



CELEBRATING MILESTONES

ANNUAL REPORT 2015-2016



First Grade



High School



College Graduation!



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MESSAGE FROM THE GOVERNOR

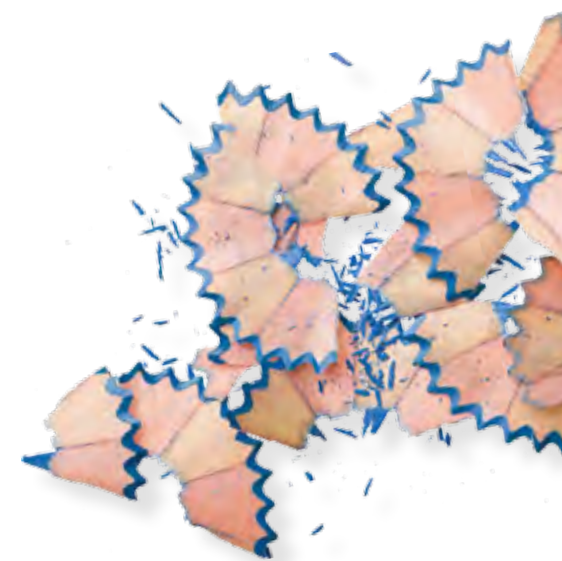
Dear Friends,

This year, the Florida Lottery achieved its fifth consecutive record-breaking sales year and contributed more than \$1.69 billion toward education. This means the Lottery has now provided more than \$30 billion to education since its inception in 1988. These great accomplishments demonstrate the Lottery's commitment to ensuring Florida's students have the resources and opportunities they need to get a great education in our state.

The Lottery is working each day to support Florida's students so they can become tomorrow's leaders, and they are setting an example as one of the most efficient lotteries in the nation, operating on less than two percent of all revenue generated. Congratulations to Secretary Delacenserie and all of the Lottery's dedicated staff on another exciting year, and thank you for supporting Florida's students. I look forward to another year of historic investments in Florida's public education system.

Sincerely,

Governor Rick Scott



MESSAGE FROM THE SECRETARY

Dear Colleagues and Friends,

I am pleased to present the Florida Lottery's 2015-16 Annual Report. In keeping with our mission of maximizing revenues for the enhancement of public education in Florida, we are extremely proud to have celebrated another record year with respect to two major milestones.

We announced our fifth consecutive all-time record-breaking sales year with more than \$6 billion in annual sales. The Lottery's commitment to corporate outreach and its effective business model focused on the development of new revenue streams, creating a win-win partnership with its retailers and vendors, and helping to benefit Florida's overall economy.

Of course, our true success is measured by the impact we have on Florida's students and schools. This year, the revenue generated for education reached \$1.69 billion, marking the 14th consecutive year that the Florida Lottery has contributed more than \$1 billion to Florida's education system and enabling us to surpass \$30 billion in total education contributions since opening our doors in 1988.

With the continued support of our players and dedicated retailers and employees, and with the leadership of Governor Rick Scott and the Florida Legislature, the future looks bright for the Florida Lottery and Florida's students and schools.

Sincerely,

Secretary Tom Delacenserie



CONTRIBUTIONS TO EDUCATION

Laying the Foundation for a Better Florida

The Florida Lottery transferred \$1.69 billion in revenue to the Educational Enhancement Trust Fund (EETF) in fiscal year 2015-16. This brings the total amount generated for education over the Lottery's 28 year history to more than \$30 billion. FY 2015-16 also marked the 14th consecutive year the Lottery contributed more than \$1 billion to Florida's education system.

Our mission is to maximize revenues for the benefit of public education. By any measure, we have succeeded in this effort. This year we continued to enhance our relationships with educators and school administrators through a variety of initiatives that include recognizing teachers and leaders in education at Lottery sponsored events. We understand that education funding is critical to maintaining Florida's position as a national competitor for top companies that will create jobs and keep our state economically competitive with a highly skilled workforce of problem solvers, creative thinkers, entrepreneurs and leaders - in other words, a workforce that is second to none.

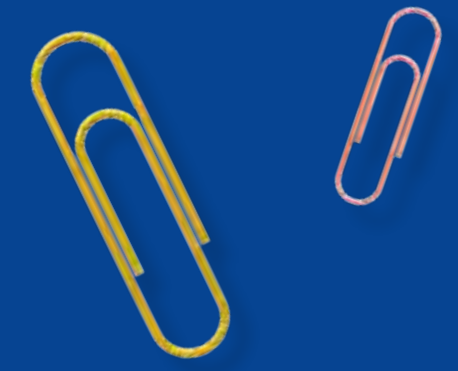
The benefit of Lottery revenues are felt across all of Florida's 67 counties at every level from K-12, to state colleges and universities. In addition to these important programs, the EETF also serves as the primary funding source for the Florida Bright Futures Scholarship Program. This program, created in 1997, continues to provide assistance to Florida's best and brightest as they pursue their academic goals at state colleges and universities. To date, more than \$5 billion in Lottery funds has helped more than 750,000 students pursue their academic goals by remaining in state.

From the first day of classes to college graduation and every day in between, Florida students are acquiring a quality education that will help them build a better tomorrow. With every Florida Lottery ticket purchased, our players are helping students and teachers across the state excel. The Florida Lottery is proud of our commitment to education, and remains dedicated to ensuring a future where every student wins.



2015-2016

CELEBRATING MILESTONES: A YEAR IN REVIEW



JULY

The WEEK FOR LIFE family of Scratch-Off tickets is offered at the \$1, \$2, \$5 and \$10 price points. Sales contribute more than \$71 million in contributions to the Educational Enhancement Trust Fund (EETF) – a strong start for fiscal year 2015-16.



SEPTEMBER

The Lottery marked its 1,000th Scratch-Off game with the launch of its newest ticket, \$5,000,000 FLAMINGO MULTIPLIER. FLAMINGO MULTIPLIER set a Florida Lottery record for the best single week by a \$20 Scratch-Off game with more than \$16 million in sales.



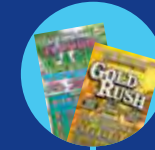
NOVEMBER

A partnership with Florida's major universities led to a second chance promotion that built on previous partnerships with college football. At each university, the Lottery took part in a Bright Futures ceremonial check presentation. The FANTASY 5® College Football Promotion received more than 1.2 million entries statewide.



JANUARY

A Florida player was one of three nationally to win the record-setting \$1.586 billion POWERBALL® jackpot held on Wednesday, January 13.



MARCH

The Lottery achieves the highest, single-week Scratch-Off sales of any lottery in the country, resulting in \$16.99 million being generated to the EETF.



MAY

More than 36,000 high school graduates become eligible to receive Bright Futures scholarships. Since start-up, the Lottery has sent more than 725,000 students to college through the Bright Futures Scholarship Program.

AUGUST

LaFleur's World Lottery Almanac, an internationally recognized lottery industry publication, ranks Florida the second most efficiently operated lottery in the country with administrative expenses of just 2.8 percent.

OCTOBER

Records are shattered as the Florida Lottery celebrates the best first quarter ever in its 27-year history with \$1.35 billion in sales.

DECEMBER

HOLIDAY MILLIONAIRE RAFFLE™ returns, offering players their best odds to win \$1 million of any Lottery game. A total of seven winners won \$1 million in the New Year's Eve Drawing. In total, 1,552 Raffle winners received \$8.67 million in prizes.

FEBRUARY

For the first time ever, the Lottery partnered with the Tampa Bay Lightning hockey team to offer the BE THE THUNDER Second Chance Promotion.

APRIL

The Lottery hosts an event at The Villages with television personality Vanna White to promote the launch of the \$5 Scratch-Off game WHEEL OF FORTUNE®. Sales exceeded \$6.1 million in its first week, setting a record for the highest first week of sales by any game at that price point.

JUNE

The Florida Lottery announces its fifth consecutive record breaking year, with an estimated \$6.06 billion in annual sales and \$1.7 billion in contributions to education during fiscal year 2015-16. This will lead to an anticipated over \$30 billion in contributions to education since 1988!



STRATEGIC ALLIANCE PARTNERSHIPS AND PROMOTIONS

The Florida Lottery formed a number of mutually-beneficial strategic alliance partnerships this year, allowing us to acquire new customers; increase revenue; expand our geographic reach; extend product lines; access new technologies and share resources.

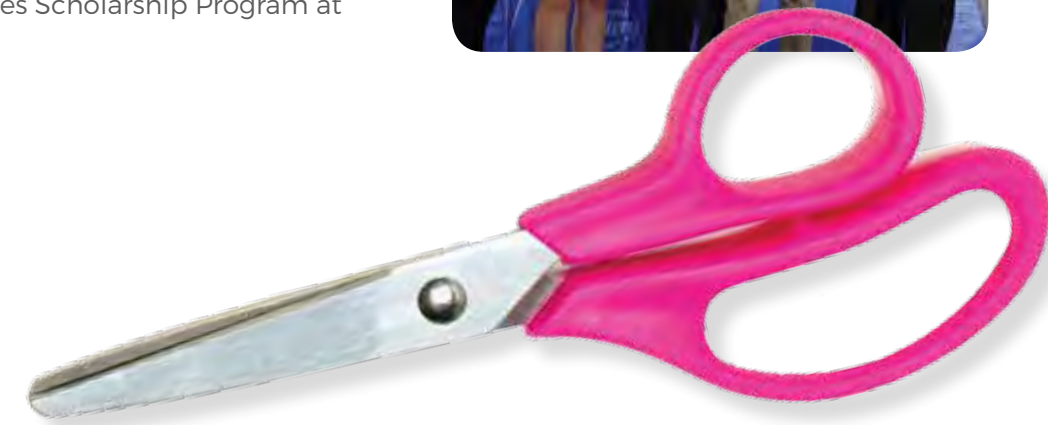
By partnering with **NASCAR**, the Lottery was able to reach millions of race car enthusiasts during several races throughout the 2015-2016 season including the Coke Zero 400, Daytona 500, and NASCAR Championship Weekend. The Lottery teamed up with several drivers during the race weekend by inviting them to the Florida Lottery activation area to meet with fans and answer questions. During the events, drivers Austin Dillon, Ben Kennedy, Landon Cassill and David Gilliland all appeared on the Lottery stage. At each event, sales terminals ran continuously as the Lottery provided entertainment and the drivers interacted with the crowd. These NASCAR events generated nearly \$200,000 in Lottery sales and a media value of more than \$1 million.



In April 2016, the Lottery hosted an event at The Villages to promote the launch of the **WHEEL OF FORTUNE** Scratch-Off ticket. Television personality Vanna White greeted fans and helped generate excitement for the new ticket. Vanna appeared on stage, conducted radio and television interviews, and signed autographs, leading to the largest attended Lottery event at The Villages to date. A total of more than \$180,000 in sales was generated thanks to this one-day event.



The fall is always an exciting time at the Lottery. A partnership with Florida's major universities including Florida State University, the University of Florida, the University of Central Florida, and the University of South Florida led to a second chance promotion that built on the previous partnerships with college football. The **FANTASY 5® College Football Promotion** received more than 1.2 million entries statewide. Thanks to a partnership with KIA, the top prize in the promotion was a 2016 KIA Sorento. Additional prizes included season football tickets, bowl game trips and more. At each of the universities, the Lottery took part in a Bright Futures ceremonial check presentation. A Lottery official presented each school with an oversized check representing the amount of Lottery dollars contributed to the Bright Futures Scholarship Program at each school.



The Lottery was excited to partner with the Tampa Bay Lightning hockey team in the spring of 2016, to offer the **BE THE THUNDER Second Chance Promotion**.

This promotion ran through the second half of the NHL hockey season and offered Lottery players in central Florida the chance to win away game fly-away trips, season tickets, autographed merchandise and more.

The Lottery was the game-day sponsor for two of the Lightning games. During these games, every fan who entered the Amalie Arena in downtown Tampa received a card with a "Lucky Number". During a break in action, a number was randomly drawn from a retired ball machine. The fans with the corresponding number on their card won a \$250,000 CASHFALL Scratch-Off ticket.

These strategic alliance partnerships proved extremely beneficial in helping the Lottery grow and market its products while also increasing brand awareness and the ability to reach new markets.



SPECIAL EVENTS

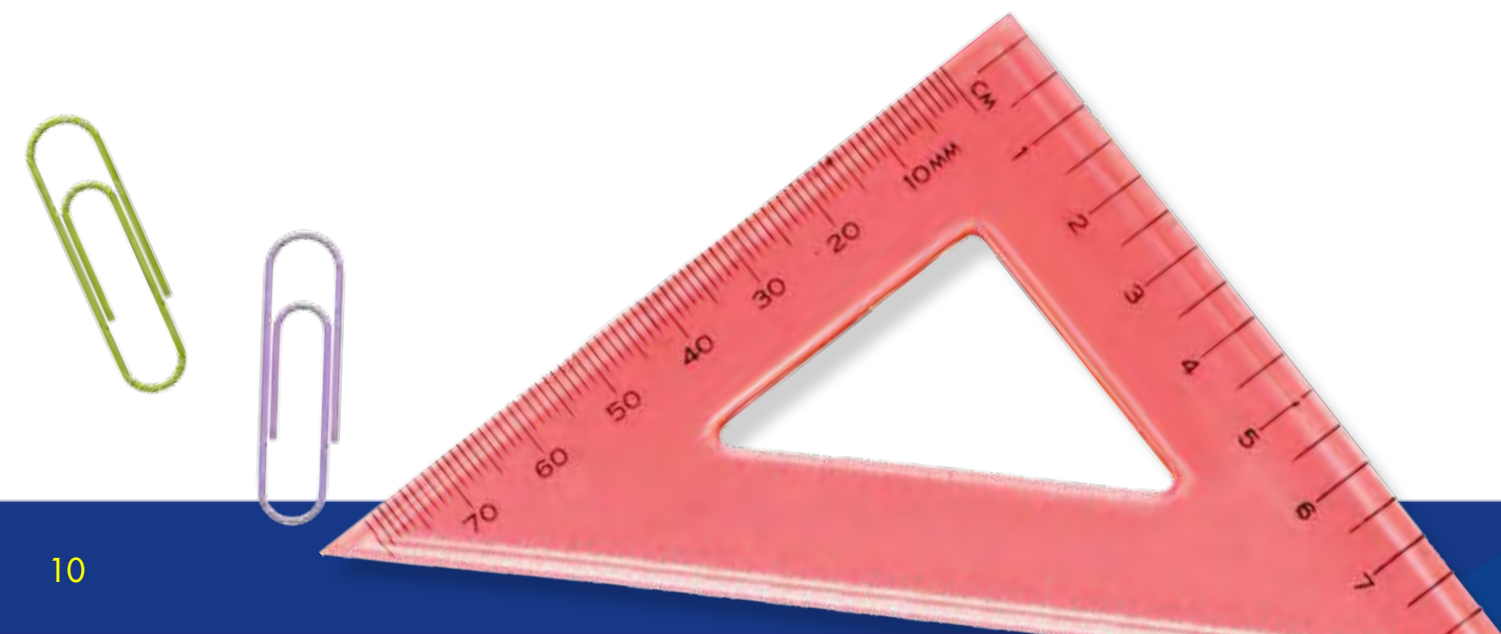
The Lottery participated in 108 community events throughout Florida which helped increase public awareness of the Lottery's education mission and contributions, while helping to highlight new games and promotions. The Lottery expanded its partnership with Florida's Department of Education and Just Read, Florida!

In addition to the Kick-Off Pep Rally; PSA Contest Winners Announcement; and school visits that comprise the events of Celebrate Literacy Week; this year the Lottery also helped sponsor "POP-UP Quiz Show" events at 22 middle schools across the state. Several teams of middle school students played the role of contestants on a quiz show where their civics knowledge was tested. Each participating school received a collection of donated books.

The Lottery once again welcomed Florida's college students back to school by co-hosting Bright Futures Ice Cream Socials on the campuses of 11 Florida colleges and universities including Florida Atlantic University; Florida International University; the University of West Florida; the University of Central Florida; the University of North Florida; the University of Florida; the University of South Florida; Chipola College; Tallahassee Community College; Florida Agricultural & Mechanical University; and Florida Gulf Coast University.



During each event, school officials and Bright Futures recipients joined Lottery staff to share the importance of higher education and the important role the Lottery plays in supporting their school and the Bright Futures Scholarship Program. Students received custom Bright Futures t-shirts in their school colors and ice cream was provided by Lottery corporate retailer Winn-Dixie, Inc.



WINNING MOMENTS



Draw Games: Draw game sales also increased significantly, with players collecting millions in prizes including 60 players who won \$1 million or more. POWERBALL® madness swept the nation as the jackpot rolled to an unprecedented \$1.586 billion on January 13. The Lottery was proud to announce that a Florida player was among three lucky winners nationally who would share in the world-record jackpot winnings. The \$528.8 million prize was claimed by the Nickel 95 Trust. Its trustee, Maureen Smith of Melbourne Beach, chose to receive her winnings in a one-time, lump-sum payment of \$327,835,077.79



Scratch-Off Games: Florida Lottery Scratch-Off games created 33 new millionaires, awarded more than \$90 million in prizes, and had more than 120,000 winners of \$600 or more this year. Players who weren't instant winners on their Scratch-Off tickets got a second chance to win when they entered their non-winning tickets into a variety of fun and exciting second chance promotions. Scratch-Off games have seen a momentous rise in popularity with the launch of 32 new games this year that successfully appealed to Florida's diverse population and visitors from around the world.



Promotions: In addition to traditional Scratch-Off and Draw game prizes, Lottery players had other chances to win prizes ranging from free Scratch-Off tickets, to college and professional sporting tickets and merchandise, and even a brand new car. These opportunities were available through a variety of promotional, second chance and social media contest opportunities that boosted excitement among loyal Lottery players while also appealing to a younger demographic.

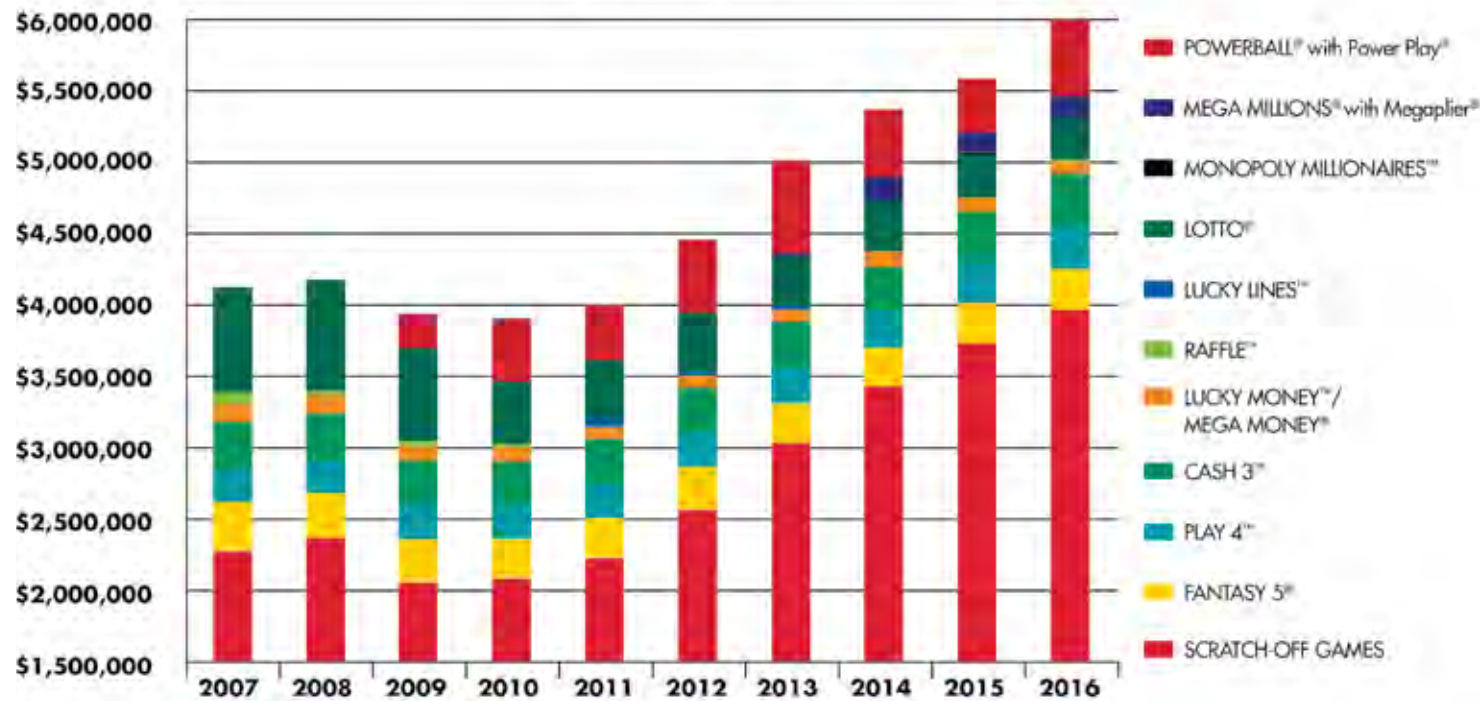


The Florida Lottery is proud to make the dreams of our players a reality, while also helping to send over 750,000 students to college through the Bright Futures Scholarship Fund. Since opening our doors in 1988, each game has been designed with our players in mind. We look forward to continuing to create opportunities for our players and winners through the development of new and innovative games and promotions.

ENHANCING BUSINESS PARTNERSHIPS

Goals & Sales: This was a historic, record-breaking year for Lottery ticket sales. The sales goal of \$5.7 billion was surpassed by \$360 million as players purchased more than \$6 billion in tickets. In terms of sales, the Lottery would rank above Harley Davidson and Mattel on the Fortune 500 list. Both Scratch-Off sales at \$3,954,701,000, and Draw sales at \$2,107,653,000, broke all previous sales records.

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



Department of the Lottery | Historical Lottery Sales by Game | Last Ten Fiscal Years (In Thousands)

Fiscal Year Ended June 30	LOTTO	FANTASY 5	PLAY 4	CASH 3	LUCKY MONEY / MEGA MONEY	RAFFLE	LUCKY LINES	POWERBALL with Power Play	MEGA MILLIONS with Megaplier	Monopoly Millionaires	Scratch-Off	Combined Sales
2007	\$ 735,585	\$ 326,241	\$ 225,285	\$ 348,694	\$ 130,142	\$ 72,549	\$ -	\$ -	\$ -	\$ -	\$ 2,283,620	\$ 4,122,116
2008	778,954	309,445	227,940	336,096	122,742	30,818	-	-	-	-	2,368,781	4,174,776
2009	650,603	287,285	238,957	320,157	102,190	41,314	-	233,396	-	-	2,064,135	3,938,037
2010	445,881	281,963	235,027	304,039	92,060	29,334	-	434,062	-	-	2,078,133	3,900,499
2011	411,389	282,777	235,692	313,270	88,971	12,603	45,369	392,969	-	-	2,225,676	4,008,716
2012	419,040	290,672	244,711	314,747	92,346	-	17,692	503,697	-	-	2,566,991	4,449,896
2013	352,375	281,492	244,141	324,539	89,500	12,879	8,582	654,263	16,698	-	3,028,527	5,012,996
2014	349,114	288,237	257,752	339,636	79,483	-	-	469,292	167,573	-	3,417,143	5,368,230
2015	300,961	287,803	276,217	363,251	103,196	-	-	375,057	147,370	5,481	3,723,995	5,583,331
2016	291,382	296,307	291,651	379,757	84,881	11,724	-	602,001	149,950	-	3,954,701	6,062,354

Lottery District Office Successes: Three of the Lottery's nine sales districts individually exceeded sales of \$1 billion for the year. While the Miami district had previously exceeded the \$1 billion mark, this was another record year for them with sales of \$1,367,400,858. The Tampa district reached \$1,052,695,275 and the Orlando district reached sales of \$1,050,462,880. All nine sales districts exceeded their annual sales goals.

The sales team continued to look for merchandising opportunities in the stores and added more than 33,000 new Scratch-Off ticket facings this fiscal year. These efforts had a significant impact on increasing sales. Additional facings allowed players to access the 70 - 80 different Scratch-Off games at any given time throughout the year. The additional facings also helped retailers keep tickets fully stocked.

The \$1.586 billion POWERBALL® jackpot, reached in January resulted in record Draw game sales as well as one Florida jackpot winner among three nationally, one \$2 million winner, and eleven \$1 million winners. This series of jackpot rolls garnered retailer commissions in excess of \$14 million.

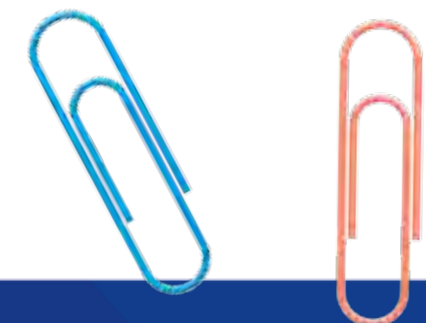
The Lottery's LED jackpot signs proved very successful as well. The stores displaying these signs enjoyed a 5.3% higher volume of sales for Lottery jackpot games than stores without the signs. This product successfully brought Lottery players into stores to purchase both Lottery and non-Lottery products.

Record sales resulted in 259,989 claims processed at the Lottery's district offices in Pensacola, Tallahassee, Gainesville, Jacksonville, Tampa, Orlando, Fort Myers, West Palm Beach and Miami.

Corporate Growth: This year, the Lottery's Corporate Accounts team aggressively pursued sales opportunities through merchandising and marketing efforts. Corporate account sales increased by 10.6% overall, Scratch-Off sales by 7.5%, and draw games by 16.1%.

Corporate Accounts experienced new store growth as many top 25 chain partners across Florida expanded. Wawa, RaceTrac, Publix and Walmart all demonstrated significant growth, particularly in central and south Florida. Walmart's expansion included several of their Fuel Center concept stores.

Working together with key chain partners to improve Lottery presence proved to have a positive impact on sales while also benefiting consumers. Enhancements included custom dispenser options, point of sale, and Play Station designs in addition to placement of digital jackpot messaging.



PRODUCT DEVELOPMENT



Draw Games: In October 2015, enhancements were made to the POWERBALL® game to provide better overall odds, a \$50,000 third prize and the addition of a 10X multiplier on Power Play. Soon after, POWERBALL rolled to a new world-record jackpot of \$1.586 billion on January 13, 2016, and generated the biggest Florida sales week ever, topping \$230.7 million in a single week. This POWERBALL jackpot roll series, which began on November 7, 2015, resulted in more than 5.3 million winning tickets in Florida, totaling more than \$558.8 million in prizes and creating 18 new Florida POWERBALL millionaires. Additionally, Florida Lottery retailers earned more than \$14 million in commissions and bonuses during this jackpot series, which also generated more than \$114 million for education, the most ever raised for education from a single Florida Lottery jackpot.

Three limited-time promotions were offered during the fiscal year to provide a lift in sales and encourage trial play of popular Draw games. A fall and spring offering of GROUPE® allowed players to sample all Florida's in-state Draw games for \$5 and get one free. The variety of games appealed to core players and Florida visitors, and the free ticket added value and offered a purchase incentive for the higher price point. The two promotions brought in more than \$4 million in combined sales. To promote EZmatch™ sales for both FANTASY 5® and LUCKY MONEY™, the Lottery offered more and higher EZmatch prizes during an eight-week promotional period. As a result, an additional \$4.8 million in sales was achieved, generating an added \$1.3 million in revenue for education.

Holiday MILLIONAIRE RAFFLE also returned for a limited time, offering the best odds to win \$1 million of any Florida Lottery game. A total of seven winners won \$1 million in the New Year's Eve Drawing. To encourage sales throughout the promotional period, five weekly drawings offered players a chance to win up to \$10,000, along with an early bird incentive, in which seven players who entered the Playoff Bonus Drawing were given a chance to win up to \$20,000 on field at the College Football Playoff Semi-final in the Orange Bowl on New Year's Eve. In total, 1,552 Raffle winners received \$8.67 million in prizes.

Florida Lottery Draw games increased by almost \$250 million in FY 2015-16, eclipsing the \$2 billion mark for the first time in history. Draw game sales alone contributed more than \$824 million in revenue to education.

Scratch-Off Games: The Lottery launched 32 new Scratch-Off games with a variety of themes; colors; play styles; top prizes; and price points to appeal to Florida's unique and diverse population. Scratch-Off sales saw a robust increase of more than \$230 million compared to the previous year, or approximately a six percent increase. The Lottery achieved a record in fiscal year 2015-2016 for the fifth consecutive year with more than \$3.9 billion in total Scratch-Off sales. The increase in Scratch-Off sales contributed more than \$45 million in additional transfers to education.

In July, the Lottery offered the WEEK FOR LIFE family at the \$1, \$2, \$5 and \$10 price points, which accounted for over \$380 million in sales and contributed more than \$71 million to the Educational Enhancement Trust Fund (EETF). The WEEK FOR LIFE family of Scratch-Off games was supported by a second chance promotion that provided players an opportunity to enter their non-winning tickets for a chance to win up to \$50,000. The successful second chance promotion showed excellent engagement with an average of 48,000 unique players per drawing.

The Lottery introduced its newest \$20 game in September, \$5,000,000 FLAMINGO MULTIPLIER, which set a Florida Lottery record for the best single week by a \$20 Scratch-Off game with more than \$16 million in sales. In fiscal year 2015-2016, \$5,000,000 FLAMINGO MULTIPLIER produced more than \$339 million in sales and contributed more than \$63 million in contributions to the EETF.

In January, the Lottery capitalized on the appeal and popularity of \$5,000,000 FLAMINGO MULTIPLIER by offering a family of FLAMINGO MULTIPLIER Scratch-Off games at the \$1, \$2, \$5 and \$10 price points. Launching the family in January revived promotional support of the \$20 game, resulting in the FLAMINGO MULTIPLIER family accounting for more than \$591 million in Scratch-Off sales and generating more than \$111 million in revenue for education.

The Lottery launched \$5 WHEEL OF FORTUNE® in April of 2016, which went on to become one of the top-performing \$5 Scratch-Off tickets of all-time. After setting a record for the most sales by a \$5 game in a single week at more than \$7.6 million, WHEEL OF FORTUNE sustained momentum and brought in over \$60 million in sales during fiscal year 2015-2016. The game was supported by a second chance promotion which gave players an opportunity to win a grand prize VIP trip package to Hollywood to participate in a non-broadcast version of the popular Wheel of Fortune game show. The Lottery saw outstanding participation during the second chance promotion, as 774,000 tickets were entered by approximately 78,000 players through the drawing period.



ORGANIZATIONAL STRUCTURE

As required by subsection 24.105(4), Florida Statutes, the following information reflects the organizational structure of the Florida Lottery on June 30, 2016.

Office of the Secretary directs the operations of the Florida Lottery and is responsible for the effective management of the Lottery in accordance with directives identified in statutes and corresponding rules, policies and procedures.

Office of the General Counsel provides consultation, direction and representation in all legal matters affecting the Lottery.

Office of the Inspector General assists the Secretary with internal control systems necessary to ensure the fiscal accountability and integrity of the Lottery. The office is responsible for performing financial, compliance, and performance audits of the Lottery, and preparing audit reports of said findings and investigations.

Office of the Chief of Staff assists the Secretary in providing excellence in customer service, overall organization, direction, and coordination, both in day-to-day activities and in long-range planning.

- **Legislative Affairs** is responsible for promoting and securing the passage of the Secretary's and the Governor's legislative objectives by the Legislature.
- **Communications** promotes awareness of the Lottery's role in generating money to enhance public education in Florida. Communications also coordinates all Lottery activities with the news media, including spokesperson interviews, media inquiries, news conferences and press releases, and provides public relations support for new game launches, promotions and events. Communications is responsible for the Lottery's social media efforts, and produces official Lottery publications.
 - **Customer Service**, a unit within Communications, serves as the Lottery's direct liaison to players, responding to inquiries regarding games and various other facets of operations. It also manages customer correspondence via phone calls, emails and letters.
- **Security** provides security services for the Lottery, including protection of buildings and facilities, investigative activities and game draws. In addition, the Division of Security conducts background investigations for vendors, retailers and employees; manages the safety awareness program and the Lottery's continuity of operations plan (COOP).
 - **Investigations and Operations** monitors the physical security of all Lottery facilities and investigates security breaches. This unit also investigates problem claims and allegations of potential illegal activity, and is responsible for managing the draw process.
 - **Intelligence and Administrative Support** conducts background investigations on potential vendors, contractors, retailers and employees, and provides analytical support for other criminal investigations. This section provides maintenance and hardware support for the Integrated Security System and manages the agency's loss prevention program, which aids retailers in reducing ticket theft and informs the general public of Lottery-related scams and other fraudulent activity.
- **Human Resources** provides strategic leadership relative to employee recruitment, retention and training. The division administers a comprehensive human resources program including recruitment, selection, performance management, payroll, training, benefits, classification and pay, and attendance and leave.

Office of the Deputy Secretary of Administration assists the Secretary by managing programs aimed at increasing lottery sales, transfers to the Educational Enhancement Trust Fund and financial management strategy. This office is actively involved in strategic planning, IT and administrative support, and the financial management of the Florida Lottery

- **Procurement** provides strategic service in the acquisition of commodities and contractual services necessary in the operation of the Florida Lottery. Additional services include administering general and routine activities that result in the issuance of purchase orders and execution of contracts.

- **General Services** manages and administers the contract management process as well as provides resources in the monitoring of contract deliverables. It also provides direction to ensure the minority business community participates in the Lottery's procurement and contracting processes.
- **Support Services** provides the day-to-day operational services including facilities management, fleet management, property/ inventory control, warehousing operations, records management and mail operations. The unit oversees janitorial and other administrative contracted services.
- **Finance and Budget** assists the Secretary by providing fiscal direction for the Lottery to grow responsibly in a profitable and sustainable manner. The division oversees the development and monitoring of the budget, all financial reporting, disbursements and monitoring of cash flows.
 - **The Budget unit** prepares the annual legislative budget request and any necessary budget amendments for the Lottery, monitors expenditures to ensure budgetary compliance, and coordinates the development of the Lottery's long-range program plan.
 - **Financial Reporting** is responsible for the production and distribution of all financial reports. The unit produces the statutorily required monthly financial report and annual financial statements, and all schedules and reports required for the Florida Comprehensive Annual Financial Report.
 - **Vendor Disbursements** is responsible for making payments to vendors supplying goods and services to the Lottery.
 - **Cash Management Unit** is responsible for coordinating all cash activities. This includes collecting funds from retailers, covering required disbursements, coordinating all banking activities and managing all investments.
- **Retailer Contracting** evaluates and approves retailer applications and enters into contracts with retailers that will best serve the public interest and provide adequate and convenient availability of Lottery tickets. The unit directly supports the Lottery's efforts in the recruitment and retention of retailers. Through its application and contract renewal process, this unit evaluates the integrity and financial responsibility of all Lottery retailers. The unit is also responsible for collection efforts by tracking retailer payment delinquencies and coordinating financial reviews of retailers, as necessary.
- **Claims Processing** processes the prize payments of tickets submitted to Lottery headquarters, assists district offices with the payment of prizes presented at those offices, and coordinates all tax withholding and reporting requirements with the Internal Revenue Service.
- **Information Security Management (ISM)** develops and coordinates information security infrastructure and programs to provide protection and ensure integrity for the computers, data and networks.
- **Information Resources** provides strategic and automated solutions to fulfill the Lottery's business needs through efficient and effective development and deployment of the Lottery's information technology resources, including optimizing the sale of Lottery tickets and ultimately enhancing contributions to education. Operations consists of the following units:
 - **Software and Data Services** automates and improves the Lottery's business processes by building information applications that enable and optimize the development of new Lottery products, payment of winners, electronic payment by retailers, retailer incentive programs and other mission-critical initiatives.
 - **Software Quality Assurance** is responsible for researching gaming system functional requirements and performing user acceptance testing on all gaming system software prior to implementation.
 - **Systems and Operations Services** maintains a secure, power redundant data center environment, provides telecommunications systems and services, and provides desktop computing and technology infrastructure services for the Lottery. This unit also maintains the Lottery's Information Technology Disaster Recovery plan.
 - **Games Administration** manages all retailer accounting and systems related to game transactions, including ticket inventory. The unit coordinates all terminal gaming functions for Lottery Draw games, including closing games for draws, entering the winning numbers into the gaming system, and setting the games to pay winners. Games Administration serves as the system coordinator and liaison to all Lottery retailers.

Director of Sales assists the Secretary by increasing sales statewide through effective product development and research, along with the implementation of a strong sales and marketing plan.

- **Division of Sales** plans effective sales strategies and training in advance of all new product launches, in addition to overseeing the activities of, and disseminating policies and procedures to, the nine statewide district offices.
 - **Corporate Sales** is responsible for the growth and development of the Lottery's corporate business. The unit serves as a liaison between Lottery and main corporate offices of retailers statewide.
 - **District Offices** manage the sale, promotion and redemption of Lottery products through a statewide network of more than 13,000 Lottery retailers. In addition to the office management staff, each of the nine district offices employs a staff of sales representatives who assist in the promotion and sale of Lottery products at the retail level.
 - **ADA Office** ensures that all policies and directives relating to the Americans with Disabilities Act (ADA), as they pertain to Lottery retailers, are implemented and upheld.
 - **Product Development and Research** provides direction, oversight and evaluation of daily business functions related to research, product development and business development with the primary focus of managing programs aimed at increasing Lottery sales and transfers to the Educational Enhancement Trust Fund.
 - **Research** initiates and oversees consumer market studies primarily contracted through the Lottery's research vendor of record. The unit's projects center on consumer, retailer, retail environment and advertising campaign analysis. The unit also provides valuable data used to determine products to be developed, revenue forecasting and overall program effectiveness.
 - **Product Development** provides direction and oversight in the creation, design, development and management of Lottery Draw and Scratch-Off products.
- Brand Management** oversees all areas relating to the promotion and sale of Lottery products, strategic alliance partnerships, marketing, graphics and special events and promotions.
- **Advertising** drives sales by supporting product launches and bringing awareness to Lottery products and contributions to education. The Lottery's advertising is designed to not only inform and persuade the general public to purchase available products, but to also generate increased purchases of Lottery games over time through strategic "branding" efforts. In addition to traditional radio and television media buys in the General, Hispanic and Haitian markets, the Lottery advertises on static and digital billboards, on social media, and has a presence on nightly Draw television carrier stations.
 - **Strategic Alliance** drives the growth of the Lottery beyond its core business, and initiates and manages key promotional business and marketing initiatives. Responsibilities also include identifying, evaluating, negotiating, and implementing new strategic alliances and corporate sponsorships.
 - **Graphics** provides overall art design and direction for the Lottery, including quality control for Scratch-Off ticket design, logo usage, publications, promotional items and graphic presentations.
- Special Events** increases the awareness of Lottery products and contributions to education through special promotions, promotional merchandise and participation in special events in communities throughout Florida. Responsibilities include off-site, live game drawings, retailer promotions and Lottery Showwan scheduling.



FINANCIAL STATEMENTS

FISCAL YEARS ENDED JUNE 30, 2016, AND 2015



Sherrill F. Norman, CPA
Auditor General

AUDITOR GENERAL STATE OF FLORIDA

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Tallahassee, Florida 32399-1450



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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Department of the Lottery (Lottery), an enterprise fund of the State of Florida, as of and for the fiscal years ended June 30, 2016, and 2015, 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, 2016, and 2015, 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, 2016, and 2015, 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 Note 1.U., the Lottery adopted the provisions of Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements. Adoption of this statement resulted in additional disclosures related to fair value hierarchy and pricing sources in the notes to the financial statements. 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 27 through 32) and schedules of the Lottery's proportionate share of the net pension liability and contributions (page 57) be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lottery's basic financial statements. The Message from the Governor, Message from the Secretary, Contributions to Education, Celebrating Milestones: A Year in Review, Strategic Alliance Partnerships and Promotions, Special Events, Winning Moments, Enhancing Business Partnerships, Product Development, and Organizational Structure on pages 3 through 20 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Message from the Governor, Message from the Secretary, Contributions to Education, Celebrating Milestones: A Year in Review, Strategic Alliance Partnerships and Promotions, Special Events, Winning Moments, Enhancing Business Partnerships, Product Development, and Organizational Structure 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 attestation standards established by the American Institute of Certified Public Accountants and applicable *Government Auditing Standards*, we have also issued a report on our examination 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**. As noted by that report dated January 25, 2017, we have examined, in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements in *Government Auditing Standards*, the Lottery's internal control over financial reporting as of June 30, 2016, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and expressed an unqualified opinion. 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
January 25, 2017
Audit Report No. 2017-103

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, 2016, and 2015. We encourage readers to consider the information presented here in conjunction with the financial statements and notes to the financial statements, which begin on page 34.

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-seventh consecutive fiscal year, with the past four fiscal years exceeding \$5 billion. During the same twenty-seven year period, the transfer to the Educational Enhancement Trust Fund (EETF) has been a minimum of \$800 million annually, with the fiscal year 2016 transfer exceeding \$1 billion for the fourteenth consecutive year.

For the fiscal year ended June 30, 2016:

- Transfers to the EETF were approximately \$1.69 billion this fiscal year compared to \$1.50 billion in the prior fiscal year.
- The Lottery's ticket sales increased by 8.58 percent over the prior fiscal year from approximately \$5.58 billion to \$6.06 billion.
- Approximately 65.23 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 \$241.03 million, which represents a 6.64 percent increase during fiscal year 2016. 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 63.82 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 2016 expenses for these items increased 8.04 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 \$4.42 million. Administrative operating expenses for fiscal years 2016 and 2015 were \$80.12 million and \$75.70 million, respectively.
- Nonoperating income increased \$25.51 million over the prior fiscal year. The increase was primarily due to an increase of \$21.64 million in the fair value of investments.
- EETF transfers from unclaimed prize money increased \$21.09 million over the prior fiscal year. Transfers from unclaimed Draw games increased \$2.04 million while transfers from unclaimed Scratch-Off games increased \$19.05 million compared to fiscal year 2015. This increase can be attributed to the fact that during fiscal year 2016 the Lottery closed 36 games compared to 18 games closed during fiscal year 2015.

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 34, the Statements of Revenues, Expenses, and Changes in Net Position on page 35, and the Statements of Cash Flows on page 36 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 2016, 2015, and 2014.

Table 1 | Condensed Statements of Net Position | As of June 30, 2016, 2015, and 2014 | (In Thousands)

	2016	2015	2014
Current Assets	\$ 302,231	\$ 205,746	\$ 175,627
Restricted Assets	399,191	732,727	841,406
Capital Assets, Net of Depreciation	6,106	5,820	4,243
Total Assets	707,528	944,293	1,021,276
Total Deferred Outflows of Resources	5,007	3,969	-
Current Liabilities	298,831	206,321	167,804
Current Liabilities Payable from Restricted Assets	43,294	383,503	450,147
Noncurrent Liabilities	260,801	271,186	305,664
Total Liabilities	602,926	861,010	923,615
Total Deferred Inflows of Resources	2,179	5,709	-
Net Position:			
Net Investment in Capital Assets	6,106	5,820	4,243
Restricted Net Position	121,932	95,094	93,418
Unrestricted Net Position	(20,608)	(19,371)	-
Total Net Position	\$ 107,430	\$ 81,543	\$ 97,661

FINANCIAL ANALYSIS

Assets

Total assets at the end of fiscal year 2016 decreased \$236.76 million from \$944.29 million at June 30, 2015, to \$707.53 million at June 30, 2016. At the end of fiscal year 2015, total assets were \$76.98 million less than the \$1.02 billion at the end of fiscal year 2014.

- Current assets increased from \$205.75 million in 2015 to \$302.23 million in 2016, representing an increase of \$96.48 million. The increase was primarily due to an increase of \$129.31 million in cash and cash equivalents for fiscal year 2016 experienced with the increased cash flows from a record setting Powerball® jackpot in January of 2016.

(See Financial Analysis, Sales section of the MD&A for additional details.)

- Restricted assets decreased \$333.54 million from \$732.73 million in 2015 to \$399.19 million in 2016. The decline came with the Lottery's decision to cease participation in the securities lending program in May of 2016. A continued decline in grand prizewinners choosing the annuity option led to a sustained reduction in the size of the portfolio of investments available for loan. This caused a steady decline in the return on investments. It was determined that the benefits no longer offset the risks associated with participation. (See Note 2 to the financial statements for additional details.)

- The Lottery held \$317.06 million in invested collateral and time deposits at June 30, 2015, and \$363.98 million at June 30, 2014.

Deferred Outflows of Resources

Total deferred outflows of resources as of June 30, 2016, were \$5.01 million reflecting an increase of \$1.04 million over the June 30, 2015 amount of \$3.97 million for pension related items.

(Refer to Note 9 to the financial statements for additional details.)

Liabilities

Total liabilities at June 30, 2016, were \$602.93 million, which was approximately \$258.08 million lower than the total liabilities of \$861.01 million at June 30, 2015. The total liabilities at June 30, 2015, were \$62.61 million lower than the June 30, 2014, amount of \$923.62 million.

- Current liabilities increased by \$92.51 million from \$206.32 million on June 30, 2015, to \$298.83 million on June 30, 2016. This increase can be attributed to the increase in the amount owed to the EETF. The current liabilities payable from restricted assets decreased \$340.21 million from \$383.50 million at June 30, 2015, to \$43.29 million at June 30, 2016. This decrease is also related to the Lottery no longer participating in securities lending. The current portion of grand prizes payable decreased by \$23.12 million. At June 30, 2015, current liabilities payable from restricted assets balance of \$383.50 million was \$66.65 million less than the balance of \$450.15 million at June 30, 2014.

- Noncurrent liabilities principally consist of the long-term portion of grand prizes payable, which represents the amount to be paid to grand prizewinners in future years. Correlative to current grand prizes payable, the long-term grand prizes payable decreased \$16.19 million from June 30, 2015, to June 30, 2016, and decreased \$44.31 million from June 30, 2014, to June 30, 2015.

Deferred Inflows of Resources

Total deferred inflows of resources as of June 30, 2016, were \$2.18 million reflecting a decrease of \$3.53 million over the June 30, 2015, amount of \$5.71 million for pension related items.

(Refer to Note 9 to the financial statements for additional details.)

Net Position

Net position increased \$25.89 million from June 30, 2015, to June 30, 2016. Net position at June 30, 2016, 2015, and 2014 were \$107.43 million, \$81.54 million, and \$97.66 million, respectively. The increase at June 30, 2016, can be attributed to a \$19.07 million increase in the amount restricted for undistributed appreciation on restricted investments. The increase is due to the increase in the fair market value of both the grand prize investments held by the Lottery and investments held at the State Treasury. There was also a \$6.74 million increase in the amount restricted for future prizes or special prize promotions.

The Lottery joined MUSL seven 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 \$22.79 million and \$21.77 million as of June 30, 2016, and June 30, 2015, 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, 2016, and the prior fiscal years ended June 30, 2015, and June 30, 2014, 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 | As of June 30, 2016, 2015, and 2014 | (In Thousands)

	2016	2015	2014
Operating Revenues:			
Ticket Sales	\$ 6,062,354	\$ 5,583,331	\$ 5,368,230
Bad Debt Expense	(1,487)	(1,263)	(1,337)
Terminal & Retailer Fees and Miscellaneous	7,620	7,652	7,817
Total Operating Revenues	6,068,487	5,589,720	5,374,710
Operating Expenses:			
Prizes	3,868,970	3,627,939	3,431,092
Retailer Commissions	337,007	311,981	298,651
Vendor Commissions	88,241	81,635	77,052
Other Expenses	80,121	75,696	74,528
Total Operating Expenses	4,374,339	4,097,251	3,881,323
Income from Operations	1,694,148	1,492,469	1,493,387
Nonoperating Revenue, Net of Expenses	24,290	(1,218)	(5,618)
Income Before Operating Transfers	1,718,438	1,491,251	1,487,769
Total Transfers to EETF	(1,692,551)	(1,496,371)	(1,495,409)
Change in Net Position	25,887	(5,120)	(7,640)
Net Position, Beginning Restated	81,543	86,663	105,301
Net Position, End of Year	\$ 107,430	\$ 81,543	\$ 97,661

FINANCIAL ANALYSIS

Sales

For the fiscal year ended June 30, 2016, ticket sales increased by \$479.02 million over fiscal year 2015, which experienced a sales increase of \$215.10 million over fiscal year 2014. The Draw game ticket sales increased 13.36 percent from the prior year. The Lottery not only continued to utilize proven techniques, but also created new promotions for players.

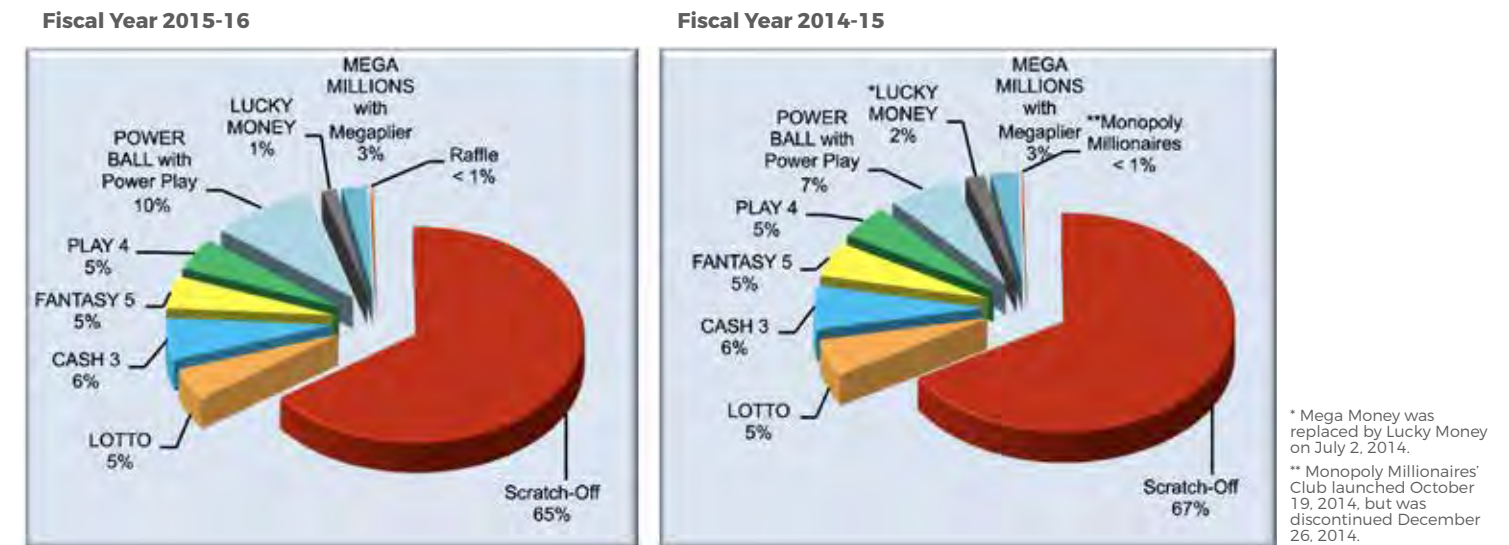
- Powerball sales increased from \$375.06 million in fiscal year 2015 to \$602.00 million in fiscal year 2016. This increase can be attributed to a record-setting \$1.59 billion Powerball jackpot in which a Florida player was one of three nationally to win.
- The daily games, CASH 3™ and PLAY 4™, reflect an increase with combined sales for fiscal year 2016 reaching \$671.41 million or 4.99 percent over the prior year.
- The 500 Full Service Vending Machines (FSVMs) used during the 2016 fiscal year reflected an increase in sales of \$36.52 million or 14.19% over the prior fiscal year.

Sales of Scratch-Off tickets increased \$230.71 million from \$3.72 billion sales in fiscal year 2015 to \$3.95 billion sales in fiscal year 2016.

- Scratch-Off ticket sales experienced an increase of 6.20 percent over prior year sales with increases being reflected in most price points. The largest increase was seen in the \$5 price point. The \$5 price point was dominated by the \$2,500 A Week for Life ticket with sales totaling \$106.54 million.
- Instant Ticket Vending Machines (ITVMs) have proven successful in increasing the visibility of Scratch-Off ticket products and offering a convenience to players. There were 1,500 machines in use during the year contributing \$333.30 million to Scratch-Off sales.

Bad debt expense is reported as a reduction in gross revenue in accordance with Governmental Accounting Standards Board requirements. The amount of bad debt expense for the fiscal years ended June 30, 2016, and 2015, was \$1.49 million and \$1.26 million, respectively.

The following charts show sales by product for the various Lottery games during the fiscal years 2016 and 2015:



* Mega Money was replaced by Lucky Money on July 2, 2014.
 ** Monopoly Millionaires Club launched October 19, 2014, but was discontinued December 26, 2014.

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

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

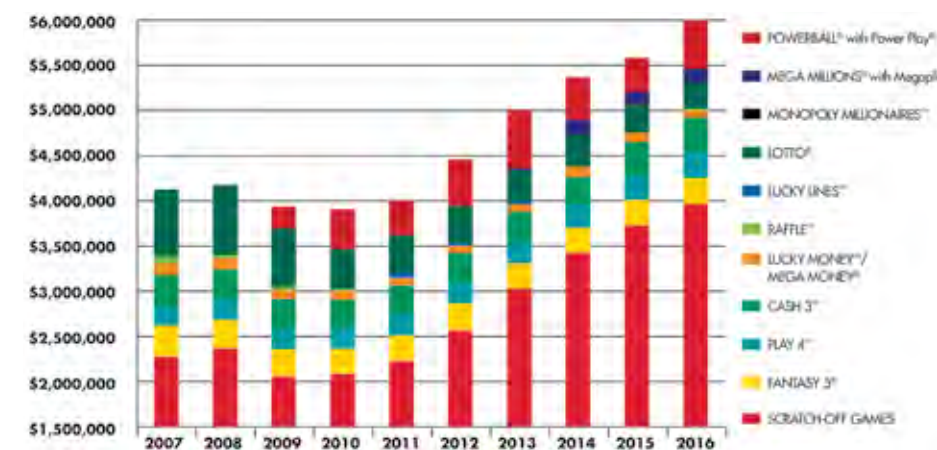


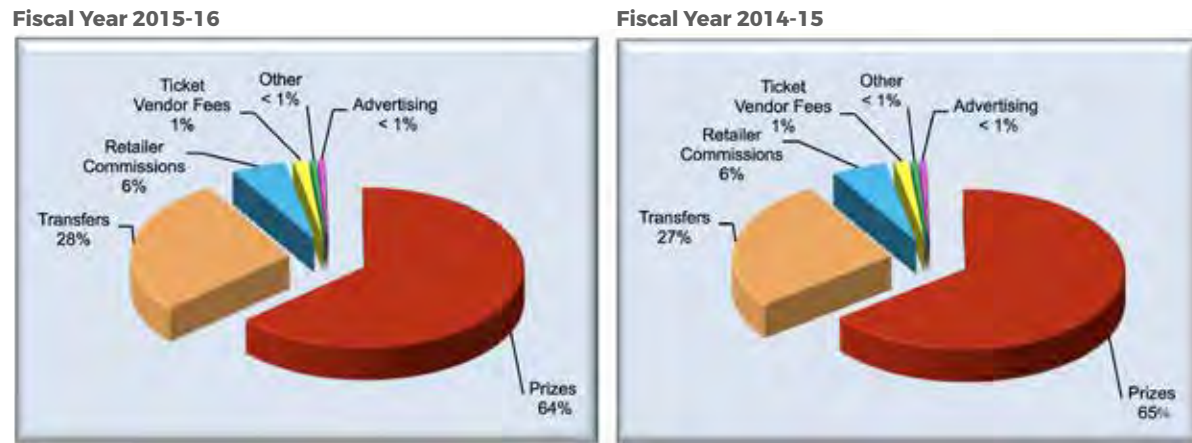
Table 3 | Department of the Lottery | Historical Lottery Sales by Game | Last Ten Fiscal Years | (In Thousands)

Fiscal Year Ended June 30	LOTTO	FANTASY 5	PLAY 4	CASH 3	LUCKY MONEY / MEGA MONEY	RAFFLE	LUCKY LINES	POWERBALL with Power Play	MEGA MILLIONS with Megaplier	Monopoly Millionaires	Scratch-Off	Combined Sales
2007	\$ 735,585	\$ 326,241	\$ 225,285	\$348,694	\$ 130,142	\$72,549	\$ -	\$ -	\$ -	\$ -	\$ 2,283,620	\$4,122,116
2008	778,954	309,445	227,940	336,096	122,742	30,818	-	-	-	-	2,368,781	4,174,776
2009	650,603	287,285	238,957	320,157	102,190	41,314	-	233,396	-	-	2,064,135	3,938,037
2010	445,881	281,963	235,027	304,039	92,060	29,334	-	434,062	-	-	2,078,133	3,900,499
2011	411,389	282,777	235,692	313,270	88,971	12,603	45,369	392,969	-	-	2,225,676	4,008,716
2012	419,040	290,672	244,711	314,747	92,346	-	17,692	503,697	-	-	2,566,991	4,449,896
2013	352,375	281,492	244,141	324,539	89,500	12,879	8,582	654,263	16,698	-	3,028,527	5,012,996
2014	349,114	288,237	257,752	339,636	79,483	-	-	469,292	167,573	-	3,417,143	5,368,230
2015	300,961	287,803	276,217	363,251	103,196	-	-	375,057	147,370	5,481	3,723,995	5,583,331
2016	291,382	296,307	291,651	379,757	84,881	11,724	-	602,001	149,950	-	3,954,701	6,062,354

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 2016 and 2015 fiscal years:



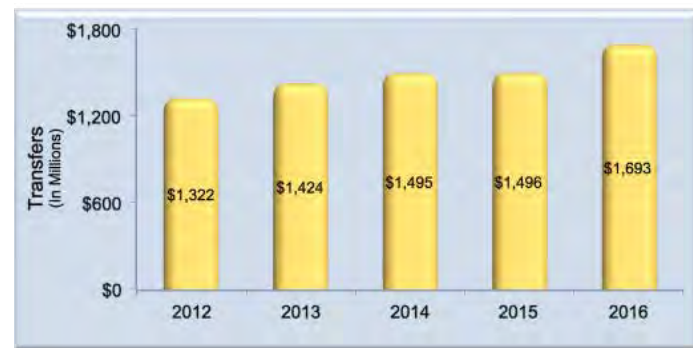
Prizes, commissions, and gaming vendor fees are directly related to sales and fluctuate accordingly. In fiscal year 2016, these expenses changed proportionally; yet as a percentage of total expenses they remained constant. The other expenses, which consisted of advertising, salary and benefits, professional fees, rent, maintenance, and depreciation, increased slightly. Fiscal year 2016 and 2015 administrative expenses were \$80.12 million and \$75.70 million, respectively.

Transfers

Since its inception, the Lottery's total transfers to the EETF were \$30.13 billion. The Lottery's contribution to the EETF for fiscal year ended June 30, 2016, was \$1.69 billion. The Lottery has contributed over \$1 billion for the fourteenth consecutive year.

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

Department of the Lottery | Transfers to the EETF | (In Millions)



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 5.6 percent in fiscal year 2015 to 4.7 percent during fiscal year 2016. In fiscal year 2016, Lottery sales exceeded \$6.06 billion, setting new sales records for Draw, 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
FISCAL YEARS ENDED JUNE 30, 2016, AND 2015

Department of the Lottery | Statements of Net Position | As of June 30, 2016, and June 30, 2015 | (In Thousands)

	June 30, 2016	June 30, 2015
Assets		
Current Assets:		
Cash and cash equivalents	\$ 266,010	\$ 136,697
Interest receivable	423	62
Accounts receivable, net	31,924	65,645
Prepaid expenses	21	148
Inventories	1,485	1,090
Security deposits	2,368	2,104
Total Current Assets	302,231	205,746
Noncurrent Assets:		
Restricted Assets		
Cash and cash equivalents	28,268	35,159
Securities lending income receivable	-	76
Deposit with MUSL	22,793	21,766
Investments, grand prize	348,130	372,266
Investments, security lending collateral	-	303,460
Total Restricted Assets	399,191	732,727
Capital assets, net	6,106	5,820
Total Noncurrent Assets	405,297	738,547
Total Assets	707,528	944,293
Deferred Outflows of Resources		
Pension related items	5,007	3,969
Total Deferred Outflows of Resources	5,007	3,969
Liabilities		
Current Liabilities:		
Accounts payable and accrued liabilities	6,138	7,729
Prizes payable	131,094	128,514
Due to Educational Enhancement Trust Fund	158,551	67,371
Deposits payable	2,445	2,106
Compensated absences payable	384	409
Net pension liability	219	192
Total Current Liabilities	298,831	206,321
Current Liabilities Payable from Restricted Assets:		
Securities lending fees payable	-	47
Obligations under securities lending	-	317,044
Grand prizes payable	43,294	66,412
Total Current Liabilities Payable from Restricted Assets	43,294	383,503
Noncurrent Liabilities:		
Grand prizes payable from restricted assets	237,968	254,154
Compensated absences payable	3,456	3,455
Net pension liability	12,694	8,492
Other long-term liabilities	6,683	5,085
Total Noncurrent Liabilities	260,801	271,186
Total Liabilities	602,926	861,010
Deferred Inflows of Resources		
Pension related items	2,179	5,709
Total Deferred Inflows of Resources	2,179	5,709
Net Position		
Invested in capital assets	6,106	5,820
Restricted for undistributed appreciation on restricted investments	70,871	51,800
Restricted for MUSL	22,793	21,766
Restricted for future prizes or special prize promotions	28,268	21,528
Unrestricted	(20,608)	(19,371)
Total Net Position	\$ 107,430	\$ 81,543

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

Department of the Lottery | Statements of Revenues, Expenses, and Changes in Net Position | For The Years Ended June 30, 2016, and June 30, 2015 | (In Thousands)

	June 30, 2016	June 30, 2015
Operating Revenues		
Ticket sales	\$ 6,062,354	\$ 5,583,331
Bad debt expense	(1,487)	(1,263)
Terminal fees and miscellaneous	7,439	7,456
Retailer fees	181	196
Total Operating Revenues	6,068,487	5,589,720
Operating Expenses		
Prizes	3,868,970	3,627,939
Retailer commissions	337,007	311,981
Scratch-Off tickets	55,591	51,665
Draw games	32,650	29,970
Advertising	41,180	37,513
Personal services	28,379	27,320
Other contractual services	7,941	8,344
Materials and supplies	1,662	2,078
Depreciation	959	441
Total Operating Expenses	4,374,339	4,097,251
Operating Income	1,694,148	1,492,469
Nonoperating Revenues (Expenses)		
Interest	4,695	4,032
Securities lending income	1,163	997
Securities lending fees	(645)	(505)
Investment management fees	(405)	(370)
Net appreciation (depreciation) in fair value of investments	34,246	12,604
Property disposition (loss)	15	64
Amortization of grand prizes payable	(14,779)	(18,040)
Total Nonoperating Revenues (Expenses), Net	24,290	(1,218)
Income Before Operating Transfers	1,718,438	1,491,251
Transfers to Educational Enhancement Trust Fund	(1,692,551)	(1,496,371)
Change in Net Position	25,887	(5,120)
Net Position, Beginning of Year, as originally reported	81,543	97,661
Implementation effect of GASB Statement No. 68	-	(10,998)
Net Position, Beginning Restated	81,543	86,663
Net Position, End of Year	\$ 107,430	\$ 81,543

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

Department of the Lottery | Statements of Cash Flows | For The Years Ended June 30, 2016, and June 30, 2015 | (In Thousands)

	June 30, 2016	June 30, 2015
Operating Activities		
Ticket sales	\$ 6,094,588	\$ 5,563,425
Prizes paid to winners	(3,867,418)	(3,605,452)
Commissions paid and payments to retailers	(337,007)	(311,981)
Paid to vendors for goods and services	(141,026)	(126,956)
Paid to employees	(27,001)	(26,622)
Other operating revenue	7,695	7,652
Net Cash Provided by Operating Activities	<u>1,729,831</u>	<u>1,500,066</u>
Noncapital Financing Activities		
Payments to Educational Enhancement Trust Fund	(1,601,371)	(1,484,409)
Net Cash Used in Noncapital Financing Activities	<u>(1,601,371)</u>	<u>(1,484,409)</u>
Capital and Related Financing Activities		
Purchase of capital assets	(1,229)	(1,954)
Net Cash Used in Capital and Related Financing Activities	<u>(1,229)</u>	<u>(1,954)</u>
Investing Activities		
Cash received from maturity of grand prize investments	66,419	86,154
Cash paid to grand prizewinners upon maturity of grand prize investments	(66,419)	(86,154)
Security lending	(13,600)	(1,400)
Investment income, net of fees	8,791	4,315
Net Cash Provided by Investing Activities	<u>(4,809)</u>	<u>2,915</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>122,422</u>	<u>16,618</u>
Cash and Cash Equivalents, Beginning of Year	171,856	155,238
Cash and Cash Equivalents, End of Year	<u>\$ 294,278</u>	<u>\$ 171,856</u>
Reconciliation of Income from Operations to Net Cash Provided by Operating Activities:		
Income from operations	\$ 1,694,148	\$ 1,492,469
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	959	441
Changes in assets and liabilities		
(Increase) decrease in:		
Accounts receivable	32,505	(21,258)
Inventories	(394)	645
Prepaid expenses	127	(140)
Increase (decrease) in:		
Allowance for uncollectible accounts	(75)	779
Accounts payable and accrued liabilities	(1,253)	2,103
Prizes payable	2,579	24,436
Compensated absences payable	(23)	90
Net pension liability and related deferred outflows and inflows	(339)	(575)
Postemployment healthcare benefits payable	1,597	1,076
Net Cash Provided by Operating Activities	<u>\$ 1,729,831</u>	<u>\$ 1,500,066</u>
Noncash Investing, Capital and Financing Activities:		
Increase/(decrease) in fair value of investments	\$ (6,655)	\$ (42,047)

The notes to 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, and related assets and liabilities 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, repurchase agreements with financial institutions, petty cash, balances held by the State Board of Administration (SBA), and pooled investments in the State Treasury.

E. Investments

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

F. Allowance for Doubtful Accounts

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

G. Inventories

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

H. Prepaid Expenses

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

I. Capital Assets

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

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

When capital assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the Statements of Revenues, Expenses, and Changes in Net Position in the period of disposal. (See Note 5 for more detailed information on capital assets.)

J. Deferred Outflows of Resources

A consumption of net assets by the government that is applicable to a future reporting period is presented as a deferred outflow of resources.

K. Long-Term Liabilities

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

L. Compensated Absences

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

M. Deferred Inflows of Resources

A deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period.

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 \$85 million per occurrence for named windstorm and flood losses and \$200 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, 2016, and June 30, 2015, was \$1,487,000 and \$1,263,000, respectively.

U. Accounting Changes

The Lottery implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. Adoption of this statement also resulted in retrospective application to fiscal year 2015. This resulted in additional disclosures related to fair value hierarchy and pricing sources as prescribed by the standard. (See Note 2 for further detail.)

V. Unrestricted Net Position Deficit

The unrestricted net position deficit of \$20,608,000 includes the cumulative effect of the Lottery's postemployment healthcare benefits, compensated absences, and net pension liabilities, along with the deferred outflows of resources and deferred inflows of resources for pension related items. As a result of these items being recorded for reporting purposes only and being excluded from the calculation of transfers to the EETF, the effect is a deficit balance in unrestricted net position.

2. CASH AND INVESTMENTS**A. Cash and Cash Equivalents**

Cash is held in demand deposits at various financial institutions. These deposits, with a book value of approximately \$350,000 at June 30, 2016, and \$514,000 at June 30, 2015, 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 \$157,000 at June 30, 2016, and \$1,019,000 at June 30, 2015, 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 \$293,927,000 and \$157,742,000 at June 30, 2016, and 2015, 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 takes into account all changes in fair value that occurred during the year, including purchases, maturities, and sales.

C. Investments, Security Lending Collateral

These investments consisted of the fair value of investments made with cash collateral held by the SBA on the Lottery's behalf as part of a securities lending program.

The SBA, authorized by Section 215.47, Florida Statutes, participated in a security lending program involving grand prize investments. The Lottery, through the SBA, loaned various securities to borrowers for collateral with a simultaneous agreement to return collateral for the same securities in the future. Collateral received from borrowers was in the form of cash or U.S. Government securities. The SBA was contractually limited from pledging or selling collateral except in the event of borrower default. The contract with the lending agent required it to indemnify the SBA if the borrowers fail to return the underlying securities or fail to pay income distributions on them. No significant violations of legal or contractual provisions occurred, and no losses resulted from borrower or lending agent defaults during fiscal years 2015 and 2016.

The Bank of New York Mellon (Mellon) was the agent for lending U.S. Treasury securities to various authorized brokers for cash or U.S. Government securities. Initially, collateral received was to be in the form of cash at 100 percent, or other securities valued at 102 percent, of the fair value of the securities loaned as required by the lending agreement. Borrowers were to be approved for lending by Mellon's credit department. Mellon monitored the fair value of collateral provided and the securities on loan on a daily basis. Additional collateral was to be required if the fair value of the collateral for any loan was less than 100 percent of the fair value of the securities provided for such loan.

The Lottery ceased participation in the securities lending program in May of 2016. This was primarily due to the continued decline in grand prizewinners choosing the annuity option which led to a sustained reduction in the size of the portfolio of investments available for loan. As a result, the return on investment continued to steadily decline. Considering the lower income potential, it was determined that the benefits no longer outweighed the risks associated with participation in the program.

A risk factor associated with the lending agreement was the potential for declines in the value of the invested holdings purchased with the cash collateral. Other risk factors associated with security lending include counterparty default and failure of the custodial bank to indemnify the Lottery. Upon liquidation, any shortfall between the value of the investments and the securities lending obligation would have been the responsibility of the Lottery. As of June 30, 2015, the unrealized shortfall was \$13,100. As of June 30, 2016, there were no outstanding loans of securities or collateral obligations. The gain realized upon liquidation was \$77,000. The SBA received \$317,044,000 of cash collateral for the lending program as of June 30, 2015. At June 30, 2015, the collateral that was held for the securities lending transactions exceeded the fair value of the securities underlying the agreements (including accrued interest). The cash was invested in securities authorized by the lending agreement. Authorized securities included primarily certificates of deposit, corporate and medium term

notes, asset backed securities, and repurchase agreements. The invested cash collateral generally had a shorter maturity than the securities on loan.

Securities lending income and expenses for the year ended June 30, 2016, and 2015, consisted of (in thousands):

	2016	2015
Securities lending income	\$ 1,163	\$ 997
Less broker rebates	(568)	(447)
Less bank fees	(77)	(58)
Net securities lending revenue	\$ 518	\$ 492

D. Investment Credit Risk

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

Listed below are Standard and Poor's (S&P) credit ratings for the lending program's invested cash collateral (in thousands):

As of June 30, 2015:

Credit Ratings ⁽¹⁾	Total	Certificates of Deposit	Commercial Paper	Domestic Corporate Bonds & Notes	Domestic Non-Government Asset-backed Securities	International Corporate Bonds & Notes	Repurchase Agreements ⁽²⁾
AAA	\$ 45,070	\$ -	\$ -	\$ 4,400	\$ 40,670	\$ -	\$ -
AA	54,457	8,099	-	25,130	-	18,306	2,922
A	14,308	-	-	14,308	-	-	-
A-1	3,099	-	3,099	-	-	-	-
Not Rated	75,232	24,000	-	-	26,479	-	24,753
	192,166	\$ 32,099	\$ 3,099	\$ 43,838	\$ 67,149	\$ 18,306	\$ 27,675
Not Rated ⁽²⁾	111,294	Repurchase agreements					
	<u>\$ 303,460</u>	<u>Total</u>					

Notes: (1) Ratings for investments are presented using S&P credit ratings. If S&P did not rate a security, including the collateral underlying repurchase agreements, the investments were presented as "Not Rated."
(2) Collateral for repurchase agreements which are explicitly guaranteed by the U.S. Government do not require disclosure of credit quality.

The State Treasury Investment Pool's current rating by S&P is A+f as of June 30, 2016.

E. 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, 2016		As of June 30, 2015	
Time to Maturity	Fair Value	Time to Maturity	Fair Value
< 1 year	\$ 45,503	< 1 year	\$ 66,412
> 1 year to 3 years	46,319	> 1 year to 3 years	69,793
> 3 years to 5 years	39,466	> 3 years to 5 years	37,425
> 5 years to 10 years	96,913	> 5 years to 10 years	85,887
> 10 years to 15 years	83,622	> 10 years to 15 years	83,095
> 15 years to 20 years	19,187	> 15 years to 20 years	16,003
> 20 years to 25 years	12,471	> 20 years to 25 years	9,134
> 25 years	4,649	> 25 years	4,517
Total	\$ 348,130	Total	\$ 372,266

The Lottery previously contracted with the SBA to execute the securities lending program. The securities lending authorization agreement between Mellon and the SBA required that the maximum weighted average portfolio maturity not exceed 90 days. The lending program invested a significant amount of its assets in floating rate securities and limited the maximum reset period for interest rate changes to six months. Next reset dates were used in the calculation of weighted average maturity.

Listed below are the weighted average maturities for the lending program's invested cash collateral for fiscal year 2015:

Investment Type	June 30, 2015	
	Fair Value (Thousands)	Weighted Average Maturity (Days)
Certificates of Deposit	\$ 32,099	55
Commercial Paper	3,099	59
Domestic Corporate Bonds & Notes	43,838	46
Domestic Non-government		
Asset-backed Securities	67,149	19
International Corporate Bonds & Notes	18,306	60
Repurchase Agreements	138,969	1
Total Fair Value	\$ 303,460	
Portfolio weighted average maturity		21

The effective duration of the State Treasury Investment Pool at June 30, 2016, and June 30, 2015, was approximately 2.61 years and 2.67 years, respectively.

F. Investment Concentration of Credit Risk

Since all long-term investments (other than in the securities lending program) are in U.S. Government guaranteed securities, the Lottery has not adopted a policy regarding concentration of credit risk. The securities lending program established investment concentration of credit risk policies that limited the aggregate exposure to any one issuer or guarantor that is not the U.S. Government or guaranteed by the U.S. Government to 10 percent of the book value of the lending program's invested cash collateral. No invested cash collateral exceeded the 10 percent limitation.

G. 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. The custodian for the SBA-administered lending program was also the counterparty to the investment transactions. Therefore, the amount of investments subject to investment custodial credit risk at June 30, 2015, was \$303,460,000.

At June 30, 2016, and June 30, 2015, all non-lending 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.

H. Foreign Currency Risk

The Lottery had no exposure to foreign currency risk as of June 30, 2016, and June 30, 2015.

I. 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 and investments loaned under securities lending agreements by fair value hierarchy level at June 30 (in thousands):

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

	June 30, 2015	Fair Value Measurements Using		
		Quoted prices in active market for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Investments by fair value level:				
Debt securities:				
U.S. Treasury Strips	\$ 372,266	\$ 367,374	\$ 4,892	\$ -
Pooled Investments with State Treasury	157,742	-	-	157,742
Invested lending collateral:				
Debt securities				
Certificates of Deposit	32,099	-	32,099	-
Commercial Paper	3,099	-	3,099	-
Domestic Corporate Bonds & Notes	43,838	-	43,838	-
Domestic Non-government Asset-backed Securities	67,149	-	67,149	-
International Corporate Bonds & Notes	18,306	-	18,306	-
Total debt securities measured at fair value	<u>\$ 694,499</u>	<u>\$ 367,374</u>	<u>\$ 169,383</u>	<u>\$ 157,742</u>

J. Investment Summary

The following schedule summarizes all investments and investments loaned under securities lending agreements at June 30 (in thousands):

Investment Type	June 30, 2016 Carrying Value	June 30, 2015 Carrying Value
Commercial Paper	\$ -	\$ 3,099
Certificates of Deposit	-	32,099
Repurchase Agreements	-	138,969
U.S. Government Obligations & Federally Guaranteed Obligations	348,130	61,881
Domestic Corporate Bonds & Notes	-	43,838
Domestic Non-government Asset-backed Securities	-	67,149
International Corporate Bonds & Notes	-	18,306
Investments Held by Others Under Securities Lending Agreements - U.S. Obligations	-	310,385
Pooled Investments with State Treasury	293,927	157,742
Total Investments	<u>\$ 642,057</u>	<u>\$ 833,468</u>

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

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

	June 30, 2015			
	Investments	Cash at Financial Institutions	Cash at State Treasury	Totals
Cash and cash equivalents	\$ 136,213	\$ 376	\$ 108	\$ 136,697
Restricted cash and cash equivalents	21,529	13,630	-	35,159
Investments, grand prize	372,266	-	-	372,266
Investments, security lending collateral	303,460	-	-	303,460
Totals	<u>\$ 833,468</u>	<u>\$ 14,006</u>	<u>\$ 108</u>	<u>\$ 847,582</u>

3. ACCOUNTS RECEIVABLE

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

	2016	2015
Ticket sales receivable	\$ 34,663	\$ 68,422
Other receivables	59	97
Total receivables	34,722	68,519
Less allowance for doubtful accounts	(2,798)	(2,874)
Accounts receivable, net	<u>\$ 31,924</u>	<u>\$ 65,645</u>

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):

	Balance 30-Jun-14	2014-15		Balance 30-Jun-15	2015-16		Balance 30-Jun-16
		Increase	Decrease		Increase	Decrease	
Capital assets, not being depreciated:							
Non-amortizable intangibles	\$ 492	\$ 1,917	\$ -	\$ 2,409	\$ 317	\$ -	\$ 2,726
Total capital assets, not being depreciated	\$ 492	\$ 1,917	\$ -	\$ 2,409	\$ 317	\$ -	\$ 2,726
Capital assets, being depreciated:							
Vehicles and equipment	\$ 11,732	\$ 1,790	\$ (768)	\$ 12,754	\$ 1,859	\$ (3,168)	\$ 11,445
Intangible assets and other	2,363	-	(1,772)	591	2	-	593
Total capital assets, being depreciated	14,095	1,790	(2,540)	13,345	1,861	(3,168)	12,038
Depreciation	10,344	441	(851)	9,934	959	(2,235)	8,658
Total capital assets, being depreciated, net	3,751	1,349	(1,689)	3,411	902	(933)	3,380
Total capital assets, net	\$ 4,243	\$ 3,266	\$ (1,689)	\$ 5,820	\$ 1,219	\$ (933)	\$ 6,106

6. MULTI-STATE LOTTERY ASSOCIATION

MUSL is an unincorporated government-benefit voluntary association created for the purpose of administering joint lottery games. MUSL included 34 state lottery entities, the District of Columbia, Puerto Rico, and the Virgin Islands during fiscal year 2016. This association offers the Powerball with Powerplay, Mega Millions with Megaplier, and several other Draw games in participating states. The chief executive officer of each member lottery serves on the MUSL board of directors.

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

As of June 30, 2016, and June 30, 2015, the Lottery had deposits with MUSL of \$22,793,295, and \$21,765,512, 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):

	2016	2015
FLORIDA LOTTO grand prizes (face value)	\$ 282,240	\$ 343,596
MEGA MONEY grand prizes (face value)	8,848	8,303
Win for Life grand prizes (face value)	6,019	7,752
Flamingo Fortune Game Show grand prizes (face value)	200	300
Win a Million grand prizes (face value)	100	150
Lucky for Life grand prizes (face value)	19,650	20,550
Set for Life grand prizes (face value)	1,380	1,560
Cash Spectacular grand prizes (face value)	350	400
Cash for Life grand prizes (face value)	170	180
Loaded for Life grand prizes (face value)	2,450	2,550
Billion Dollar Blockbuster grand prizes (face value)	6,800	7,350
Gas for Life grand prizes (face value)	162	168
2 Million Dollar Casino Action grand prizes (face value)	1,400	1,500
Million Dollar Holiday grand prizes (face value)	750	800
Week for Life grand prizes (face value)	48,386	37,674
Monopoly grand prizes (face value)	3,100	3,320
Million Wishes grand prizes (face value)	800	850
Xs The Cash grand prizes (face value)	3,440	3,590
\$3 Million Flamingo grand prizes (face value)	2,550	2,700
Gold Rush grand prizes (face value)	8,070	8,460
Super Millions grand prizes (face value)	5,760	-
Less imputed interest	(121,363)	(131,187)
Net present value of grand prizes payable	\$ 281,262	\$ 320,566
Current prizes payable from restricted assets	\$ 43,294	\$ 66,412
Noncurrent prizes payable from restricted assets	237,968	254,154
Total grand prizes payable	\$ 281,262	\$ 320,566

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

Year Ending June 30	Amount
2017	\$ 45,511
2018	26,392
2019	20,487
2020	20,487
2021	20,487
2022-2026	108,053
2027-2031	104,252
2032-2036	27,401
2037-2041	20,673
2042-2046	8,882
Grand prizes (face value)	402,625
Less imputed interest	(121,363)
Net present value of grand prizes payable	\$ 281,262

B. Compensated Absences Payable

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

	2016	2015
Current compensated absences	\$ 384	\$ 409
Noncurrent compensated absences	3,456	3,455
Total	\$ 3,840	\$ 3,864

C. Changes in Long-Term Liabilities

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

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

	2014-15				
	Balance			Amount Due	
	June 30, 2014	Additions	Reductions	June 30, 2015	Within One Year
Grand prizes payable	\$ 384,620	\$ 23,897	\$ (87,951)	\$ 320,566	\$ 66,412
Compensated absences payable	3,774	1,124	(1,034)	3,864	409
Postemployment healthcare benefits payable	4,009	1,076	-	5,085	-
Net pension liability	-	12,758	(4,074)	8,684	192
Total long-term liabilities	\$ 392,403	\$ 38,855	\$ (93,059)	\$ 338,199	\$ 67,013

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 \$1,692,551,000 for the fiscal year ended June 30, 2016, (27.9 percent of revenues), and \$1,496,371,000 (26.8 percent of revenues) for the fiscal year ended June 30, 2015.

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, 2016, and June 30, 2015, was as follows (in thousands):

	June 30, 2016	June 30, 2015
Draw ticket sales	\$ 2,107,653	\$ 1,859,336
Average percent transferred	39%	37%
Transfer of Draw ticket sales ¹	823,534	688,241
Unclaimed Draw ticket prizes	35,480	32,933
Percent transferred	80%	80%
Transfer of unclaimed Draw ticket prizes	28,384	26,346
Scratch-Off ticket sales	3,954,701	3,723,995
Average percent transferred	20%	20%
Transfer of Scratch-Off ticket sales ¹	796,118	750,341
Unclaimed Scratch-Off ticket prizes	38,546	14,737
Percent transferred	80%	80%
Transfer of unclaimed Scratch-Off ticket prizes	30,837	11,790
Nonoperating revenues (expenses), net	24,290	(1,218)
Add:		
Net (appreciation) depreciation in fair value of investments	(34,246)	(12,604)
Amortization of grand prizes payable	14,779	18,040
Total Nonoperating revenues, net	4,823	4,218
Change in methodology for addressing pension, postemployment healthcare, and compensated absences expenses	1,235	7,783
Terminal fees and miscellaneous revenue	7,620	7,652
Due for the year	1,692,551	1,496,371
Balance due, beginning of year	67,371	55,409
Paid during the year	(1,601,371)	(1,484,409)
Due to Educational Enhancement Trust Fund, June 30	\$ 158,551	\$ 67,371

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.

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.

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

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

Class	Employee Rate Fiscal Year Ended June 30, 2016	Employer Rate Fiscal Year Ended June 30, 2016 ⁽¹⁾	Employee Rate Fiscal Year Ended June 30, 2015	Employer Rate Fiscal Year Ended June 30, 2015 ⁽¹⁾
Senior Management Service	3.00 percent	21.43 percent	3.00 percent	21.14 percent
Regular	3.00 percent	7.26 percent	3.00 percent	7.37 percent
Special Risk	3.00 percent	22.04 percent	3.00 percent	19.82 percent
DROP - Applicable to members from all of the above classes	0.00 percent	12.88 percent	0.00 percent	12.28 percent

Note: (1) Total employer contribution rates above include 1.66 percent and 1.26 percent for the fiscal years ended June 30, 2016, and June 30, 2015, respectively, for the Retiree Health Insurance Subsidy Program. Also, employer rates, other than for DROP participants, include 0.04 percent for fiscal years ended June 30, 2016, and June 30, 2015, for administration costs of the financial education program and the FRS Investment Plan. Required employee contributions are deducted on a pre-tax basis.

FRS Contributions and Contributions as a Percentage of Covered Payroll.

The Lottery's employer contributions and contribution as a percentage of covered payroll for the FRS Pension Plan and FRS Investment Plan for the fiscal years ended June 30, 2016, June 30, 2015, and June 30, 2014, are as follows:

Plan	Fiscal Year Ended June 30, 2016	Fiscal Year Ended June 30, 2015	Fiscal Year Ended June 30, 2014
Employer Contributions:			
FRS Pension Plan	\$ 1,319,074	\$ 1,354,333	\$ 1,184,595
FRS Investment Plan	\$ 153,887	\$ 328,836	\$ 297,945
Contributions as a Percentage of Covered Payroll:			
FRS Pension Plan	8.25%	8.47%	7.28%
FRS Investment Plan	4.56%	9.75%	8.67%

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 2013 through June 2016. 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. 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, 2016, June 30, 2015, and June 30, 2014, totaled \$13,015, \$40,134, and \$33,575 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, 2016, 2015, and 2014, eligible retirees or beneficiaries received a monthly HIS payment equal to the number of years of creditable service completed at the time of retirement multiplied by \$5. The payments to individual retirees or beneficiaries were at least \$30 but not more than \$150 per month. To be eligible to receive HIS, an FRS retiree must apply for the benefit, certify health insurance coverage, which can include Medicare or TRICARE, and be approved.

HIS is funded by required contributions from FRS participating employers. For the fiscal years ended June 30, 2016, 2015, and 2014, required contributions were 1.66 percent, 1.26 percent, and 1.20 percent, respectively, of payroll for all active employees covered by the FRS, pursuant to Section 112.363, Florida Statutes. For the fiscal years ended June 30, 2016, 2015, and 2014, the Lottery contributed \$288,150, \$215,070, and \$197,280, 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 26 USC 457(g)(1).

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, 2016, the Lottery reported a net pension liability of \$7,174,907 for its proportionate share of the FRS Pension Plan's net pension liability and \$5,737,878 for its proportionate share of the HIS net pension liability, for a total net pension liability of \$12,912,785. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was based on actuarial valuations as of July 1, 2014 and July 1, 2015, for the HIS and FRS Pension Plan, respectively. The Lottery's proportionate share of the net pension liability was based on 2014-15 fiscal year contributions to the Plans relative to the total 2014-15 fiscal year contributions of all participating members. At June 30, 2015, the Lottery's proportionate share of the FRS Pension Plan net pension liability was 0.055549065 percent, which was a 2.72 percent increase from its proportionate share measured as of June 30, 2014, of 0.054080631 percent. The Lottery's proportionate share of the HIS net pension liability at June 30, 2015, was 0.056262384 percent, which was a 2.30 percent decrease from its proportion as of June 30, 2014, of 0.057588909 percent. For the fiscal year ended June 30, 2016, the Lottery recognized pension expense of \$856,703 for the FRS Pension Plan and \$411,724 for the HIS, for pension expense totaling \$1,268,427. At June 30, 2016, 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	\$ 757,458	\$ 170,167
Changes in assumptions	476,223	-
Net difference between projected and actual earnings on pension plan investments	-	1,713,248
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,613,031	98,596
Employer contributions subsequent to the measurement date	1,319,074	-
Total	\$ 4,165,786	\$ 1,982,011

HIS

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ -
Changes in assumptions	451,421	-
Net difference between projected and actual earnings on pension plan investments	3,106	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	98,633	197,120
Employer contributions subsequent to the measurement date	288,150	-
Total	\$ 841,310	\$ 197,120

The Lottery's contributions subsequent to the measurement date of \$1,319,074 for the FRS Pension Plan and \$288,150 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, 2017. 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		Totals
	Pension Plan	HIS	
2017	\$ (223,853)	\$ 62,867	\$ (160,986)
2018	(223,853)	62,867	(160,986)
2019	(223,852)	62,867	(160,985)
2020	1,189,630	62,236	1,251,866
2021	292,845	61,933	354,778
2022-24	53,784	43,270	97,054
	\$ 864,701	\$ 356,040	\$ 1,220,741

Total

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, 2015, and July 1, 2014, 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 7.65 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 3.80 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 2015:

- FRS Pension Plan: As of June 30, 2015, the inflation rate assumption remained at 2.60 percent, the real payroll growth assumption remained at 0.65 percent, and the overall payroll growth rate assumption remained at 3.25 percent. The long-term expected rate of return remained at 7.65 percent.
- HIS: The municipal rate used to determine total pension liability decreased from 4.29 percent to 3.80 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00%	3.20%
Fixed income	18.00%	4.80%
Global equity	53.00%	8.50%
Real estate (property)	10.00%	6.80%
Private equity	6.00%	11.90%
Strategic investments	12.00%	6.70%
Total	100.00%	

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

<u>FRS Pension Plan</u>			<u>HIS</u>		
Current			Current		
1% Decrease	Discount Rate	1% Increase	1% Decrease	Discount Rate	1% Increase
6.65%	7.65%	8.65%	2.80%	3.80%	4.80%
\$ 18,591,806	\$ 7,174,907	\$ (2,325,829)	\$ 6,538,045	\$ 5,737,878	\$ 5,070,659

B. Postemployment Healthcare Benefits

The Lottery participates in the State Employees' Health Insurance Program, a cost-sharing multiple employer defined benefit postemployment healthcare plan administered by the DMS, Division of State Group Insurance, to provide group health benefits. Section 110.123, Florida Statutes, provides that retirees may participate in the State's group health insurance programs and assigns the authority to establish and amend benefit provisions to the DMS. Although premiums are paid by the retiree, the premium cost to the retiree is implicitly subsidized by the commingling of claims experience in a single risk pool with a single premium determination. An actuarial valuation has been performed for the plan and the Lottery's employees were included in the actuarial analysis. For more information on the plan regarding the funding policy and actuarial methods and assumptions, see the State of Florida's Comprehensive Annual Financial Report, which is available from the Department of Financial Services.

In accordance with GASB Codification Section Po50, *Postemployment Benefit Plans Other Than Pension Plans - Defined Benefit*, the Lottery is required to record its portion of the implicit postemployment health benefit liability. Postemployment health benefits payable at June 30, 2016, June 30, 2015, and June 30, 2014, was \$6,683,000, \$5,085,000, and \$4,009,000, respectively.

10. OPERATING LEASES

The Lottery has entered into operating leases for the rental of office and warehouse space for the headquarters and district offices. Certain leases are renewable at the option of the Lottery. Future minimum rental payments as of June 30, 2016, are scheduled as follows (in thousands):

<u>Year Ending June 30</u>	<u>Headquarters</u>	<u>Districts</u>	<u>Total</u>
2017	\$ 2,772	\$ 1,115	\$ 3,887
2018	2,801	1,149	3,950
2019	234	1,187	1,421
2020	-	1,032	1,032
2021	-	847	847
2022-2026	-	4,076	4,076
2027-2031	-	4,091	4,091
2032-2034	-	1,562	1,562
Total	\$ 5,807	\$ 15,059	\$ 20,866

Rental expense under all operating leases totaled approximately \$3,928,000 and \$4,017,000 for the fiscal years ended June 30, 2016, and 2015, respectively.

11. NET POSITION RESTATEMENT

Net Position, June 30, 2014, as previously reported (in thousands)	\$ 97,661
Implementation effect of GASB Statement No. 68 (Refer to Note 9)	(10,998)
Net Position, June 30, 2014, as restated	<u>\$ 86,663</u>

12. 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, 2016, ranged from \$1,058,000 to \$4,661,000. 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. The contract with IGT, formerly GTech, was extended in June 2015.

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

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

	<u>2014-15 Vendor Support Funds</u>			
	Balance		Balance	
	June 30, 2014	Additions	Deletions	June 30, 2015
GTech/IGT	\$ 155	\$ 360	\$ (286)	\$ 229
Scientific Games	903	5,201	(4,264)	1,840
Total Vendor Support	\$ 1,058	\$ 5,561	\$ (4,550)	\$ 2,069

13. 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, 2016, and 2015, was \$32,650,000 and \$29,970,000, respectively.

The Lottery's Scratch-Off ticket vendor is currently compensated at rates that range from 0.9776 percent to 2.3421 percent based on ticket price points and total annual sales. Compensation under this agreement and the agreement for the provision of instant ticket vending machines amounted to \$55,591,000 for the fiscal year ended June 30, 2016, and \$51,665,000 for the fiscal year ended June 30, 2015.

14. 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.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

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

	2015 ⁽²⁾	2014 ⁽²⁾
Lottery's proportion of the net pension liability	0.055549065%	0.054080631%
Lottery's proportionate share of the net pension liability	\$ 7,174,907	\$ 3,299,714
Lottery's covered-employee payroll	\$ 15,985,814	\$ 16,266,000
Lottery's proportionate share of the net pension liability as a percentage of its covered-employee payroll	44.88%	20.29%
Plan fiduciary net position as a percentage of the total pension liability	92.00%	96.09%

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

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

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

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

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

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

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

	2015 ⁽²⁾	2014 ⁽²⁾
Lottery's proportion of the net pension liability	0.056262384%	0.057588909%
Lottery's proportionate share of the net pension liability	\$ 5,737,878	\$ 5,384,704
Lottery's covered-employee payroll	\$ 15,969,897	\$ 16,175,000
Lottery's proportionate share of the net pension liability as a percentage of its covered-employee payroll	35.93%	33.29%
Plan fiduciary net position as a percentage of the total pension liability	0.50%	0.99%

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

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

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

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

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

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



Sherrill F. Norman, CPA
Auditor General

AUDITOR GENERAL STATE OF FLORIDA

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



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

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Department of the Lottery (Lottery), as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements, and have issued our report thereon dated January 25, 2017, included under the heading **INDEPENDENT AUDITOR'S REPORT**.

Internal Control Over Financial Reporting

We have examined the Lottery's internal control over financial reporting as of June 30, 2016, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Lottery's management is responsible for maintaining effective internal control over financial reporting, and for its assertion about the effectiveness of internal control over financial reporting, included in the accompanying **MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**. Our responsibility is to express an opinion on the Lottery's internal control over financial reporting based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our examination included obtaining an understanding of the internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our examination also included performing

such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

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 evaluation 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.

In our opinion, the Lottery maintained, in all material respects, effective internal control over financial reporting as of June 30, 2016, based on the criteria established in *Internal Control – Integrated Framework* issued by COSO.

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

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
January 25, 2017
Audit Report No. 2017-103

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

RICK SCOTT
Governor



TOM DELACENSERIE
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 establishing 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, 2016, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework (2013)*. Based on that assessment, management concluded that, as of June 30, 2016, the Florida lottery's internal control over financial reporting is effective based on the criteria established in *Internal Control - Integrated Framework (2013)*.

The Florida Lottery



January 25, 2017

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, the appropriate Lottery personnel have been notified of the 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.

Our audit disclosed that as of July 1, 2016, retailers comprising one minority type totaled approximately 67 percent of the total number of minority retailers. A similar finding has been included in previous Auditor General reports.

The Lottery has developed an outreach program to increase retailer participation in under-represented minority groups and the overall level of participation from these groups increased slightly over the past fiscal year.

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

MANAGEMENT'S RESPONSE

RICK SCOTT
Governor



TOM DELACENSERIE
Secretary

January 25, 2017

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

Dear Ms. Norman:

The Lottery has received your January 9, 2017, list of preliminary and tentative audit findings and recommendations resulting from your audit of the Lottery's Financial Statements for the fiscal year ended June 30, 2016. Below is our response to each finding and recommendation:

Finding 1: Information Technology Controls

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

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

Finding 2: Minority Retailer Participation

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

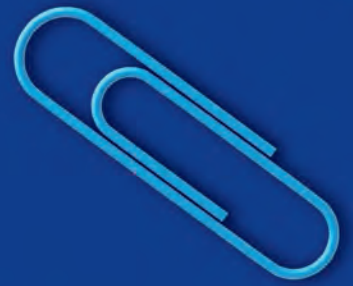
Lottery's Response: We will continue to look for opportunities to recruit retailers, including those in under-represented minority groups. We will continue to utilize advertising in both minority and general market trade magazines and newspapers. We will also continue to work with retailer trade associations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

Thomas R. Delacenserie
Secretary

cc: David Mica, Jr, Chief of Staff
Joan Schoubert, Deputy Secretary
Andy Mompeller, Inspector General



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