

calottery



## POPULAR ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2019

California Lottery is an Enterprise Fund of the State of California



## Popular Annual Financial Report Table of Contents

Introduction	3
Our Mission	4
Contributions	5
Lottery Funds	6
Retailers	7
Scratchers Games	8
Draw Games	9
Revenues	10
Expenses	11
Financial Highlights	12-13
Environmental Sustainability	14
Responsible Gaming	15



## Introduction

### A Message from the Lottery's Chief Financial Officer

I am pleased to present the first California State Lottery (Lottery) Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2019. The PAFR is designed to serve as the user-friendly companion to the Lottery's Comprehensive Annual Financial Report (CAFR). This report presents an overview of the Lottery's financial condition and provides information on sales, expenses, and the money given to our beneficiary, California public schools.

Much of the financial information in this report is drawn from the CAFR for the fiscal year ended June 30, 2019. The CAFR is a more detailed and all-inclusive financial presentation, prepared in conformance with Generally Accepted Accounting Principles and audited by an independent auditing firm. The CAFR for the past and prior fiscal years are available on the California Lottery website at [www.calottery.com/about-us](http://www.calottery.com/about-us).

The Lottery was created by a 1984 ballot initiative that was approved by 58 percent of the voters. The Lottery was established as an independent state department to market and sell lottery products to the California public to supplement the total amount of money allocated for public education in California. To that end, the Lottery has contributed approximately \$36.1 billion to California public schools since Lottery sales began in 1985 through June 30, 2019. Lottery funding for education was an all-time high \$1.87 billion in fiscal year 2018-19.

Lottery funds are meant to supplement public education, not replace state and local funding. While this supplemental funding is a modest amount of money, every dollar makes a difference in our schools. We frequently hear from education administrators how they appreciate the flexibility of Lottery funding in helping schools do things they otherwise couldn't, such as attracting and retaining more quality teachers, buying state-of-the-art equipment, and keeping critical programs running. We hope this report is helpful in understanding our commitment to support California public schools.

Sincerely

Nicholas Buchen  
Deputy Director, Chief Financial Officer

## our mission

The Lottery's sole mission is to supplement funding for California's public schools and colleges. For fiscal year 2018-19 (FY 2019), the Lottery contributed a new record of more than \$1.87 billion to public schools, an increase of nearly \$170 million over the previous year's record contribution of \$1.7 billion.

The Lottery earns money through the sale of entertaining Lottery games. For FY 2019, the Lottery achieved sales of nearly \$7.4 billion, an increase of over 6 percent compared to the previous fiscal year's record sales of \$6.9 billion. This is the first time in the Lottery's 34-year history that total sales surpassed the \$7 billion mark. California continues to be one of the fastest growing lotteries in the country.

While the Lottery is a public agency, we receive no public funding. Instead, we raise all operating and administrative expenses through the responsible sales of our games. We give back to the community 95 cents of every dollar spent on Lottery games through contributions to public schools and colleges, player prizes, and retailer compensation.



	FY 2019	FY 2018	FY 2017
Lottery Sales	\$7,388,050,316	\$6,965,792,113	\$6,233,468,423
Revenue Returned to the Public:			
Prizes	\$4,715,592,673	\$4,476,580,353	\$3,963,453,360
Allocation of Sales to Education	1,809,721,391	1,656,055,189	1,494,177,874
Retailer Compensation	505,903,081	480,545,143	433,656,258
<b>Total Revenue Returned to the Community</b>	<b>\$7,031,217,145</b>	<b>\$6,613,180,685</b>	<b>\$5,891,287,492</b>
Percentage of Revenue Returned to the Community	95.17%	94.94%	94.51%

\*Other administrative expenses includes game operating costs, salaries, advertising, equipment, and other general expenses needed for operations.



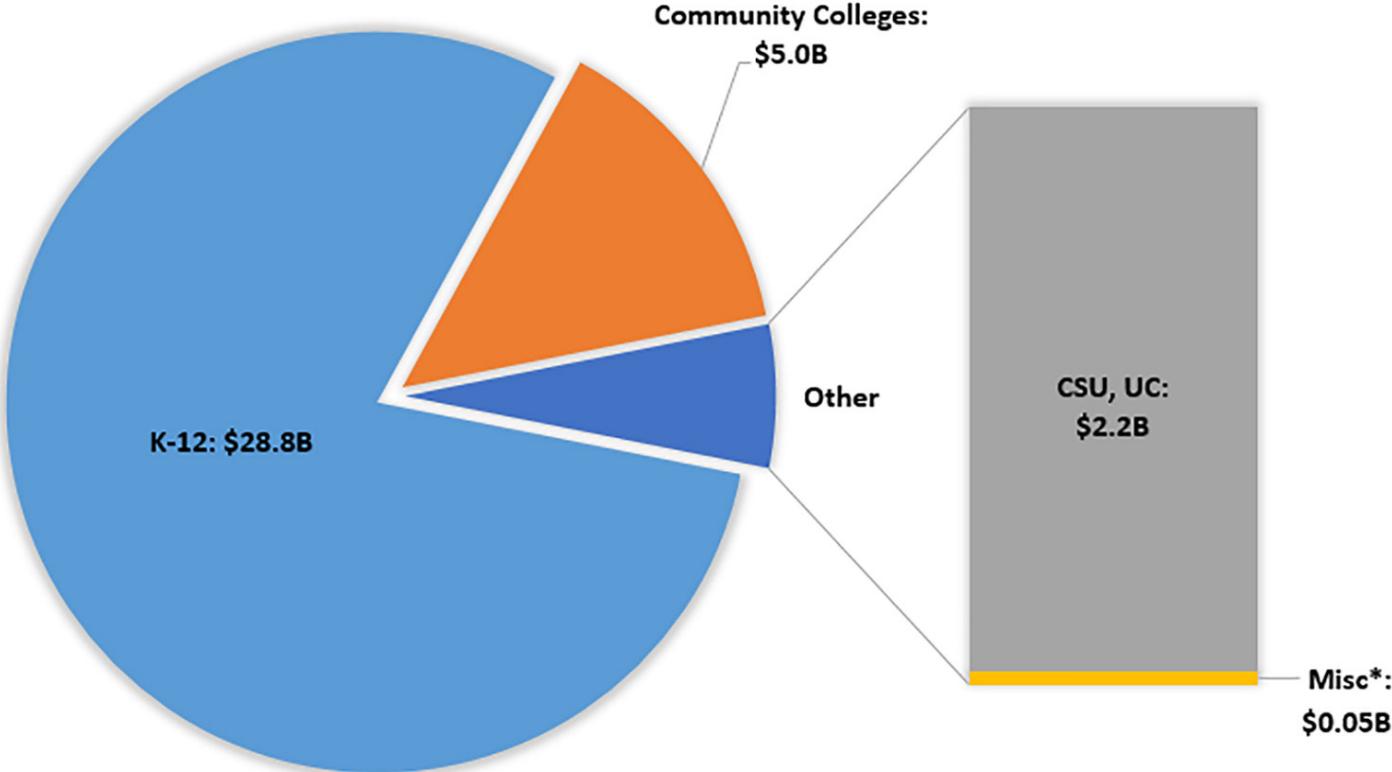
# contributions

The Lottery transfers its entire operating income to our beneficiary (operating income is sales, less prize expenses and administrative expenses). Any unclaimed prizes - prizes won but not claimed by the winner - are also transferred to our beneficiary.

Lottery funds are transferred quarterly to the State Controller's Office (SCO). The SCO then apportions the money to various educational entities. All Lottery funding is distributed to public education by the SCO based on the Average Daily Attendance (ADA) for K-12 and community college school districts and full-time enrollment for higher education and other specialized institutions.

Since our funds are largely discretionary, they help schools do things they otherwise couldn't, such as attracting and retaining more quality teachers, buying state-of-the-art equipment, and keeping critical programs running.

**Distribution to Education (in billions)  
October 3, 1985 through June 30, 2019.**



\*Includes payments to Hastings College of the Law, California Maritime Academy, Department of Education - State Special Schools, Department of Corrections and Rehabilitation - Division of Juvenile Justice, Department of State Hospitals, and the Department of Developmental Services.



## How Schools Use Lottery Funds

The record \$1.87 billion earned in supplemental funding made it the 19th consecutive year that the Lottery has transferred more than \$1 billion to California’s public schools.

Local education administrators and elected school boards decide how the Lottery funds will be distributed and spent within their school districts. The Lottery does not take part in these decisions.

Pursuant to the Lottery Act, the supplemental funding should be used exclusively for the education of students and not for non-instructional purposes. Some schools, especially smaller ones and higher education, have used Lottery funds for computer labs, teacher workshops and science programs, as well as art and music programs. And each year, schools are free to use the funds for entirely different purposes.

The educational entities that received Lottery funds in FY 2019, and the percentage of the annual distribution received, is shown below:

GRADE LEVEL	DISTRIBUTION PERCENTAGE
K-12th Grade	78.9%
Community Colleges	14.8%
California State University System	3.7%
University of California	2.5%
Other Educational Entities	0.1%



After previously being cut due to a lack of funding, the music program at Rio Vista Middle School in Oxnard, Ventura County, is now thriving thanks to the help of Lottery funding. Our funding provides support for everything from instruments to travel opportunities abroad.



Follow us on our YouTube page to learn more about Education Funding.

[www.youtube.com/californialottery](http://www.youtube.com/californialottery)



## Retailers Driving Sales

Every Lottery retailer plays an important part in our mission to provide supplemental funding to benefit public education. Since the Lottery began in 1985, retailers have earned approximately \$7.5 billion in commissions and bonuses for selling our products and paying out prizes.

Our retailers earned more than \$500 million in FY 2019. Lottery retailers earn sales commissions of up to 6 percent on every ticket sold. In addition, retailers earn a cashing bonus when they “cash” or pay out prizes of under \$600 to our lucky prize winners. And retailers who sell a ticket that wins a jackpot prize or a prize over \$1 million earn an additional sales incentive bonus. So, in addition to helping fulfill our mission of providing supplemental funds for public education, there are lots of way to win by becoming a Lottery retailer.

	FY 2019	FY 2018	FY 2017
Retailer Sales Commissions	\$466,779,764	\$442,147,103	\$398,310,596
Retailer Cashing Bonus	36,269,997	35,166,559	31,511,381
Retailer Sales Incentive Bonus	2,853,320	3,231,481	3,834,281
Total	\$505,903,081	\$480,545,143	\$433,656,258

The Lottery sees our retailers as true business partners. Part of our workforce is dedicated to guiding our retailers with inventory control and marketing strategies. Our online Lottery Retailer Portal provides retailers with information such as sales trends, data analysis on which games sell best in the area, comprehensive sales reports, and easy ways to share jackpot and winner messages on social media.



## Scratchers Ticket Sales

Scratchers<sup>®</sup> tickets are played by removing a special coating to reveal symbols and “instantly” learn whether the ticket is a winner. The Lottery currently offers Scratchers tickets ranging from \$1 to \$30 and games may feature prizes up to \$10 million.

Scratchers games provided one of the major financial highlights of FY 2019 for the Lottery, setting another sales record. At \$5.17 billion in revenue, this figure is slightly more than the industry-leading record total of \$5.08 billion set by California the previous year.

This increase helped California once again lead all other U.S. lotteries in instant game sales. Scratchers revenue accounted for approximately 70 percent of total Lottery sales in FY 2019. In particular, the Monopoly<sup>™</sup> Scratchers series, launched in February 2019, helped boost Scratchers sales to their second-highest sales week of all time, \$116.5 million.



The increase in Scratchers ticket sales was mostly driven by the growth at the \$20 and \$30 price point games, which represented over 27 percent of gross Scratchers sales. The \$20 game with the biggest impact on Scratchers sales was the Instant Prize Crossword, which provides more fun and entertainment to Lottery players and creates instant millionaires with a top prize of \$2 million cash.

The top performer for the \$30 game goes to California Millions, with a top prize of \$10 million, which contributed approximately \$240 million in sales in just seven months following its launch in December of 2018. The three \$30 games sold in FY 2019 totaled over half a billion in gross sales for the year.



The Lottery continues to set prize payout levels designed to maximize its contribution to public education, as well as, continues to look for new and innovative ways to bring its products to more players and improve the player experience. The Lottery is also expanding a pilot program which allows for same-day payment of winning ticket claims at select district offices, which gives prize winners their money sooner.



## Draw Game Sales

“Draw games” refers to the category of games for which numbers are drawn at random to determine the winning tickets. Draws are securely conducted either mechanically or electronically, depending on the game. The Lottery currently offers eight draw games, including the multi-state jackpot games Mega Millions<sup>®</sup> and Powerball<sup>®</sup>. There are two draws per week for the multi-state games and for California’s own jackpot game, SuperLotto Plus<sup>®</sup>. Our relatively smaller top prize games - Daily 3, Daily 4, Fantasy 5 and Daily Derby<sup>®</sup> - have daily draws, while Hot Spot<sup>®</sup> has draws every four minutes throughout the day.



Draw games sales and profits in FY 2019 were fueled by a historic \$1.54 billion Mega Millions jackpot in October 2018. The lucky winner of that draw was in another state, but California had two large Mega Millions jackpot wins during the fiscal year: \$543.8 million on a ticket sold in San Jose in July 2018 and \$522.6 million on a ticket sold in San Diego in June 2019. The July prize was the largest single-ticket winning prize awarded in a California Lottery history.



Mega Millions game sales finished at \$736.3 million, nearly 70 percent higher than the previous fiscal year’s figure of \$434.6 million and more than any other lottery. Powerball sales, in comparison, were relatively overshadowed, but still contributed more than \$521 million in revenue, also more than any other lottery.

In all, there were 11 draws during the fiscal year where the jackpot in one of these multi-state games was \$500 million or more. Additionally, sales for SuperLotto Plus, finished slightly better than the previous fiscal year’s totals, coming in at nearly \$269 million, a 2.5 percent increase.



The categories of daily games and Hot Spot also exceeded the previous fiscal year’s sales totals. In particular, Daily Derby performed notably well. Daily Derby sales were more than 71 percent higher than one year ago, finishing at \$32.4 million, due to a number of relatively high grand prizes for this smaller game.

Hot Spot sales increased more than \$25 million to \$313.8 million as the Lottery continued to increase the number of retailer locations selling Hot Spot, and made improvements to the Lottery’s Mobile App, where players can view Hot Spot draw results updated every four minutes.

Sales in the Fantasy 5, Daily 3, and Daily 4 games were also strong, coming in at approximately \$161 million, \$153 million, and \$31 million, respectively.

**Where the Money Comes From**



**Revenues** (for the fiscal years ended June 30)

	FY 2019	FY 2018	FY 2017
<b>Operating Revenues:</b>			
Scratchers Games	\$5,170,791,532	\$5,077,397,175	\$4,576,028,713
Lotto Games <sup>1</sup>	1,526,370,543	1,234,092,648	1,041,071,687
Hot Spot Games	313,779,077	288,701,169	255,808,131
Daily Games <sup>2</sup>	377,109,164	365,601,121	360,559,892
<b>Total Operating Revenues</b>	<b>\$7,388,050,316</b>	<b>\$6,965,792,113</b>	<b>\$6,233,468,423</b>
<b>Non-Operating Revenues<sup>3</sup></b>			
Unrealized Gains (Losses) on Investments	\$39,163,769	\$(29,850,764)	\$(57,378,749)
Interest Earned/Accrued on Investments	30,735,603	30,395,454	32,157,715
Interest on Funds Held by State Treasurer	15,480,673	8,707,552	4,732,680
Other Income	22,036	124,554	93,932
<b>Total Non-Operating Revenues</b>	<b>\$85,402,081</b>	<b>\$9,376,796</b>	<b>\$(20,394,422)</b>
<b>Total Revenues</b>	<b>\$7,473,452,397</b>	<b>\$6,975,168,909</b>	<b>\$6,213,074,001</b>

<sup>1</sup>Lotto games are SuperLotto Plus, Powerball, and Mega Millions

<sup>2</sup>Daily games are Daily 3, Daily 4, Daily Derby, and Fantasy 5

**Revenues to Education for Fiscal Year 2019**

Allocation of Sales to Education	\$1,809,721,391
Unclaimed Prizes Directly Allocated to the Education Fund	45,523,184
Interest Income	15,480,673
Other Income	22,036
<b>Total Funds Transferred to the Education Community</b>	<b>\$1,870,747,284</b>

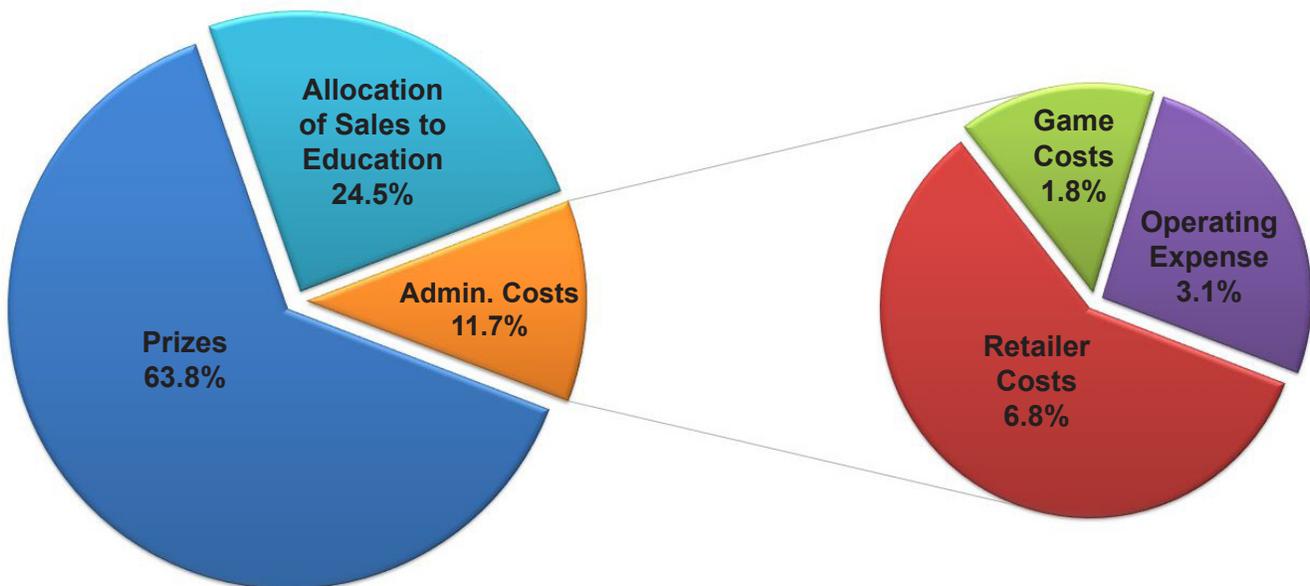
<sup>3</sup> The Lottery purchases high quality government bonds to fund annuitized grand prize winners. Interest earned on investments, unrealized gains/losses on investments, and other income are considered non-operating revenues, activities that are not directly associated with the sale of lottery tickets. Investment earnings come from interest payments and capital gains collected upon a sale or maturity of a security. All Lottery investments are held to maturity to meet the required prize payouts. An unrealized gain is a profit that exists on paper, resulting from an investment. It is an increase in a security that has yet to be sold or matured. Unrealized loss is the opposite. All Lottery cash is held on deposit with the California State Treasurer and is invested by that office in the Surplus Money Investment Fund. Interest earned on these funds are distributed quarterly by the State Treasurer and transferred to Education. Other income consists of gains or loss on sale of Lottery assets.

**Expenses** (for the fiscal years ended June 30)

	FY 2019	FY 2018	FY 2017
<b>Prizes:</b>			
Scratchers Game Prizes	\$3,587,479,416	\$3,512,462,468	\$3,126,837,019
Draw Game Prizes	1,128,113,257	964,117,885	836,616,341
<b>Total Prizes</b>	<b>\$4,715,592,673</b>	<b>\$4,476,580,353</b>	<b>\$3,963,453,360</b>
<b>Game Costs:</b>			
Retailer Costs	\$505,903,081	\$480,545,143	\$433,656,258
Draw/Scratchers Game Costs	131,296,501	127,599,678	116,385,696
<b>Total Game Costs</b>	<b>\$637,199,582</b>	<b>\$608,144,821</b>	<b>\$550,041,954</b>
Operating Expenses	\$225,536,670	\$225,011,750	\$225,795,235
Non-Operating Expenses <sup>1</sup>	\$32,202,400	\$31,967,442	\$33,579,539
Allocation to Education Fund <sup>2</sup>	\$1,825,224,100	\$1,664,887,295	\$1,499,004,486

<sup>1</sup>Non-operating expenses includes interest imputed on our liability for grand prizes won and not yet paid. Imputed interest is interest assumed to have been collected even if the interest was not paid to the Lottery from the purchases of zero-coupon Treasury bonds.

<sup>2</sup>Includes interest income and other income; does not include unclaimed prizes, which are transferred to Education directly.



## Financial Highlights

### STATEMENT OF NET POSITION (SUMMARY)

(for the fiscal years ended June 30)

	FY 2019	FY 2018	FY 2017
<b>Assets</b>			
Current and Other Assets	\$2,247,957,906	\$1,785,755,294	\$2,041,725,592
Capital Assets	208,971,820	197,306,299	185,709,466
<b>Total Assets</b>	<b>\$2,456,929,726</b>	<b>\$1,983,061,593</b>	<b>\$2,227,435,058</b>
Deferred Outflows of Resources	\$73,060,199	\$62,048,271	\$39,350,570
<b>Total Assets and Deferred Outflows</b>	<b>\$2,529,989,925</b>	<b>\$2,045,109,864</b>	<b>\$2,266,435,058</b>
<b>Liabilities</b>			
Current Liabilities	\$1,576,680,854	\$1,126,285,107	\$1,383,103,301
Non-Current Liabilities	1,053,802,947	1,083,369,980	886,240,157
<b>Total Liabilities</b>	<b>\$2,630,483,801</b>	<b>\$2,209,655,087</b>	<b>\$2,269,343,458</b>
Deferred Inflows of Resources	\$51,221,930	\$24,867,555	\$280,196
<b>Total Liabilities and Deferred Inflows</b>	<b>\$2,681,705,731</b>	<b>\$2,234,522,642</b>	<b>\$2,269,623,654</b>
Net Investment in Capital Assets	\$208,971,820	\$197,306,299	\$185,709,466
Restricted by Legislation	93,646,606	55,949,634	87,372,386
Unrestricted Deficit	(454,334,232)	(442,668,711)	(275,919,878)
<b>Total Net Position</b>	<b>\$(151,715,806)</b>	<b>\$(189,412,778)</b>	<b>\$(2,838,026)</b>

The Statement of Net Position represents the Lottery's financial position. It reports all of the Lottery's assets and liabilities at the close of the fiscal year. The financial statements are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The Lottery is structured as a single enterprise fund with revenues recognized when earned, not when received. Readers wanting more detailed financial information should refer to the Lottery's 2019 Comprehensive Annual Financial Report available on the Lottery's website at [www.calottery.com/about-us](http://www.calottery.com/about-us).

The Lottery's negative net position is due to recent changes in accounting for pensions and retiree health benefits. The State of California's pension and retiree healthcare benefit plans are not fully funded, meaning that the plans have more liabilities than they do assets to cover them. Previously, the liabilities for these plans appeared on the State of California financial statements, but recent accounting changes now require state agencies and funds to show the liabilities on their own financial statements. Through employer and employee contributions and returns on investments, the plans are working to reduce the liabilities and fully fund the plans in future years.

## STATEMENT OF ACTIVITIES

(for fiscal year ended June 30, 2019)

Operating Revenues: Lottery Sales	\$7,388,050,316
Less: Prizes	<u>4,715,592,673</u>
Sales After Prizes	<u>\$2,672,457,643</u>
Less Game Costs:	
Retailer Costs	\$505,903,081
Gaming System Costs	92,088,597
Scratchers® Game Costs	<u>39,207,904</u>
Total Game Costs	<u>\$637,199,582</u>
Income Before Operating Expenses	<u>\$2,035,258,061</u>
Operating Expenses:	
Salaries, Wages, and Benefits	\$99,664,223
Advertising	66,773,171
Promotions, Public Relations, and Point of Sale	9,305,841
Other Professional Services	16,898,286
Depreciation and Amortization	18,814,684
Other General and Administrative Expenses	<u>14,080,465</u>
Total Operating Expenses	<u>\$225,536,670</u>
Operating Income	<u>\$1,809,721,391</u>
Non-Operating (Expenses) Revenues:	
Investment Earnings	\$85,380,045
Interest Expense Imputed on Annuitized Prize Liability	(32,202,400)
Other Income	22,036
Allocation to Education Fund	<u>(1,825,224,100)</u>
Total Non-Operating (Expense) Revenue	<u>\$(1,772,024,419)</u>
Change in Net Position	\$37,696,972
Total Net Position - Beginning Balance	<u>\$(189,412,778)</u>
Total Net Position - Ending Balance	<u><u>\$(151,715,806)</u></u>

Operating Revenue is income derived from the Lottery's everyday activities consisting of ticket sales.

Game costs consist of retailer sales commissions and bonuses, ticket production and delivery expenses, and gaming vendor charges which all relate to sales.

Operating Expenses is an expense the Lottery incurs as a result of its normal business operations. These expenses are all required to run the Lottery while maximizing the supplemental funding provided to education.

Non-operating revenues mainly consists of investment earnings and non-operating expenses mostly consist of transfers of net revenues and unclaimed prizes to the State Controller's Office.

## Environmental Sustainability

While sales and profits are a good indicator of success, the Lottery recognizes it has an obligation beyond selling entertainment products. The Lottery continues its efforts toward environmental sustainability with multiple construction projects of its district offices.

During FY 2019, the Lottery's Rancho Cucamonga and San Diego District Offices were awarded Leadership in Energy and Environmental Design (LEED) Gold certification for new construction, while the Southern Distribution Center earned LEED Gold certification for operations and maintenance.

Other environmental sustainability awards prior to last fiscal year include:

Headquarters:

- LEED Gold - New Construction (2012)
- LEED Silver - Operations and Maintenance (2016)

Santa Fe Springs District Office

- LEED Gold - New Construction (2016)

Southern Distribution Center

- LEED Gold - Commercial Interiors (2017)

Fresno District Office

- LEED Gold - New Construction (2017-18)

Santa Fe Springs District Office\*

- EPA Energy Star Rating (2017-18)

\*The Santa Fe Springs District Office building is a Zero Net Energy facility, meaning it produces as much on-site energy in a year as it uses.

# The World Lottery Association's Responsible Gaming Award

The California State Lottery became the first Lottery in the nation to receive a World Lottery Association (WLA) Responsible Gaming Level Four Certification in February 2015 and we were honored to receive a level four recertification in 2018. This is the highest level of internationally-recognized certification for responsible gaming.

WLA, the global authority on the lottery business, consists of state-authorized lotteries and gaming organizations from more than 80 countries on 6 continents. Its Responsible Gaming Principles and Framework Certification Program outlines lotteries' level of commitment to corporate social responsibility and responsible gaming. Its aim is to protect lottery players and assure that revenues are used for public good.

The Lottery wants you to enjoy Lottery games, and that means playing them responsibly. Borrowing money to play, spending above your budget or using money allocated for other purposes can lead to significant problems for you and your family.



Certification date: July, 2018

This certificate is valid until: July, 2021

Jean-Luc Moner-Banet  
WLA President

Lynne Roiter  
WLA Secretary General



## DISTRICT OFFICES

### East Bay

2489 Industrial Parkway West  
Hayward, CA 94545  
(510) 670-4630

### Sacramento

4106 East Commerce Way  
Sacramento, CA 95834  
(916) 830-0292

### Richmond

618 South 8th Street, Suite 300A  
Richmond, CA 94804  
(510) 806-8960

### Fresno

7620 North Del Mar Avenue  
Fresno, CA 93711  
(559) 449-2430

### Chatsworth

9710 Topanga Canyon Blvd.  
Chatsworth, CA 91311  
(818) 722-1602

### Rancho Cucamonga

11138 Elm Avenue  
Rancho Cucamonga, CA 91730  
(909) 803-6232

### Santa Fe Springs

9807 Bell Ranch Drive  
Santa Fe Springs, CA 90670  
(562) 777-3434

### Costa Mesa

235 Baker Street East  
Costa Mesa, CA 92626  
(714) 716-4076

### San Diego

5656 Ruffin Road  
San Diego, CA 92123

## GENERAL CONTACT INFORMATION

### Customer Service

1-800-LOTTERY  
TDD 1-855-591-5776

### California Lottery

700 North 10th Street  
Sacramento, CA 95811  
www.calottery.com  
www.californialottery.com

### Problem Gambling Helpline

1-800-GAMBLER

Since 1998, the California Lottery has helped fund a toll free helpline for individuals, providing counseling and assistance for problem gambling through the California Office of Problem Gambling.



CONNECT WITH US



THE CALIFORNIA LOTTERY'S MISSION IS TO MAXIMIZE SUPPLEMENTAL FUNDING FOR PUBLIC EDUCATION THROUGH THE RESPONSIBLE SALE OF LOTTERY PRODUCTS.