



The Florida Lottery funds
BRIGHT FUTURES
with every ticket

FISCAL YEAR
2017-18

FLORIDA LOTTERY
ANNUAL REPORT



CONTRIBUTIONS TO EDUCATION

BUILDING BRIGHTER FUTURES FOR FLORIDA FAMILIES

This year, the Florida Lottery celebrated 30 years of enhancing education funding to make a difference in the lives of Florida families and students. Fiscal year 2017-18 marked another notable year as the Lottery contributed more than \$1.75 billion to the state’s Educational Enhancement Trust Fund (EETF), bringing the total amount generated for education to more than \$33.5 billion. Additionally, fiscal year 2017-18 marked the sixteenth consecutive year the Lottery contributed more than \$1 billion to the state’s EETF.

The impact of the Lottery flows from community to community in all of Florida’s 67 counties and at every level from K-12 to state colleges and universities.

The Florida Lottery is proud to be the primary funding source for the Bright Futures Scholarship Program. Since its inception in 1997, Bright Futures has remained committed to assisting Florida’s best and brightest as they pursue their academic goals at state colleges and universities. To date, more than \$5.6 billion in Lottery funds has helped more than 808,000 students pursue their academic goals by attending one of Florida’s colleges and universities.

The Florida Lottery is honored to play a small role in helping the students of our state build a foundation to achieve their dreams. Every time someone plays the Florida Lottery, it’s a win for education.

“more than \$5.6 billion in Lottery funds has helped more than 808,000 students”

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A MESSAGE FROM THE SECRETARY

Dear Colleagues and Friends,

I am pleased to present the Florida Lottery's 2017-2018 Annual Report.

This year, the Florida Lottery announced another record-breaking sales year with more than \$6.7 billion in annual sales. In keeping with our mission of maximizing revenues for the enhancement of public education in our state, we contributed more than \$1.75 billion to education in Florida. This marks the sixteenth consecutive year the Lottery has transferred more than \$1 billion to education.

In January 2018, the Lottery celebrated 30 years of operation. While industry trends have changed and evolved, our commitment to education has remained steadfast. I look forward to seeing how Florida families and students continue to benefit over the next 30 years and beyond.

Thanks to our loyal players and dedicated retailers and employees, the future of the Florida Lottery looks brighter than ever.

With all good wishes,

Jim Poppell
Secretary



PRODUCT DEVELOPMENT



**“\$317 million
in total prizes
won by Florida
winners”**

[from MEGA MILLIONS]

TERMINAL GAMES

In August 2017, the Lottery reintroduced a permanent offering of the GROUPE[®] sampler that allows players to sample a mix of Draw games for \$5. This value-added offer encouraged trial play of Draw games and ended the year with over \$11 million in sales.

Instant-win Terminal games also returned in fiscal year 2017-18. Branded as Fast Play[™] games, these games incorporate appealing attributes of a Scratch-Off game including instant play, instant win, and an assortment of themes and price points, yet they print on-demand in store from the terminal. The Lottery introduced four Fast Play games over the course of the year, CORNHOLE CASH[™], CASH BLAST, FAST CASH, and FULL OF \$100'S, which earned over \$17.7 million in sales.

Adding instant-win play to Terminal games was a strategy utilized to add excitement to the Lottery's flagship Draw game FLORIDA LOTTO[®]. The addition of EZmatch[™] for \$1 more per play, FLORIDA LOTTO players could win up to \$500 instantly.



Enhancements were made to the MEGA MILLIONS[®] game in October 2017. The redesign included increasing the starting jackpot, from \$15 million to \$40 million, that also grows faster overall; better odds to win the second-tier prize of \$1 million; and larger lower-tier prizes. The ticket price also changed from \$1 to \$2 per play. Following these changes, two jackpots reached \$450 million or more, and ten Florida players became millionaires, with \$317 million in total prizes won by Florida winners. On January 5, 2018, one Florida player was the sole winner of the advertised \$450 million jackpot. The player took the cash option of \$281.2 million. The Lottery's MEGA MILLIONS sales increased by 50 percent over the previous fiscal year.

Several limited-time promotions were offered during the fiscal year to generate awareness and encourage play of Terminal games during non-jackpot periods. One of the Lottery's most-highly participated promotions in recent history was the GameDay Cash Promotion that ran during the fall of 2017. More than 134,000 players entered over five million winning and non-winning FLORIDA LOTTO, FANTASY 5[®] and CORNHOLE

CASH tickets for the chance to win instant prizes and earn entries into a drawing to win college football prizes and an RV!

In conjunction with the 25th anniversary of the POWERBALL[®] game, the Lottery offered two promotions. The first awarded a \$25 instant win prize to every 25th \$12 or more POWERBALL with Power Play[®] ticket sold. This was a statewide, limited time promotion, running November through January, with more than \$575,000 in prizes won. The second was the multi-state POWERBALL Power Cruise Promotion. There were 125 Florida prizewinners who received a 5-night vacation for two on a chartered sailing Royal Caribbean[®] Cruise that included VIP concerts and \$250,000 in prizes onboard.

Providing players with a balanced mix of games that include both jackpot and non-jackpot driven games, as well as limited-time offerings, allowed the Lottery to attain Terminal game sales of more than \$2 billion. Terminal game sales alone contributed more than \$769 million in revenue to education.



SCRATCH-OFF

The Lottery launched 37 new Scratch-Off games with a variety of themes, colors, play styles, top prizes, and price points to appeal to Florida's unique and diverse population. With a broad product mix appealing to a wide audience and a marketing strategy focused on maximizing revenue for the enhancement of education, Scratch-Off sales saw a significant increase of more than \$408 million compared to the previous fiscal year.

The Lottery had the top performing \$30 game compared to all other U.S. Lotteries as measured by the first twelve-week average sales in fiscal year 2017-18. FLORIDA 100X THE CASH (\$30) generated over \$352 million in Scratch-Off sales. This game alone generated more than \$65 million in transfers to the EETF.



In July, the Lottery introduced the WEEK FOR LIFE family of games at the \$1, \$2, \$5, and \$10 price points, which accounted for

over \$420 million in sales and more than \$78 million in contributions to the EETF. The WEEK FOR LIFE family of Scratch-Off games were supported by the CASH SUPPLY Second Chance Promotion that provided players an opportunity to enter their non-winning tickets for a chance to win up to \$25,000. The successful second chance promotion saw an average of 32,000 unique players per drawing.

The Lottery introduced an addition to the WEEK FOR LIFE family, \$10,000 A WEEK FOR LIFE, its newest \$20 game, in September. In fiscal year 2017-18, \$10,000 A WEEK FOR LIFE produced more than \$246 million in sales and contributed more than \$45 million in contributions to the EETF.

To celebrate the Lottery's 30th anniversary, another family of games was introduced in mid-January. The FLORIDA X THE CASH Scratch-Off games at the \$1, \$2, \$5 and \$10



price points were released, followed by the record-breaking \$30 price point game, FLORIDA 100X THE CASH, in late February. The FLORIDA X THE CASH family accounted for more than \$722 million in Scratch-Off sales and generated more than \$109 million in revenue for education. The FLORIDA X THE CASH family of Scratch-Off games was supported by the 30TH BIRTHDAY CASH SPECTACULAR Second Chance Promotion that provided players an opportunity to enter their non-winning tickets for a chance to win up to \$30,000.

The Lottery achieved a record in fiscal year 2017-2018 for the seventh consecutive year with more than \$4.6 billion in total Scratch-Off sales, and over \$917 million in transfers to education. In addition, the Lottery also set a new industry record for the highest all-time single week of Scratch-Off sales. This resulted in \$123.84 million in sales and \$23.03 million in transfers to the EETF. The increase in Scratch-Off sales, which were a direct result of strategic marketing and

distribution initiatives implemented by the Lottery, contributed more than \$74 million in additional transfers to education when compared to fiscal year 2016-17.



WORKING TOGETHER TO ENHANCE EDUCATION

Sales & Contributions: Together with our corporate and independent retail partners, the Florida Lottery once again broke a previously held record in ticket sales and further increased contributions to education in Florida. The agency's fiscal year sales of \$6.7 billion surpassed the previous year's sales by more than \$544 million, or 8.8 percent. In terms of sales, the Florida Lottery would rank as one of the top Fortune 500 companies.

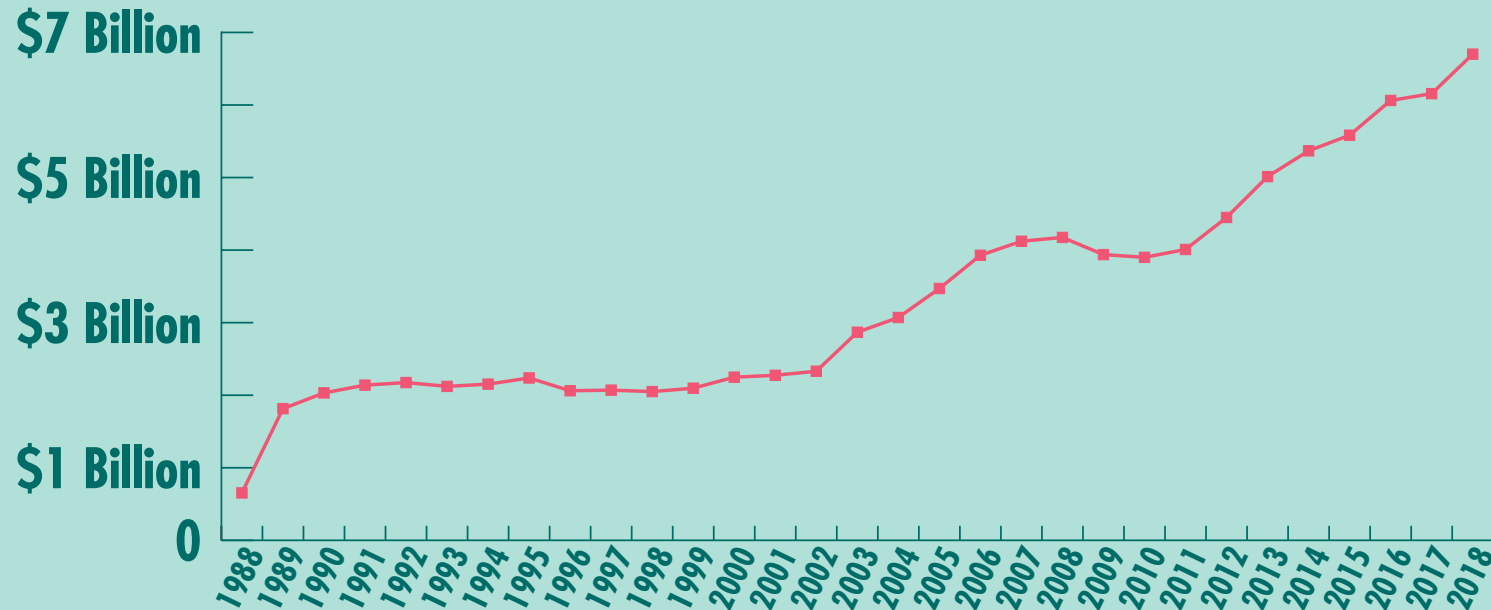
Scratch-Off sales increased by \$408 million, or 9.6 percent, while Terminal game sales increased by \$135 million, or 7.1 percent. Most importantly, this increase in sales directly resulted in higher contributions to the Educational Enhancement Fund (EETF), with a net total of more than \$1.75 billion in contributions for the fiscal year.

During fiscal year 2017-18, sales resulted in 345,179 claims, which provided more than \$2.6 million in state-owed debt collection.

Record-Breaking Achievements: In fiscal year 2017-18, the Sales Division set a

national record for Scratch-Off ticket sales of \$123.84 million in one week. Additionally, when compared to just two weeks of Scratch-Off sales above \$100 million in fiscal year 2016-17, Florida had ten weeks of Scratch-Off sales above \$100 million in fiscal year 2017-18.

In fiscal year 2017-18, the Lottery achieved its seventh consecutive year of record sales with annual sales surpassing \$6.7 billion.



ENHANCING BUSINESS PARTNERSHIPS

Annual Scratch-Off sales have grown by \$2.6 billion since fiscal year 2010, resulting in over \$475 million in additional contributions to education.

Retailer Recruitment: A new retailer recruitment plan was implemented in January 2018, that resulted in 486 new retailers submitting applications; 180 of which are minority-owned businesses.

Lottery District Office Successes: Three of the Lottery's nine sales districts individually exceeded \$1 billion in sales for the year, while all nine sales districts exceeded their annual sales goals. Sales for the district offices of Miami, Tampa, and Orlando respectively reached \$1.448 billion, \$1.192 billion, and \$1.157 billion. The Miami district alone would classify as number 18 among other state lottery rankings!

The sales team continued to look for merchandising opportunities in stores and added more than 24,000 new Scratch-Off ticket facings in fiscal year 2017-18. Additional facings allowed players to access different Scratch-Off games at any given time throughout the year. With these additional facings, retailers were able to keep games fully stocked while keeping players satisfied and their stores busy.



“Strong corporate relationships allowed for enhanced support of educational events and messaging across the state”

Corporate Growth: During fiscal year 2017-18, Lottery Corporate Account Sales were up 10.2 percent overall, with Scratch-Off sales at corporate retailers up 11 percent. The Corporate Sales team continued to aggressively pursue sales opportunities through merchandising and marketing efforts that support the agency's goals. Collaborating with chain partners led to an increase in Scratch-Off facings and dispenser presentations, an improvement in overall Lottery presence, and an increase in the level of partnership opportunities. Execution of customized retailer promotions and targeted in-store advertising supported brand and agency goals, resulting in product awareness and incremental sales. The strategic focus and partnerships resulted in overall corporate account sales growth that exceeded statewide results.

Corporate Accounts experienced new store growth with many top 25 chain partners expanding and adding store-fronts. Wawa,

RaceTrac, 7-Eleven, Publix, and Walmart all experienced significant store growth impacting a variety of trade channels, though convenience store and liquor store trade channels experienced the most net new store growth. The Florida Lottery's pilot of Lottery sales in Walmart Supercenters continued in the fiscal year 2017-18, and Walmart continued overall expansion in the category by adding Lottery to over 60 Liquor Box locations.



Strong corporate relationships allowed for enhanced support of educational events and messaging across the state, highlighted by our partnership with Circle K for their “Fueling our Schools” program. The Florida Lottery was proud to join Circle K teams for eight events across the state to further promote the education message and generate funds for students and schools in Florida.

WINNERS

CHANGING LIVES, ONE TICKET AT A TIME

For the past 30 years, the Florida Lottery has been proud to make the dreams of our players a reality, while also benefiting Florida's students and schools. During fiscal year 2017-18, the Lottery shared in the excitement of 78 players who became millionaires. Floridians can be proud knowing the purchase of every Lottery ticket benefits students and families statewide.

Scratch-Off Games: Florida Lottery Scratch-Off games created 31 new millionaires, awarded more than \$363 million in prizes, and had more than 92,000 winners of \$600 or more this fiscal year.

Terminal Games: Lottery Terminal games accounted for \$309 million in prizes, including 47 players who won \$1 million or more.

Promotions: In addition to traditional Scratch-Off and Draw game prizes, Lottery players had other chances to win prizes ranging from free Scratch-Off tickets, to college sporting tickets and merchandise, and even a 5-night Royal Caribbean cruise. These opportunities were available through a variety of promotional, second chance, and social media contest opportunities that renew excitement among loyal Lottery players and also attract new players.



As required by subsection 24.105(4), Florida Statutes, the following information reflects the organizational structure of the Florida Lottery as of June 30, 2018.

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

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

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

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

- **Legislative Affairs** coordinates the Lottery's implementation of statutory changes, budget and proviso language directives.
- **Communications** promotes awareness and understanding of the state's use of Lottery money to provide enhancements to education in Florida. Provides public relations support for new game launches, promotions and events, and coordinates all Lottery activities with the news media, including spokesperson interviews, media inquiries, news conferences, press releases and the Lottery's social media efforts.
 - Customer Service serves as the Lottery's direct liaison to players, responding to inquiries regarding games and various other facets of operations with the goal of exceeding customers' expectations.
- **Security** provides security services for the Lottery, including protection of buildings and facilities, investigative activities and game draws. In addition, the Division of Security conducts background investigations for vendors, retailers and employees; manages the department's safety awareness program and the Lottery's continuity of operations plan (COOP).
 - Investigations and Operations monitors the physical security of all Lottery facilities and investigates security breaches. This unit also investigates problem claims and allegations of potential illegal activity, and is responsible for managing the draw process.

ORGANIZATIONAL STRUCTURE



- Intelligence and Administrative Support conducts background investigations on potential vendors, contractors, retailers and employees, and provides analytical support for other criminal investigations. This section provides maintenance and hardware support for the Integrated Security System and manages the agency's loss prevention program, which aids retailers in reducing ticket theft and informs the general public of Lottery-related scams and other fraudulent activity.
- Information Security Management (ISM) develops and coordinates information security infrastructure and programs to provide protection and ensure integrity for the department's computers, data and networks.
- **Human Resources** provides strategic leadership relative to employee recruitment, retention and training. The division administers a comprehensive human resources program including recruitment, selection, performance management, payroll, training, benefits, classification and pay, and attendance and leave.
- **Information Resources** provides strategic and automated solutions to fulfill the Lottery's business needs through efficient and effective development and deployment of the Lottery's information technology resources, including optimizing the sale of Lottery tickets and ultimately enhancing contributions to education. Operations consists of the following units:
 - Software and Data Services automates and improves the Lottery's business processes by building information applications that enable and optimize the development of new Lottery products, payment of winners, electronic payment by retailers, retailer incentive programs and other mission-critical initiatives.
 - Software Quality Assurance is responsible for researching gaming system functional requirements and performing user acceptance testing on all gaming system software prior to implementation.
 - Systems and Operations Services maintains a secure, power redundant data center environment, provides telecommunications systems and services, and provides desktop computing and technology infrastructure services for the Lottery. This unit also maintains the Lottery's Information Technology Disaster Recovery plan.
 - Games Administration manages all retailer accounting and systems related to game transactions, including ticket inventory. The unit coordinates all terminal gaming functions for Lottery Draw games, including closing games for draws, entering the winning numbers into the gaming system, and setting the games to pay winners. Games Administration serves as the system coordinator and liaison to all Lottery retailers.

Office of the Deputy Secretary of Administration assists the Secretary by managing support services, procurement, retail contracting and financial management strategies.

- **Support Services** provides the day-to-day operational services including facilities management, fleet management, property/inventory control, warehousing operations, records management and mail operations. The unit oversees janitorial and other administrative contracted services.
- **Procurement** provides strategic service in the acquisition of commodities and contractual services necessary in the operation of the Florida Lottery. General Services manages and administers the contract management process as well as provides resources in the monitoring of contract deliverables.
- **Retailer Contracting** evaluates and approves retailer applications, entering into contracts with retailers that will best serve the public interest and provide adequate and convenient availability of Lottery tickets. The unit directly supports the Lottery's efforts in the recruitment and retention of retailers. Through its application and contract renewal process, this unit evaluates the integrity and financial responsibility of all Lottery retailers. The unit is also responsible for collection efforts by tracking retailer payment delinquencies and coordinating financial reviews of retailers, as necessary.
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- **Finance and Budget** oversees the development and monitoring of the department's budget, all financial reporting, disbursements and monitoring of cash flows.
 - The Budget unit prepares the annual legislative budget request and any necessary budget amendments for the Lottery, monitors expenditures to ensure budgetary compliance, and coordinates the development of the Lottery's long-range program plan.
 - Finance is responsible for making payments to vendors in accordance with 215.422, Florida Statutes; receipting and investing funds to maximize earning to education and producing statutorily required monthly financial reports and annual financial statements.
 - **Claims Processing** processes the prize payments of tickets submitted to Lottery headquarters, assists district offices with the payment of prizes presented at those offices, and coordinates all withholding and reporting requirements with the Internal Revenue Service.

Office of the Deputy Secretary of Product & Sales assists the Secretary by increasing sales statewide through effective product development and research, along with the implementation of a strong sales strategy.

- Corporate Sales is responsible for the growth and development of the Lottery's corporate business. The unit serves as a liaison between Lottery and main corporate offices of retailers statewide.
- District Offices manage the sale, promotion and redemption of Lottery products through a statewide network of more than 13,000 Lottery retailers. In addition to the office management staff, each of the nine district offices employs a staff of sales representatives who assist in the promotion and sale of Lottery products at the retail level.
- Director of Product Development and Research provides direction, oversight and evaluation of daily business functions related to Research, Product Development and Business Development with the primary focus of managing programs aimed at increasing Lottery sales and transfers to the EETF.
 - Research initiates and oversees consumer market studies primarily contracted through the Lottery's research vendor of record. The unit's projects center on consumer, retailer, retail environment and advertising campaign analysis. The unit also provides valuable data used to determine products to be developed, revenue forecasting and overall program effectiveness.
 - Product Development provides direction and oversight in the creation, design, development and management of Lottery Draw and Scratch-Off products.

Chief of Brand Management oversees all areas relating to the promotion and sale of Lottery products, community outreach and partnerships, marketing, graphics, and brand operations.

- Advertising drives sales by supporting product launches and bringing awareness to Lottery products and contributions to education. In addition to traditional radio and television media buys in the General, Hispanic and Haitian markets, the Lottery advertises on static and digital billboards, on social media, and has a presence on nightly Draw television carrier stations.
- Community Outreach drives the growth of the Lottery beyond its core business, focusing on opportunities that have a shared value around education. Cultivating these types of relationships provides a platform that allows the Lottery to share its story around supporting education throughout the state. Responsibilities also include identifying, evaluating, negotiating, and implementing new and diverse partnerships that reach the entire state of Florida.

- Graphics provides overall art design and direction for the Lottery. They are responsible for the development, production and implementation for all point of sale materials for in-store game promotions, which includes more than 20 promotions every year. Additionally, the Graphics department oversees quality control for Scratch-Off ticket design, logo usage, publications, promotional items and Lottery presentations.
- Brand Operations is a newly formed team under Brand, effective January 2018. This team is responsible for the oversight of the Draw Studio, brand contracts and any special projects. This team acts as lead point on the Lottery's Responsible Gaming program, which kicked off in January 2018 as well.



FINANCIAL REPORT

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years ended June 30, 2018, and June 30, 2017 (In Thousands)

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Operating Revenues:		
Ticket sales	\$ 6,700,811	\$ 6,156,479
Bad debt expense	(1,158)	(1,073)
Terminal & retailer fees and miscellaneous	8,222	7,611
Total Operating Revenues	<u>6,707,875</u>	<u>6,163,017</u>
Operating Expenses:		
Prizes	4,394,400	3,996,632
Retailer commissions	373,819	343,608
Vendor fees	95,517	88,916
Other expenses	81,201	80,805
Total Operating Expenses	<u>4,944,937</u>	<u>4,509,961</u>
Operating Income	<u>1,762,938</u>	<u>1,653,056</u>
Total Non-operating Revenues (Expenses), Net	<u>(10,156)</u>	<u>(25,741)</u>
Income Before Operating Transfers	<u>1,752,782</u>	<u>1,627,315</u>
Total Transfers to EETF	<u>(1,758, 329)</u>	<u>(1,656,348)</u>
Change in Net Position	<u>(5,547)</u>	<u>(29,033)</u>
Net Position, Beginning Restated	53,782	107,430
Net Position, End of Year	<u>\$ 48,235</u>	<u>\$ 78,397</u>