



FLORIDA LOTTERY

An Enterprise Fund of the State of Florida

MAKING EDUCATION OUR **BIGGEST WINNER**

ANNUAL COMPREHENSIVE FINANCIAL REPORT

For the Fiscal Years Ended June 30, 2022, and 2021

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For the Fiscal Years Ended June 30, 2022, and 2021

JOHN F. DAVIS

SECRETARY

Prepared by:

General Accounting

Cindie L. McKenzie, Accounting Director

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INTRODUCTORY SECTION

January 31, 2023

The Honorable Ron DeSantis, Governor
The Honorable Kathleen Passidomo, President of the Senate
The Honorable Paul Renner, Speaker of the House of Representatives

To Governor DeSantis, President Passidomo, and Speaker Renner:

We are pleased to submit the Florida Lottery's (Lottery) Annual Comprehensive Financial Report (ACFR) for the fiscal years ended June 30, 2022, and 2021 in accordance with Section 24.123, Florida Statutes (F.S.). This report is prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

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

The Auditor General has issued an opinion on the Lottery's financial statements for the fiscal years ended June 30, 2022, and 2021. The independent auditor's report is located at the front of the financial section of this report. Also, the Auditor General has issued an opinion on internal control over financial reporting for the fiscal year ended June 30, 2022, which is located after the statistical section of this report.

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

PROFILE OF THE LOTTERY

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

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

During its 34 years of operation, the Lottery has offered a variety of Scratch-Off and Draw game products and promotions, which have generated over \$136.3 billion in revenues. Since inception, the Lottery has transferred approximately \$42 billion to education. In fiscal year ended June 30, 2022, the Lottery had its eleventh consecutive all-time record-breaking sales year of approximately \$9.32 billion which provided approximately \$2.33 billion in contributions to education.

To date, the Lottery has introduced more than 1,250 Scratch-Off games and continues to launch approximately 40 new games each year. The portfolio of games offered at any given time provides a wide range of play styles, game

themes, and price points to appeal to a wide range of players. Prizes have included free tickets, merchandise, vacations, and life-changing top prizes of up to \$25 million. With the exception of fiscal year 2009, during the height of the Great Recession, Scratch-Off sales have increased annually over the past 21 years. Scratch-Off sales surpassed \$7.0 billion in fiscal year 2021-22. The Lottery has had measurable success strategically launching several “families of games” and has highlighted several key Scratch-Off games in its total advertising efforts. Product placement initiatives focused on increased facings/footprint at the point-of-sale.

Terminal games remain a staple to supporting the Lottery’s mission of maximizing revenue to benefit Florida students and schools. The driving force behind the growth observed in fiscal year 2022 came from the POWERBALL® due to enormous jackpots and new features. In January 2022, the Lottery introduced a new game, CASH POP™, which contributed to the overall increase in terminal game sales, and for the sixth consecutive year, terminal games produced record sales and transfers to education. The Lottery offers the following Terminal games: FLORIDA LOTTO®, POWERBALL®, MEGA MILLIONS®, CASH4LIFE™, FANTASY 5®, JACKPOT TRIPLE PLAY™, PICK 2™, PICK 3™, PICK 4™, PICK 5™, and FAST PLAY™. FLORIDA LOTTO, POWERBALL, MEGA MILLIONS, and CASH4LIFE are set prize payout games except that the jackpot is shared among winners. FANTASY 5 and JACKPOT TRIPLE PLAY are pari-mutuel games in which the actual prize amounts depend on the sales and are divided among the winners in each prize category. PICK 2, PICK 3, PICK 4, PICK 5 and FAST PLAY are set prize payout games. Players can also choose add-on features for \$1 more, such as Fireball, EZmatch™, Double Play™, Power Play®, Megaplier® and Combo™ in conjunction with certain Draw games for additional excitement and opportunities to win more, or bigger prizes.

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

ECONOMIC CONDITION AND FINANCIAL INFORMATION

The main economic factors affecting lottery sales are population growth, personal income growth and employment. Based on the July 2022 Florida Economic Estimating Conference (Conference), Florida’s population is forecasted to increase 1.42 percent and 1.35 percent for the fiscal years ending June 30, 2023, and 2024, respectively. Additionally, the Conference produced forecasts for personal income growth of 6.4 percent and 5.3 percent for the fiscal years ended June 30, 2023, and 2024, respectively. Total non-farm employment is 3.3 percent and 1.3 percent for fiscal years ended June 30, 2023, and 2024. According to the July 2022 Conference, Florida’s unemployment rate had been below 4.0 percent from February 2018 through February 2020. With the onset of the pandemic, the unemployment rate spiked to 13.9 percent in May 2020, surpassing the prior peak rate of 10.9 percent experienced in the first four months of 2010 during the Great Recession. Just over two years later, Florida’s monthly unemployment rate is now approaching its lowest recorded rate in modern times: the first half of 2006 when it was 2.4 percent. The Conference expects the unemployment rate to average 3.8 percent in Fiscal Year 2022-23 and, due to the Federal Reserve’s actions to cool off the economy through higher interest rates, start an upward drift until it reaches 4.2 percent in Fiscal Year 2024-25, after which it plateaus at or slightly above 4.0 percent. The Conference assumes the “full employment” unemployment rate is about this level.

ACCOUNTING SYSTEMS AND POLICIES

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

INTERNAL CONTROLS

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

DEBT ADMINISTRATION

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

CASH MANAGEMENT

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

MAJOR INITIATIVES

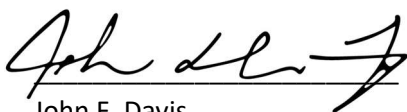
The Lottery continuously works on new ways to attract players and increase sales to support its goal of maximizing contributions to enhance education. Some of the strategies that we continue to actively pursue are:

- Increasing the Lottery's player base with innovative new products;
- Refreshing the Lottery brand through innovative approaches to technology;
- Improving market penetration through recruitment and diversification of the Lottery's retailer network; and
- Maximizing the effectiveness of the Lottery through execution of best practices.

ACKNOWLEDGMENTS

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

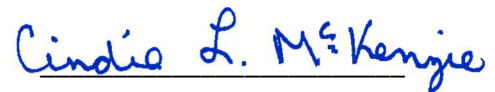
Respectfully submitted,



John F. Davis
Secretary



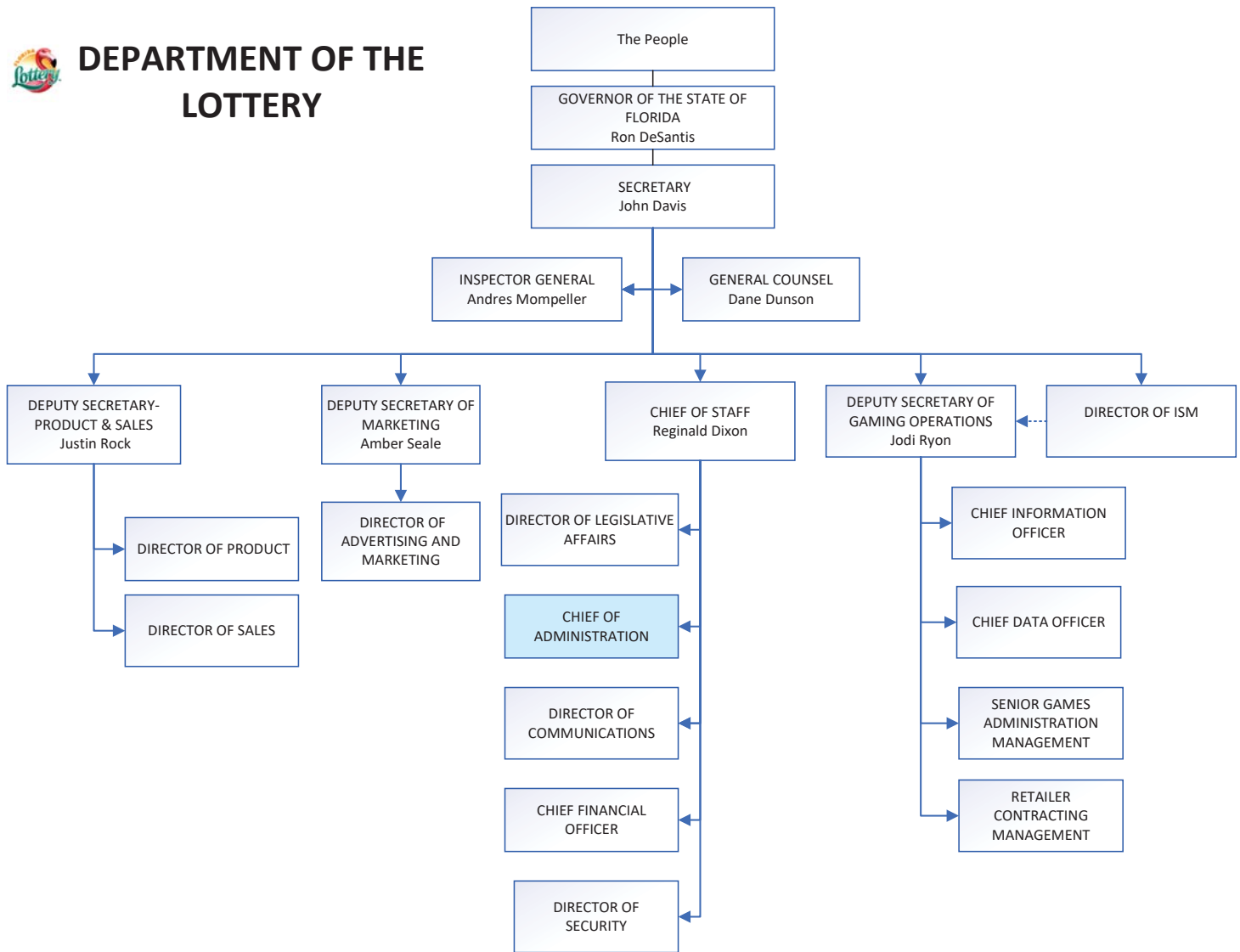
Rebecca J. Ajhar
Chief Financial Officer



Cindie L. McKenzie
Accounting Director



DEPARTMENT OF THE LOTTERY

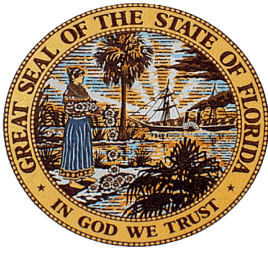


Note: Principal Officials in the chart are as of the issue date of this report.

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FINANCIAL SECTION

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Sherrill F. Norman, CPA
Auditor General

AUDITOR GENERAL STATE OF FLORIDA

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

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of 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, 2022, and June 30, 2021, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Lottery, as of June 30, 2022, and June 30, 2021, and the respective changes in financial position and cash flows thereof for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Lottery and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 financial position of the State of Florida as of June 30, 2022, and June 30, 2021, or the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Lottery's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Lottery's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **Management's Discussion and Analysis** on pages 17 through 25, the **Schedules of the Lottery's Proportionate Share of the Net Pension Liability and Contributions** on pages 62 through 65, and the **Schedule of the Lottery's Proportionate Share of the State's Total Other Postemployment Benefits Liability** on pages 66 through 67, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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

Management is responsible for the other information included in the annual comprehensive financial report. The other information comprises the Introductory Section on pages 5 through 9 and the Statistical Section on pages 69 through 95, but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information appears otherwise to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2023, on our consideration of the Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, administrative rules, regulations, contracts, and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that report is to describe the scope of our testing of the Lottery's internal control over financial reporting as of June 30, 2022, based on criteria established in the *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and to express an opinion on the effectiveness of the Lottery's internal control over financial reporting. With respect to compliance, the purpose of that report is not to provide an opinion on compliance, but rather to describe the scope of our testing of compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lottery's internal control over financial reporting and compliance.

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
January 31, 2023
Audit Report No. 2023-109

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, 2022, and 2021. We encourage readers to consider the information presented here in conjunction with the transmittal letter beginning on page 6 of this report and Lottery's financial statements and notes to the financial statements, which begin on page 26.

Financial Highlights

The Lottery has as its mission the maximization of revenues for the benefit of education in a manner consistent with the dignity of the State of Florida and the welfare of its citizens. The Lottery is considered a mature lottery and offers its players a full range of both Scratch-Off and Draw products. The Lottery has been successful in sustaining ticket sales in excess of \$2 billion for the thirty-third consecutive fiscal year, with the past ten fiscal years exceeding \$5 billion. During the same thirty-three-year period, the transfer to the Educational Enhancement Trust Fund (EETF) has been a minimum of \$800 million annually, with the fiscal year 2022 transfer exceeding \$1 billion for the twentieth consecutive year.

For the fiscal year ended June 30, 2022:

- Transfers to the EETF were approximately \$2.33 billion this fiscal year compared to \$2.24 billion in the prior fiscal year.
- The Lottery's ticket sales increased by 2.74 percent over the prior fiscal year from approximately \$9.08 billion to \$9.32 billion.
- Approximately 75.34 percent of total sales were provided by the Scratch-Off product line, which increased 2.89 percent from the prior fiscal year.
- Prize expense increased \$110 million, which represents a 1.80 percent increase during fiscal year 2022. 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 66.98 percent of ticket sales.
- The gaming vendor fees, and retailer commissions are based on sales and therefore fluctuate in direct correlation with sales revenue. Fiscal year 2022 expenses for these items increased 2.53 percent over the prior fiscal year expenses in conjunction with the increase in sales.
- Administrative operating expenses, which include advertising, salaries and benefits, leases, utilities and maintenance, professional fees, depreciation, and other administrative expenses, experienced a decrease of approximately \$4.69 million. Administrative operating expenses for fiscal years 2022 and 2021 were \$78.00 million and \$82.69 million, respectively.
- Nonoperating income decreased \$11.83 million over the prior fiscal year. The decrease was primarily due to a decrease of \$3.66 million in net depreciation in fair value of investments along with a decrease in interest of \$4.62 million.

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Overview of the Financial Statements

The Lottery is accounted for as an enterprise fund, reporting transactions using the accrual basis of accounting similar to the method used by business entities. This MD&A is intended to serve as an introduction to the Lottery's basic financial statements, including the notes to the financial statements. The Statements of Net Position on page 26, the Statements of Revenues, Expenses, and Changes in Net Position on page 28, and the Statements of Cash Flows on page 29 report the Lottery's net position and changes therein. The notes to the financial statements provide additional information that is essential to a reader's understanding of the data provided in the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

The Lottery transfers its net profits each fiscal year to the EETF. As a result, the Lottery's net position consists of funds invested in capital assets, unrestricted net position, and restricted net position. Unrestricted net position consists of liabilities for which no cash payments will be made and undistributed depreciation in fair value of investments. 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 Condensed Statements of Net Position for fiscal years 2022, 2021, and 2020.

Table 1 - Condensed Statements of Net Position
As of June 30, 2022, 2021, and 2020
(In Thousands)

	2022	2021	2020
Current Assets	\$ 293,373	\$ 423,888	\$ 437,511
Restricted Assets	368,161	383,675	382,416
Capital Assets, Net of Depreciation	3,897	7,564	7,273
Total Assets	665,431	815,127	827,200
Total Deferred Outflows of Resources	12,799	14,583	15,341
Current Liabilities	313,459	434,036	427,193
Current Liabilities Payable from Restricted Assets	22,390	22,273	22,095
Noncurrent Liabilities	280,827	305,069	295,127
Total Liabilities	616,676	761,378	744,415
Total Deferred Inflows of Resources	29,033	17,018	9,483
Net Position:			
Invested in Capital Assets	3,897	7,564	7,273
Restricted Net Position	91,978	105,007	139,270
Unrestricted Net Position	(63,354)	(61,257)	(57,900)
Total Net Position	\$ 32,521	\$ 51,314	\$ 88,643

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Financial Analysis

Assets

Total assets at the end of fiscal year 2022 decreased \$149.70 million from \$815.13 million at June 30, 2021, to \$665.43 million at June 30, 2022. At the end of fiscal year 2021, total assets were \$12.07 million less than the \$827.20 million at the end of fiscal year 2020.

- The decrease in total assets from 2021 to 2022 is primarily related to a decrease of \$113.75 million of investments in the State Treasury.
- The decrease in total assets from 2020 to 2021 is primarily related to a decrease of \$46.72 million of accounts receivable, a decrease of \$32.07 million in grand prize investments, and an increase of \$42.15 million of investments in the State Treasury.

Deferred Outflows of Resources

Total deferred outflows of resources as of June 30, 2022, were \$12.80 million, reflecting a decrease of approximately \$1.78 million over the June 30, 2021, amount of \$14.58 million, due to a decrease of \$2.31 million in Pension related items and an increase of \$523,000 in Other postemployment benefits related items. At the end of fiscal year 2021, deferred outflows decreased \$758,000 due, in part, to a decrease of \$1.00 million in Other postemployment benefits related items over June 30, 2020.

Liabilities

Total liabilities at June 30, 2022, were \$616.68 million, which was approximately \$144.70 million lower than the total liabilities of \$761.38 million at June 30, 2021. The total liabilities at June 30, 2021, were \$16.96 million higher than the June 30, 2020, amount of \$744.42 million.

- Current liabilities decreased by \$120.58 million from June 30, 2021, to June 30, 2022. This decrease can be primarily attributed to the decrease of \$58.13 million in the amount to prizewinners, and a decrease of \$59.14 million for the amount Due to the EETF. Noncurrent liabilities decreased by \$24.24 million from June 30, 2021, to June 30, 2022. This decrease can be attributed to the decrease of \$17.94 million for pension liability.
- Current liabilities increased by \$6.85 million from June 30, 2020, to June 30, 2021. This increase can be primarily attributed to the increase of \$21.73 million for the amount owed to prizewinners, the increase of \$514,000 of Deposits payable, an increase of \$4.10 million in the lease liability, and a decrease of \$19.66 million for the amount Due to the EETF. Noncurrent liabilities increased by \$9.94 million from June 30, 2020, to June 30, 2021. This increase can be attributed to the increase in lease liability by \$23.20 million, the decrease of \$8.13 million for the amount owed to prizewinners, the increase of \$163,000 to compensated absences, the increase of \$3.17 million for net pension liability, and a decrease of \$8.46 million for other postemployment benefits liability.

Deferred Inflows of Resources

Total deferred inflows of resources as of June 30, 2022, were \$29.03 million, reflecting an increase of \$12.02 million over June 30, 2021. This increase was due in part to \$13.39 million in pension items (refer to Note 9 to the financial statements for additional details). At the end of

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fiscal year 2021, deferred inflows increased \$7.54 million over June 30, 2020, which was \$9.48 million.

Net Position

Net position decreased \$18.79 million from June 30, 2022, to June 30, 2021. Net position at June 30, 2022, 2021, and 2020 were \$32.52 million, \$51.31 million, and \$88.64 million, respectively.

- The \$18.79 million decrease in net position at June 30, 2022, is primarily due to a \$40.33 million decrease in the amount restricted for undistributed appreciation on restricted investments and an increase of \$27.47 million increase in the amount of restricted for future prizes or special prize promotions.
- The \$37.33 million decrease in net position at June 30, 2021, is primarily due to a \$40.52 million decrease in the amount restricted for undistributed appreciation on restricted investments, a \$1.90 million decrease in the amount of restricted for MUSL, and a \$8.16 million increase in the amount of restricted for future prizes or special prize promotions. The implementation of Governmental Accounting Standards Board Statement No. 87, *Leases*, decreased net position at June 30, 2021, by \$224,000.

The Lottery joined MUSL thirteen 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 \$32.12 million and \$32.28 million as of June 30, 2022, and June 30, 2021, 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, 2022, and the prior fiscal years ended June 30, 2021, and June 30, 2020, as derived from the Lottery's Statements of Revenues, Expenses, and Changes in Net Position.

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**Table 2 - Condensed Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2022, 2021, and 2020
(In Thousands)**

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Operating Revenues:			
Ticket Sales	\$ 9,324,628	\$ 9,076,219	\$ 7,505,112
Bad Debt Expense	(426)	(825)	(1,318)
Terminal & Retailer Fees and Miscellaneous	7,671	7,651	7,833
Total Operating Revenues	<u>9,331,873</u>	<u>9,083,045</u>	<u>7,511,627</u>
Operating Expenses:			
Prizes	6,245,455	6,135,198	5,030,240
Retailer Commissions	523,132	509,861	420,843
Vendor Commissions	125,359	122,604	108,314
Other Expenses	77,995	82,690	82,450
Total Operating Expenses	<u>6,971,941</u>	<u>6,850,353</u>	<u>5,641,847</u>
Income from Operations	<u>2,359,932</u>	<u>2,232,692</u>	<u>1,869,780</u>
Nonoperating Revenue, Net of Expenses	<u>(45,221)</u>	<u>(33,389)</u>	<u>48,099</u>
Income Before Operating Transfers	<u>2,314,711</u>	<u>2,199,303</u>	<u>1,917,879</u>
Transfers from other departments	-	7	-
Transfers to EETF	<u>(2,333,504)</u>	<u>(2,236,639)</u>	<u>(1,913,799)</u>
Change in Net Position	<u>(18,793)</u>	<u>(37,329)</u>	<u>4,080</u>
Net Position, Beginning	<u>51,314</u>	<u>88,643</u>	<u>84,563</u>
Net Position, End of Year	<u>\$ 32,521</u>	<u>\$ 51,314</u>	<u>\$ 88,643</u>

Financial Analysis

Sales

Total ticket sales for the fiscal year 2022 increased \$248.41 million from \$9.08 billion for the fiscal year 2021, to \$9.32 billion for fiscal year 2022. At the end of fiscal year 2021, total sales were \$1.57 billion more than the \$7.51 billion for the fiscal year 2020.

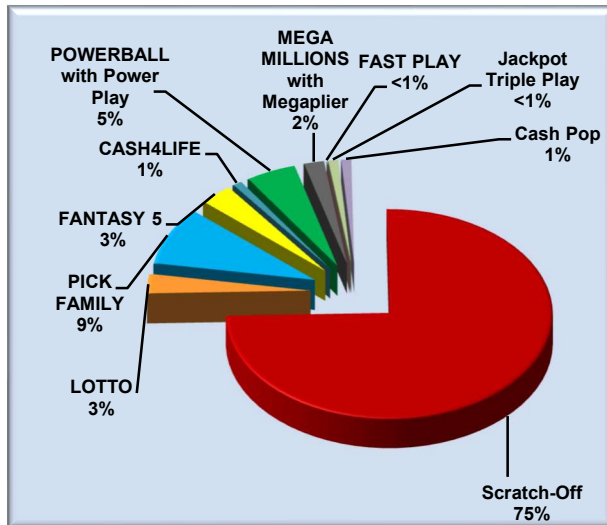
- Scratch-Off sales increased by \$197.43 million in fiscal year 2022. The launch of the \$50 ticket, 500X The Cash, contributed to the increase. Draw Game sales increased by \$50.98 million in fiscal year 2022. The increase was primarily related to a rise in Powerball sales.
- Scratch-Off sales increased by \$1.16 billion in fiscal year 2021, of which the X Multiplier family of games contributed \$1.03 billion to Scratch-Off sales. Draw Game sales increased by \$408.57 million in fiscal year 2021. The increase was primarily related to a rise in Powerball and Mega Millions sales of \$193.55 million, \$126.04 million in Pick games, and \$74.60 million in LOTTO over the prior year.

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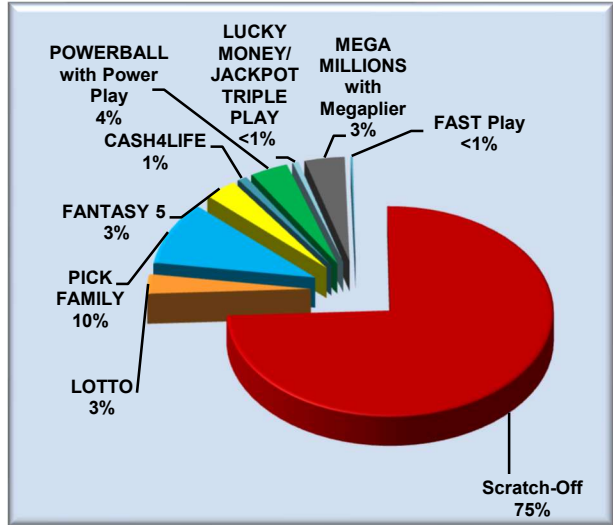
Bad debt expense is reported as a reduction in gross revenue in accordance with GASB requirements. The amount of bad debt expense for the fiscal years ended June 30, 2022, 2021, and 2020, was \$426,000, \$825,000, and \$1.32 million, respectively.

The following charts show sales by product for the various Lottery games during the fiscal years 2022 and 2021:

Sales by Product for Fiscal Year 2021-22



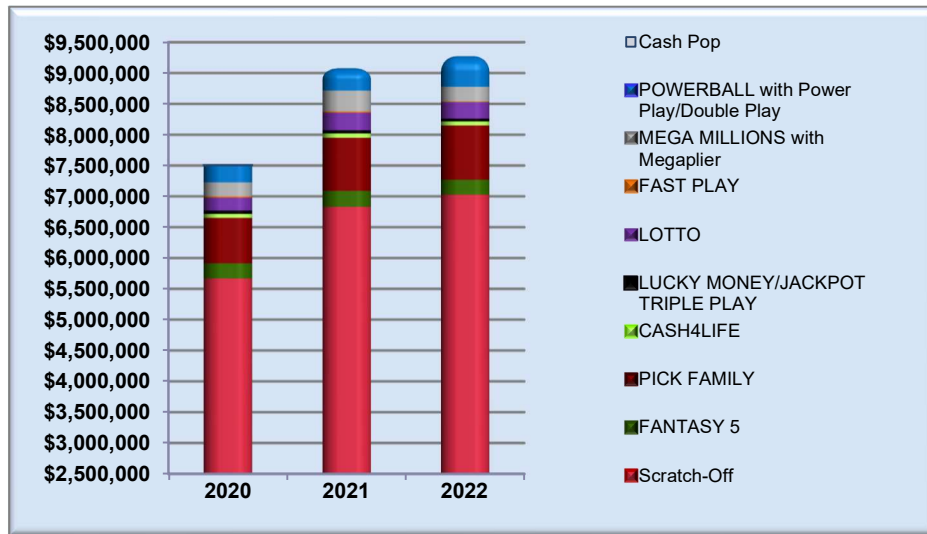
Sales by Product for Fiscal Year 2020-21



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

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



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

Fiscal Year Ended June 30	LOTTO	FANTASY 5	PICK FAMILY	CASH4LIFE	LUCKY MONEY/JACKPOT TRIPLE PLAY	POWERBALL with Power Play/Double Play	MEGA MILLIONS with Megaplier	Fast Play	Cash Pop	Scratch-Off	Combined Sales
2020	\$ 210,098	\$ 245,842	\$ 736,863	\$ 65,321	\$ 54,452	\$ 282,151	\$ 225,035	\$ 20,026	\$ -	\$ 5,665,324	\$ 7,505,112
2021	284,697	257,850	862,904	69,240	52,115	363,671	337,063	20,815	-	6,827,864	9,076,219
2022	267,899	243,465	877,709	64,820	46,395	494,132	239,215	10,830	54,865	7,025,298	9,324,628

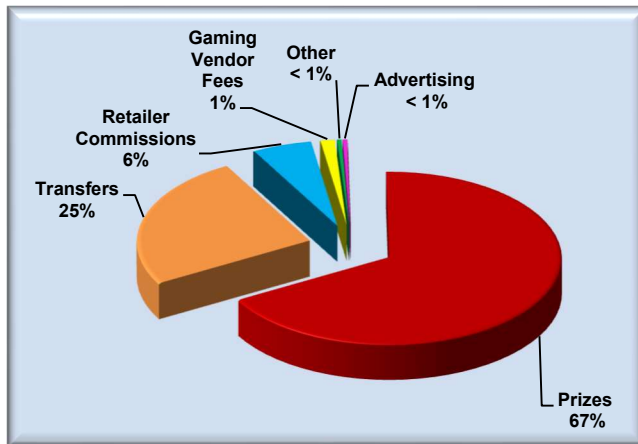
Expenses

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.

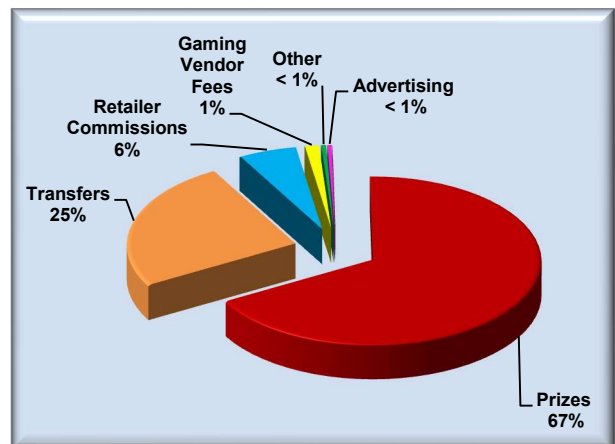
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The following charts show the major components of Lottery operating expenses and transfers as a percentage of ticket sales for the 2022 and 2021 fiscal years:

**Operating Expenses and Transfers
Fiscal Year 2021-22**



**Operating Expenses and Transfers
Fiscal Year 2020-21**



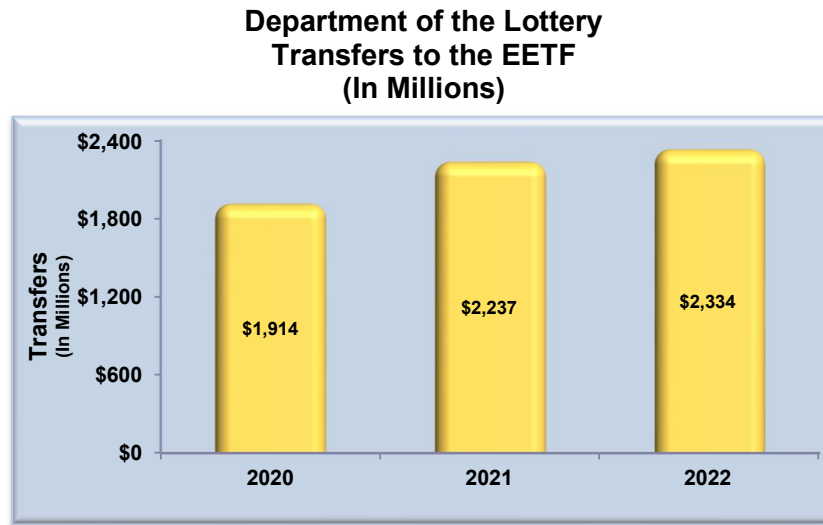
Prizes, commissions, and gaming vendor fees are directly related to sales and fluctuate accordingly. In fiscal year 2022, these expenses changed proportionally; yet as a percentage of total expenses they remained constant. The other expenses, which consisted of advertising, salary and benefits, professional fees, leases, maintenance, and depreciation, decreased slightly. Fiscal year 2022, 2021, and 2020 administrative expenses were \$78.00 million, \$82.69 million, and \$82.45 million, respectively.

Transfers

Since its inception, the Lottery's total transfers to the EETF were \$41.95 billion. The Lottery's contribution to the EETF for fiscal year ended June 30, 2022, was \$2.33 billion. The Lottery has contributed over \$1 billion for the twentieth consecutive year.

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



Economic Factors and Future Impacts

The main economic factors affecting lottery sales are population growth, personal income changes, tourism, and competition for discretionary consumer spending. Florida's unemployment rate decreased from 5.0 percent in fiscal year 2021 to 2.8 percent during fiscal year 2022. In fiscal year 2022, Lottery sales were approximately \$9.32 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, Accounting Director, 250 Marriott Drive, Capitol Complex, Tallahassee, Florida 32399.

2022 FLORIDA LOTTERY ANNUAL COMPREHENSIVE FINANCIAL REPORT

BASIC FINANCIAL STATEMENTS

STATEMENTS OF NET POSITION AS OF JUNE 30, 2022, AND 2021 (in thousands)

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 247,906	\$ 389,177
Interest receivable	388	496
Accounts receivable, net	41,696	29,039
Due from other departments	-	7
Inventories	1,652	2,443
Prepaid expenses	372	372
Security deposits	1,359	2,354
Total Current Assets	<u>293,373</u>	<u>423,888</u>
Noncurrent Assets:		
Restricted Assets		
Cash and cash equivalents	59,861	32,395
Deposit with MUSL	32,117	32,278
Investments, grand prize	253,377	291,927
Right-of-use leased assets, net	22,806	27,075
Total Restricted Assets	<u>368,161</u>	<u>383,675</u>
Capital assets, net	3,897	7,564
Total Noncurrent Assets	<u>372,058</u>	<u>391,239</u>
Total Assets	<u>665,431</u>	<u>815,127</u>
Deferred Outflows of Resources		
Pension related items	7,558	9,865
Other postemployment benefits related items	5,241	4,718
Total Deferred Outflows of Resources	<u>12,799</u>	<u>14,583</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 678,230</u>	<u>\$ 829,710</u>

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

(Continued)

2022 FLORIDA LOTTERY ANNUAL COMPREHENSIVE FINANCIAL REPORT

STATEMENTS OF NET POSITION

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Liabilities		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 10,500	\$ 11,948
Prizes payable	247,756	306,690
Due to Educational Enhancement Trust Fund	48,504	107,639
Deposits payable	1,412	2,365
Compensated absences payable	769	790
Lease payable	3,981	4,097
Net pension liability	32	68
Other postemployment benefits liability	505	439
Total Current Liabilities	<u>313,459</u>	<u>434,036</u>
Current Liabilities Payable from Restricted Assets:		
Grand prizes payable	22,390	22,273
Total Current Liabilities Payable from Restricted Assets	<u>22,390</u>	<u>22,273</u>
Noncurrent Liabilities:		
Grand prizes payable from restricted assets	220,724	224,566
Compensated absences payable	2,704	2,902
Lease liability	19,221	23,202
Net pension liability	9,819	27,762
Other postemployment benefits liability	28,359	26,637
Total Noncurrent Liabilities	<u>280,827</u>	<u>305,069</u>
Total Liabilities	<u>616,676</u>	<u>761,378</u>
Deferred Inflows of Resources		
Pension related items	15,761	2,367
Other postemployment benefits related items	13,272	14,651
Total Deferred Inflows of Resources	<u>29,033</u>	<u>17,018</u>
Net Position		
Invested in capital assets	3,897	7,564
Restricted for future prizes or special prize promotions	59,861	32,395
Restricted for MUSL	32,117	32,278
Restricted for undistributed appreciation on restricted investments	-	40,334
Unrestricted	(63,354)	(61,257)
Total Net Position	<u>32,521</u>	<u>51,314</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 678,230</u>	<u>\$ 829,710</u>

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

2022 FLORIDA LOTTERY ANNUAL COMPREHENSIVE FINANCIAL REPORT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2022, AND 2021 (in thousands)

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Operating Revenues		
Ticket sales	\$ 9,324,628	\$ 9,076,219
Bad debt expense	(426)	(825)
Terminal fees and miscellaneous	7,520	7,495
Retailer fees	151	156
Total Operating Revenues	<u>9,331,873</u>	<u>9,083,045</u>
Operating Expenses		
Prizes	6,245,455	6,135,198
Retailer commissions	523,132	509,861
Scratch-Off tickets	56,269	55,398
Draw games	69,090	67,206
Advertising	38,926	39,914
Personal services	26,048	32,015
Other contractual services	6,091	4,272
Materials and supplies	2,443	1,783
Depreciation	4,487	4,706
Total Operating Expenses	<u>6,971,941</u>	<u>6,850,353</u>
Operating Income	<u>2,359,932</u>	<u>2,232,692</u>
Nonoperating Revenues (Expenses)		
Interest	4,410	9,034
Investment management fees	(694)	(675)
Net appreciation (depreciation) in fair value of investments	(34,717)	(31,056)
Property disposition (loss)	(4,067)	(50)
Amortization of grand prizes payable	(10,153)	(10,642)
Total Nonoperating Revenues (Expenses), Net	<u>(45,221)</u>	<u>(33,389)</u>
Income Before Operating Transfers	<u>2,314,711</u>	<u>2,199,303</u>
Transfers from other departments	-	7
Transfers to Educational Enhancement Trust Fund	<u>(2,333,504)</u>	<u>(2,236,639)</u>
Change in Net Position	<u>(18,793)</u>	<u>(37,329)</u>
Net Position, Beginning of Year	51,314	88,643
Net Position, End of Year	<u>\$ 32,521</u>	<u>\$ 51,314</u>

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

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STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2022, AND 2021 (in thousands)

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Operating Activities		
Ticket sales	\$ 9,311,544	\$ 9,122,118
Prizes paid to winners	(6,304,228)	(6,111,563)
Commissions paid and payments to retailers	(523,131)	(509,861)
Paid to vendors for goods and services	(173,306)	(171,920)
Paid to employees	(28,659)	(28,882)
Other operating revenue	7,713	7,661
Net Cash Provided by Operating Activities	<u>2,289,933</u>	<u>2,307,553</u>
Noncapital Financing Activities		
Payments to Educational Enhancement Trust Fund	(2,392,639)	(2,256,299)
Net Cash Used in Noncapital Financing Activities	<u>(2,392,639)</u>	<u>(2,256,299)</u>
Capital and Related Financing Activities		
Purchase of capital assets	(4,887)	(721)
Net Cash Used in Capital and Related Financing Activities	<u>(4,887)</u>	<u>(721)</u>
Investing Activities		
Cash received from maturity of grand prize investments	22,801	22,615
Cash paid to grand prize winners upon maturity of grand prize investments	(22,801)	(22,615)
Investment income, net of fees	(6,212)	(8,706)
Net Cash Provided by Investing Activities	<u>(6,212)</u>	<u>(8,706)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(113,805)</u>	<u>41,827</u>
Cash and Cash Equivalents, Beginning of Year	421,572	379,745
Cash and Cash Equivalents, End of Year	<u>\$ 307,767</u>	<u>\$ 421,572</u>
Reconciliation of Income from Operations to Net Cash Provided by Operating Activities:		
Income from operations	\$ 2,359,932	\$ 2,232,692
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	4,487	4,706
Changes in assets and liabilities		
(Increase) decrease in:		
Accounts receivable	(10,759)	43,784
Inventories	790	405
Prepaid expenses	-	161
Increase (decrease) in:		
Allowance for uncollectible accounts	(741)	236
Accounts payable and accrued liabilities	(2,229)	705
Prizes payable	(58,934)	21,732
Compensated absences payable	(219)	202
Net pension liability and related deferred outflows and inflows	(2,279)	2,678
Other postemployment benefits liability and related deferred outflows and inflows	(115)	252
Net Cash Provided by Operating Activities	<u>\$ 2,289,933</u>	<u>\$ 2,307,553</u>
Noncash Investing, Capital and Financing Activities:		
Increase/(decrease) in fair value of investments	\$ (52,549)	\$ (30,731)

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

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

B. Basis of Presentation

The Lottery is accounted for as a proprietary type enterprise fund. Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises: (1) where the costs of providing goods and services to the general public on a continuing basis are to be financed through user charges; or (2) where the periodic determination of net income is considered appropriate. The Lottery is reported as an enterprise fund within the State of Florida’s Annual Comprehensive Financial Report.

C. Basis of Accounting

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

The measurement focus of proprietary fund types is on a flow of economic resources method, which emphasizes the determination of net income, financial position, and cash flows. All

fund assets and liabilities, current and noncurrent, are accounted for on the Statements of Net Position.

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

D. Cash and Cash Equivalents

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

E. Investments

Florida Statutes authorize the Lottery to invest in certain instruments. The Lottery reports investments at fair value. Fair values for investments that are not publicly quoted are estimated by the investment custodian using independent third-party pricing vendors. Details of investments are included in Note 2.

F. Allowance for Doubtful Accounts

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

G. Inventories

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

H. Prepaid Expenses

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

I. Capital Assets

Capital assets are stated at historical cost less accumulated depreciation. As required by Chapter 273, Florida Statutes, and Department of Financial Services Rules, Chapter 69I-72, Florida Administrative Code, a capitalization threshold of \$5,000 and useful life extending beyond one year are employed for tangible personal property. The Lottery's capitalization

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

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

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

J. Deferred Outflows of Resources

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

K. Long-term Liabilities

Refer to Note 7 for information on grand prizes payable, leases, compensated absences payable, postemployment healthcare benefits liability, and net pension liability, along with changes in long-term liabilities. Also, refer to Note 9 for additional information on net pension liability and postemployment healthcare benefits liability. Refer to Note 10 for additional information on lease liability.

L. Compensated Absences

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

M. Deferred Inflows of Resources

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

N. Net Position

Net position includes categories for invested in capital assets, restricted for undistributed appreciation on restricted investments, restricted for future prizes or special prize promotions, 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.

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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. During the 2020 fiscal year, two emergency orders were issued which extended the period of time for prizewinners to claim their prize from Draw and Scratch-Off games after a game is closed to 360 and 240 days, respectively. These emergency orders expired on June 16, 2021, reinstating the 180-day and 60-day claim expiration deadlines.

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 \$56.27 million per occurrence for named windstorm and flood losses and \$225 million per occurrence for all other perils. Workers' compensation is provided to comply with the applicable law. The employee health and dental insurance program provides for payment of medical claims of employees and covered dependents. Settlements of claims did not exceed insurance coverage in each of the past three fiscal years.

S. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, restricted net position, revenues, 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, 2022, and June 30, 2021, was \$426,000 and \$825,000, respectively.

U. Accounting and Reporting Changes

In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The statement requires recognition of certain lease assets and liabilities that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on provisions of the lease. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. See Note 10 for further details.

V. Unrestricted Net Position Deficit

The unrestricted net position deficits of \$63,354,000 and \$61,033,000 for the fiscal years ended June 30, 2022, and June 30, 2021, respectively, includes the cumulative effect of the Lottery's leases, postemployment healthcare benefits, compensated absences, net pension liabilities, along with the deferred outflows of resources and deferred inflows of resources for pension and postemployment healthcare benefits related items, and undistributed depreciation on investments in excess of the available restricted for undistributed appreciation no restricted investment fund balance. As a result of these items being recorded for reporting purposes only and being excluded from the calculation of transfers to the EETF, the effect is a deficit balance in unrestricted net position.

W. Net Position Restatement

Net position, June 30, 2021, as previously reported (in thousands)	\$51,538
Implementation effect of GASB Statement No. 87 (Refer to Note 10)	<u>(224)</u>
Net position, June 30, 2021, as restated	<u>\$51,314</u>

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 \$388,000 at June 30, 2022, and \$443,000 at June 30, 2021, were insured by either the State's collateral for public deposits in accordance with Section 280.04, Florida Statutes, or Federal depository insurance.

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

Florida Statutes provides that if a loss to public depositors is not covered by deposit insurance, demands of payment under any letters of credit, and the proceeds from the sale of securities pledged by the defaulting depository, the difference will be provided by an assessment levied against other Qualified Public Depositories according to a statutory based ratio.

Due to the investing policy of the Lottery, book overdrafts were approximately \$5,401,000 at June 30, 2022, and \$5,465,000 at June 30, 2021, 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. Pooled investments with the State Treasury are not registered with the Securities and Exchange Commission. Oversight of the pooled investments with the State Treasury is provided by the Treasury Investment Council per Section 17.575, Florida Statutes. The authorized investment types are set forth in Section 17.57, Florida Statutes.

The Lottery's share of this investment pool was approximately \$307,379,000 and \$421,129,000 at June 30, 2022, and 2021, respectively. Participants contribute to the pool on a dollar basis. These funds are commingled, and a fair value of the pool is determined from the individual values of the securities. The fair value of the securities is summed, and a total pool fair value is determined. The fair value factor is calculated by dividing the pool's total fair value by the pool participant's total cash balances. The fair value factor is the ratio used to determine the fair value of an individual participant's pool balance.

No allocation will be made as to the Lottery's share of the types of investments or their risk categories. The Lottery's share of the assets and liabilities arising from the securities lending agreements administered by the State Treasury will likewise not be carried on the Statements of Net Position since the State Treasury operates on a pooled basis and to do so may give

the misleading impression that the Lottery itself has entered into such agreements. For further information, refer to the State of Florida's Annual Comprehensive Financial Report or publications of the State of Florida Department of Financial Services, Office of the Chief Financial Officer.

B. Investments, Grand Prize

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

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

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

C. Investment Credit Risk

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

The State Treasury Investment Pool's current rating by S&P was AA-f as of June 30, 2022.

D. Investment Interest Rate Risk

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

As of June 30, 2022		As of June 30, 2021	
Time to Maturity	Fair Value	Time to Maturity	Fair Value
< 1 year	\$ 22,652	< 1 year	\$ 22,796
> 1 year to 3 years	45,188	> 1 year to 3 years	46,217
> 3 years to 5 years	46,469	> 3 years to 5 years	47,805
> 5 years to 10 years	80,757	> 5 years to 10 years	104,915
> 10 years to 15 years	27,268	> 10 years to 15 years	31,348
> 15 years to 20 years	17,296	> 15 years to 20 years	22,643
> 20 years to 25 years	9,311	> 20 years to 25 years	11,085
> 25 years	4,436	> 25 years	5,118
Total	\$ 253,377	Total	\$ 291,927

The effective duration of the State Treasury Investment Pool at June 30, 2022, and June 30, 2021, was approximately 2.66 years and 2.60 years, respectively.

E. Investment Concentration of Credit Risk

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

F. Investment Custodial Credit Risk

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

At June 30, 2022, and June 30, 2021, all investments held were either insured or registered and held by the Lottery or its agents in the Lottery's name and thus were not subject to custodial credit risk.

G. Foreign Currency Risk

The Lottery had no exposure to foreign currency risk as of June 30, 2022, and June 30, 2021.

H. Fair Value Hierarchy

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

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

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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.

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

		Fair Value Measurements Using		
		Quoted prices in active market for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
<u>Investments by fair value level:</u>	<u>June 30, 2022</u>			
U.S. Treasury Strips	\$ 253,377	\$ -	\$ 253,377	\$ -
Pooled Investments with State Treasury	307,379	-	-	307,379
Total securities measured at fair value	<u>\$ 560,756</u>	<u>\$ -</u>	<u>\$ 253,377</u>	<u>\$ 307,379</u>

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		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:	June 30, 2021			
U.S. Treasury Strips	\$ 291,927	\$ -	\$ 291,927	\$ -
Pooled Investments with State Treasury	421,129	-	-	421,129
Total securities measured at fair value	<u>\$ 713,056</u>	<u>\$ -</u>	<u>\$ 291,927</u>	<u>\$ 421,129</u>

I. Investment Summary

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

Investment Type	June 30, 2022 Carrying Value	June 30, 2021 Carrying Value
U.S. Government Obligations & Federally Guaranteed Obligations	\$ 253,377	\$ 291,927
Pooled Investments with State Treasury	307,379	421,129
Total Investments	<u>\$ 560,756</u>	<u>\$ 713,056</u>

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

June 30, 2022			
	Cash at Financial Institutions	Cash at State Treasury	Totals
Cash and cash equivalents	\$ 247,518	\$ 286	\$ 247,906
Restricted cash and cash equivalents	59,861	-	59,861
Investments, grand prize	253,377	-	253,377
Totals	<u>\$ 560,756</u>	<u>\$ 286</u>	<u>\$ 561,144</u>

June 30, 2021			
	Cash at Financial Institutions	Cash at State Treasury	Totals
Cash and cash equivalents	\$ 388,734	\$ 265	\$ 389,177
Restricted cash and cash equivalents	32,395	-	32,395
Investments, grand prize	291,927	-	291,927
Totals	<u>\$ 713,056</u>	<u>\$ 265</u>	<u>\$ 713,499</u>

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3. ACCOUNTS RECEIVABLE

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

	2022	2021
Ticket sales receivable	\$ 46,612	\$ 34,696
Less allowance for doubtful accounts	(4,916)	(5,657)
Accounts receivable, net	\$ 41,696	\$ 29,039

4. SECURITY DEPOSITS AND DEPOSITS PAYABLE

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

5. CAPITAL ASSETS

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

	2020-21			2021-22			
	Balance June 30, 2020	Increase	Decrease	Balance June 30, 2021	Increase	Decrease	Balance June 30, 2022
Capital assets, not being depreciated:							
Non-amortizable intangibles	\$ 4,249	\$ 267	\$ -	\$ 4,516	\$ -	\$ (4,024)	\$ 492
Total capital assets, not being depreciated	4,249	267	-	4,516	-	(4,024)	492
Capital assets, being depreciated:							
Vehicles and equipment	12,405	1,025	(1,004)	12,426	618	(385)	12,659
Intangible assets and other	599	3	(1)	601	1	-	602
Total capital assets, being depreciated	13,004	1,028	(1,005)	13,027	619	(385)	13,261
Depreciation:							
Vehicles and equipment	9,585	340	(380)	9,545	179	(341)	9,383
Intangible assets and other	395	39	-	434	39	-	473
Total depreciation	9,980	379	(380)	9,979	218	(341)	9,856
Total capital assets, being depreciated, net	3,024	649	(625)	3,048	401	(44)	3,405
Total capital assets, net	\$ 7,273	\$ 916	\$ (625)	\$ 7,564	\$ 401	\$ (4,068)	\$ 3,897

The Lottery's Property loss expenses include an impairment loss of \$4,023,977 related to financial software that has become impaired due to unexpected obsolescence.

6. MULTI-STATE LOTTERY ASSOCIATION

MUSL is a non-profit, government benefit association created for the purpose of administering joint lottery games. MUSL included 35 state lottery entities, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands during fiscal year 2022. Through membership in the association the Lottery is eligible to participate in Powerball with Powerplay, Mega Millions with Megaplier, and several other Draw games in participating states. The chief executive officer of each member lottery serves on the MUSL board of directors.

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

As of June 30, 2022, and June 30, 2021, the Lottery had deposits with MUSL of \$32,117,000 and \$32,278,000, 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, 8101 Birchwood Ct., Suite R, Johnston, Iowa 50131.

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7. LONG-TERM LIABILITIES

A. Grand Prizes Payable

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

	2022	2021
FLORIDA LOTTO grand prizes (face value)	\$ 168,735	\$ 183,869
MEGA MONEY grand prizes (face value)	4,618	5,323
Win for Life grand prizes (face value)	3,592	3,748
Lucky for Life grand prizes (face value)	14,250	15,150
Set for Life grand prizes (face value)	300	480
Cash Spectacular grand prizes (face value)	50	100
Cash for Life grand prizes (face value)	110	120
Loaded for Life grand prizes (face value)	1,850	1,950
Billion Dollar Blockbuster grand prizes (face value)	3,500	4,050
Gas for Life grand prizes (face value)	126	132
2 Million Dollar Casino Action grand prizes (face value)	800	900
Million Dollar Holiday grand prizes (face value)	450	500
Week for Life grand prizes (face value)	83,954	73,346
Bonus Triple Match grand prizes (face value)	920	960
Monopoly grand prizes (face value)	3,620	3,900
Million Wishes grand prizes (face value)	500	550
X's The Cash grand prizes (face value)	5,700	6,030
Fastest Road to 1 Million grand prizes (face value)	920	960
Flamingo grand prizes (face value)	3,170	3,400
Gold Rush grand prizes (face value)	10,250	8,840
Super Millions grand prizes (face value)	4,320	4,560
\$10mm World Class Cash grand prizes (face value)	840	880
\$2,000,000 24 Karat Cash grand prizes (face value)	1,680	1,760
Cash4Life grand prizes (face value)	6,760	6,916
Jackpot Triple Play grand prizes (face value)	3,752	2,972
\$2,000,000 Cashword grand prizes (face value)	1,760	1,840
Less imputed interest	(83,413)	(86,397)
Net present value of grand prizes payable	<u>\$ 243,114</u>	<u>\$ 246,839</u>
Current prizes payable from restricted assets	\$ 22,390	\$ 22,273
Noncurrent prizes payable from restricted assets	<u>220,724</u>	<u>224,566</u>
Total grand prizes payable	<u>\$ 243,114</u>	<u>\$ 246,839</u>

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

<u>Year Ending June 30</u>	<u>Amount</u>
2023	\$ 22,919
2024	24,084
2025	23,793
2026	26,307
2027	26,124
2028-2032	100,553
2033-2037	40,358
2038-2042	31,007
2043-2047	20,488
2048-2051 ¹	10,894
Grand prizes (face value)	326,527
Less imputed interest	(83,413)
Net present value of grand prizes payable	\$ 243,114

¹ The latest maturing security matures on August 15, 2051.

B. Compensated Absences Payable

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

	<u>2022</u>	<u>2021</u>
Current compensated absences	\$ 769	\$ 790
Noncurrent compensated absences	2,704	2,902
Total	\$ 3,473	\$ 3,692

C. Changes in Long-term Liabilities

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

	2021-22				Amount Due Within One Year
	Balance June 30, 2021	Additions	Reductions	Balance June 30, 2022	
Grand prizes payable	\$ 246,839	\$ 19,076	\$ (22,801)	\$ 243,114	\$ 22,390
Compensated absences payable	3,692	1,887	(2,106)	3,473	769
Other postemployment benefits liability	27,076	1,788	-	28,864	505
Pension liability - HIS	6,166	-	(110)	6,056	32
Pension liability - FRS	21,664	-	(17,869)	3,795	-
Total long-term liabilities	\$ 305,437	\$ 22,751	\$ (42,886)	\$ 285,302	\$ 23,696

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	2020-21				
	Balance June 30, 2020	Additions	Reductions	Balance June 30, 2021	Amount Due Within One Year
Grand prizes payable	\$ 254,791	\$ 14,667	\$ (22,619)	\$ 246,839	\$ 22,273
Compensated absences payable	3,490	1,954	(1,752)	3,692	790
Other postemployment benefits liability	35,560	-	(8,484)	27,076	439
Pension liability - HIS	6,107	59	-	6,166	68
Pension liability - FRS	18,602	3,062	-	21,664	-
Total long-term liabilities	\$ 318,550	\$ 19,742	\$ (32,855)	\$ 305,437	\$ 23,570

D. Unused Lines of Credit

Under the State of Florida's purchasing card program, the Lottery has an unused line of credit in the amount of \$39,632. Also, pursuant to agreement with the Lottery's banking institution, the Lottery has up to \$75 million in overdraft protection in the event expected wire transfers are not received timely. Overdrafts are immediately due and payable, unless the banking institution agrees otherwise in writing, and result in overdraft fees, including attorney's fees and other costs and expenses the banking institution incurs in recovering the overdraft.

8. DUE TO EDUCATIONAL ENHANCEMENT TRUST FUND

In accordance with the Act, effective July 1, 2005, variable percentages of the gross revenue from the sale of Draw games and Scratch-Off lottery tickets as determined by the Lottery, and other earned revenue, excluding application processing fees, shall be deposited in the EETF as provided in Section 24.121, Florida Statutes, as amended. The amount transferred to the EETF was \$2,333,504,000 for the fiscal year ended June 30, 2022, (25.0 percent of revenues), and \$2,236,639,000 (24.6 percent of revenues) for the fiscal year ended June 30, 2021.

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

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

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

	2022	2021
Draw ticket sales	\$ 2,299,330	\$ 2,248,355
Average percent transferred	35%	36%
Transfer of Draw ticket sales ¹	<u>822,116</u>	<u>819,974</u>
Unclaimed Draw ticket prizes	36,950	27,981
Percent transferred	80%	80%
Transfer of unclaimed Draw ticket prizes	<u>29,560</u>	<u>22,385</u>
Scratch-Off ticket sales	7,025,298	6,827,864
Average percent transferred	19%	20%
Transfer of Scratch-Off ticket sales ¹	<u>1,371,138</u>	<u>1,341,921</u>
Unclaimed Scratch-Off ticket prizes	132,478	41,582
Percent transferred	80%	80%
Transfer of unclaimed Scratch-Off ticket prizes	<u>105,982</u>	<u>33,266</u>
Nonoperating revenues (expenses), net	(45,221)	(33,389)
Add:		
Net (appreciation) depreciation in fair value of investments	34,717	31,056
Amortization of grand prizes payable	<u>10,153</u>	<u>10,642</u>
Total Nonoperating revenues, net	<u>(351)</u>	<u>8,309</u>
Pension, postemployment healthcare, and compensated absences expenses	(2,612)	3,133
Terminal fees and miscellaneous revenue	<u>7,671</u>	<u>7,651</u>
Due for the year	<u>2,333,504</u>	<u>2,236,639</u>
Balance due, beginning of year	107,639	127,299
Paid during the year	<u>(2,392,639)</u>	<u>(2,256,299)</u>
Due to Educational Enhancement Trust Fund, June 30	<u><u>\$ 48,504</u></u>	<u><u>\$ 107,639</u></u>

¹ Amounts do not foot due to rounding of average percent transferred.

9. PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

A. Retirement Programs

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

Florida Retirement System. The Florida Retirement System (FRS) is a State-administered cost-sharing multiple-employer retirement plan administered by the DMS that offers members

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

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

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

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

FRS Investment Plan benefits are established in Part II, Chapter 121, Florida Statutes, and participation is available to all FRS members in lieu of the FRS Pension Plan. Members vest after one year of creditable service for Investment Plan contributions. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is

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

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transferred to the FRS Investment Plan, six years or eight years depending upon initial enrollment date of service (including the service credit represented by the transferred funds) is required to be vested for these funds and the earnings on the funds. Benefits under the FRS Investment Plan are based on the account balance at retirement composed of contributions plus investment gains less investment losses and fees. If the member is totally and permanently disabled from all employment, the member can transfer the account balance to the FRS Pension Plan to receive a monthly disability benefit. Employer and employee contributions are a percentage of salary based on membership class. Contributions are directed to individual member accounts and the individual members allocate contributions and account balances among various approved investment choices offered under the plan. Additionally, the Lottery is required to make a contribution as a percent of covered payroll that is transferred to the FRS Trust Fund to help amortize the unfunded actuarial liability (UAL). The required UAL contribution rates for the fiscal year ended June 30, 2022, were 4.19 percent for regular class, 8.90 percent for special risk class, and 20.80 percent for senior management service class.

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

Class	Employee Rate Fiscal Year Ended June 30, 2022	Employer Rate Fiscal Year Ended June 30, 2022 ⁽¹⁾	Employee Rate Fiscal Year Ended June 30, 2021	Employer Rate Fiscal Year Ended June 30, 2021 ⁽¹⁾
Senior Management Service	3.00 percent	29.01 percent	3.00 percent	27.29 percent
Regular	3.00 percent	10.82 percent	3.00 percent	10.00 percent
Special Risk	3.00 percent	25.89 percent	3.00 percent	24.45 percent
DROP - Applicable to members from all of the above classes	0.00 percent	18.34 percent	0.00 percent	16.98 percent

¹ Total employer contribution rates above include 1.66 percent for the fiscal years ended June 30, 2022, and June 30, 2021, for the Retiree Health Insurance Subsidy Program. Also, employer rates, other than for DROP participants, include 0.06 percent for fiscal years ended June 30, 2022, and June 30, 2021, for administration costs of the financial education program and the FRS Investment Plan. Required employee contributions are deducted on a pre-tax basis.

The Lottery's contributions to the FRS Pension Plan for fiscal years ended June 30, 2022, 2021, and 2020, totaled \$2,119,334, \$1,913,766, and \$1,660,729, respectively. The Lottery's contributions to the FRS Investment Plan for the fiscal years ended June 30, 2022, 2021, and 2020, totaled \$722,941, \$698,057, and \$642,880, 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, 2022, 2021, and 2020,

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

HIS is funded by required contributions from FRS participating employers. For the fiscal years ended June 30, 2022, 2021, and 2020, required contributions were 1.66 percent of payroll for all active employees covered by the FRS, pursuant to Section 112.363, Florida Statutes. For the fiscal years ended June 30, 2022, 2021, and 2020, the Lottery contributed \$289,351, \$290,215, and \$291,008, respectively, in employer contributions to the HIS. HIS contributions are deposited in a DMS trust fund from which HIS payments are authorized. HIS benefits are not guaranteed and are subject to legislative appropriation. If these contributions or appropriation fail to provide full subsidy benefits to all participants, the Legislature may reduce or cancel the subsidy payments.

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

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

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

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

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

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At June 30, 2022, the Lottery reported a net pension liability of \$3,794,742 for its proportionate share of the FRS Pension Plan's net pension liability and \$6,056,335 for its proportionate share of the HIS net pension liability, for a total net pension liability of \$9,851,077. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was based on actuarial valuations as of July 1, 2021, for the FRS Pension Plan and HIS. The Lottery's proportionate share of the net pension liability was based on 2020-21 fiscal year contributions to the Plans relative to the total 2020-21 fiscal year contributions of all participating members. At June 30, 2021, the Lottery's proportionate share of the FRS Pension Plan net pension liability was 0.050235772 percent, which was a 0.50 percent increase from its proportionate share measured as of June 30, 2020, of 0.049983465 percent. The Lottery's proportionate share of the HIS net pension liability at June 30, 2021, was 0.049372962 percent, which was a 2.23 percent decrease from its proportion as of June 30, 2020, of 0.050500009 percent. For the fiscal year ended June 30, 2022, the Lottery recognized pension expense of (\$179,895) for the FRS Pension Plan and \$310,580 for the HIS, for pension expense totaling \$130,685. At June 30, 2022, 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	\$ 650,425	\$ -
Changes in assumptions	2,596,550	-
Net difference between projected and actual earnings on pension plan investments	-	13,238,900
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,057,024	1,643,822
Employer contributions subsequent to the measurement date	2,119,334	-
Totals	\$ 6,423,333	\$ 14,882,722

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	HIS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 202,660	\$ 2,536
Changes in assumptions	475,892	249,535
Net difference between projected and actual earnings on pension plan investments	6,314	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	160,799	626,470
Employer contributions subsequent to the measurement date	289,351	-
Totals	\$ 1,135,016	\$ 878,541

The Lottery's contributions subsequent to the measurement date of \$2,119,334 for the FRS Pension Plan and \$289,351 for the HIS are reported as deferred outflows of resources and will be recognized as a reduction of the total net pension liability in the fiscal year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	FRS Pension Plan	HIS	Totals
2023	\$ (1,930,142)	\$ 13,045	\$ (1,917,097)
2024	(2,192,145)	(64,395)	(2,256,540)
2025	(2,863,280)	131	(2,863,149)
2026	(3,624,420)	25,158	(3,599,262)
2027	31,264	(2,362)	28,902
Thereafter	-	(4,456)	(4,456)
Totals	\$ (10,578,723)	\$ (32,879)	\$ (10,611,602)

Actuarial Methods and Assumptions. Actuarial assumptions for both defined benefit cost-sharing plans, the FRS Pension Plan and the HIS, are reviewed annually by the Florida Retirement System Actuarial Assumption Conference. The most recent experience study for the FRS Pension Plan was completed in 2019 for the period July 1, 2013, through June 30, 2018. Because the HIS is funded on a pay-as-you-go basis, no experience study has been completed for this program.

The total pension liability for the FRS Pension Plan was determined by an actuarial valuation as of July 1, 2021, using the entry age normal actuarial cost method. The HIS was determined by an actuarial valuation prepared as of July 1, 2021. Inflation increases for both plans is assumed at 2.40 percent. Payroll growth for both Plans is assumed at 3.25 percent.

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Both the discount rate and the long-term expected rate of return used for the FRS Pension Plan investments are 6.80 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from participating employers will be made at the statutorily required rates. Based on these assumptions, the FRS Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return and was applied to all periods of projected benefit payments to determine the total pension liability.

Because the HIS uses a pay-as-you-go funding structure, a municipal bond rate of 2.16 percent was used to determine the total pension liability for the plan. Mortality assumptions were based on PUB-2010 base tables projected generationally with Scale MP-2018 for the FRS Pension Plan and HIS (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 2021:

FRS Pension Plan: Decreasing the maximum amortization period to 20 years for all current and future amortization. Additionally, the assumed investment rate of return decreased from 7.0 percent to 6.8 percent for funding purposes.

HIS: The municipal rate used to determine total pension liability decreased from 2.21 percent to 2.16 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:

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Asset Class	Target Allocation	Arithmetic Real Rates of Return
Cash	1.00%	2.10%
Fixed income	20.00%	3.80%
Global equity	54.20%	8.20%
Real estate (property)	10.30%	7.10%
Private equity	10.80%	11.70%
Strategic investments	3.70%	5.70%
	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, 2021.

FRS Pension Plan			HIS		
1% Decrease	Current Discount Rate	1% Increase	1% Decrease	Current Discount Rate	1% Increase
5.80%	6.80%	7.80%	1.16%	2.16%	3.16%
\$ 16,970,340	\$ 3,794,742	\$ (7,218,581)	\$ 7,001,710	\$ 6,056,335	\$ 5,281,812

B. Postemployment Healthcare Benefits

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

General Information about the OPEB Plan

Plan Description. The Lottery participates in the Program, a State-administered cost-sharing multiple-employer defined benefit plan that provides group health benefits. Pursuant to the provisions of Section 112.0801, Florida Statutes, all employees who retire from the State of Florida are eligible to participate in the Program. Retirees and their eligible dependents shall be offered the same health and hospitalization insurance coverage as is offered to active employees at a premium cost of no more than the premium cost applicable to active employees. A retiree means any officer or employee who retires under a State retirement system or State optional annuity or retirement program or is placed on disability retirement and who begins receiving retirement benefits immediately after retirement from employment. In addition, any officer or employee who retires under the Florida Retirement System Investment Plan is considered a "retiree" if he or she meets the age and service requirements

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to qualify for normal retirement or has attained the age of 59.5 years and has the years of service required for vesting. The State of Florida subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because retiree healthcare costs are generally greater than active employee healthcare costs. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. The OPEB Plan contribution requirements and benefit terms necessary for funding the OPEB Plan each year is on a pay-as-you-go basis as established by the Governor's recommended budget and the General Appropriations Act. Retirees are required to enroll in the Medicare program for their primary coverage as soon as they are eligible.

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

The total number of OPEB Plan employees covered by the benefit terms at July 1, 2020, were as follows:

Inactive plan members or beneficiaries currently receiving benefits	35,580
Inactive plan members entitled to, but not yet receiving benefits*	-
Active plan members	158,916
Total	<u>194,496</u>

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

Proportionate Share of the Total OPEB Liability

The Program's total OPEB liability of \$10,549,765,000 was measured as of June 30, 2021, and was determined by an actuarial valuation as of July 1, 2020, updated to July 1, 2021. The Lottery's proportionate share of that liability reported at June 30, 2022, was \$28,863,477. At June 30, 2021, the Lottery's proportionate share, determined by its proportion of total Lottery employees as compared to total OPEB Plan employees, was 0.273830487 percent, which was a 4.07 percent increase from its proportionate share measured as of June 30, 2020, of 0.263132349 percent.

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Actuarial Assumptions and Other Inputs.

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

Inflation	2.60 percent
Discount rate	2.18 percent
Healthcare cost trend rates	7.95 percent for Preferred Provider Organizations (PPO) and 6.02 percent for Health Maintenance Organizations (HMO) for fiscal years 2021 to 2022, decreasing to an ultimate rate of 4.04 percent for Preferred Provider Organizations (PPO) and 4.04 percent for Health Maintenance Organizations (HMO) for fiscal year 2076 and later years
Retirees' share of benefit-related costs	7.00 percent of projected health insurance premiums for Pre-Medicare eligible and Medicare-Eligible employees

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

When comparing the July 1, 2019, demographic actuarial assumptions for retirement, disability incidence, and withdrawal it was determined that the data was reasonably consistent for July 1, 2020. Enrollment decreased slightly between July 1, 2019, and July 1, 2020. Census and enrollment data received as of July 1, 2020, was used to develop GASB 75 results for both fiscal year ending June 30, 2021, and June 30, 2022.

The following changes have been made since the July 1, 2019, valuation:

- The discount rate as of the measurement date for GASB Statement No. 75 purposes was changed to 2.18 percent. The prior GASB Statement No. 75 report used 2.66 percent. The discount rate is based on the 20-year S&P Municipal Bond Rate Index as of the measurement date.

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

	Increase(Decrease) Total OPEB Liability
Balance at June 30, 2021	\$ 27,076,438
Changes for the year:	
Service cost	1,419,861
Interest	781,243
Differences between expected and actual experience	(64,319)
Changes of assumptions or other inputs	(1,328,789)
Employer benefits payments	(459,121)
Changes in proportionate share	1,438,164
Net changes	1,787,039
Balance at June 30, 2022	<u>\$ 28,863,477</u>

Sensitivity of the Lottery's Share of the Total OPEB Liability to Changes in the Discount Rate. The following table presents the Lottery's proportionate share of the total OPEB liability, as well as what the Lottery's proportionate share of the total OPEB liability would be if it were calculated using a discount rate that is 1.00 percentage point lower (1.18 percent) or 1.00 percentage point higher (3.18 percent) than the current rate:

1% Decrease 1.18%	Current Discount Rate 2.18%	1% Increase 3.18%
\$ 35,183,470	\$ 28,863,477	\$ 23,972,272

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

1% Decrease	Current Healthcare Cost Trend	1% Increase
\$ 23,201,224	\$ 28,863,477	\$ 35,846,894

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

For the fiscal year ended June 30, 2022, the Lottery recognized OPEB expense of (\$114,755). At June 30, 2022, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of assumptions or other inputs	\$ 3,104,275	\$ 9,559,211
Differences between expected and actual experience	-	1,371,934
Changes in proportions and differences between Lottery benefit payments and proportionate share of benefit payments	1,794,212	2,340,450
Transactions subsequent to the measurement date	342,249	-
Totals	\$ 5,240,736	\$ 13,271,595

Of the total amount reported as deferred outflows of resources related to OPEB, \$342,249 resulting from transactions (e.g., benefit payments and administrative expenses) subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the total OPEB liability and included in OPEB expense in the fiscal year ending June 30, 2023. Other amounts reported as deferred inflows of resources and deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30	Amount
2023	\$ (1,635,033)
2024	(1,635,033)
2025	(1,635,033)
2026	(1,635,033)
2027	(1,071,459)
Thereafter	(761,517)
Totals	\$ (8,373,108)

10. LEASES

The Lottery is a lessee for a series of noncancellable leases of office space for its headquarters and district offices as well as office equipment. Certain leases are renewable at the option of the Lottery. The Lottery has adopted GASB 87 to account for all such leases. In doing so the Lottery has recognized a lease liability and a right-to-use asset. The liability was initially measured at the present value of the payments expected to be made over the

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terms of the various leases. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The Lottery utilized the Consolidated Equipment Financing Program rates to establish the discount rate. Lease-related interest expense under all leases totaled \$185,978 and \$186,226 for June 30, 2022, and June 30, 2021, respectively. The asset is amortized on a straight-line basis over the life of the lease. The amortization expense was \$4,268,413 and \$4,153,573 for June 30, 2022, and June 30, 2021, respectively. The Lottery subleased portions of the office space and received proceeds of \$477,783 and \$565,399 for fiscal years 2022 and 2021, respectively. These subleases are cancelable by either party with 90 days notice which do not meet the definition of GASB 87 leases.

The office space and office equipment lease assets as of June 30, 2022, are shown below:

Office Space		Office Equipment	
Lease Asset	Accumulated Amortization	Lease Asset	Accumulated Amortization
\$ 30,982,100	\$ 8,303,200	\$ 246,336	\$ 118,786

The office space and office equipment lease assets as of June 30, 2021, are shown below:

Office Space		Office Equipment	
Lease Asset	Accumulated Amortization	Lease Asset	Accumulated Amortization
\$ 30,982,100	\$ 4,094,180	\$ 246,336	\$ 59,393

Amortization for the remaining lease terms as of June 30, 2022, is shown below:

Year Ending June 30,	Amortization
2023	\$ 4,076,353
2024	3,877,885
2025	3,589,241
2026	3,496,811
2027	3,444,539
2028-2032	4,321,621
	<u>\$ 22,806,450</u>

Leases liability totaled approximately \$23,202,765 and \$27,298,947 for the fiscal years ended June 30, 2022, and June 30, 2021, respectively. Principal and interest requirements to maturity for the lease liability as of June 30, 2022, are shown below:

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Year Ending June 30,	Principal	Interest	Total
2023	\$ 3,980,980	\$ 156,274	\$ 4,137,254
2024	3,849,680	127,952	3,977,632
2025	3,614,176	100,731	3,714,907
2026	3,582,654	74,585	3,657,239
2027	3,589,203	48,303	3,637,506
2028-2032	4,586,072	30,813	4,616,885
	<u>\$ 23,202,765</u>	<u>\$ 538,658</u>	<u>\$ 23,741,423</u>

11. VENDOR SUPPORT FUNDS

Each of the gaming vendor contracts requires the vendors to provide a fund for marketing support activities as directed by the Lottery. The vendors are required to make deposits into the designated accounts either weekly or monthly and distribute the funds as directed by the Lottery. The funds are used for market research and other expenses directly linked to product sales. Vendor balances committed for marketing research vary with timing of marketing initiatives, industry developments, and changes in technology. Actual cash balances for these funds at June 30, 2006, through June 30, 2022, ranged from \$1,058,000 to \$5,196,000. Each contract requires that any funds remaining in the accounts at the end of each contract's term will be returned to the Lottery for transfer to the EETF. Historically, no balances have reverted to the Lottery.

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

2021-22 Vendor Support Funds				
	Balance June 30, 2021	Additions	Deletions	Balance June 30, 2022
IGT	\$ 468	\$ 360	\$ (371)	\$ 457
Scientific Games	3,162	5,200	(6,389)	1,973
Total Vendor Support	<u>\$ 3,630</u>	<u>\$ 5,560</u>	<u>\$ (6,760)</u>	<u>\$ 2,430</u>

2020-21 Vendor Support Funds				
	Balance June 30, 2020	Additions	Deletions	Balance June 30, 2021
IGT	\$ 592	\$ 360	\$ (484)	\$ 468
Scientific Games	3,666	5,200	(5,704)	3,162
Total Vendor Support	<u>\$ 4,258</u>	<u>\$ 5,560</u>	<u>\$ (6,188)</u>	<u>\$ 3,630</u>

12. OTHER COMMITMENTS

The Lottery has contractual agreements under which Draw and Scratch-Off lottery game vendors provide gaming systems, tickets, and related services. The Draw gaming vendor was compensated at a rate of 0.7384 percent of net Draw and Scratch-Off ticket sales. The vendor's compensation for Draw games, gaming equipment, and for the provision of full

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service vending machines for the fiscal years ended June 30, 2022, and 2021, was \$69,090,000 and \$67,206,000, respectively.

The Lottery's Scratch-Off ticket vendor was compensated at rates that range from 0.6290 percent to 1.4980 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 \$56,269,000 for the fiscal year ended June 30, 2022, and \$55,398,000 for the fiscal year ended June 30, 2021.

13. LITIGATION

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

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OTHER REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEARS ENDED JUNE 30

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

	2021 ⁽²⁾	2020 ⁽²⁾	2019 ⁽²⁾
Lottery's proportion of the net pension liability	0.050235772%	0.049983465%	0.054013536%
Lottery's proportionate share of the net pension liability	\$ 3,794,742	\$ 21,663,570	\$ 18,601,510
Lottery's covered payroll	\$ 17,479,154	\$ 17,527,166	\$ 18,276,513
Lottery's proportionate share of the net pension liability as a percentage of its covered payroll	21.71%	123.60%	101.78%
Plan fiduciary net position as a percentage of the total pension liability	96.40%	78.85%	82.61%

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

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

Notes to Schedule:

Changes in actuarial assumptions: The long-term expected rate of return was decreased from 6.90% in 2019 to 6.80% in 2020. In 2021, the assumed investment rate of return was decreased from 7.00% to 6.80% for funding purposes.

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

	2022 ⁽²⁾	2021 ⁽²⁾	2020 ⁽²⁾	2019 ⁽²⁾
Contractually required contribution	\$ 2,119,334	\$ 1,913,766	\$ 1,660,729	\$ 1,674,809
Contributions in relation to the contractually required contribution	(2,119,334)	(1,913,766)	(1,660,729)	(1,674,809)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Lottery's covered payroll	\$ 17,426,997	\$ 17,479,154	\$ 17,527,166	\$ 18,276,513
Contributions as a percentage of covered payroll	12.16%	10.95%	9.48%	9.16%

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

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

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2018⁽²⁾	2017⁽²⁾	2016⁽²⁾	2015⁽²⁾	2014⁽²⁾
0.053883272%	0.052889273%	0.054090117%	0.055549065%	0.054080631%
\$ 16,229,921	\$ 15,644,292	\$ 13,657,797	\$ 7,174,907	\$ 3,299,714
\$ 17,945,878	\$ 17,435,001	\$ 17,562,079	\$ 15,985,814	\$ 16,266,000
90.44%	89.73%	77.77%	44.88%	20.29%
84.26%	83.89%	84.88%	92.00%	96.09%

2018⁽²⁾	2017⁽²⁾	2016⁽²⁾	2015⁽²⁾	2014⁽²⁾
\$ 1,535,630	\$ 1,376,838	\$ 1,319,074	\$ 1,354,333	\$ 1,184,595
(1,535,630)	(1,376,838)	(1,319,074)	(1,354,333)	(1,184,595)
\$ -	\$ -	\$ -	\$ -	\$ -
\$ 17,945,878	\$ 17,435,001	\$ 17,562,079	\$ 15,985,814	\$ 16,266,000
8.56%	7.90%	7.51%	8.47%	7.28%

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

	2021 ⁽²⁾	2020 ⁽²⁾	2019 ⁽²⁾
Lottery's proportion of the net pension liability	0.049372962%	0.050500009%	0.054579054%
Lottery's proportionate share of the net pension liability	\$ 6,056,335	\$ 6,165,969	\$ 6,106,850
Lottery's covered payroll	\$ 17,479,154	\$ 17,527,166	\$ 18,253,617
Lottery's proportionate share of the net pension liability as a percentage of its covered payroll	34.65%	35.18%	33.46%
Plan fiduciary net position as a percentage of the total pension liability	3.56%	3.00%	2.63%

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

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

Notes to Schedule:

Changes in actuarial assumptions: The municipal rate used to determine total pension liability was increased from 2.63% in 2020 to 2.18% in 2021.

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

	2022 ⁽²⁾	2021 ⁽²⁾	2020 ⁽²⁾	2019 ⁽²⁾
Contractually required contribution	\$ 289,351	\$ 290,215	\$ 291,008	\$ 303,072
Contributions in relation to the contractually required contribution	(289,351)	(290,215)	(291,008)	(303,072)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Lottery's covered payroll	\$ 17,426,997	\$ 17,479,154	\$ 17,527,166	\$ 18,253,617
Contributions as a percentage of covered payroll	1.66%	1.66%	1.66%	1.66%

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

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

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2018⁽²⁾	2017⁽²⁾	2016⁽²⁾	2015⁽²⁾	2014⁽²⁾
0.054610115%	0.054020990%	0.056217445%	0.056262384%	0.057588909%
\$ 5,779,995	\$ 5,776,174	\$ 6,551,910	\$ 5,737,878	\$ 5,384,704
\$ 17,836,604	\$ 17,219,001	\$ 17,354,507	\$ 15,969,897	\$ 16,175,000
32.41%	33.55%	37.75%	35.93%	33.29%
2.15%	1.64%	0.97%	0.50%	0.99%

2018⁽²⁾	2017⁽²⁾	2016⁽²⁾	2015⁽²⁾	2014⁽²⁾
\$ 296,152	\$ 285,895	\$ 288,150	\$ 215,070	\$ 197,280
(296,152)	(285,895)	(288,150)	(215,070)	(197,280)
\$ -	\$ -	\$ -	\$ -	\$ -
\$ 17,836,604	\$ 17,219,001	\$ 17,354,507	\$ 15,969,897	\$ 16,175,000
1.66%	1.66%	1.66%	1.35%	1.22%

2022 FLORIDA LOTTERY ANNUAL COMPREHENSIVE FINANCIAL REPORT

Schedule of the Lottery's Proportionate Share of the Total Other Postemployment Benefits (OPEB) Liability and Related Ratios

Last Ten Fiscal Years ⁽¹⁾

	2021 ⁽²⁾	2020 ⁽²⁾	2019 ⁽²⁾	2018 ⁽²⁾
Lottery's proportion of the total OPEB liability	0.273830487%	0.263132349%	0.280924900%	0.288278422%
Lottery's proportionate share of the total OPEB liability	\$ 28,863,477	\$ 27,076,438	\$ 35,560,179	\$ 30,417,848
Lottery's covered-employee payroll	\$ 17,479,154	\$ 17,527,166	\$ 18,276,513	\$ 17,945,878
Lottery's proportionate share of the total OPEB liability as a percentage of its covered-employee payroll	165.13%	154.48%	194.57%	169.50%
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	0.00%	0.00%	0.00%

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

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

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

Changes of Assumptions. The amounts reported as changes of assumptions resulted from a change in the discount rate of return from 2.66 as of June 30, 2020 to 2.18 as of June 30, 2021. (Refer to Note 9 to the financial statements for further detail.)

2022 FLORIDA LOTTERY ANNUAL COMPREHENSIVE FINANCIAL REPORT

	<u>2017⁽²⁾</u>
	0.279755700%
\$	30,246,920
\$	17,435,001
	173.48%
	0.00%

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STATISTICAL SECTION

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2022 FLORIDA LOTTERY COMPREHENSIVE ANNUAL FINANCIAL REPORT

Overview

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

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

Schedule A-1 - Net Position by Component	72
Schedule A-2 - Changes in Net Position.....	74
Schedule A-3 - Transfers to EETF, Ticket Sales, Prize Expense, and Retailer Commissions	76

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

Schedule B-1 - Sales by Game.....	78
Schedule B-2 - Ticket Sales Percentages	79
Schedule B-3 - Scratch-Off Game Launches and Sales by Price Point.....	80
Schedule B-4 - Number of Retailers and Sales by District.....	82

Demographic and Economic Information – These schedules include demographic and economic information to communicate the Lottery's socioeconomic environment.

Schedule C-1 - Demographic and Economic Statistics.....	84
Schedule C-2 - Industry Sector Employment.....	86
Schedule C-3 - Lottery Player Demographics.....	88

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

Schedule D-1 - Schedule of Lottery Employees	90
Schedule D-2 - Operating Indicators.....	92
Schedule D-3 - Capital Assets by Category.....	94

2022 FLORIDA LOTTERY ANNUAL COMPREHENSIVE FINANCIAL REPORT

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

Schedule A-1

	Fiscal Year			
	2013	2014	2015	2016
Invested in capital assets	\$ 3,215	\$ 4,243	\$ 5,820	\$ 6,106
Restricted for undistributed appreciation on restricted investments	67,195	58,009	51,800	70,871
Restricted for MUSL ⁽¹⁾	19,037	19,817	21,766	22,793
Restricted for future prizes or special prize promotions	15,854	15,592	21,528	28,268
Unrestricted	-	-	(19,371)	(20,608)
Total Net Position	<u>\$ 105,301</u>	<u>\$ 97,661</u>	<u>\$ 81,543</u>	<u>\$ 107,430</u>
Percent change from prior year	(23%)	(7%)	(17%)	32%

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

Source: Florida Lottery, General Accounting

⁽¹⁾ Multi-State Lottery Association

2022 FLORIDA LOTTERY ANNUAL COMPREHENSIVE FINANCIAL REPORT

Schedule A-1

Fiscal Year					
2017	2018	2019	2020	2021	2022
\$ 6,264	\$ 6,987	\$ 7,170	\$ 7,273	\$ 7,564	\$ 3,897
40,440	26,092	45,368	80,850	40,334	
24,177	26,676	33,745	34,181	32,278	32,117
30,882	39,223	51,445	24,239	32,395	59,861
(23,366)	(50,743)	(53,165)	(57,900)	(61,257)	(63,354)
<u>\$ 78,397</u>	<u>\$ 48,235</u>	<u>\$ 84,563</u>	<u>\$ 88,643</u>	<u>\$ 51,314</u>	<u>\$ 32,521</u>
(27%)	(38%)	75%	5%	(42%)	(37%)

2022 FLORIDA LOTTERY ANNUAL COMPREHENSIVE FINANCIAL REPORT

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

Schedule A-2

	Fiscal Year			
	2013	2014	2015	2016
Operating Revenues				
Scratch-Off	\$ 3,028,527	\$ 3,417,143	\$ 3,723,995	\$ 3,954,701
LOTTO	352,375	349,114	300,961	291,382
FANTASY 5	281,492	288,237	287,803	296,307
PICK 3/CASH 3	324,539	339,636	363,251	379,757
PICK 4/PLAY 4	244,141	257,752	276,217	291,651
RAFFLE	12,879	-	-	11,724
MEGA MONEY/LUCKY MONEY/JACKPOT TRIPLE PLAY	89,500	79,483	103,196	84,881
LUCKY LINES	8,582	-	-	-
MEGA MILLIONS with Megaplier	16,698	167,573	147,370	149,950
POWERBALL with Power Play and Double Play	654,263	469,292	375,057	602,001
MONOPOLY MILLIONAIRES	-	-	5,481	-
PICK 2	-	-	-	-
PICK 5	-	-	-	-
CASH4LIFE	-	-	-	-
FAST PLAY	-	-	-	-
CASH POP	-	-	-	-
Total ticket sales	5,012,996	5,368,230	5,583,331	6,062,354
Bad debt expense	(912)	(1,337)	(1,263)	(1,487)
Net Ticket Sales	5,012,084	5,366,893	5,582,068	6,060,867
Terminal fees and miscellaneous	7,773	7,611	7,456	7,439
Retailer fees	206	206	196	181
Total Operating Revenues	5,020,063	5,374,710	5,589,720	6,068,487
Operating Expenses				
Prizes	3,162,889	3,431,092	3,627,939	3,868,970
Retailer commissions	278,493	298,651	311,981	337,007
Scratch-Off tickets	44,193	48,157	51,665	55,591
Draw games	31,012	28,895	29,970	32,650
Advertising	37,696	37,486	37,513	41,180
Personal services	25,730	27,614	27,320	28,379
Other contractual services	6,801	7,656	8,344	7,941
Materials and supplies	2,156	1,057	2,078	1,662
Depreciation	270	715	441	959
Total Operating Expenses	3,589,240	3,881,323	4,097,251	4,374,339
Operating Income	1,430,823	1,493,387	1,492,469	1,694,148
Non-Operating Revenue (Expenses)				
Interest	3,984	2,776	4,032	4,695
Securities lending income	2,543	1,534	997	1,163
Securities lending fees	(1,090)	(327)	(505)	(645)
Investment management fees	(376)	(532)	(370)	(405)
Net appreciation (depreciation) in fair value of investments	(13,749)	13,718	12,604	34,246
Property disposition (loss)	(60)	124	64	15
Amortization of grand prizes payable	(29,068)	(22,911)	(18,040)	(14,779)
Total Nonoperating Revenues (Expenses), Net	(37,816)	(5,618)	(1,218)	24,290
Income Before Operating Transfers	1,393,007	1,487,769	1,491,251	1,718,438
Transfers from other departments	-	-	-	-
Total Transfers to Educational Enhancement Trust Fund	(1,424,307)	(1,495,409)	(1,496,371)	(1,692,551)
Change in Net Position	(31,300)	(7,640)	(5,120)	25,887
Net Position, Beginning of Year	136,601	105,301	97,661	81,543
Implementation effect of GASB Statements No. 68 & 75	-	-	(10,998)	-
Net Position, End of Year	\$ 105,301	\$ 97,661	\$ 81,543	\$ 107,430

Source: Florida Lottery, General Accounting

2022 FLORIDA LOTTERY ANNUAL COMPREHENSIVE FINANCIAL REPORT

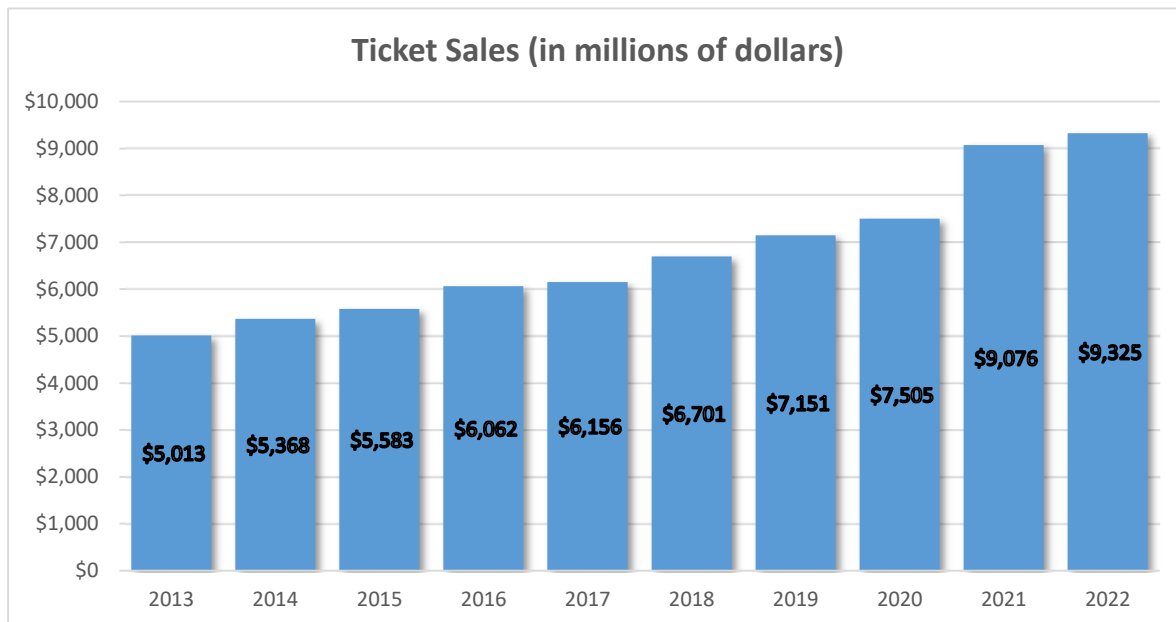
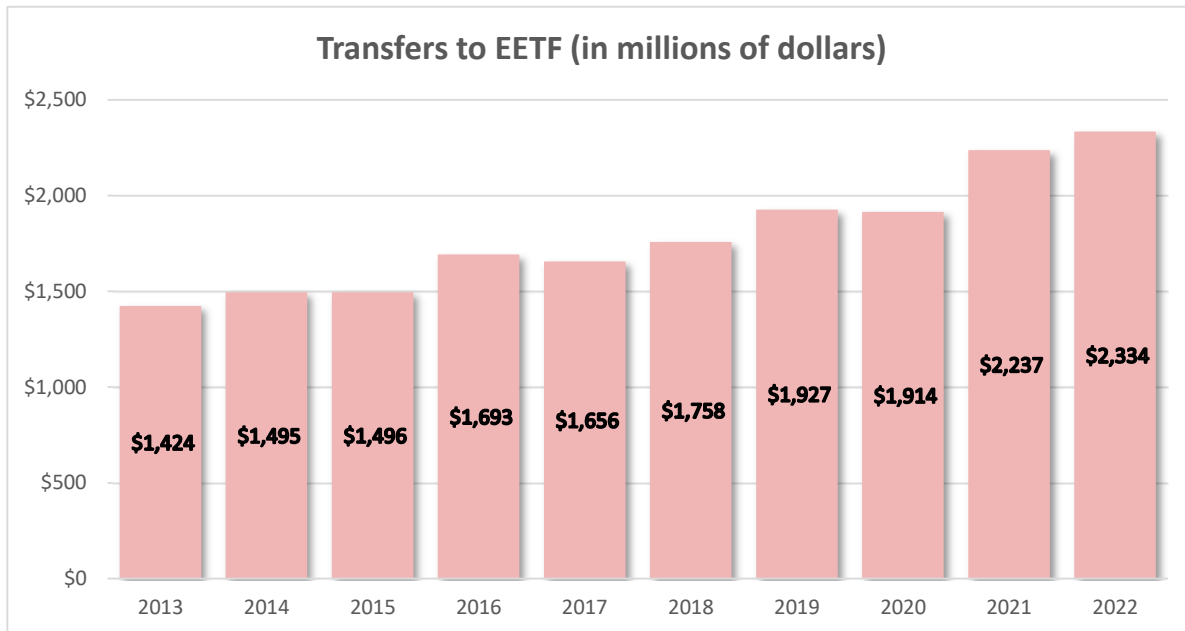
Schedule A-2

Fiscal Year					
2017	2018	2019	2020	2021	2022
\$ 4,243,602	\$ 4,652,295	\$ 4,937,779	\$ 5,665,324	\$ 6,827,864	\$ 7,025,298
253,039	240,015	223,504	210,098	284,697	267,899
275,663	264,417	258,409	245,842	257,850	243,465
348,724	366,073	380,330	396,338	465,136	469,440
249,312	259,271	253,423	258,571	293,297	305,139
11,357	-	-	-	-	-
89,436	74,193	74,632	54,452	52,115	46,395
-	-	-	-	-	-
147,381	220,619	416,963	225,035	337,063	239,215
434,263	474,039	459,392	282,152	363,671	494,132
-	-	-	-	-	-
23,931	20,267	20,860	22,280	29,429	26,397
50,996	52,618	54,649	59,673	75,042	76,733
28,775	59,219	50,337	65,321	69,240	64,820
-	17,785	20,958	20,026	20,815	10,830
-	-	-	-	-	54,865
6,156,479	6,700,811	7,151,236	7,505,112	9,076,219	9,324,628
(1,073)	(1,158)	(1,041)	(1,318)	(825)	(426)
6,155,406	6,699,653	7,150,195	7,503,794	9,075,394	9,324,202
7,436	8,014	7,513	7,702	7,495	7,520
175	208	175	131	156	151
6,163,017	6,707,875	7,157,883	7,511,627	9,083,045	9,331,873
3,996,632	4,394,400	4,638,488	5,030,240	6,135,198	6,245,455
343,608	373,819	398,162	420,843	509,861	523,132
58,615	63,654	64,935	52,409	55,398	56,269
30,301	31,863	38,275	55,905	67,206	69,090
39,452	38,323	39,649	39,455	39,914	38,926
30,117	31,064	31,273	33,047	32,015	26,048
7,486	8,802	8,176	8,517	4,272	6,091
2,180	1,904	2,019	574	1,783	2,443
1,570	1,108	1,078	857	4,706	4,487
4,509,961	4,944,937	5,222,055	5,641,847	6,850,353	6,971,941
1,653,056	1,762,938	1,935,828	1,869,780	2,232,692	2,359,932
4,829	5,551	8,933	13,102	9,034	4,410
-	-	-	-	-	-
-	-	-	-	-	-
(418)	(415)	(479)	(524)	(675)	(694)
(17,825)	(3,870)	30,405	46,596	(31,056)	(34,717)
(57)	(13)	5	(16)	(50)	(4,067)
(12,270)	(11,409)	(11,310)	(11,059)	(10,642)	(10,153)
(25,741)	(10,156)	27,554	48,099	(33,389)	(45,221)
1,627,315	1,752,782	1,963,382	1,917,879	2,199,303	2,314,711
-	-	-	-	7	-
(1,656,348)	(1,758,329)	(1,927,054)	(1,913,799)	(2,236,639)	(2,333,504)
(29,033)	(5,547)	36,328	4,080	(37,329)	(18,793)
107,430	78,397	48,235	84,563	88,643	51,314
-	(24,615)	-	-	-	-
\$ 78,397	\$ 48,235	\$ 84,563	\$ 88,643	\$ 51,314	\$ 32,521

2022 FLORIDA LOTTERY ANNUAL COMPREHENSIVE FINANCIAL REPORT

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

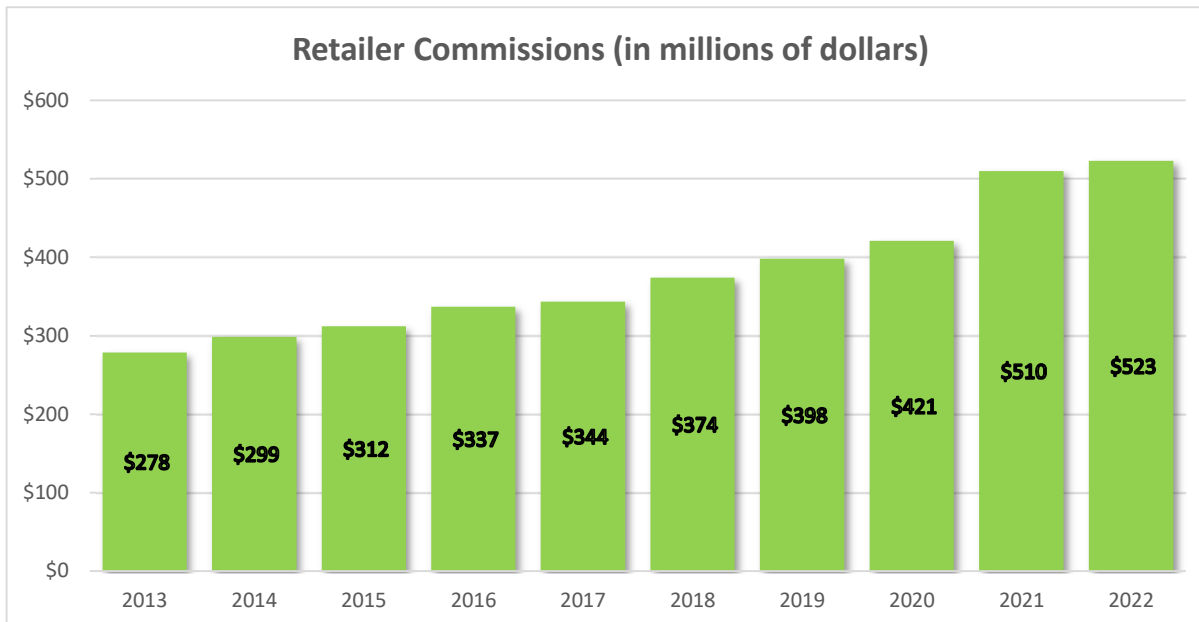
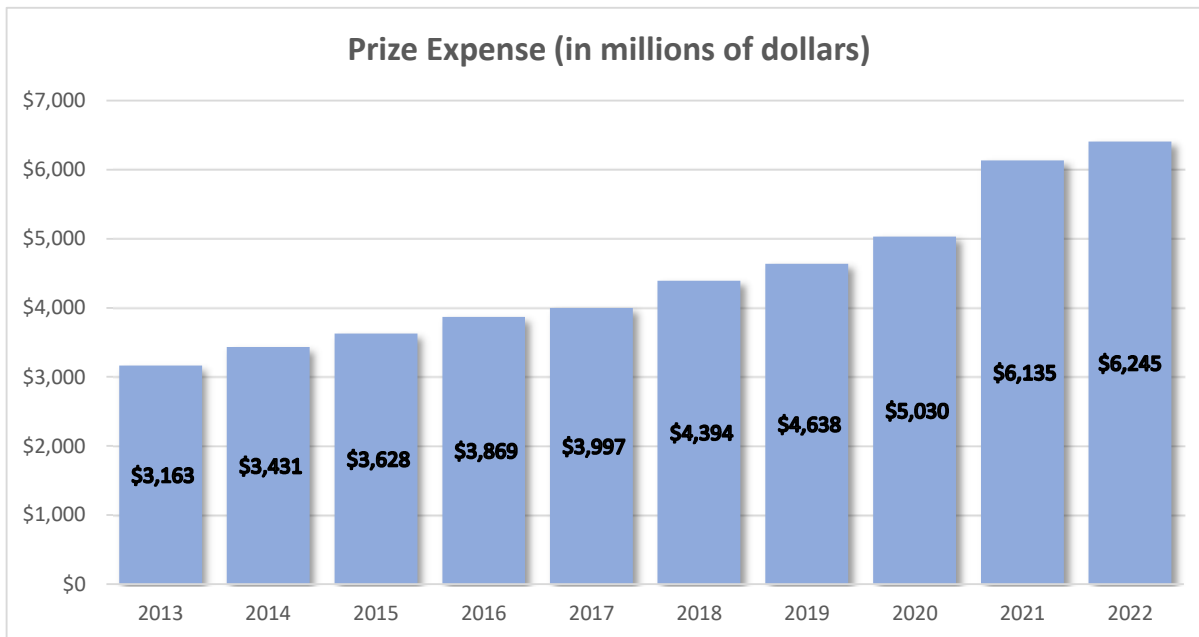
Schedule A-3



Source: Florida Lottery, General Accounting

2022 FLORIDA LOTTERY ANNUAL COMPREHENSIVE FINANCIAL REPORT

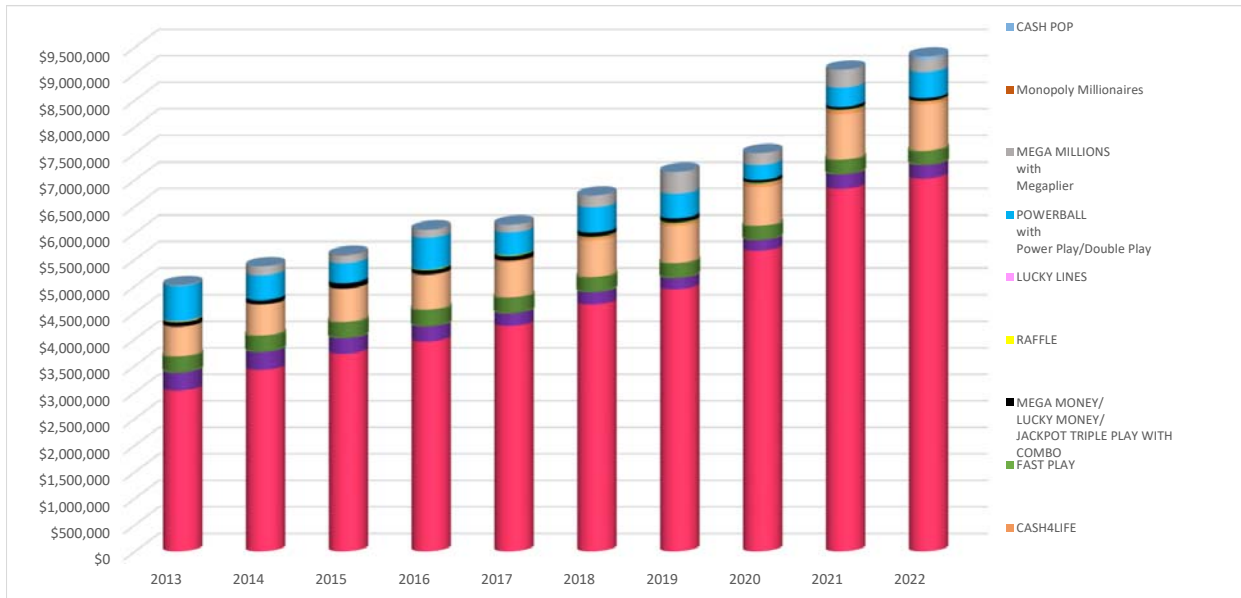
Schedule A-3



2022 FLORIDA LOTTERY ANNUAL COMPREHENSIVE FINANCIAL REPORT

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

Schedule B-1



Fiscal Year Ended June 30	Scratch-Off	LOTTO	FANTASY 5	CASH 3 & PLAY 4 / PICK FAMILY ⁽¹⁾	CASH4LIFE	FAST PLAY	MEGA MONEY/ LUCKY MONEY/ JACKPOT TRIPLE PLAY WITH COMBO	RAFFLE	LUCKY LINES	POWERBALL with Power Play/Double Play	MEGA MILLIONS with Megaplier	Monopoly Millionaires	CASH POP	Combined Sales
2013	\$ 3,028,527	\$ 352,375	\$ 281,492	\$ 568,680	\$ -	\$ -	\$ 89,500	\$ 12,879	\$ 8,582	\$ 654,263	\$ 16,698	\$ -	\$ -	\$ 5,012,996
2014	3,417,143	349,114	288,237	597,388	-	-	79,483	-	-	469,292	167,573	-	-	5,368,230
2015	3,723,995	300,961	287,803	639,468	-	-	103,196	-	-	375,057	147,370	5,481	-	5,583,331
2016	3,954,701	291,382	296,307	671,408	-	-	84,881	11,724	-	602,001	149,950	-	-	6,062,354
2017	4,243,602	253,039	275,663	672,963	28,775	-	89,436	11,357	-	434,263	147,381	-	-	6,156,479
2018	4,652,295	240,015	264,418	698,229	59,219	17,784	74,193	-	-	474,039	220,619	-	-	6,700,811
2019	4,937,779	223,504	258,409	709,262	50,337	20,958	74,632	-	-	459,392	416,963	-	-	7,151,236
2020	5,665,324	210,098	245,842	736,863	65,321	20,026	54,452	-	-	282,151	225,035	-	-	7,505,112
2021	6,827,864	284,697	257,850	862,904	69,240	20,815	52,115	-	-	363,671	337,063	-	-	9,076,219
2022	7,025,298	267,899	243,465	877,709	64,820	10,830	46,395	-	-	494,132	239,215	-	54,865	9,324,628

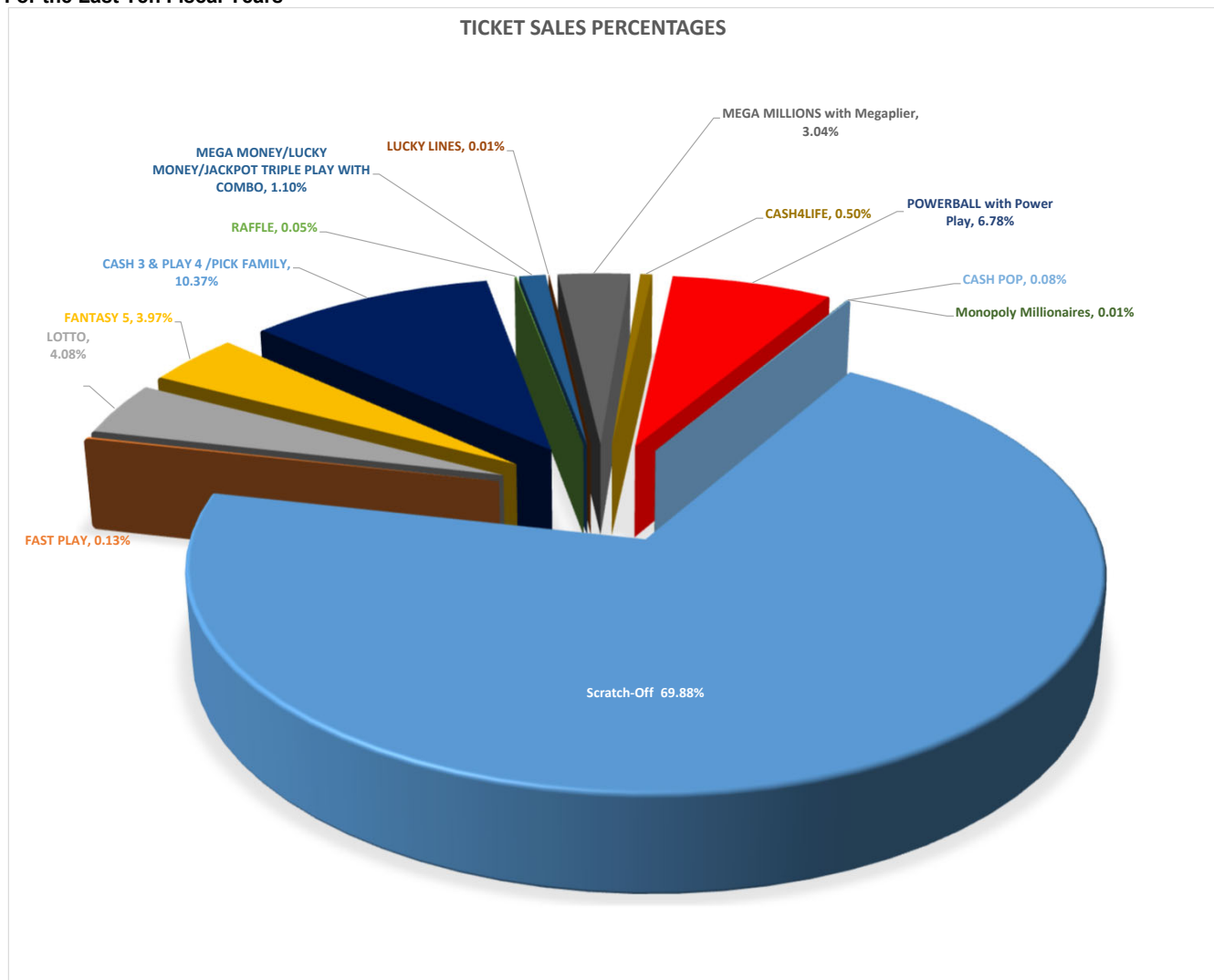
⁽¹⁾ In August of 2016, Cash 3 and Play 4 were changed to Pick 3 and 4 to become the PICK FAMILY along with the introduction of Pick 2 and 5.

Source: Florida Lottery, General Accounting

2022 FLORIDA LOTTERY ANNUAL COMPREHENSIVE FINANCIAL REPORT

Ticket Sales Percentages For the Last Ten Fiscal Years

Schedule B-2



Source: Florida Lottery, General Accounting

2022 FLORIDA LOTTERY ANNUAL COMPREHENSIVE FINANCIAL REPORT

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

Schedule B-3

Price Point	Fiscal Year					
	2013	2014	2015	2016	2017	2018
Number of Game Launches						
\$1	9	10	10	8	9	9
\$2	14	12	12	9	11	10
\$3	3	3	2	1	3	2
\$5	10	10	10	9	11	9
\$10	3	3	4	3	4	5
\$20	1	2	1	1	2	1
\$25	1	1	1	1	1	-
\$30	-	-	-	-	-	1
\$50	-	-	-	-	-	-
	<u>41</u>	<u>41</u>	<u>40</u>	<u>32</u>	<u>41</u>	<u>37</u>
Sales (in thousands)						
\$1	\$ 182,095	\$ 181,772	\$ 186,155	\$ 196,556	\$ 194,399	\$ 195,523
\$2	426,216	444,056	477,036	502,346	508,240	558,165
\$3	198,364	173,207	157,783	135,399	154,243	145,030
\$5	605,275	702,937	743,071	875,444	867,577	1,036,310
\$10	411,888	404,989	501,139	567,977	655,227	821,977
\$20	829,443	969,861	1,002,548	973,527	1,146,288	959,818
\$25	375,246	540,321	656,263	703,452	717,628	583,135
\$30	-	-	-	-	-	352,337
\$50	-	-	-	-	-	-
	<u>\$ 3,028,527</u>	<u>\$ 3,417,143</u>	<u>\$ 3,723,995</u>	<u>\$ 3,954,701</u>	<u>\$ 4,243,602</u>	<u>\$ 4,652,295</u>

Source: Florida Lottery, General Accounting

2022 FLORIDA LOTTERY ANNUAL COMPREHENSIVE FINANCIAL REPORT

Schedule B-3

Fiscal Year					
2019	2020	2021	2022	Total	% of Total 2022
Number of Game Launches					
9	9	8	9	90	23.68%
10	10	10	9	107	23.68%
2	1	2	2	21	5.26%
9	8	10	9	95	23.68%
5	4	6	7	44	18.42%
2	2	1	1	14	2.64%
-	-	-	-	5	0.00%
1	1	1	-	4	0.00%
-	-	-	1	1	2.64%
<u>38</u>	<u>35</u>	<u>38</u>	<u>38</u>	<u>381</u>	<u>100.00%</u>
Sales (in thousands)					
\$ 169,501	\$ 179,660	\$ 174,200	\$ 162,391	\$ 1,822,252	2.31%
564,103	624,658	594,595	498,476	5,197,891	7.10%
158,266	191,569	172,745	171,476	1,658,082	2.44%
1,013,246	1,044,741	1,201,551	1,196,535	9,286,687	17.03%
995,395	1,466,911	1,718,731	1,827,537	9,371,771	26.01%
1,142,781	1,199,024	1,731,192	1,416,189	11,370,671	20.16%
48,489	-	-	-	3,624,534	0.00%
845,998	958,761	1,234,850	948,391	4,340,337	13.50%
-	-	-	804,303	804,303	11.45%
<u>\$ 4,937,779</u>	<u>\$ 5,665,324</u>	<u>\$ 6,827,864</u>	<u>\$ 7,025,298</u>	<u>\$ 47,476,528</u>	<u>100.00%</u>

2022 FLORIDA LOTTERY ANNUAL COMPREHENSIVE FINANCIAL REPORT

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

Schedule B-4

Number of Retailers by District	Fiscal Year					
	2013	2014	2015	2016	2017	2018
District						
Fort Myers	1,252	1,247	1,250	1,257	1,266	1,262
Gainesville	835	842	839	829	823	818
Jacksonville	1,013	1,026	1,016	1,018	1,020	1,022
Miami	3,272	3,231	3,193	3,202	3,172	3,155
Orlando	2,190	2,202	2,179	2,183	2,197	2,194
Pensacola	685	666	658	665	681	703
Tallahassee	387	383	382	389	386	379
Tampa	2,445	2,415	2,363	2,375	2,355	2,358
West Palm Beach	1,249	1,254	1,241	1,245	1,254	1,253
	<u>13,328</u>	<u>13,266</u>	<u>13,121</u>	<u>13,163</u>	<u>13,154</u>	<u>13,144</u>

Source: Department generated from gaming vendor data

**Sales by District
(in thousands)**

District	2013	2014	2015	2016	2017	2018
Fort Myers	\$ 495,289	\$ 537,065	\$ 565,408	\$ 615,229	\$ 628,123	\$ 697,588
Gainesville	272,634	299,433	317,574	343,318	356,612	387,452
Jacksonville	359,187	404,505	428,266	458,174	477,954	522,998
Miami	1,152,468	1,208,118	1,227,125	1,367,195	1,333,364	1,447,985
Orlando	850,547	928,474	981,175	1,050,312	1,071,251	1,157,163
Pensacola	298,756	309,236	321,788	351,814	364,132	391,488
Tallahassee	146,996	167,641	180,174	189,304	191,233	201,239
Tampa	907,782	943,959	981,708	1,052,556	1,088,431	1,192,114
West Palm Beach	529,337	569,799	580,113	634,452	645,379	702,784
	<u>\$ 5,012,996</u>	<u>\$ 5,368,230</u>	<u>\$ 5,583,331</u>	<u>\$ 6,062,354</u>	<u>\$ 6,156,479</u>	<u>\$ 6,700,811</u>

Source: Department generated from gaming vendor data

2022 FLORIDA LOTTERY ANNUAL COMPREHENSIVE FINANCIAL REPORT

Schedule B-4

Fiscal Year			
2019	2020	2021	2022
1,292	1,309	1,328	1,360
818	826	828	848
1,017	1,020	1,038	1,042
3,172	3,146	3,142	3,099
2,180	2,151	2,200	2,194
692	715	723	758
381	383	379	381
2,382	2,415	2,472	2,468
1,272	1,263	1,295	1,311
<u>13,206</u>	<u>13,228</u>	<u>13,405</u>	<u>13,461</u>

2019	2020	2021	2022	Total	% of Total Sales
\$ 759,736	\$ 801,054	\$ 968,213	\$ 1,024,567	\$ 7,092,272	10.44%
411,490	446,857	536,476	550,118	3,921,964	5.77%
551,029	626,094	798,243	814,816	5,441,266	8.01%
1,524,352	1,526,493	1,836,781	1,888,109	14,511,990	21.36%
1,227,247	1,278,238	1,521,875	1,559,344	11,625,626	17.11%
432,160	449,837	546,566	543,966	4,009,743	5.90%
218,261	230,358	282,697	265,654	2,073,557	3.05%
1,275,011	1,373,501	1,678,496	1,742,818	12,236,376	18.01%
751,950	772,680	906,872	935,236	7,028,602	10.35%
<u>\$ 7,151,236</u>	<u>\$ 7,505,112</u>	<u>\$ 9,076,219</u>	<u>\$ 9,324,628</u>	<u>\$ 67,941,396</u>	<u>100.00%</u>

2022 FLORIDA LOTTERY ANNUAL COMPREHENSIVE FINANCIAL REPORT

Demographic and Economic Statistics For the Last Ten Calendar Years

Schedule C-1

Year	Population				Personal Income (in millions)	
	Florida - April 1	Percent Change from Prior Year	U.S. - July 1	Percent Change from Prior Year	Florida	U.S.
2012	19,074,434	0.90%	313,874,218	0.74%	\$ 793,429	\$ 14,010,140
2013	19,337,590	1.06%	316,059,947	0.70%	802,976	14,189,228
2014	19,585,096	1.28%	318,386,329	0.74%	861,412	14,969,527
2015	19,879,230	1.50%	320,738,994	0.74%	919,835	15,681,233
2016	20,201,450	1.62%	323,071,755	0.73%	954,070	16,092,713
2017	20,524,865	1.60%	325,122,128	0.63%	1,023,855	16,837,337
2018	20,854,945	1.61%	326,838,199	0.53%	1,088,795	17,671,054
2019	21,189,849	1.61%	328,329,953	0.46%	1,165,093	18,575,467
2020	21,538,187	1.64%	331,501,080	0.97%	1,235,793	19,812,171
2021	21,898,945	1.67%	331,893,745	0.12%	1,356,319	21,288,709

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

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

Note: Historical data are from the: U.S. Department of Commerce ; University of Florida; U.S. Department of Labor; and Florida Department of Education. Forecast data are based on the Florida Demographic, National Economic, and Florida Economic Estimating Conferences. Historically reported figures may be updated as better information is obtained.

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

2022 FLORIDA LOTTERY ANNUAL COMPREHENSIVE FINANCIAL REPORT

Schedule C-1

Per Capita Personal Income		Unemployment Rate ⁽¹⁾		Median Age	Public School Enrollment ⁽²⁾
Florida	U.S.	Florida	U.S.	Florida	Florida
\$ 41,596	\$ 44,636	8.5%	8.1%	41.0	2,667,830
41,524	44,894	7.5%	7.4%	41.1	2,691,322
43,983	47,017	6.4%	6.2%	41.3	2,720,074
46,271	48,891	5.5%	5.3%	41.5	2,756,127
47,228	49,812	4.9%	4.9%	41.6	2,791,244
49,884	51,788	4.3%	4.4%	41.6	2,817,076
52,208	54,067	3.7%	3.9%	41.7	2,833,115
54,984	56,576	3.2%	3.7%	41.7	2,846,857
57,377	59,765	8.2%	8.1%	41.8	2,858,949
61,935	64,143	4.6%	5.3%	41.9	2,791,687

2022 FLORIDA LOTTERY ANNUAL COMPREHENSIVE FINANCIAL REPORT

Industry Sector Employment For Calendar Years 2021 and 2012 (in thousands)

Schedule C-2

Industry	Calendar Year 2021		Calendar Year 2012	
	Employment	Percentage of Total Employment ⁽¹⁾	Employment	Percentage of Total Employment ⁽¹⁾
Health Care and Social Assistance	1,167	12.99%	970	12.96%
Retail Trade	1,095	12.19%	979	13.08%
Accommodation and Food Services	917	10.21%	804	10.74%
Local Government	704	7.84%	704	9.41%
Administrative and Waste Services	686	7.64%	536	7.16%
Professional and Technical Services	656	7.30%	457	6.11%
Construction	575	6.40%	342	4.57%
Finance and Insurance	426	4.74%	340	4.54%
Manufacturing	388	4.32%	318	4.25%
Wholesale	355	3.95%	311	4.16%
Total	6,969	77.58%	5,761	76.98%

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

In December 2021, Florida's seasonally adjusted total nonagricultural employment was 9,138,500, an increase of 523,300 jobs (+6.1 percent) over the year. The industries gaining the most jobs were leisure and hospitality (+167,000 jobs); and trade, transportation, and utilities (+113,900 jobs). From February 2020 to April 2020, Florida lost 1,282,500 jobs due to the effects of COVID-19. From April 2020 to December 2021, Florida had gained back all jobs lost (+1,345,500).

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

	2021	2012
Total non-agricultural employment	8,913	7,400
Total agricultural employment	70	84
Total employment	8,983	7,484

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

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2022 FLORIDA LOTTERY ANNUAL COMPREHENSIVE FINANCIAL REPORT

Lottery Player Demographics For the Last 10 Fiscal Years

Schedule C-3

	Fiscal Year					
	2013	2014	2015	2016	2017	2018
Gender						
Male	51%	51%	51%	51%	51%	51%
Female	49%	49%	49%	49%	49%	49%
Age						
18 to 34	24%	24%	25%	24%	25%	26%
35 to 54	39%	38%	38%	39%	38%	38%
55+	37%	38%	37%	37%	37%	36%
Education						
HS or Less	28%	21%	20%	15%	15%	18%
Some Post Secondary	29%	29%	26%	22%	20%	22%
University+	43%	50%	54%	63%	65%	60%
Race						
White	85%	84%	86%	84%	84%	84%
Other	15%	16%	14%	16%	16%	16%
Hispanic						
Yes	22%	21%	21%	20%	21%	20%
No	78%	79%	79%	80%	79%	80%
Income						
<\$20K	14%	17%	13%	12%	11%	12%
\$20K-\$29K	12%	14%	12%	10%	8%	10%
\$30K-\$49K	26%	25%	25%	21%	21%	21%
\$50K-\$69K	21%	20%	20%	21%	21%	20%
\$70K+	27%	24%	30%	36%	39%	37%
I don't know	0%	0%	0%	0%	0%	0%

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

2022 FLORIDA LOTTERY ANNUAL COMPREHENSIVE FINANCIAL REPORT

Schedule C-3

Fiscal Year			
2019	2020	2021	2022
51%	50%	52%	52%
49%	50%	48%	48%
25%	24%	26%	24%
39%	36%	36%	37%
36%	40%	38%	39%
21%	19%	19%	21%
23%	22%	19%	35%
56%	59%	62%	44%
84%	83%	82%	82%
16%	17%	18%	18%
20%	25%	26%	25%
80%	75%	74%	75%
12%	12%	11%	12%
10%	11%	11%	11%
23%	23%	20%	19%
19%	20%	18%	17%
36%	34%	40%	39%
0%	0%	0%	2%

2022 FLORIDA LOTTERY ANNUAL COMPREHENSIVE FINANCIAL REPORT

Schedule of Lottery Employees For the Last Ten Fiscal Years

Schedule D-1

	Fiscal Year					
	2013	2014	2015	2016	2017	2018
Sales:						
Tallahassee	11	11	11	11	10	11
Fort Myers	16	15	17	16	18	18
West Palm Beach	17	19	19	19	18	19
Miami	39	38	37	38	36	37
Pensacola	13	14	14	14	14	15
Jacksonville	16	16	15	16	15	16
Gainesville	13	13	12	13	13	13
Orlando	27	27	26	27	28	27
Tampa	31	30	30	26	31	30
Sales Subtotal	183	183	181	180	183	186
Administrative and Other	220	220	227	232	230	233
Total	403	403	408	412	413	419

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

Source: Florida Lottery, General Accounting

2022 FLORIDA LOTTERY ANNUAL COMPREHENSIVE FINANCIAL REPORT

Schedule D-1

Fiscal Year			
2019	2020	2021	2022
11	11	11	10
17	17	17	18
19	19	19	19
38	38	38	38
14	14	14	14
16	16	16	16
14	14	14	14
28	28	28	28
30	30	30	30
187	187	187	187
232	232	231	232
419	419	418	419

2022 FLORIDA LOTTERY ANNUAL COMPREHENSIVE FINANCIAL REPORT

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

Schedule D-2

	Fiscal Year					
	2013	2014	2015	2016	2017	2018
<u>Scratch-Off Games</u>						
Sales	\$ 3,028,527	\$ 3,417,143	\$ 3,723,995	\$ 3,954,701	\$ 4,243,602	\$ 4,652,295
Prize Expense	\$ 2,207,780	\$ 2,484,259	\$ 2,712,474	\$ 2,880,963	\$ 3,103,450	\$ 3,410,041
Percent of Sales	72.90%	72.70%	72.84%	72.85%	73.13%	73.30%
Vendor Fees	\$ 44,193	\$ 48,157	\$ 51,665	\$ 55,591	\$ 58,615	\$ 63,654
Percent of Sales	1.46%	1.41%	1.39%	1.41%	1.38%	1.37%
<u>Draw Games</u>						
Sales	\$ 1,984,469	\$ 1,951,087	\$ 1,859,336	\$ 2,107,653	\$ 1,912,877	\$ 2,048,516
Prize Expense	\$ 1,015,405	\$ 995,240	\$ 962,779	\$ 1,054,995	\$ 966,230	\$ 1,051,764
Percent of Sales	51.17%	51.01%	51.78%	50.06%	50.51%	51.34%
Vendor Fees	\$ 31,012	\$ 28,895	\$ 29,970	\$ 32,650	\$ 30,301	\$ 31,863
Percent of Sales	1.56%	1.48%	1.61%	1.55%	1.58%	1.56%
<u>Total Games</u>						
Sales	\$ 5,012,996	\$ 5,368,230	\$ 5,583,331	\$ 6,062,354	\$ 6,156,479	\$ 6,700,811
Commissions	\$ 278,493	\$ 298,651	\$ 311,981	\$ 337,007	\$ 343,608	\$ 373,819
Percent of Sales	5.56%	5.56%	5.59%	5.56%	5.58%	5.58%
Administrative Costs	\$ 72,653	\$ 74,528	\$ 75,696	\$ 80,121	\$ 80,805	\$ 81,201
Percent of Sales	1.45%	1.39%	1.36%	1.32%	1.31%	1.21%
Number of Employees	403	403	408	412	413	419
Number of Retailers	13,328	13,266	13,121	13,163	13,154	13,144

Source: Florida Lottery, General Accounting

2022 FLORIDA LOTTERY ANNUAL COMPREHENSIVE FINANCIAL REPORT

Schedule D-2

Fiscal Year			
2019	2020	2021	2022
\$4,937,779	\$5,665,324	\$6,827,864	\$7,025,298
\$3,629,531 73.51%	\$4,135,818 73.00%	\$5,046,267 73.91%	\$5,238,527 74.57%
\$ 64,935 1.32%	\$ 52,409 0.93%	\$ 55,398 0.81%	\$ 56,269 0.80%
\$2,213,457	\$1,839,788	\$2,248,355	\$2,299,330
\$1,096,540 49.54%	\$ 923,522 50.20%	\$1,152,008 51.24%	\$1,169,775 50.87%
\$ 38,275 1.73%	\$ 55,905 3.04%	\$ 67,206 2.99%	\$ 69,090 3.00%
\$7,151,236	\$7,505,112	\$9,076,219	\$9,324,628
\$ 398,162 5.57%	\$ 420,843 5.61%	\$ 509,861 5.62%	\$ 523,132 5.61%
\$ 82,195 1.15%	\$ 82,450 1.10%	\$ 82,466 0.91%	\$ 84,283 0.90%
419 13,206	419 13,228	418 13,405	419 13,461

2022 FLORIDA LOTTERY ANNUAL COMPREHENSIVE FINANCIAL REPORT

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

Schedule D-3

	Fiscal Year					
	2013	2014	2015	2016	2017	2018
Vehicles and equipment	\$ 12,787	\$ 11,732	\$ 12,754	\$ 11,445	\$ 12,295	\$ 12,970
Intangible assets and other	2,123	2,855	3,000	3,319	3,816	4,162
Total Capital Assets	14,910	14,587	15,754	14,764	16,111	17,132
Less accumulated depreciation	11,695	10,344	9,934	8,658	9,847	10,145
Total Capital Assets, net	<u>\$ 3,215</u>	<u>\$ 4,243</u>	<u>\$ 5,820</u>	<u>\$ 6,106</u>	<u>\$ 6,264</u>	<u>\$ 6,987</u>

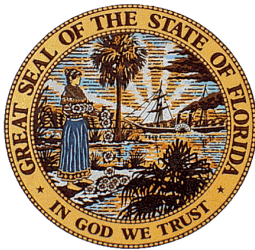
Source: Florida Lottery, General Accounting

2022 FLORIDA LOTTERY ANNUAL COMPREHENSIVE FINANCIAL REPORT

Schedule D-3

Fiscal Year			
2019	2020	2021	2022
\$ 12,950	\$ 12,405	\$ 12,426	\$ 12,658
4,484	4,848	5,117	1,095
17,434	17,253	17,543	13,753
10,264	9,980	9,979	9,856
<u>\$ 7,170</u>	<u>\$ 7,273</u>	<u>\$ 7,564</u>	<u>\$ 3,897</u>

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Sherrill F. Norman, CPA
Auditor General

AUDITOR GENERAL STATE OF FLORIDA

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



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

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

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

Opinion on Internal Control Over Financial Reporting

We have audited the Department of the Lottery's (Lottery's) internal control over financial reporting as of June 30, 2022, based on criteria established in the *Internal Control – Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Lottery maintained, in all material respects, effective internal control over financial reporting as of June 30, 2022, based on criteria established in the *Internal Control – Integrated Framework* (2013), issued by COSO.

We have also audited, in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Lottery, as of and for the fiscal years ended June 30, 2022, and June 30, 2021, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements, and our report thereon dated January 31, 2023, expressed an unmodified opinion.

Basis for Opinion

We conducted our audit in accordance with GAAS and *Government Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Internal Control Over Financial Reporting section of our report. We are required to be independent of the Lottery and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for Internal Control Over Financial Reporting

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

Auditor's Responsibilities for the Audit of Internal Control Over Financial Reporting

Our objectives are to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects and to issue an auditor's report that includes our opinion on internal control over financial reporting. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of internal control over financial reporting conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material weakness when it exists.

In performing an audit of internal control over financial reporting in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Obtain an understanding of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

Definition and Inherent Limitations of Internal Control Over Financial Reporting

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

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

Report on 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 its compliance with certain provisions of laws, administrative rules, regulations, and contracts, noncompliance with which could have a direct and material effect on the financial statements. 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 accounts receivable, information technology controls, and minority retailer participation that we reported to management as Findings 1, 2, and 3 in the ***FINDINGS AND RECOMMENDATIONS*** accompanying this report.

Management's Response to Findings

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

Purpose of this Report

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

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
January 31, 2023
Audit Report No. 2023-109

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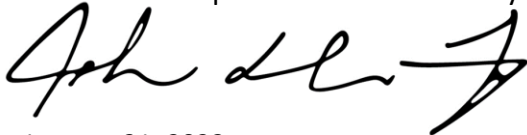
Management's Report on Internal Control Over Financial Reporting

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

Management is responsible for designing, implementing, and maintaining effective internal control over financial reporting. Management assessed the effectiveness of the Department's internal control over financial reporting as of June 30, 2022, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in the *Internal Control – Integrated Framework* (2013). Based on that assessment, management concluded that, as of June 30, 2022, the Department's internal control over financial reporting is effective, based on the criteria established in the *Internal Control – Integrated Framework* (2013).

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

The Florida Department of the Lottery



January 31, 2023

FINDINGS AND RECOMMENDATIONS

ADDITIONAL MATTERS

Finding 1: Accounts Receivable

Governmental Accounting Standards Board Codification Section 1600.102 specifies that most transactions under the accrual basis of accounting are to be recognized when they occur, regardless of when cash is received or disbursed. The Lottery's Accounts receivable, net balance sheet account includes a ticket sales receivable amount that is composed of cash received by retailers not yet remitted to the Lottery, net of amounts owed to the retailer (i.e., prizes retailers paid to prize winners, retailer commissions, and retailer bonuses). The ticket sales receivable amount is remitted to the Lottery through electronic withdrawals from the retailers. Those withdrawals occur each Wednesday for amounts retailers received from the previous week's sales (i.e., Monday through Sunday). The proper collection and reporting of ticket sales and ticket sales receivables also directly affects the Lottery's Prizes payable balance sheet account as Section 24.121, Florida Statutes, requires variable percentages of the gross revenue received from the sale of online and instant tickets be returned to the public in the form of prizes paid by the Lottery or authorized retailers.

As part of our audit, we noted that, while the Lottery reported \$17.8 million in ticket sales receivable for financial statement purposes, Lottery records indicated that the amount of ticket sales not collected from retailers as of June 30, 2022, was \$40.8 million. Consequently, prior to audit adjustment, Accounts receivable, net and Prizes payable were understated by \$23 million. According to Lottery management, certain terminals at Lottery district offices had been incorrectly set up as retailer rather than district terminals, causing receivable and winning ticket payout information to be incorrectly reported in Lottery financial records.

Recommendation: We recommend that Lottery management enhance controls to ensure that district office terminals are correctly set up and that Accounts receivable, net and Prizes payable amounts are accurately reported for financial statement purposes in accordance with applicable standards.

Finding 2: Information Technology Controls

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

Without adequate IT controls, the risk is increased that the confidentiality, integrity, and availability of Lottery data and IT resources may be compromised. Similar findings were communicated to Lottery management in connection with prior audits of the Lottery, most recently with our report No. 2022-106 (Finding 1).

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

Finding 3: Minority Retailer Participation

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

In prior audit reports, most recently in our report No. 2022-106 (Finding 2), we disclosed that retailers comprising one minority type totaled more than 35 percent of the total number of the Lottery's minority retailers. Although the Lottery continued to utilize an outreach program to increase retailer participation in under-represented minority groups, our audit disclosed that, contrary to State law, as of June 30, 2022, retailers comprising one minority type totaled approximately 69.5 percent of the total number of minority retailers, an increase of 1.1 percent from the 2020-21 fiscal year.

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

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January 27, 2023

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

Dear Ms. Norman:

The Lottery has received your January 26, 2023, 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, 2022. Below is our response to each finding and recommendation:

Finding 1: Accounts Receivable

Recommendation: We recommend that Lottery management enhance controls to ensure that district office terminals are correctly set up and that Accounts receivable, net and Prizes payable amounts are accurately reported for financial statement purposes in accordance with applicable standards.

Lottery's Response: The Lottery has implemented measures to ensure district office terminals are configured to accurately report sales and prizes paid. Also, reconciliations have been executed to ensure the amounts represented within the financial statements are accurately reported.

Finding 2: Information Technology Controls

Recommendation: We again 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.

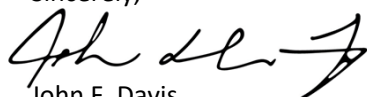
Finding 3: Minority Retailer Participation

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

Lottery's Response: The Lottery will continue to look for opportunities to recruit retailers, including those in under-represented minority groups. The Lottery will also continue to work with retailer trade associations to reach out to minority-owned businesses. Finally, the Lottery sales force will continue to recruit minority-owned businesses as a part of their standard sales practices.

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

Sincerely,



John F. Davis
Secretary

cc: Reggie Dixon, Chief of Staff
Andy Mompeller, Inspector General

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