	$ 17,219,001	$ 17,354,507	$ 15,969,897	$ 16,175,000
Contributions as a percentage of covered payroll	1.66%	1.66%	1.66%	1.35%	1.22%

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

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

	2017[2]
Lottery's proportion of the total OPEB liability	0.378457387%
Lottery's proportionate share of the total OPEB liability	$ 30,246,920
Lottery's covered payroll	$ 17,435,001
Lottery's proportionate share of the total OPEB liability as a percentage of its covered payroll	173.48%
Plan fiduciary net position as a percentage of the total OPEB liability	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. The Lottery's June 30, 2018, proportionate share of the total OPEB liability significantly increased from the prior fiscal year as a result of the implementation of GASB Statement No. 75.

Changes of Assumptions. In 2018, amounts reported as changes of assumptions resulted from adjustments to active mortality rates, updates to HMO and PPO healthcare claims costs, changes in retiree contributions, change in trend rates, and a change in the discount rate of return. (Refer to Note 9 to the financial statements for further detail.)

STATISTICAL SECTION

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Overview

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

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

Schedule A-1 - Net Position by Component 66
Schedule A-2 - Changes in Net Position 68
Schedule A-3 - Transfers to EETF, Ticket Sales, Prize Expense, and Retailer Commissions 70

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 72
Schedule B-2 - Ticket Sales Percentages 73
Schedule B-3 - Scratch-Off Game Launches and Sales by Price Point 74
Schedule B-4 - Number of Retailers and Sales by District 76

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 78
Schedule C-2 - Industry Sector Employment 80
Schedule C-3 - Lottery Player Demographics 82

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 84
Schedule D-2 - Operating Indicators 86
Schedule D-3 - Capital Assets by Category 88

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

Schedule A-1

	Fiscal Year				
	2009	2010	2011	2012	2013
Invested in capital assets	$ 1,235	$ 1,421	$ 1,248	$ 1,356	$ 3,215
Restricted for undistributed appreciation on restricted investments	67,281	109,494	86,237	110,012	67,195
Restricted for Restricted Prize Pool	32,661	-	-	-	-
Restricted for MUSL[1]	3,073	9,336	15,926	19,995	19,037
Restricted for future prizes or special prize promotions	17,929	13,857	18,559	5,238	15,854
Unrestricted	-	-	-	-	-
Total Net Position	$ 122,179	$ 134,108	$ 121,970	$ 136,601	$ 105,301
Percent change from prior year	-24%	10%	-9%	12%	-23%

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.

[1] Multi-State Lottery Association

Schedule A-1

Fiscal Year				
2014	2015	2016	2017	2018
$ 4,243	$ 5,820	$ 6,106	$ 6,264	$ 6,987
58,009	51,800	70,871	40,440	26,092
-	-	-	-	-
19,817	21,766	22,793	24,177	26,676
15,592	21,528	28,268	30,882	39,223
-	(19,371)	(20,608)	(23,366)	(50,743)
$ 97,661	$ 81,543	$ 107,430	$ 78,397	$ 48,235
-7%	-17%	32%	-27%	-38%

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

Schedule A-2

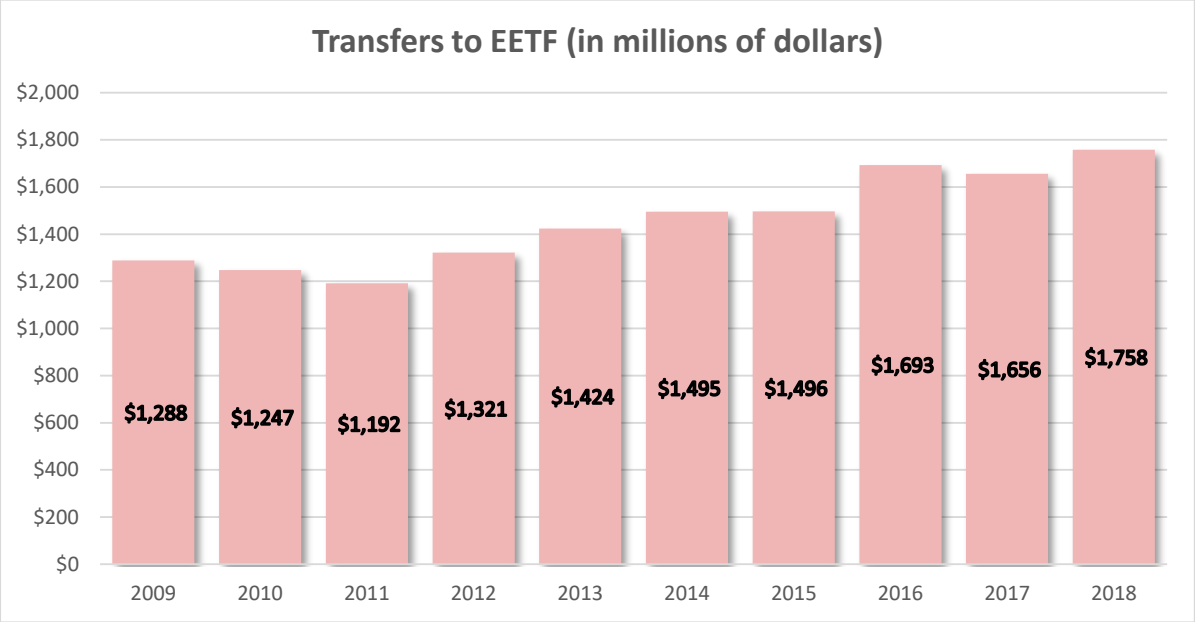
	Fiscal Year			
	2009	2010	2011	2012
Operating Revenues				
Scratch-Off	$ 2,064,135	$ 2,078,133	$ 2,225,676	$ 2,566,991
LOTTO	650,603	445,881	411,389	419,040
FANTASY 5	287,285	281,963	282,777	290,672
PICK 3/CASH 3	320,157	304,039	313,270	314,747
PICK 4/PLAY 4	238,957	235,027	235,692	244,711
RAFFLE	41,314	29,334	12,603	-
MEGA MONEY/LUCKY MONEY	102,190	92,060	88,971	92,346
LUCKY LINES	-	-	45,369	17,692
MEGA MILLIONS with Megaplier	-	-	-	-
POWERBALL with Power Play	233,396	434,062	392,969	503,697
Monopoly Millionaires	-	-	-	-
PICK 2	-	-	-	-
PICK 5	-	-	-	-
CASH4LIFE	-	-	-	-
FAST PLAY	-	-	-	-
Total ticket sales	3,938,037	3,900,499	4,008,716	4,449,896
Bad debt expense	(1,256)	(1,075)	(1,212)	(1,360)
Net Ticket Sales	3,936,781	3,899,424	4,007,504	4,448,536
Terminal fees and miscellaneous	7,198	7,373	7,237	7,465
Retailer fees	210	226	199	193
Total Operating Revenues	3,944,189	3,907,023	4,014,940	4,456,194
Operating Expenses				
Prizes	2,340,372	2,346,162	2,460,219	2,766,119
Retailer commissions	220,548	216,207	223,390	247,690
Scratch-Off tickets	31,893	30,896	35,520	38,906
Draw games	27,982	27,390	27,740	27,622
Advertising	34,353	34,197	33,159	33,540
Personal services	26,857	27,045	27,204	26,139
Other contractual services	7,082	7,474	8,855	8,210
Materials and supplies	2,247	2,309	1,921	1,969
Depreciation	684	494	310	446
Total Operating Expenses	2,692,018	2,692,174	2,818,318	3,150,641
Operating Income	1,252,171	1,214,849	1,196,622	1,305,553
Non-Operating Revenue (Expenses)				
Interest	7,133	6,057	4,893	5,024
Securities lending income	18,183	2,909	3,120	3,007
Securities lending fees	(8,980)	(1,520)	(1,400)	(824)
Investment management fees	(327)	(364)	(284)	(296)
Net appreciation (depreciation) in fair value of investments	46,832	90,875	21,662	60,221
Property disposition (loss)	(31)	(4)	(15)	(4)
Amortization of grand prizes payable	(64,757)	(54,079)	(44,918)	(36,446)
Total Nonoperating Revenues (Expenses), Net	(1,947)	43,874	(16,942)	30,682
Income Before Operating Transfers	1,250,224	1,258,723	1,179,680	1,336,235
Total Transfers to Educational Enhancement Trust Fund	(1,287,855)	(1,246,794)	(1,191,818)	(1,321,604)
Change in Net Position	(37,631)	11,929	(12,138)	14,631
Net Position, Beginning of Year	159,810	122,179	134,108	121,970
Implementation effect of GASB Statements No. 68 & 75	-	-	-	-
Net Position, End of Year	$ 122,179	$ 134,108	$ 121,970	$ 136,601

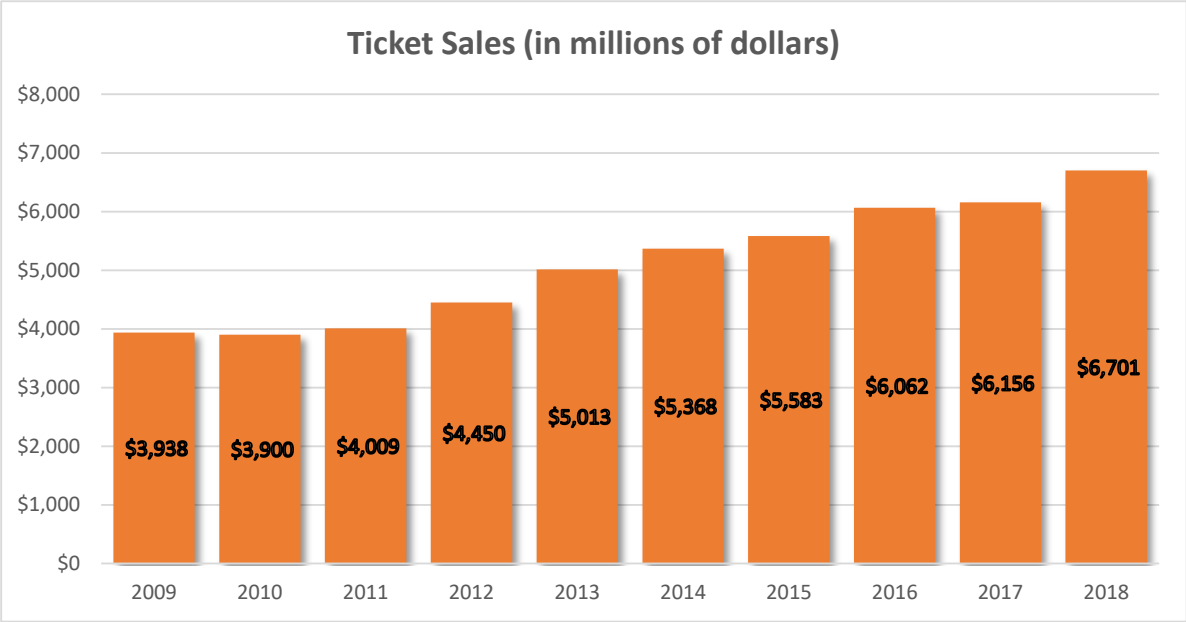
Schedule A-2

Fiscal Year					
2013	2014	2015	2016	2017	2018
$ 3,028,527	$ 3,417,143	$ 3,723,995	$ 3,954,701	$ 4,243,602	$ 4,652,295
352,375	349,114	300,961	291,382	253,039	240,015
281,492	288,237	287,803	296,307	275,663	264,417
324,539	339,636	363,251	379,757	348,724	366,073
244,141	257,752	276,217	291,651	249,312	259,271
12,879	-	-	11,724	11,357	-
89,500	79,483	103,196	84,881	89,436	74,193
8,582	-	-	-	-	-
16,698	167,573	147,370	149,950	147,381	220,619
654,263	469,292	375,057	602,001	434,263	474,039
-	-	5,481	-	-	-
-	-	-	-	23,931	20,267
-	-	-	-	50,996	52,618
-	-	-	-	28,775	59,219
-	-	-	-	-	17,785
5,012,996	5,368,230	5,583,331	6,062,354	6,156,479	6,700,811
(912)	(1,337)	(1,263)	(1,487)	(1,073)	(1,158)
5,012,084	5,366,893	5,582,068	6,060,867	6,155,406	6,699,653
7,773	7,611	7,456	7,439	7,436	8,014
206	206	196	181	175	208
5,020,063	5,374,710	5,589,720	6,068,487	6,163,017	6,707,875
3,162,889	3,431,092	3,627,939	3,868,970	3,996,632	4,394,400
278,493	298,651	311,981	337,007	343,608	373,819
44,193	48,157	51,665	55,591	58,615	63,654
31,012	28,895	29,970	32,650	30,301	31,863
37,696	37,486	37,513	41,180	39,452	38,323
25,730	27,614	27,320	28,379	30,117	31,064
6,801	7,656	8,344	7,941	7,486	8,802
2,156	1,057	2,078	1,662	2,180	1,904
270	715	441	959	1,570	1,108
3,589,240	3,881,323	4,097,251	4,374,339	4,509,961	4,944,937
1,430,823	1,493,387	1,492,469	1,694,148	1,653,056	1,762,938
3,984	2,776	4,032	4,695	4,829	5,551
2,543	1,534	997	1,163	-	-
(1,090)	(327)	(505)	(645)	-	-
(376)	(532)	(370)	(405)	(418)	(415)
(13,749)	13,718	12,604	34,246	(17,825)	(3,870)
(60)	124	64	15	(57)	(13)
(29,068)	(22,911)	(18,040)	(14,779)	(12,270)	(11,409)
(37,816)	(5,618)	(1,218)	24,290	(25,741)	(10,156)
1,393,007	1,487,769	1,491,251	1,718,438	1,627,315	1,752,782
(1,424,307)	(1,495,409)	(1,496,371)	(1,692,551)	(1,656,348)	(1,758,329)
(31,300)	(7,640)	(5,120)	25,887	(29,033)	(5,547)
136,601	105,301	97,661	81,543	107,430	78,397
-	-	(10,998)	-	-	(24,615)
$ 105,301	$ 97,661	$ 81,543	$ 107,430	$ 78,397	$ 48,235

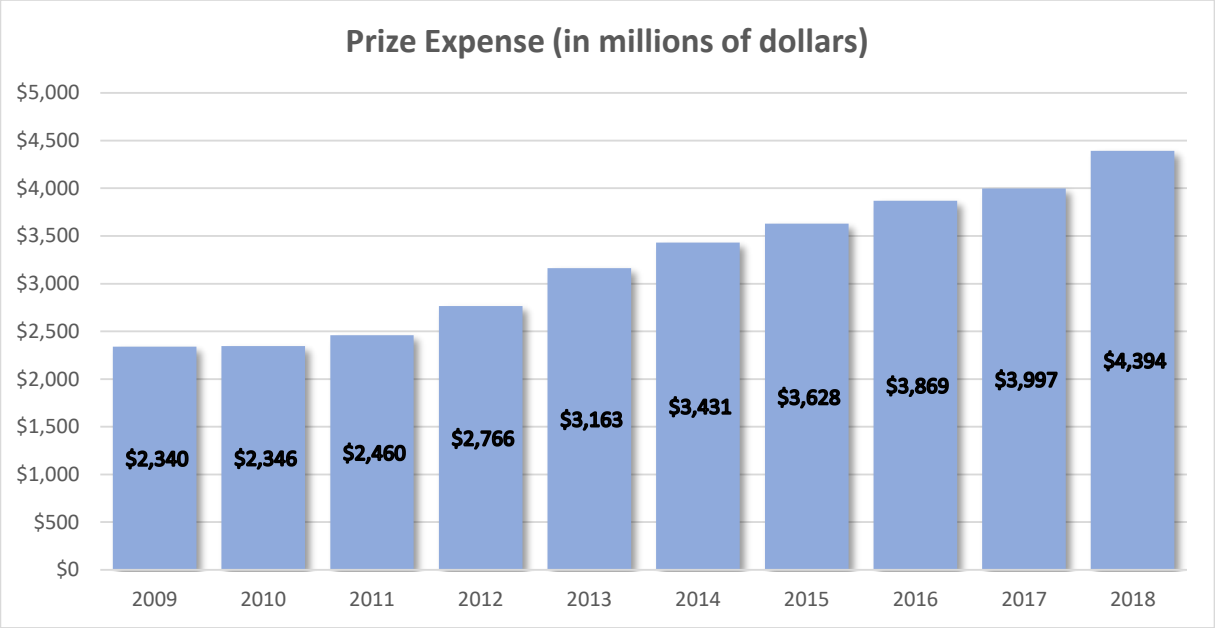
Transfers to EETF, Ticket Sales, Prize Expense, and Retailer Commissions
For the Last Ten Fiscal Years

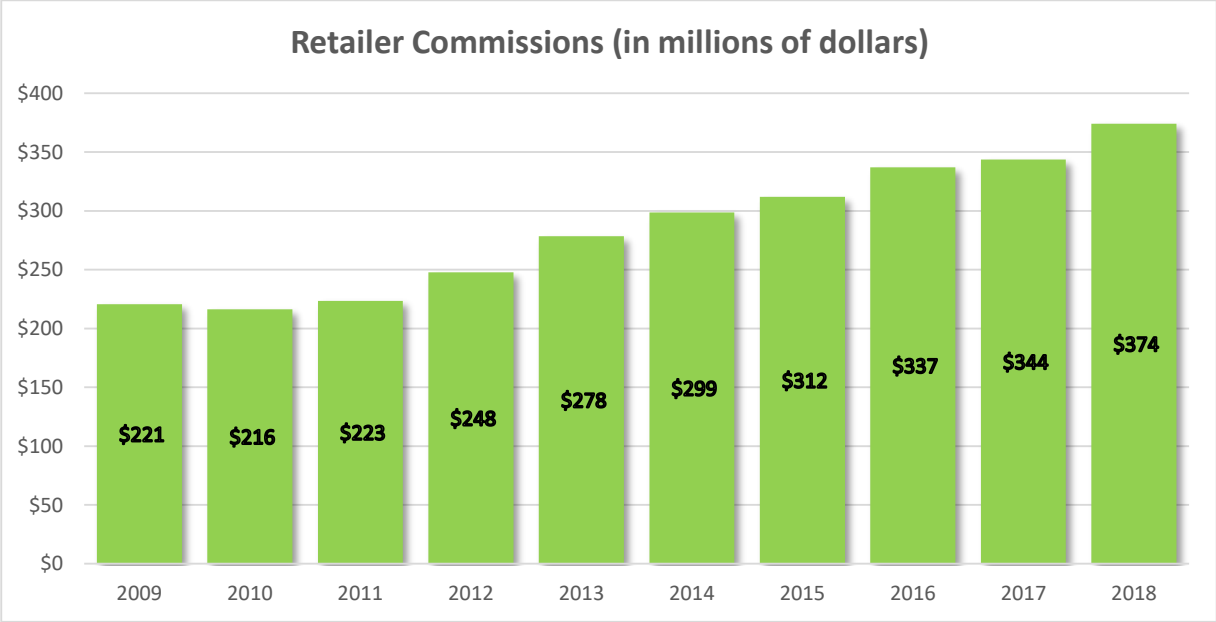
Schedule A-3





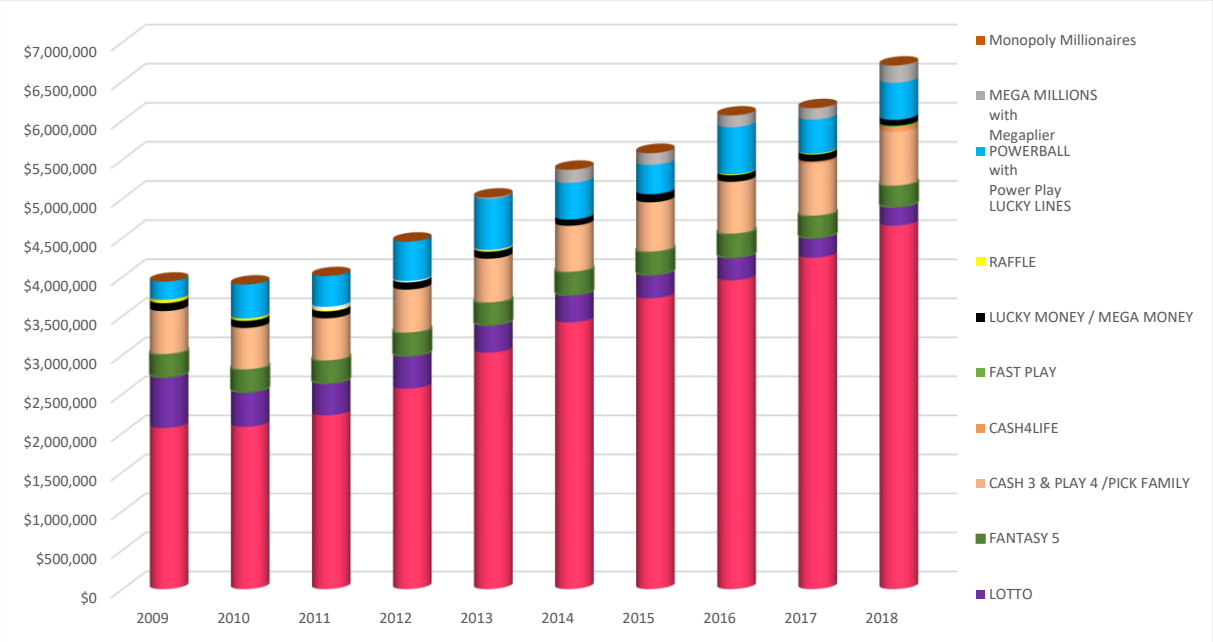
Schedule A-3


Prize Expense (in millions of dollars)
$5,000
$4,500
$4,000
$3,500
$3,000
$2,500
$2,000
$1,500
$1,000
$500
$0
$2,340
$2,346
$2,460
$2,766
$3,163
$3,431
$3,628
$3,869
$3,997
$4,394
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018


Retailer Commissions (in millions of dollars)
$400
$350
$300
$250
$200
$150
$100
$50
$0
$221
$216
$223
$248
$278
$299
$312
$337
$344
$374
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018

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

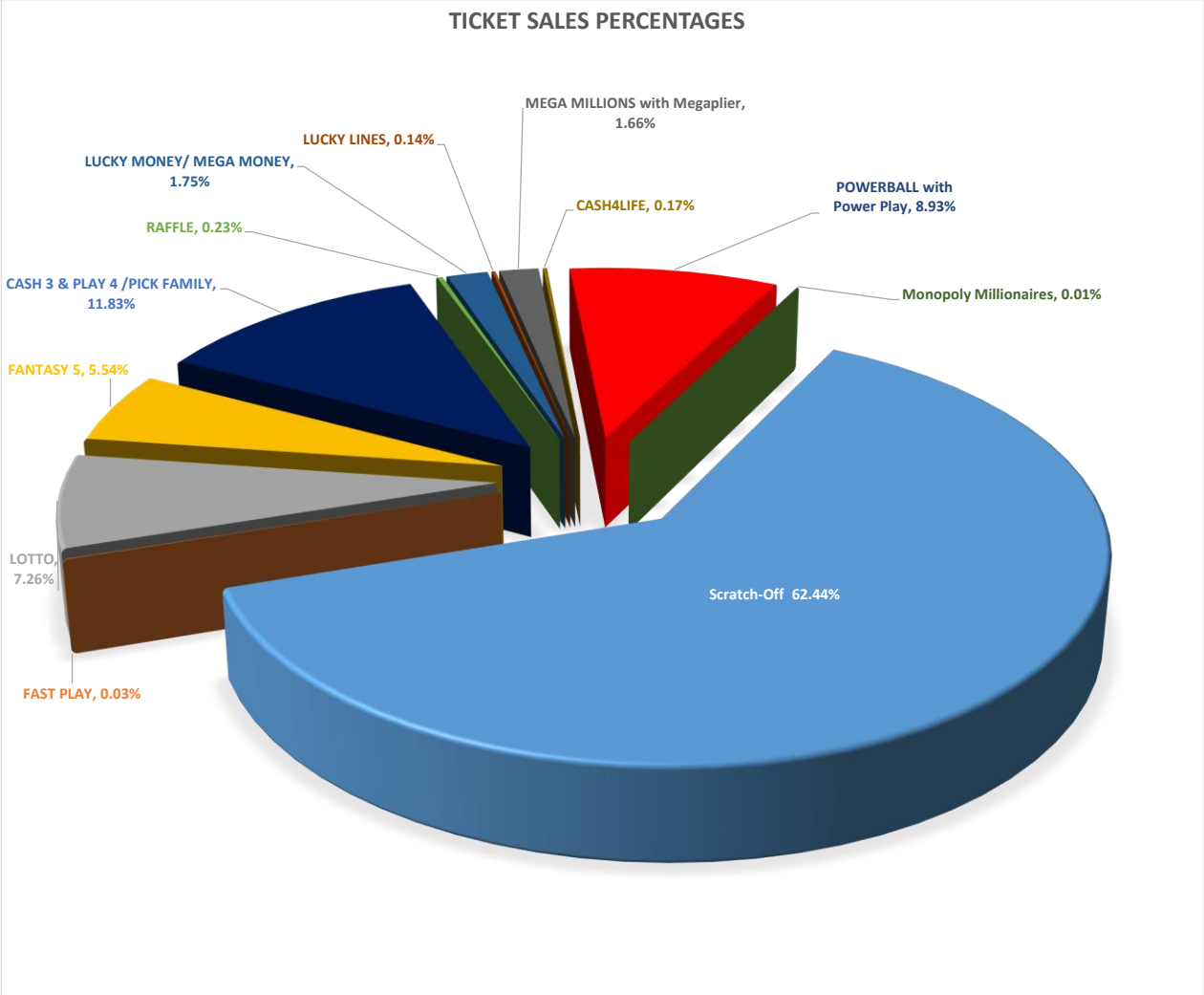
Schedule B-1



Fiscal Year Ended June 30	Scratch-Off	LOTTO	FANTASY 5	CASH 3 & PLAY 4 /PICK FAMILY	CASH4LIFE	FAST PLAY	LUCKY MONEY / MEGA MONEY	RAFFLE	LUCKY LINES	POWERBALL with Power Play	MEGA MILLIONS with Megaplier	Monopoly Millionaires	Combined Sales
2009	$2,064,135	$650,603	$ 287,285	$ 559,114	$ -	$ -	$ 102,190	$41,314	$ -	$ 233,396	$ -	$ -	$3,938,037
2010	2,078,133	445,881	281,963	539,066	-	-	92,060	29,334	-	434,062	-	-	3,900,499
2011	2,225,676	411,389	282,777	548,962	-	-	88,971	12,603	45,369	392,969	-	-	4,008,716
2012	2,566,991	419,040	290,672	559,458	-	-	92,346	-	17,692	503,697	-	-	4,449,896
2013	3,028,527	352,375	281,492	568,680	-	-	89,500	12,879	8,582	654,263	16,698	-	5,012,996
2014	3,417,143	349,114	288,237	597,388	-	-	79,483	-	-	469,292	167,573	-	5,368,230
2015	3,723,995	300,961	287,803	639,468	-	-	103,196	-	-	375,057	147,370	5,481	5,583,331
2016	3,954,701	291,382	296,307	671,408	-	-	84,881	11,724	-	602,001	149,950	-	6,062,354
2017	4,243,602	253,039	275,663	672,963	28,775	-	89,436	11,357	-	434,263	147,381	-	6,156,479
2018	4,652,295	240,015	264,418	698,229	59,219	17,784	74,193	-	-	474,039	220,619	-	6,700,811

Ticket Sales Percentages
For the Last Ten Fiscal Years

Schedule B-2



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

Schedule B-3

Price Point	Fiscal Year 2009	2010	2011	2012	2013	2014
			Number of Game Launches			
$1	13	11	12	12	9	10
$2	18	11	12	14	14	12
$3	3	3	5	5	3	3
$5	13	10	15	12	10	10
$10	4	2	3	3	3	3
$20	2	3	2	2	1	2
$25	-	-	-	-	1	1
$30	-	-	-	-	-	-
	53	40	49	48	41	41
			Sales (in thousands)			
$1	$ 145,816	$ 170,760	$ 165,628	$ 172,780	$ 182,095	$ 181,772
$2	329,235	328,764	319,795	389,265	426,216	444,056
$3	51,954	124,819	172,642	178,627	198,364	173,207
$5	432,448	404,513	481,494	539,443	605,275	702,937
$10	303,311	297,754	333,783	345,680	411,888	404,989
$20	672,192	680,113	752,334	941,196	829,443	969,861
$25	-	-	-	-	375,246	540,321
$30	129,179	71,410	-	-	-	-
	$ 2,064,135	$ 2,078,133	$ 2,225,676	$ 2,566,991	$ 3,028,527	$ 3,417,143

Schedule B-3

Fiscal Year					
2015	2016	2017	2018	Total	% of Total 2018
Number of Game Launches					
10	8	9	9	103	24.32%
12	9	11	10	123	27.03%
2	1	3	2	30	5.41%
10	9	11	9	109	24.32%
4	3	4	5	34	13.51%
1	1	2	1	17	2.70%
1	1	1	-	5	0.00%
-	-	-	1	1	2.70%
40	32	41	37	422	100.00%
Sales (in thousands)					
$ 186,155	$ 196,556	$ 194,399	$ 195,523	$ 1,791,484	4.20%
477,036	502,346	508,240	558,165	4,283,118	12.00%
157,783	135,399	154,243	145,030	1,492,068	3.12%
743,071	875,444	867,577	1,036,310	6,688,512	22.28%
501,139	567,977	655,227	821,977	4,643,725	17.67%
1,002,548	973,527	1,146,288	959,818	8,927,320	20.63%
656,263	703,452	717,628	583,135	3,576,045	12.53%
-	-	-	352,337	552,926	7.57%
$ 3,723,995	$ 3,954,701	$ 4,243,602	$ 4,652,295	$ 31,955,198	100.00%

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

Schedule B-4

Number of Retailers by District

	Fiscal Year					
District	2009	2010	2011	2012	2013	2014
Fort Myers	1,238	1,238	1,236	1,251	1,252	1,247
Gainesville	840	835	838	836	835	842
Jacksonville	1,046	1,024	1,013	1,009	1,013	1,026
Miami	3,219	3,259	3,265	3,245	3,272	3,231
Orlando	2,162	2,149	2,160	2,168	2,190	2,202
Pensacola	656	673	668	672	685	666
Tallahassee	385	380	374	377	387	383
Tampa	2,403	2,414	2,448	2,472	2,445	2,415
West Palm Beach	1,252	1,221	1,224	1,225	1,249	1,254
	13,201	13,193	13,226	13,255	13,328	13,266

Sales by District*
(in thousands)

District	2011	2012	2013	2014
Fort Myers	$ 389,193	$ 436,665	$ 495,289	$ 537,065
Gainesville	230,462	248,080	272,634	299,433
Jacksonville	284,052	312,540	359,187	404,505
Miami	911,981	1,021,417	1,152,468	1,208,118
Orlando	683,344	751,233	850,547	928,474
Pensacola	243,161	269,702	298,756	309,236
Tallahassee	121,308	129,598	146,996	167,641
Tampa	731,470	815,607	907,782	943,959
West Palm Beach	413,745	465,054	529,337	569,799
	$ 4,008,716	$ 4,449,896	$ 5,012,996	$ 5,368,230

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

Schedule B-4

Fiscal Year			
2015	2016	2017	2018
1,250	1,257	1,266	1,262
839	829	823	818
1,016	1,018	1,020	1,022
3,193	3,202	3,172	3,155
2,179	2,183	2,197	2,194
658	665	681	703
382	389	386	379
2,363	2,375	2,355	2,358
1,241	1,245	1,254	1,253
13,121	13,163	13,154	13,144

2015	2016	2017	2018	Total	% of Total Sales
$ 565,408	$ 615,229	$ 628,123	$ 697,588	$ 4,364,560	10.07%
317,574	343,318	356,612	387,452	2,455,565	5.67%
428,266	458,174	477,954	522,998	3,247,676	7.49%
1,227,125	1,367,195	1,333,364	1,447,985	9,669,653	22.31%
981,175	1,050,312	1,071,251	1,157,163	7,473,499	17.24%
321,788	351,814	364,132	391,488	2,550,077	5.88%
180,174	189,304	191,233	201,239	1,327,493	3.06%
981,708	1,052,556	1,088,431	1,192,114	7,713,627	17.80%
580,113	634,452	645,379	702,784	4,540,663	10.48%
$ 5,583,331	$ 6,062,354	$ 6,156,479	$ 6,700,811	$ 43,342,813	100.00%

Demographic and Economic Statistics
For the Last Ten Calendar Years

Schedule C-1

	Population				Personal Income (in millions)	
Year [3]	Florida - April 1	Percent Change from Prior Year	U.S. - July 1	Percent Change from Prior Year	Florida	U.S.
2008	18,613,905	0.91%	304,093,966	0.95%	$ 734,691	$ 12,502,228
2009	18,687,425	0.39%	306,771,529	0.88%	691,356	12,094,789
2010	18,801,332	0.61%	309,338,421	0.84%	728,064	12,477,120
2011	18,905,070	0.55%	311,644,280	0.75%	773,316	13,254,522
2012	19,074,434	0.90%	313,993,272	0.75%	793,104	13,915,118
2013	19,259,543	0.97%	316,234,505	0.71%	798,886	14,073,672
2014	19,507,369	1.29%	318,622,525	0.76%	856,492	14,818,247
2015	19,815,183	1.58%	321,039,839	0.76%	919,958	15,552,968
2016	20,148,654	1.68%	323,405,935	0.74%	947,207	15,928,727
2017	20,484,142	1.67%	325,719,178	0.72%	984,072	16,415,900

[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 2018 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 2017), and the National and Florida Economic Estimating Conferences (January 2018).

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

Schedule C-1

Per Capita Personal Income		Unemployment Assistance Rate [1]		Median Age	Public School Enrollment [2]
Florida	U.S.	Florida	U.S.	Florida	Florida
$ 39,470	$ 41,113	6.3%	5.8%	40.1	2,652,684
36,996	39,426	10.4%	9.3%	40.4	2,628,754
38,724	40,335	11.1%	9.6%	40.6	2,634,382
40,905	42,531	10.0%	8.9%	40.9	2,643,396
41,579	44,317	8.5%	8.1%	41.0	2,667,830
41,480	44,504	7.2%	7.4%	41.1	2,691,322
43,906	46,507	6.3%	6.2%	41.3	2,720,074
46,427	48,446	5.4%	5.3%	41.5	2,756,127
47,011	49,253	4.9%	4.9%	41.6	2,791,244
48,041	50,399	4.3%	4.4%	41.7	2,817,076

Industry Sector Employment
For Calendar Years 2017 and 2008
(in thousands)

Schedule C-2

Industry	Calendar Year 2017 Employment	Calendar Year 2017 Percentage of Total Employment (1)	Calendar Year 2008 Employment	Calendar Year 2008 Percentage of Total Employment (1)
Retail Trade	1,112	12.87%	998	12.79%
Health Care and Social Assistance	1,110	12.85%	915	11.72%
Accommodation and Food Services	975	11.28%	776	9.94%
Local Government	711	8.23%	771	9.88%
Administrative and Waste Services	674	7.80%	544	6.97%
Professional, Scientific, and Technical Services	544	6.30%	456	5.84%
Construction	505	5.84%	516	6.61%
Finance and Insurance	377	4.36%	356	4.56%
Manufacturing	364	4.21%	371	4.75%
Wholesale Trade	344	3.98%	350	4.48%
Total	6,716	77.73%	6,053	77.54%

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 2017, Florida's seasonally adjusted total nonagricultural employment was 8,660,000, an increase of 163,900 jobs (+1.9 percent) over the year. Florida's annual job growth rate had been positive for 88 out of 89 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 2017, eight of the ten major industries gained jobs over the year with professional and business services (+35,400 jobs) gaining the most followed by leisure and hospitality (+33,100 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:

	2017	2008
Total non-agricultural employment	8,567	7,715
Total agricultural employment	73	91
Total employment	8,640	7,806

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

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Lottery Player Demographics
For the Last 10 Fiscal Years

Schedule C-3

	Fiscal Year					
	2009	2010	2011	2012	2013	2014
Gender						
Male	51%	51%	52%	51%	51%	51%
Female	49%	49%	48%	49%	49%	49%
Age						
18 to 34	26%	25%	25%	26%	24%	24%
35 to 54	39%	39%	47%	38%	39%	38%
55+	35%	36%	28%	36%	37%	38%
Education						
HS or Less	32%	31%	25%	34%	28%	21%
Some Post Secondary	26%	24%	33%	29%	29%	29%
University+	42%	45%	42%	37%	43%	50%
Race						
White	73%	73%	86%	84%	85%	84%
Other	27%	27%	14%	16%	15%	16%
Hispanic						
Yes	16%	16%	24%	23%	22%	21%
No	84%	84%	76%	77%	78%	79%
Income						
<$20K	13%	17%	12%	14%	14%	17%
$20K-$29K	11%	10%	13%	12%	12%	14%
$30K-$49K	24%	23%	28%	26%	26%	25%
$50K-$69K	16%	16%	18%	18%	21%	20%
$70K+	36%	34%	29%	30%	27%	24%

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

Schedule C-3

Fiscal Year			
2015	2016	2017	2018
51%	51%	51%	51%
49%	49%	49%	49%
25%	24%	25%	26%
38%	39%	38%	38%
37%	37%	37%	36%
20%	15%	15%	18%
26%	22%	20%	22%
54%	63%	65%	60%
86%	84%	84%	84%
14%	16%	16%	16%
21%	20%	21%	20%
79%	80%	79%	80%
13%	12%	11%	12%
12%	10%	8%	10%
25%	21%	21%	21%
20%	21%	21%	20%
30%	36%	39%	37%

Schedule of Lottery Employees
For the Last Ten Fiscal Years

Schedule D-1

	Fiscal Year					
	2009	2010	2011	2012	2013	2014
Sales:						
Tallahassee	11	11	11	10	11	11
Fort Myers	17	17	17	18	16	15
West Palm Beach	20	20	20	19	17	19
Miami	38	38	38	36	39	38
Pensacola	14	14	14	13	13	14
Jacksonville	15	14	15	13	16	16
Gainesville	13	13	13	13	13	13
Orlando	27	25	26	26	27	27
Tampa	30	29	31	30	31	30
Sales Subtotal	185	181	185	178	183	183
Administrative and Other	244	242	239	236	220	220
Total	**429**	**423**	**424**	**414**	**403**	**403**

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

Schedule D-1

Fiscal Year			
2015	2016	2017	2018
11	11	10	11
17	16	18	18
19	19	18	19
37	38	36	37
14	14	14	15
15	16	15	16
12	13	13	13
26	27	28	27
30	26	31	30
181	180	183	186
227	232	230	233
408	**412**	**413**	**419**

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

Schedule D-2

	Fiscal Year					
	2009	2010	2011	2012	2013	2014
Scratch-Off Games						
Sales	$2,064,136	$2,078,133	$2,225,676	$2,566,991	$3,028,527	$3,417,143
Prize Expense	$1,473,616	$1,487,729	$1,609,232	$1,841,816	$2,207,780	$2,484,259
Percent of Sales	71.39%	71.59%	72.30%	71.75%	72.90%	72.70%
Vendor Fees	$ 31,893	$ 30,896	$ 35,520	$ 38,906	$ 44,193	$ 48,157
Percent of Sales	1.55%	1.49%	1.60%	1.52%	1.46%	1.41%
Draw Games						
Sales	$1,873,901	$1,822,366	$1,783,040	$1,882,905	$1,984,469	$1,951,087
Prize Expense	$ 948,927	$ 910,256	$ 906,303	$ 950,655	$1,015,405	$ 995,240
Percent of Sales	50.64%	49.95%	50.83%	50.49%	51.17%	51.01%
Vendor Fees	$ 27,982	$ 27,390	$ 27,740	$ 27,622	$ 31,012	$ 28,895
Percent of Sales	1.49%	1.50%	1.56%	1.47%	1.56%	1.48%
Total Games						
Sales	$3,938,037	$3,900,499	$4,008,716	$4,449,896	$5,012,996	$5,368,230
Commissions	$ 220,548	$ 216,207	$ 223,390	$ 247,690	$ 278,493	$ 298,651
Percent of Sales	5.60%	5.54%	5.57%	5.57%	5.56%	5.56%
Administrative Costs	$ 71,223	$ 71,519	$ 71,449	$ 70,304	$ 72,653	$ 74,528
Percent of Sales	1.81%	1.83%	1.78%	1.58%	1.45%	1.39%
Number of Employees	429	423	424	414	403	403
Number of Retailers	13,201	13,193	13,226	13,255	13,328	13,266

Schedule D-2

Fiscal Year			
2015	2016	2017	2018
$3,723,995	$3,954,701	$4,243,602	$4,652,295
$2,712,474	$2,880,963	$3,103,450	$3,410,041
72.84%	72.85%	73.13%	73.30%
$ 51,665	$ 55,591	$ 58,615	$ 63,654
1.39%	1.41%	1.38%	1.37%
$1,859,336	$2,107,653	$1,912,877	$2,048,516
$ 962,779	$1,054,995	$ 966,230	$1,051,764
51.78%	50.06%	50.51%	51.34%
$ 29,970	$ 32,650	$ 30,301	$ 31,863
1.61%	1.55%	1.58%	1.56%
$5,583,331	$6,062,354	$6,156,479	$6,700,811
$ 311,981	$ 337,007	$ 343,608	$ 373,819
5.59%	5.56%	5.58%	5.58%
$ 75,696	$ 80,121	$ 80,805	$ 81,201
1.36%	1.32%	1.31%	1.21%
408	412	413	419
13,121	13,163	13,154	13,144

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

Schedule D-3

	Fiscal Year					
	2009	2010	2011	2012	2013	2014
Vehicles and equipment	$ 14,474	$ 12,843	$ 12,502	$ 12,693	$ 12,787	$ 11,732
Intangible assets and other	-	651	703	763	2,123	2,855
Total Capital Assets	14,474	13,494	13,205	13,456	14,910	14,587
Less accumulated depreciation	13,239	12,073	11,957	12,100	11,695	10,344
Total Capital Assets, net	$ 1,235	$ 1,421	$ 1,248	$ 1,356	$ 3,215	$ 4,243

Schedule D-3

Fiscal Year			
2015	2016	2017	2018
$ 12,754	$ 11,445	$ 12,295	$ 12,970
3,000	3,319	3,816	4,162
15,754	14,764	16,111	17,132
9,934	8,658	9,847	10,145
$ 5,820	$ 6,106	$ 6,264	$ 6,987

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AUDITOR GENERAL
STATE OF FLORIDA

Sherrill F. Norman, CPA
Auditor General

Claude Denson Pepper Building, Suite G74
111 West Madison Street
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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 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 (Lottery's) internal control over financial reporting as of June 30, 2018, 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 Lottery's internal control over financial reporting based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of 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 Lottery maintained, in all material respects, effective internal control over financial reporting as of June 30, 2018, 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 Lottery, as of and for the fiscal year ended June 30, 2018, and the related notes to financial statements, which collectively comprise the Lottery's basic financial statements, and our report dated December 21, 2018, expressed an unmodified opinion.

Compliance and Other Matters

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

Additional Matters

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

Management's Response to Findings

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

Purpose of this Report

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

Respectfully submitted,

Sherrill F. Norman, CPA
Tallahassee, Florida
December 21, 2018
Audit Report No. 2019-090

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RICK SCOTT
Governor

JIM POPPELL
Secretary

Management's Report on Internal Control Over Financial Reporting

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

Management is responsible for designing, implementing, and maintaining effective internal control over financial reporting. Management assessed the effectiveness of the Florida Lottery's internal control over financial reporting as of June 30, 2018, 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, 2018, 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

Jim Poppell

December 21, 2018

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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 control practices. To avoid the possibility of compromising Lottery information, specific details of these issues are not disclosed in this report. However, we have notified appropriate Lottery management of the specific issues.

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

Finding 2: Minority Retailer Participation

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

In prior audit reports, most recently in our report No. 2018-078 (Finding 2), we disclosed that retailers comprising one minority type totaled more than 35 percent of the total number of the Lottery's minority retailers. Although the Lottery has developed an outreach program to increase retailer participation in under-represented minority groups, our audit disclosed that, as of July 2, 2018, retailers comprising one minority type totaled approximately 66.7 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.

RICK SCOTT
Governor

JIM POPPELL
Secretary

December 21, 2018

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 17, 2018, 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, 2018. Below is our response to each finding and recommendation:

Finding 1: Information Technology Controls
Recommendation: We recommend that Lottery management make the necessary IT control enhancements to address the issues identified.

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

Finding 2: Minority Retailer Participation
Recommendation: We recommend that the Lottery continue its efforts to increase retailer participation in under-represented minority groups.

Lottery's Response: We will continue to look for opportunities to recruit retailers, including those in under-represented minority groups. We will 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,

Jim Poppell
Secretary

cc: Samantha Ferrin, Chief of Staff
Anthony Garcia, Deputy Secretary
Andy Mompeller, Inspector General

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