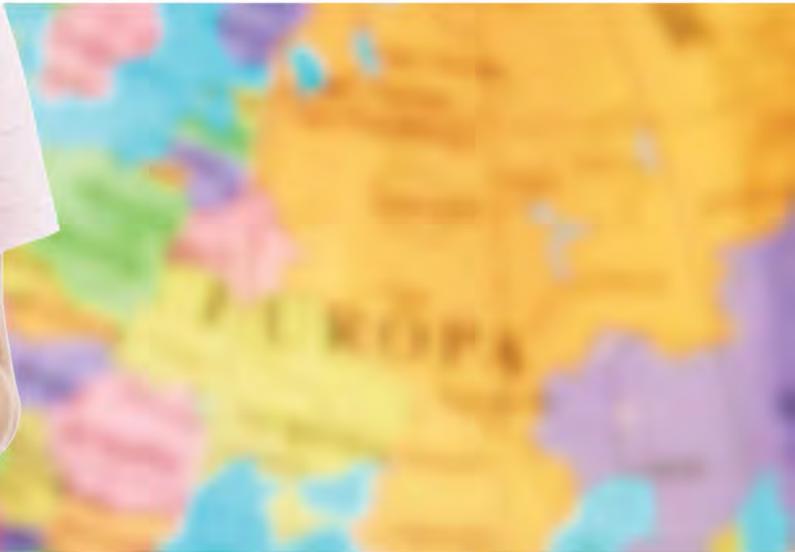




imagine the possibilities



## COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2019  
California Lottery is an Enterprise Fund of the State of California





# California State Lottery

*Committed to enhancing education and supporting local communities*

## Comprehensive Annual Financial Report

*For the Fiscal Year Ended June 30, 2019*

*Prepared by the Finance Division of the California Lottery*



# California Lottery

Comprehensive Annual Financial Report  
For the Fiscal Year Ended  
June 30, 2019

## TABLE OF CONTENTS

### INTRODUCTORY SECTION

|   |    |
|---|----|
| Letter of Transmittal   | 3  |
| 2018 Certificate of Achievement for Excellence in Financial Reporting | 11 |
| Organization Chart with Principal Officials                           | 12 |

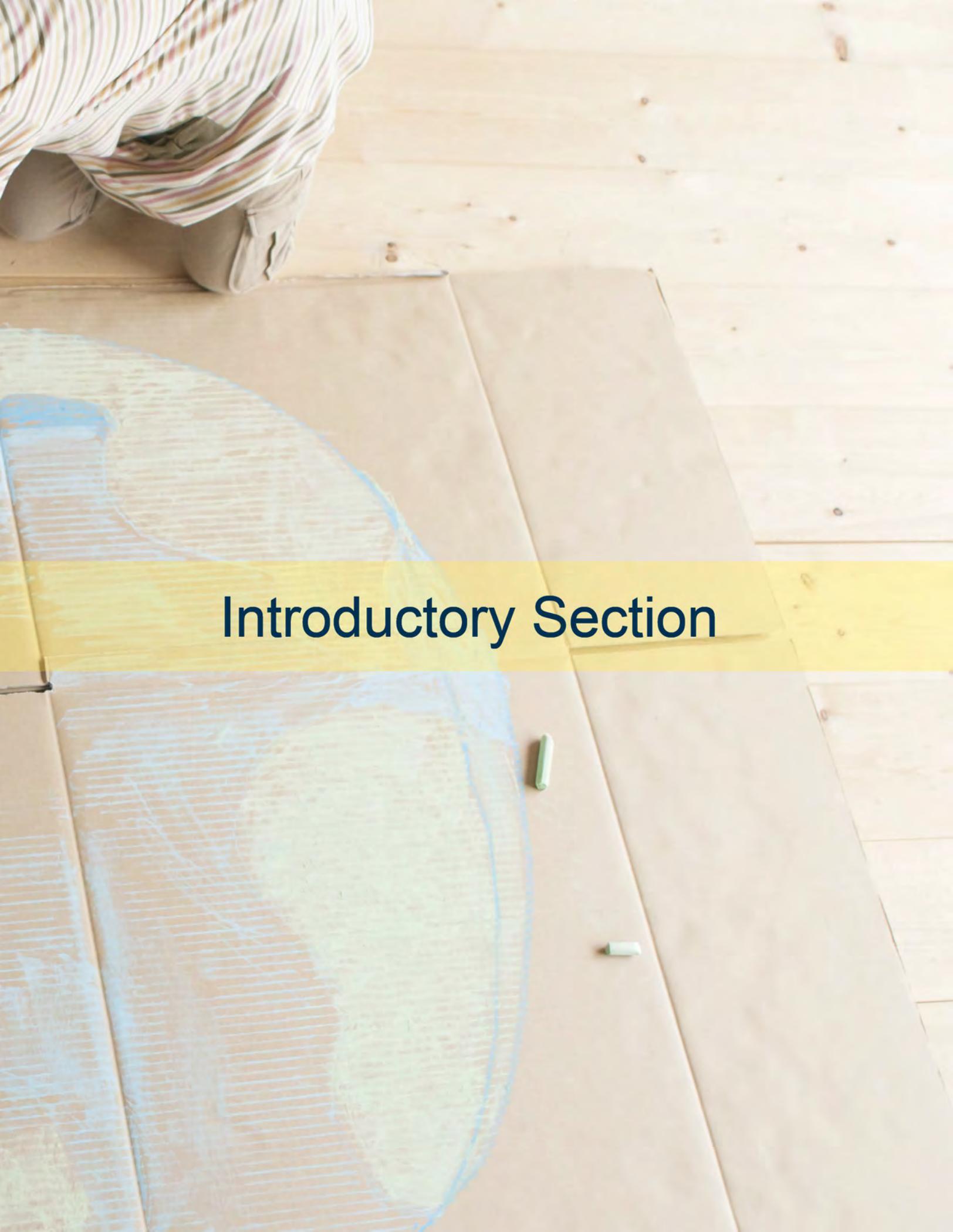
### FINANCIAL SECTION

|  |    |
|--|----|
| Independent Auditors' Report                                 | 19 |
| Management's Discussion and Analysis                         | 21 |
| Financial Statements   |    |
| Statement of Net Position                                    | 30 |
| Statement of Revenues, Expenses, and Changes in Net Position | 31 |
| Statement of Cash Flows                                      | 32 |
| Notes to Financial Statements                                | 34 |
| Required Supplementary Information                           | 58 |

### STATISTICAL SECTION

|  |    |
|--|----|
| Net Position by Component - Last Ten Fiscal Years        | 66 |
| Change in Net Position - Last Ten Fiscal Years           | 66 |
| Sales by Product - Last Ten Fiscal Years                 | 68 |
| Expenses by Type - Last Ten Fiscal Years                 | 69 |
| California Demographics and Economic Information         | 72 |
| California Industry Number of Employees by Size Category | 73 |
| California Demographics for Population and Players       | 74 |
| U.S. Lottery Data for Fiscal Years 2018 and 2019         | 80 |
| Number of Employees - Last Ten Fiscal Years              | 82 |
| Information About Operating Indicators                   | 83 |
| Capital Assets, Net - Last Ten Fiscal Years              | 84 |
| Contributions to Education - Last Ten Fiscal Years       | 84 |





# Introductory Section





June 26, 2020

To the Citizens of the State of California:

The California State Lottery (Lottery) is pleased to provide this Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2019. The Finance Division of the Lottery prepared this CAFR to present an overview of the Lottery. Pursuant to Government Code section 8880.46.5, the CAFR includes the Lottery's annual financial statements presented in accordance with accounting principles generally accepted in the United States of America and audited in accordance with auditing standards generally accepted in the United States of America.

The CAFR covers the financial activity of the Lottery as a single enterprise fund. The report follows formal standards of the Government Finance Officers Association of the United States and Canada (GFOA). Government organizations that publish this type of report can be compared to each other because similar types of information are included in the reports.

This letter of transmittal is designed to complement the Management's Discussion and Analysis that accompanies the financial statements and should be read in conjunction with it.

Lottery management is responsible for the accuracy and completeness of the presentation, including all disclosures in this report. To the best of our knowledge, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position, the results of operations, and the cash flows of the Lottery. All disclosures necessary to gain an understanding of the Lottery's financial activities have been included. California statutes require an annual financial audit by an independent Certified Public Accountant (CPA). The independent auditors' report on the Lottery's financial statements is included in the financial section of this report.

### **Profile of the Lottery**

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 agency to market and sell lottery products to the California public. The Lottery Act specifies that the Lottery is operated and administered by a five-member Commission appointed by the Governor. A Director, who is also appointed by the Governor, serves as the chief administrator of the Lottery.

Lottery ticket sales began on October 3, 1985, with the sale of the first Scratchers<sup>®</sup> ticket game called "California Jackpot." More than 21 million tickets were sold on the very first day and more than 1.7 billion tickets were sold in the first nine months.

Draw game sales began on October 14, 1986, with Lotto 6/49<sup>®</sup>. Daily draw games were introduced in March 1990. The Lottery currently offers eight draw games. Players have 180 days from the date of the drawing to claim prizes, except for the Mega Millions<sup>®</sup> and Powerball<sup>®</sup> jackpot prizes which can be claimed within one year. Retailers pay prizes up to and including \$599 while prizes over \$599 are paid directly by the Lottery. A brief description of each game is provided over the next two pages.

The Legislature has the authority to amend the Lottery Act by a two-thirds majority if, by doing so, it furthers the purposes of the measure.

On April 8, 2010, the Legislature amended the Lottery Act with Assembly Bill (AB) 142. AB 142 requires the Lottery to return at least 87 percent of revenues to the public in the form of prizes and contributions to education, and established a cap of 13 percent of revenues as the amount the Lottery may spend on operating expenses. Prior to AB 142, the Lottery was required to return, as nearly as practical, 50 percent of revenues to the public in the form of prizes; at least 34 percent to public education; and allocate no more than 16 percent to administrative costs. As a result of the revenue distribution changes from AB 142, the Lottery expects to continue to deliver increases in sales and revenues to the public in the form of both prizes and contributions to education.



**Scratchers** – Tickets are played by removing a scratch-off coating to reveal symbols and “instantly” learn whether the ticket is a winner. Games are offered in a variety of price-points and feature many different themes and play styles. The Lottery started Scratchers game sales in October 1985 with a single \$1 game. Multiple Scratchers games were first offered at retailer locations in October 1991, and games that retailed for more than \$1 went on sale in October 1993. Currently, prices for Scratchers tickets range from \$1 to \$30, and games may feature prizes up to \$10 million.



**Powerball** – Players select five numbers from a field of 1 through 69 and one Powerball number from a field of 1 through 26. There are nine prize categories in this game. To win the jackpot, players must match all five numbers plus the Powerball number. The jackpot prize in this multi-state game reached a record high \$1.59 billion in January 2016. During fiscal year (FY) 2018-19, Powerball jackpots started at \$40 million. In March 2020, due to the impact of COVID-19 on nationwide lottery ticket sales, the game rules were changed to eliminate a fixed minimum starting jackpot, with future jackpots instead being determined by sales. Winning numbers are drawn every Wednesday and Saturday at 7:59 p.m. PST.



**Mega Millions** – Players select five numbers from a field of 1 through 70 and one Mega number from a field of 1 through 25. There are nine prize categories in this game. To win the jackpot, players must match all five numbers plus the Mega number. The jackpot prize in this multi-state game has reached as high as \$1.54 billion in October 2018. During FY 2018-19, Mega Millions jackpots started at \$40 million. In April 2020, due to the impact of COVID-19 on nationwide lottery ticket sales, the game rules were changed to eliminate a fixed minimum starting jackpot, with future jackpots instead being determined by sales. Winning numbers are drawn every Tuesday and Friday at 7:59 p.m. PST.



**SuperLotto Plus**® – Players select five numbers from a field of 1 through 47 and one Mega number from a field of 1 through 27. There are nine prize categories in this game. To win the jackpot, players must match all five numbers plus the Mega number. Jackpot prizes start at \$7 million and have reached more than \$190 million. Winning numbers are drawn every Wednesday and Saturday at 7:57 p.m. PST.



**Hot Spot**® – This game was designed primarily for social trade styles like restaurants and bowling centers, but is available at all retailer locations. Players select numbers from a field of 1 through 80 and have a choice of playing ten different “Spots.” For example, a player who chooses to play a “3 Spot” would pick a set of three numbers. Players can also select the “Bulls-eye” option for a chance at winning more prizes if one of their chosen numbers also matches the Bulls-eye number. There are a total of 92 prize categories (including the Bulls-eye prizes) in this game. Twenty winning numbers are selected for each draw, one of them being the Bulls-eye. Top prizes have been as high as \$300,000. Draws are conducted daily every four minutes with the first draw at 6:04 a.m. and last draw at 2:00 a.m. PST.



**Daily 3** – This daily game was designed to provide very good odds of winning smaller prizes. Players select a set of three numbers, each from 0 through 9, as well as a playstyle where players try to match the three numbers drawn in the exact order (Straight) or in any order (Box). Based on the selected playstyle (Straight, Box, or Straight/Box combined), there are many ways to win a prize. The top prizes average \$600. Winning numbers are drawn twice a day.



**Daily 4** – This daily game was designed to offer a similar playstyle to Daily 3, but with larger prizes. Players select a set of four numbers, each from 0 through 9, as well as a playstyle where players try to match whether the four numbers drawn will be in the exact order (Straight) or in any order (Box). Based on the selected playstyle (Straight, Box, or Straight/Box combined), there are many ways to win a prize. The top prize averages \$6,000. Winning numbers are drawn once a day.

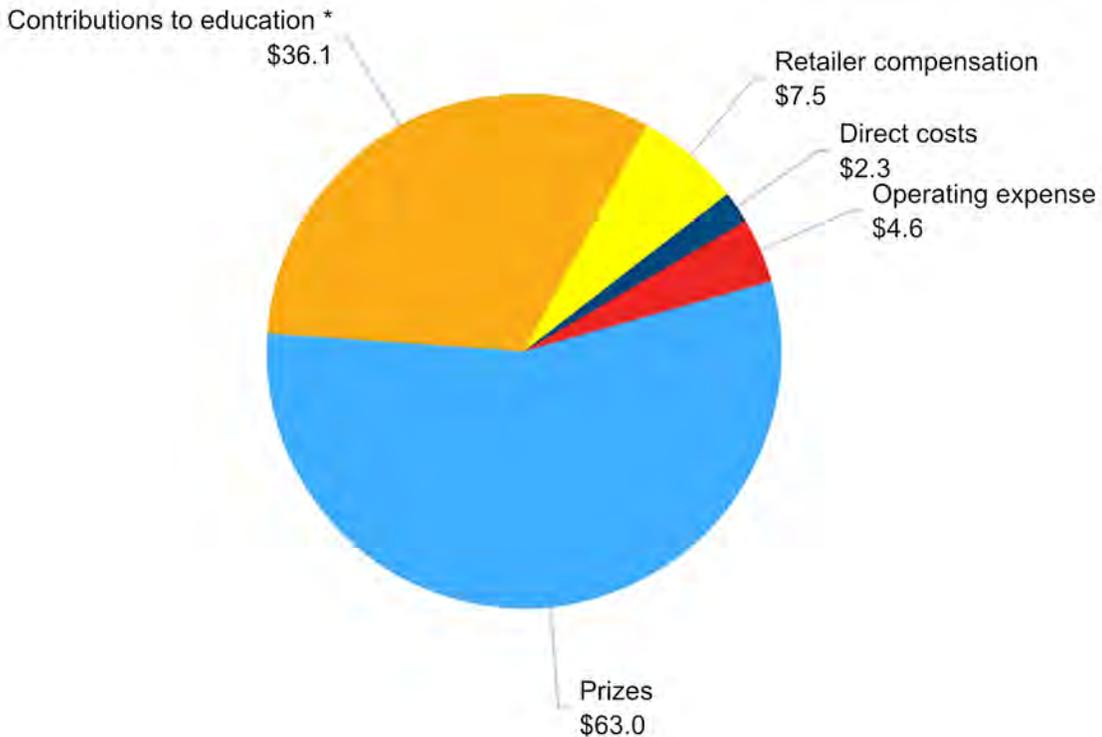


**Fantasy 5** – This daily Lotto-style game was designed with better odds than SuperLotto Plus. Players select a set of five numbers from 1 through 39. Winning tickets are those that match any two, three, four, or all five of the five numbers drawn. There are four prize categories in this game. Top prizes start at \$60,000 and have reached more than \$700,000 for matching all five numbers. Fantasy 5 is the only draw game that has a free ticket as part of the prize structure, with tens of thousands of free tickets awarded each draw.



**Daily Derby**<sup>®</sup> – This daily game was designed with a horse racing theme but is not associated with the results of any actual horse race. Players select three “horses” from a field of 12 and a “race time” which is a set of three numbers (e.g. 0, 1, and 9) with each number selected from a field of 0 through 9. There are five prize categories in this game. Top prizes start at \$50,000 and have reached more than \$1 million for matching the race time and all three horses in exact order.

**Distribution of Revenues**  
**(in billions)**  
**October 3, 1985 - June 30, 2019**



\*Includes interest income, unclaimed prizes, and other income of approximately \$1.4 billion.

From its inception in 1985 through June 30, 2019, the Lottery has generated approximately \$112.0 billion in sales and contributed nearly \$36.1 billion to schools. The retailers who sell lottery tickets have received approximately \$7.5 billion in compensation. Approximately \$63.0 billion has been paid to lucky Lottery winners.

Additionally, by saving money on operations, the Lottery has given more money to schools than required. Since October 1985, the Lottery has contributed approximately \$1.1 billion to education through operational savings.

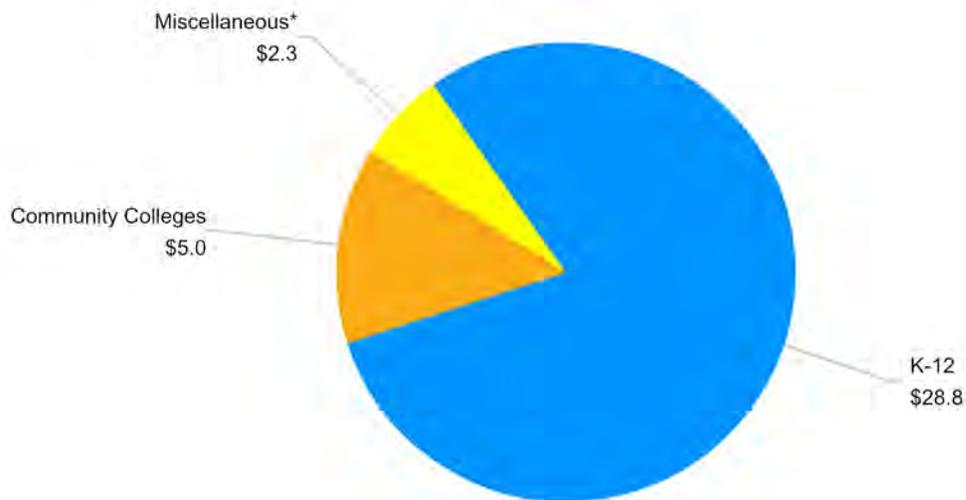
For the fiscal year ended June 30, 2019, the State Controller issued payments from the Lottery Education Fund to school districts, educational institutions, and state agencies. Payments are made quarterly based on Lottery income and unclaimed prizes.

Funds allocated to various educational entities for the fiscal year ended June 30, 2019, are as follows:

| <b>Entity</b>                                   | <b>Amount Allocated</b> |
|---|-------------------------|
| K-12  | \$ 1,459,011,521        |
| Community Colleges                              | 275,142,523             |
| California State University                     | 69,182,793              |
| University of California                        | 46,313,466              |
| Hastings College of the Law                     | 159,839                 |
| Department of Education - State Special Schools | 129,724                 |
| Department of Developmental Services            | 85,371                  |
| Juvenile Justice                                | 45,265                  |
| Total   | <u>\$ 1,850,070,502</u> |

The table above is a display of the amount allocated to education for the fiscal year ended June 30, 2019, and does not reflect the total earned for the fiscal year.

**Distribution to Education  
(in billions)  
October 3, 1985 - 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

Further details of school district and institutional total quarterly and total fiscal year payments are available on the State Controller's Website ([sco.ca.gov](http://sco.ca.gov)).

## **Relevant Financial Policies**

### ***Accounting System and Policies***

The Lottery operates the California State Lottery Fund, an enterprise fund that, like a private business, utilizes the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

### ***Budgetary Controls***

Budgetary control for the Lottery is addressed through its enabling legislation, which provides specific limitations on operating and administrative expenses. A comprehensive annual budget is prepared in conjunction with the Lottery's Annual Business Plan. The budget is prepared on both the cash basis and the full accrual basis of accounting. It is also prepared in distinct, quarterly segments to facilitate comparison to the quarterly financial statements.

The budget is based on sales forecasts, industry trends, program proposals, and approved action plans. While the Lottery does not have a legislatively appropriated budget, the operating budget is submitted to the Lottery Commission with the Annual Business Plan for approval. Actual costs are monitored throughout the year for compliance with the approved budget and appropriate adjustments are approved if necessary.

### ***Internal Controls***

An internal control structure has been designed to ensure that assets are protected from loss, theft, or misuse, and to ensure that the accounting system allows compilation of accurate and timely financial information. The internal controls are designed to provide reasonable assurance that these objectives are met. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

No matter how well internal controls are designed and operated, they can only provide reasonable assurances that the entity will be able to achieve its objective. Absolute assurance of the achievement of an objective cannot be obtained due to the limitations of any control system. The human equation alone introduces the possibility of mistakes, judgment errors, control overrides, and even collusion. Each of these factors individually or in conjunction can reduce the entity's ability to achieve its goal. Beyond the human equation, mechanical and technical breakdowns can have equal measure in displaying the limitations of internal controls. Finally, unforeseen circumstances and factors can also materialize that require changes to the traditional internal control structure.

To enhance controls, Lottery management has separate responsibilities and provides approval and oversight for the following functions: personnel and payroll; purchasing and accounts payable; cash receipts and cash disbursements; retailer network management and retailer accounts receivable; and system data processing and system programming. Reviews of operations are achieved by the following procedures:

*Internal Audits:* Internal Audit personnel provide a continuing review of the internal controls and operations of the Lottery.

*Draw verification:* An independent CPA firm witnesses the draws of Lottery games (except for computer automated drawings of Hot Spot), and inspects all equipment used in such draws.

The following measures have been implemented to ensure the integrity of the Lottery:

- Specialized security and law enforcement staff
- Secured facilities and gaming equipment
- Background checks on retailers, contractors, and Lottery employees
- Lottery tickets with special inks, dyes, and security codes
- Detailed and strict security procedures for game drawings
- Lottery random number generators in stand-alone systems, certified by an independent CPA firm prior to installation
- Lottery draw balls weighed and measured once a month to ensure standard compliance set by the Weights and Measures Division of the California Department of Agriculture

## Employees

As of June 30, 2019, the Lottery Commission authorized a total of 859 positions for the Lottery's headquarters located in Sacramento; for its nine district offices located in Sacramento, East Bay (Hayward), Richmond, Fresno, Chatsworth, Rancho Cucamonga, Santa Fe Springs, Costa Mesa, and San Diego; and for its two distribution centers located in West Sacramento and Rancho Cucamonga.

## Major Initiatives

In FY 2018-19, the Lottery surpassed the \$7 billion sales mark for the first time in its history, setting a sales record of nearly \$7.39 billion. This represents a \$422.3 million, or 6.1 percent, increase over the previous fiscal year's record sales figure of \$6.97 billion. Most importantly, the Lottery transferred a record \$1.87 billion in supplemental funding to its beneficiary - California public education. This figure represents an increase of nearly \$170 million more than the record \$1.7 billion allocated in the previous year.

Lottery sales and profits 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 in July 2018 and \$522.6 million in June 2019. The July prize was the largest single-ticket winning prize awarded in California Lottery history. Mega Millions game sales finished the year at \$736.3 million - more than any other lottery - which was nearly 70 percent higher than the previous year's figure of \$434.6 million. 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 where the jackpot in one of these multi-state games was \$500 million or more. Additionally, sales for California's own draw game, SuperLotto Plus, finished slightly better than the previous fiscal year's totals, coming in at nearly \$269 million - a 2.5 percent increase.

Scratchers games provided one of the major financial highlights of FY 2018-19, 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 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 2018-19. In particular, the Monopoly™ Scratchers series, launched in February 2019, helped boost Scratchers sales to their second-highest sales week of all time, \$116.5 million.

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 approximately 71 percent higher than the previous year, finishing at \$32.4 million, due to a number of relatively high jackpots for this smaller game. Hot Spot sales were also very strong at \$313.8 million, an average of more than \$6 million per week. To put that figure in perspective, just two years prior, the Lottery was averaging under \$5 million per week in Hot Spot sales.

In terms of total sales, the California Lottery remains in second place of U.S. lotteries, trailing only the New York Lottery. However, the gap between both lottery giants has narrowed.

During FY 2018-19, the California Lottery continued to set prize payout levels designed to maximize its contribution to public education, balancing growth in both sales and profits. 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.

The Lottery continues to look for new and innovative ways to bring its products to more players, and to improve the player experience. The Lottery's award-winning mobile app earned a Best of California award for the Check-A-Ticket feature, which allows players to scan their tickets to see if they are winners. The Lottery is also expanding a pilot program which allows for same-day payment of winning ticket claims at select district offices.

While sales and profits are a good indicator of success, the California Lottery recognizes it has an obligation beyond selling entertaining products. The Lottery continues to maintain its prestigious World Lottery Association Level 4 Responsible Gaming status. This is the highest certification any lottery can earn. The Lottery also continues its efforts toward environmental sustainability. This past fiscal year, 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.

## **Economic Outlook\***

The economic outlook in June 2020 is much different than it was at the end of the FY 2018-19. At that time, the forecast assumed the economy would continue growing while facing risks of a slowdown. California's unemployment rate was predicted to stay around 4.3 percent. That all changed in March 2020 with the onset of the COVID-19 pandemic in California. California's governor, like many others nationwide, issued a stay-at-home order, social distancing guidelines, and the closure of non-essential businesses.

Nationally, after a growth of 2.3 percent in 2019, the U.S. real Gross Domestic Product (GDP) is expected to contract by 5.4 percent in 2020. Consumption, which makes up about two-thirds of GDP, is expected to be the primary drag on growth as households stop spending money on goods and services as a result of business closures, rising unemployment, ongoing public health concerns, and lower consumer confidence. National unemployment rose from 3.5 percent in February 2020 to 14.7 percent in April 2020. The stock market has been extremely volatile, and both the Federal Reserve and Congress have taken measures to try to ease the economic burden on U. S. citizens.

In California, the unemployment rate is projected to reach 24.5 percent in the second quarter of 2020, meaning that one in four California workers, approximately 4.8 million people, will be out of work. California personal income, which includes income from wages and salaries, businesses ownership, property ownership, and government transfers, grew by 4.8 percent in 2019 but is expected to decrease by 9 percent or \$230 billion in 2020. With the state's ongoing housing imbalance and climate change regulations, California's overall inflation will remain higher than the national rate. Recovery from the pandemic is expected to be gradual as firms repair business ties, and consumers and businesses slowly regain the confidence to spend money.

## **Awards and Acknowledgments**

The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the Lottery for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2018. This was the sixteenth consecutive year that the Lottery has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

This report demonstrates the professionalism and dedicated team effort of Lottery employees. We appreciate their contribution to the success of this report. The Lottery is committed to providing thorough and relevant financial information to the public. This CAFR reflects our commitment to meet the highest standards of accountability and to maintain public trust through the highest ethics and integrity.

Respectfully submitted,



Nicholas Buchen  
Deputy Director  
Finance Division

\* Department of Finance, excerpted from the Governor's Budget Summary 2019-20 May Revision, Economic Outlook section.



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**California State Lottery**

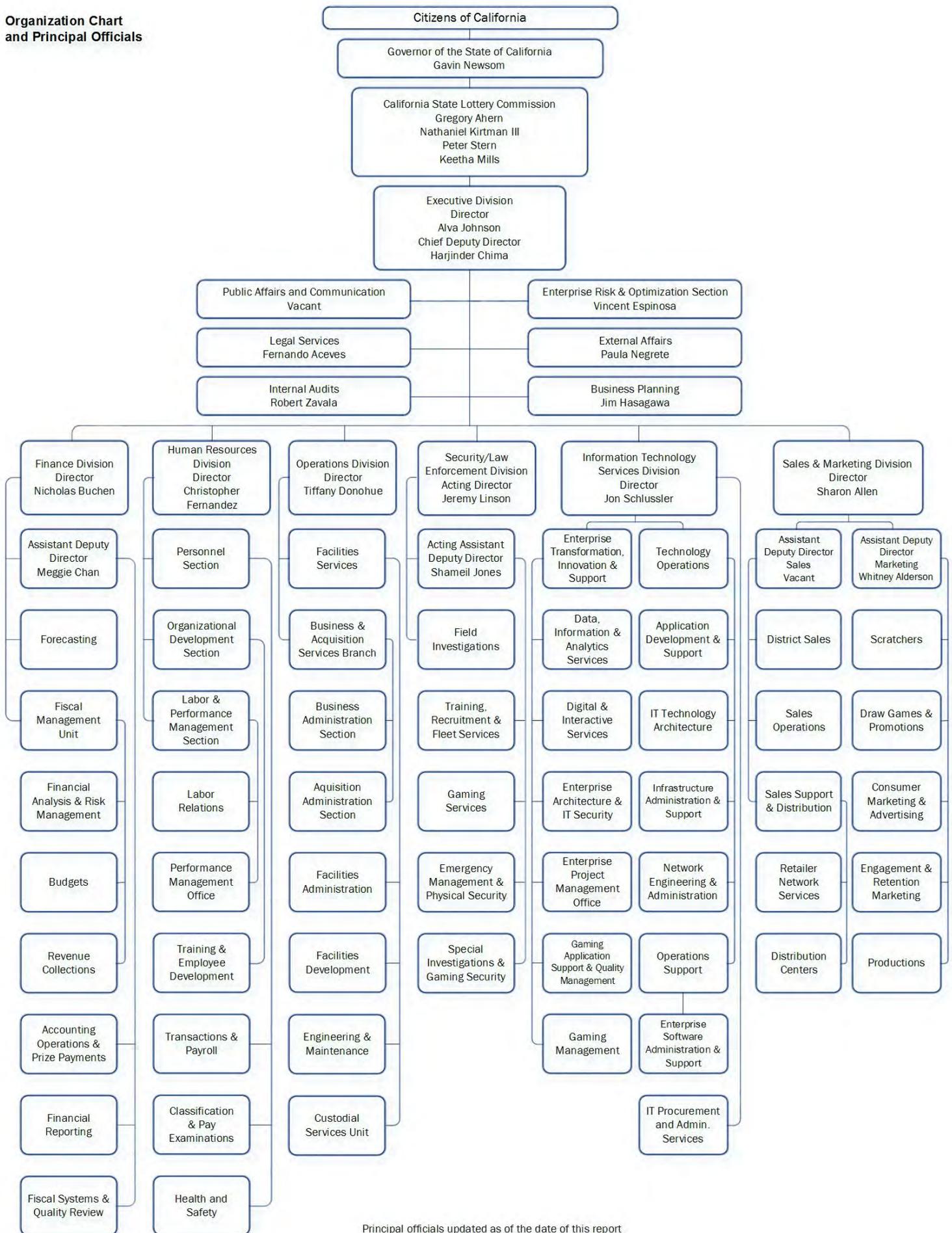
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2018**

*Christopher P. Morill*

Executive Director/CEO

**Organization Chart  
and Principal Officials**



Principal officials updated as of the date of this report

## California State Lottery Commission

Ensuring integrity, security, fairness, and transparency.

The Lottery Act requires that the five-member Commission – appointed by the Governor – be comprised of no more than three members from the same political party; one must be a Certified Public Accountant and another must have at least five years of experience as a law enforcement officer. The Commission meets at least once a quarter and their meetings are open to the public.



[Gregory Ahern](#)

Lottery Commission Chair

Sheriff Ahern has been a lifelong resident of Alameda County. He was sworn in as a Deputy Sheriff in 1980, and has served over 36 years as a member of the Alameda County Sheriff's Office. In January 2007, he was sworn in as the 22nd Sheriff of Alameda County.



[Nathaniel Kirtman III](#)

Lottery Commission Member

Mr. Kirtman is currently working as a business consultant. He had been the senior vice president of publicity for NBC Entertainment from 2006 to 2016. He led marketing communications for General Electric Aviation from 2005 to 2006, led General Electric's digital efforts from 2002 to 2005, and was a senior manager of new media for NBC Entertainment from 1998 to 2001. Mr. Kirtman also worked at Warner Bros. as a marketing representative from 1995 to 1998 and as a public affairs representative from 1994 to 1995.



[Peter Stern](#)

Lottery Commission Member

Mr. Stern is Senior Vice President of Corporate Development at Inception Corporation. He has over 20 years of technology sales, leadership, business development and startup experience. Prior to joining Inception, Mr. Stern's past roles included Chief Revenue Officer and Head of Sales at Skedulo, Autopilot and OpSource. Early on his career, he was Vice President of Enterprise Corporate Sales at Salesforce. At Salesforce, he was responsible for the west coast development and growth of a new direct sales division. Mr. Stern's first job out of college was at Oracle where he worked for 6 years and was ultimately responsible for the management of a North American field sales organization evangelizing Oracle's embedded infrastructure technology within the Independent Software Vendor (ISV) community. In December 2010, he was appointed to the San Francisco International Airport Commission by Mayor Gavin Newsom and was reappointed in 2014 by Mayor Edwin Lee and Mayor London Breed in 2018.

## California State Lottery Commission (continued)

### Keetha Mills

Lottery Commission Member



Ms. Mills is President and Chief Executive Officer of the Foundation for California Community Colleges (Foundation), the nonprofit auxiliary serving the California Community Colleges Board of Governors, Chancellor's Office, and all 115 colleges. Her professional background includes over 20 years of experience in executive leadership, finance, accounting, and operations. Prior to joining the Foundation, she served in a management role at Hines Interest Limited Partnership and held several regional positions at Planned Parenthood, including Chief Financial Officer of Planned Parenthood of Houston and Southeast Texas, Interim Chief Executive Officer of Planned Parenthood of Louisiana and the Mississippi Delta, and Chief Operating Officer of Planned Parenthood Gulf Coast. Earlier in her career, Ms. Mills worked with two of the nation's largest accounting firms at the time, Arthur Andersen and PricewaterhouseCoopers (PwC), and held positions at Dynegy. A community college alumna, Ms. Mills earned her associate of arts degree in business administration from Lee College in Baytown, Texas, and her bachelor of science degree in accounting from the University of Houston.

## California State Lottery Management Team



**Alva Johnson**

Director

Alva Johnson, Director for the California State Lottery, has worked in government and public policy for more than 25 years. He started as a legislative staffer in the late 1990's, which included time serving as a deputy legislative secretary in Governor Gray Davis' office 20 years ago. He specialized in education policy, serving as a legislative liaison for the California Department of Education and a staff consultant for the Joint Committee to Develop a Master Plan for Education. In 2001, Mr. Johnson served as Director of Legislation for the Lottery. Most recently, his work has included managing government affairs for federally-recognized American Indian Tribes, representing them at all levels of government.



**Harjinder Chima**

Chief Deputy Director



**Fernando Aceves**

Chief Counsel



**Nicholas Buchen**

Deputy Director, CFO  
Finance



**Sharon Allen**

Deputy Director  
Sales & Marketing



**Paula Negrete**

Deputy Director  
External Affairs



**Jim Hasegawa**

Deputy Director  
Business Planning



**Roberto Zavala**

Deputy Director  
Internal Audits



**Vincent Espinosa**

Chief Enterprise Risk Officer



**Jon Schlussler**

Deputy Director  
Information Technology Services



**Chris Fernandez**

Deputy Director  
Human Resources



**Tiffany Donohue**

Deputy Director  
Operations

### Vacancies as of the issue date of this report:

Deputy Director, Security/Law Enforcement

Deputy Director, Public Affairs & Communications

Lottery management team updated as of the issue date of this report.



A blurred office scene with a laptop, a glass of water, and a person in the background. The scene is brightly lit, likely by natural light from a window. A dark blue horizontal band is overlaid across the middle of the image, containing the text 'Financial Section' in white. The laptop is on the left, and the glass of water is in the foreground on the right. A person is visible in the background, slightly out of focus.

# Financial Section





KPMG LLP  
500 Capitol Mall, Ste 2100  
Sacramento, CA 95814-4754

## Independent Auditors' Report

The Commissioners  
California State Lottery Fund, State of California:

We have audited the accompanying financial statements of the business-type activities of the California State Lottery Fund (the Lottery), a proprietary fund of the State of California, which comprise the statement of net position (deficit) as of June 30, 2019, the related statements of revenues, expenses, and changes in net position (deficit) and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the California State Lottery Fund as of June 30, 2019, and the changes in its financial position and cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

### *Emphasis of Matter*

As discussed in Note 1, the financial statements of the Lottery are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the State of California that is attributable to the transactions of the Lottery. They do not purport to, and do not, present fairly the financial



position of the State of California as of June 30, 2019, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

*Other Matters*

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 21–29 and required supplementary information, as listed in the accompanying table of contents on pages 58–61 (collectively referred to as RSI) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*KPMG LLP*

Sacramento, California  
June 26, 2020

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

The following discussion and analysis of the California State Lottery's (Lottery) financial performance provides an overview of financial activities for the fiscal year ended June 30, 2019. Please read it in conjunction with the Lottery financial statements that follow this section.

### **FINANCIAL HIGHLIGHTS**

- In fiscal year 2018-19, the Lottery allocated more than \$1.87 billion to California public schools, the highest annual contribution in Lottery history and the 19th consecutive year the Lottery has transferred more than \$1 billion to its beneficiary.
- The Lottery achieved sales of nearly \$7.4 billion in fiscal year 2018-19. This marks the Lottery's first year ever topping \$7 billion in sales.
- Scratchers<sup>®</sup> games provided nearly \$5.2 billion in sales, an increase of \$93.4 million over the prior year. The increase in Scratchers ticket sales was due in part to an increased number of games launched during the year, including more extended play games such as crossword-style games.
- Sales for lotto games increased \$292.3 million, or 23.7 percent, due primarily to large jackpots in the multi-state game Mega Millions,<sup>®</sup> including a \$1.5 billion jackpot in October 2018. The fiscal year started and ended with large Mega Millions wins in California: a jackpot of \$543 million in July 2018 and a jackpot of \$522 million in June 2019.
- Hot Spot<sup>®</sup> 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.
- The Lottery paid out more than \$5.2 billion in the form of prizes and retailer compensation. Of this, the Lottery paid approximately \$4.7 billion in prizes to players, and nearly \$506 million in commissions, cashing bonuses, and other applicable compensation to retailers.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

These required statements offer short-term and long-term financial information about the Lottery. The statement of net position (deficit) provides information about the nature and amounts of investments in resources (assets and deferred outflows of resources) and obligations (liabilities and deferred inflows of resources) at the close of the fiscal year. All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position (deficit). This statement measures the success of the Lottery's operations over the past year. The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Lottery's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and provides answers to such questions as where did cash come from and what was cash used for. 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.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

**FINANCIAL ANALYSIS**

**NET POSITION (DEFICIT)**

A summary of the California State Lottery's net position (deficit) is presented below:

|  | June 30, 2018           | June 30, 2019           | Dollar Change         | Percent Change |
|--|-------------------------|-------------------------|-----------------------|----------------|
| Current and other assets               | \$ 1,785,755,294        | \$ 2,247,957,906        | \$ 462,202,612        | 25.9 %         |
| Capital assets                         | 197,306,299             | 208,971,820             | 11,665,521            | 5.9 %          |
| Total assets                           | <u>\$ 1,983,061,593</u> | <u>\$ 2,456,929,726</u> | <u>\$ 473,868,133</u> | <u>23.9 %</u>  |
| Deferred outflows of resources         | \$ 62,048,271           | \$ 73,060,199           | \$ 11,011,928         | 17.7 %         |
| Total assets and deferred outflows     | <u>\$ 2,045,109,864</u> | <u>\$ 2,529,989,925</u> | <u>\$ 484,880,061</u> | <u>23.7 %</u>  |
| Current liabilities                    | \$ 1,126,285,107        | \$ 1,576,680,854        | \$ 450,395,747        | 40.0 %         |
| Non-current liabilities                | 1,083,369,980           | 1,053,802,947           | (29,567,033)          | (2.7)%         |
| Total liabilities                      | <u>\$ 2,209,655,087</u> | <u>\$ 2,630,483,801</u> | <u>\$ 420,828,714</u> | <u>19.0 %</u>  |
| Deferred inflows of resources          | \$ 24,867,555           | \$ 51,221,930           | \$ 26,354,375         | 106.0 %        |
| Total liabilities and deferred inflows | <u>\$ 2,234,522,642</u> | <u>\$ 2,681,705,731</u> | <u>\$ 447,183,089</u> | <u>20.0 %</u>  |
| Net investment in capital assets       | \$ 197,306,299          | \$ 208,971,820          | \$ 11,665,521         | 5.9 %          |
| Restricted by legislation              | 55,949,634              | 93,646,606              | 37,696,972            | 67.4 %         |
| Unrestricted deficit                   | (442,668,711)           | (454,334,232)           | (11,665,521)          | 2.6 %          |
| Total net position                     | <u>\$ (189,412,778)</u> | <u>\$ (151,715,806)</u> | <u>\$ 37,696,972</u>  | <u>(19.9)%</u> |

The Lottery implemented GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during fiscal year 2017-18, which necessitated a decrease to beginning unrestricted net position that year of \$155.2 million, and resulted in a total net deficit of \$189.4 million. During fiscal year 2018-19, the Lottery's net position increased \$37.7 million to a net deficit of \$151.7 million. Net position restricted by legislation increased \$37.7 million due to an increase in the fair value of investments held to pay annuitized prizes. The net deficit also includes a \$209 million net investment in capital assets, specifically land, buildings and various equipment used to run the Lottery. The value of these assets of \$340 million is offset by the accumulated depreciation of \$131 million. More information on the Lottery's investments, capital assets, and other postemployment benefits can be found in Notes 2, 5, and 10, respectively.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(Unaudited)**

**CHANGE IN NET POSITION (DEFICIT)**

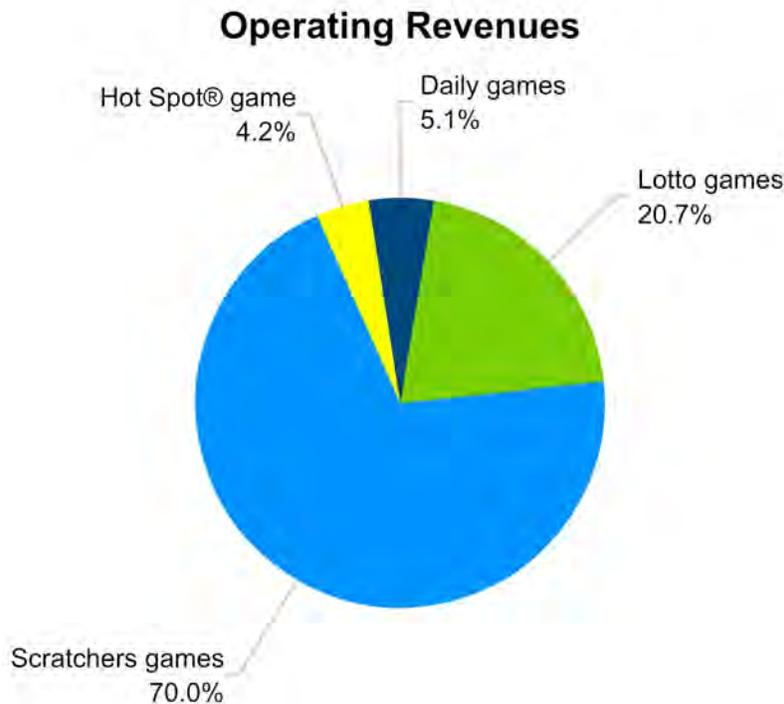
A summary of the California State Lottery's change in net position (deficit) is presented below:

|  | June 30, 2018           | June 30, 2019           | Dollar Change        | Percent Change |
|--|-------------------------|-------------------------|----------------------|----------------|
| Operating revenues - Lottery sales     | \$ 6,965,792,113        | \$ 7,388,050,316        | \$ 422,258,203       | 6.1 %          |
| Prizes                                 | 4,476,580,353           | 4,715,592,673           | 239,012,320          | 5.3 %          |
| Sales after prizes                     | \$ 2,489,211,760        | \$ 2,672,457,643        | \$ 183,245,883       | 7.4 %          |
| Game costs                             | 608,144,821             | 637,199,582             | 29,054,761           | 4.8 %          |
| Income before operating expenses       | \$ 1,881,066,939        | \$ 2,035,258,061        | \$ 154,191,122       | 8.2 %          |
| Operating expenses                     | 225,011,750             | 225,536,670             | 524,920              | 0.2 %          |
| Operating income                       | \$ 1,656,055,189        | \$ 1,809,721,391        | \$ 153,666,202       | 9.3 %          |
| Non-operating expenses                 | \$ (1,687,477,941)      | \$ (1,772,024,419)      | \$ (84,546,478)      | 5.0 %          |
| Change in net position                 | \$ (31,422,752)         | \$ 37,696,972           | \$ 69,119,724        | (220.0)%       |
| Total net position - beginning of year | (2,838,026)             | (189,412,778)           | (186,574,752)        | 6,574.1 %      |
| Accounting change adjustment           | (155,152,000)           | —                       | 155,152,000          | (100.0)%       |
| Total net position - end of year       | <u>\$ (189,412,778)</u> | <u>\$ (151,715,806)</u> | <u>\$ 37,696,972</u> | <u>(19.9)%</u> |

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

**REVENUES**

The following chart shows the major sources and the percentages of operating revenues for the fiscal year ended June 30, 2019:



A summary of total revenues for the fiscal years ended June 30, 2018 and 2019, and the amount and percentage of change in relation to prior year amounts is as follows:

|   | June 30, 2018           | June 30, 2019           | Dollar Change         | Percent Change |
|---|-------------------------|-------------------------|-----------------------|----------------|
| <b>Operating revenues:</b>                |                         |                         |                       |                |
| Lotto games                               | \$ 1,234,092,648        | \$ 1,526,370,543        | \$ 292,277,895        | 23.7 %         |
| Scratchers games                          | 5,077,397,175           | 5,170,791,532           | 93,394,357            | 1.8 %          |
| Hot Spot game                             | 288,701,169             | 313,779,077             | 25,077,908            | 8.7 %          |
| Daily games                               | 365,601,121             | 377,109,164             | 11,508,043            | 3.1 %          |
| Total operating revenues                  | <u>\$ 6,965,792,113</u> | <u>\$ 7,388,050,316</u> | <u>\$ 422,258,203</u> | <u>6.1 %</u>   |
| <b>Non-operating revenues:</b>            |                         |                         |                       |                |
| Unrealized gains (losses) on investments  | \$ (29,850,764)         | \$ 39,163,769           | \$ 69,014,533         | (231.2)%       |
| Interest accreted/earned on investments   | 30,395,454              | 30,735,603              | 340,149               | 1.1 %          |
| Interest on funds held by State Treasurer | 8,707,552               | 15,480,673              | 6,773,121             | 77.8 %         |
| Other income                              | 124,554                 | 22,036                  | (102,518)             | (82.3)%        |
| Total non-operating revenues              | <u>\$ 9,376,796</u>     | <u>\$ 85,402,081</u>    | <u>\$ 76,025,285</u>  | <u>810.8 %</u> |
| Total revenues                            | <u>\$ 6,975,168,909</u> | <u>\$ 7,473,452,397</u> | <u>\$ 498,283,488</u> | <u>7.1 %</u>   |

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Unaudited)

**REVENUES (continued)**

Lottery operating revenue increased \$422.3 million from the previous fiscal year, with increases in all categories of Lottery products. Lotto games sales increased \$292.3 million or 23.7 percent due to large jackpots in Mega Millions, including a \$1.5 billion jackpot. Scratchers sales increased \$93.4 million due in part to an increased number of games launched, including more extended play games such as crosswords-style games. Hot Spot sales increased \$25.1 million as a result of continued efforts to increase the number of retailers selling Hot Spot, and to an improved experience for players checking Hot Spot draw results on the Lottery's Mobile App. Non-operating revenue increased \$76 million from the previous year due to gains on investments and an increase in interest on funds held by the State Treasurer.

**EXPENSES**

The Lottery Act requires that the Lottery return not less than 87 percent of annual revenues to the public in the form of prizes and contributions to education, and spend no more than 13 percent of annual revenues on operating expenses. Lottery prize payments, contributions to education, and operating expenses are shown below as a percentage of operating revenue for the year ended June 30, 2019.

|   |                         |               |
|---|-------------------------|---------------|
| <u>Lottery Sales</u>                        | <u>\$ 7,388,050,316</u> | <u>100.0%</u> |
|   |                         |               |
| Revenue returned to the public              |                         |               |
| Prizes                                      | \$ 4,715,592,673        | 63.8%         |
| Allocation of sales to education            | 1,809,743,371           | 24.5%         |
| <u>Total revenue returned to the public</u> | <u>\$ 6,525,336,044</u> | <u>88.3%</u>  |
|   |                         |               |
| Expenses of the Lottery                     |                         |               |
| Retailer costs                              | \$ 505,903,081          | 6.8%          |
| Game costs                                  | 131,296,501             | 1.8%          |
| Operating expenses                          | 225,536,670             | 3.1%          |
| Less bartered operating expenses            | (21,980)                | 0.0%          |
| <u>Total expenses of the Lottery</u>        | <u>\$ 862,714,272</u>   | <u>11.7%</u>  |

A summary of the total funds transferred by the Lottery to the education community for the fiscal year ended June 30, 2019, is shown below.

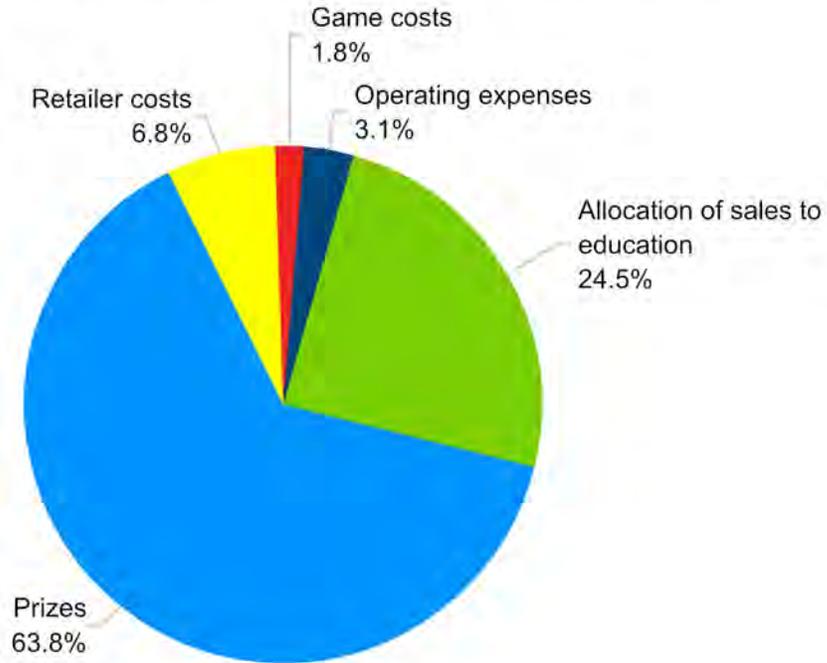
|  |                         |            |
|--|-------------------------|------------|
| Revenues to Education                                      |                         |            |
| Allocation of sales  | \$ 1,809,743,371        |            |
| Unclaimed prizes directly allocated to the Education Fund  |                         | 45,523,184 |
| Interest income  |                         | 15,480,673 |
| Other income   |                         | 22,036     |
| Less bartered income                                       |                         | (21,980)   |
| <u>Total declared for allocation to the Education Fund</u> | <u>\$ 1,870,747,284</u> |            |

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

**EXPENSES (continued)**

The following chart shows prizes, game costs, operating expenses, and allocation to education as a percentage of operating revenues for the fiscal year ended June 30, 2019:

**Prizes and Allocation of Sales Returned to the Public, and Expenses of the Lottery as a Percentage of Operating Revenues**



**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(Unaudited)**

**EXPENSES (continued)**

A summary of expenses for the fiscal years ended June 30, 2018 and 2019, and the amount and percentage change in relation to prior year amounts is as follows:

|  | <u>June 30, 2018</u>           | <u>June 30, 2019</u>           | <u>Dollar Change</u>         | <u>Percent Change</u> |
|--|--------------------------------|--------------------------------|------------------------------|-----------------------|
| Prizes:  |                                |                                |                              |                       |
| Draw game prizes                               | \$ 964,117,885                 | \$ 1,128,113,257               | \$ 163,995,372               | 17.0 %                |
| Scratchers game prizes                         | 3,512,462,468                  | 3,587,479,416                  | 75,016,948                   | 2.1 %                 |
| Total prizes                                   | <u>\$4,476,580,353</u>         | <u>\$4,715,592,673</u>         | <u>\$ 239,012,320</u>        | <u>5.3 %</u>          |
| Game costs:                                    |                                |                                |                              |                       |
| Retailer costs                                 | \$ 480,545,143                 | \$ 505,903,081                 | \$ 25,357,938                | 5.3 %                 |
| Draw/Scratchers game costs                     | 127,599,678                    | 131,296,501                    | 3,696,823                    | 2.9 %                 |
| Total game costs                               | <u>\$ 608,144,821</u>          | <u>\$ 637,199,582</u>          | <u>\$ 29,054,761</u>         | <u>4.8 %</u>          |
| Operating expenses:                            |                                |                                |                              |                       |
| Salaries, wages, and benefits                  | \$ 101,054,859                 | \$ 99,664,223                  | \$ (1,390,636)               | (1.4)%                |
| Advertising                                    | 68,113,747                     | 66,773,171                     | (1,340,576)                  | (2.0)%                |
| Promotion, public relations, and point of sale | 9,552,414                      | 9,305,841                      | (246,573)                    | (2.6)%                |
| Other professional services                    | 15,321,484                     | 16,898,286                     | 1,576,802                    | 10.3 %                |
| Depreciation and amortization                  | 18,310,965                     | 18,814,684                     | 503,719                      | 2.8 %                 |
| Other general and administrative expenses      | 12,658,281                     | 14,080,465                     | 1,422,184                    | 11.2 %                |
| Total operating expenses                       | <u>\$ 225,011,750</u>          | <u>\$ 225,536,670</u>          | <u>\$ 524,920</u>            | <u>0.2 %</u>          |
| Non-operating expenses:                        |                                |                                |                              |                       |
| Allocation to Education Fund                   | \$ 1,664,887,295               | \$ 1,825,224,100               | \$ 160,336,805               | 9.6 %                 |
| Interest imputed on annuitized prize liability | 31,967,442                     | 32,202,400                     | 234,958                      | 0.7 %                 |
| Total non-operating expenses                   | <u>\$ 1,696,854,737</u>        | <u>\$ 1,857,426,500</u>        | <u>\$ 160,571,763</u>        | <u>9.5 %</u>          |
| Total expenses                                 | <u><u>\$ 7,006,591,661</u></u> | <u><u>\$ 7,435,755,425</u></u> | <u><u>\$ 429,163,764</u></u> | <u><u>6.1 %</u></u>   |

Scratchers and draw game prize expense, retailer costs, and game costs all increased as sales increased. Other professional services increased due in part to contracts related to system upgrades. Other general and administrative expenses increased primarily because a reclassification of other postemployment benefits reduced expenses in this category last year. The allocation to the Education Fund increased primarily due to increased sales.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(Unaudited)**

**CAPITAL ASSETS**

A summary of capital assets as of June 30, 2018 and 2019, and the amount and percentage of change in relation to prior year amounts is as follows:

|                                  | June 30, 2018         | June 30, 2019         | Dollar Change        | Percent Change |
|----------------------------------|-----------------------|-----------------------|----------------------|----------------|
| Non-depreciable capital assets:  |                       |                       |                      |                |
| Land                             | \$ 18,798,281         | \$ 18,798,281         | \$ —                 | 0.0 %          |
| Depreciable capital assets:      |                       |                       |                      |                |
| Gaming equipment                 | \$ 60,368,715         | \$ 60,368,715         | \$ —                 | 0.0 %          |
| Vending machines                 | 81,237,108            | 80,870,482            | (366,626)            | (0.5)%         |
| Buildings                        | 114,690,361           | 141,315,605           | 26,625,244           | 23.2 %         |
| Data processing equipment        | 14,668,483            | 17,189,486            | 2,521,003            | 17.2 %         |
| Office furniture and equipment   | 8,557,385             | 8,812,228             | 254,843              | 3.0 %          |
| Leasehold improvements           | 620,651               | 620,651               | —                    | 0.0 %          |
| Other                            | 11,168,877            | 11,990,546            | 821,669              | 7.4 %          |
| Subtotal                         | <u>\$ 291,311,580</u> | <u>\$ 321,167,713</u> | <u>\$ 29,856,133</u> | <u>10.2 %</u>  |
| Less accumulated depreciation    | (112,803,562)         | (130,994,174)         | (18,190,612)         | 16.1 %         |
| Total depreciable capital assets | <u>\$ 178,508,018</u> | <u>\$ 190,173,539</u> | <u>\$ 11,665,521</u> | <u>6.5 %</u>   |
| Capital assets, net              | <u>\$ 197,306,299</u> | <u>\$ 208,971,820</u> | <u>\$ 11,665,521</u> | <u>5.9 %</u>   |

Capital assets increased 5.9 percent over the previous fiscal year. The increase in buildings is due to the ongoing implementation of the Lottery's Facilities Master Plan to purchase buildings as replacements for leased facilities. The increase in data processing equipment is due to upgrades to the Lottery's accounting and gaming systems. More information on the Lottery's capital assets can be found in Note 5.

**NON-CURRENT LIABILITIES**

At June 30, 2019, the California State Lottery had approximately \$1.05 billion in non-current liabilities, a decrease of nearly \$30 million or 2.7 percent from the previous year. This includes an increase in the net other postemployment benefits (OPEB) liability of \$13.8 million, or 6.3 percent, to \$231.9 million. The increase in net OPEB liability was primarily due to changes in the allocation method and proportion of the Lottery's share of the State's net OPEB liability, offset by actual claim costs that were lower than assumed. The Lottery's net pension liability decreased \$14 million, or 10 percent, to \$126 million. The decrease in the net pension liability was primarily due to contributions made and the actual investment returns on plan assets exceeding projected returns, offset by interest on total pension liability. In addition, pursuant to Senate Bill 84, the Lottery has recognized a \$13 million inter-fund loan payable as part of the Lottery's obligation to pay back a loan used to supplement the state's employer contributions to pensions. The reserve for unpaid prizes decreased \$29.3 million as the majority of jackpot and annuity-level prize winners choose the cash option rather than annuitized payments. Additional detailed information on long-term prize liability may be found in Note 6 and additional information on other postemployment benefits and pension liability may be found in Note 10.

**CONTACTING THE LOTTERY'S FINANCIAL MANAGER**

This financial report is designed to provide a general overview of the Lottery's finances and to demonstrate the accountability for the money the Lottery earns. If you have questions about this report or need additional financial information, contact the California State Lottery, Finance Division, 700 N. 10th Street, Sacramento, CA 95811.



**CALIFORNIA STATE LOTTERY FUND  
STATEMENT OF NET POSITION (DEFICIT)  
JUNE 30, 2019**

**Assets**

|   |                         |
|---|-------------------------|
| Cash and cash equivalents (Note 2)              | \$ 829,471,938          |
| Investments, current portion (Note 2)           | 60,150,026              |
| Accounts receivable, net of allowances (Note 3) | 569,545,608             |
| Due from state funds (Note 4)                   | 5,667,189               |
| Ticket inventories                              | 7,129,541               |
| Other   | 3,697,434               |
| Total current assets                            | <u>\$ 1,475,661,736</u> |
| Investments, less current portion (Note 2)      | \$ 771,873,886          |
| Capital assets, net (Note 5)                    | 208,971,820             |
| Long-term prepaid charges, net                  | 422,284                 |
| Total non-current assets                        | <u>\$ 981,267,990</u>   |
| Total assets                                    | <u>\$ 2,456,929,726</u> |

|   |                      |
|---|----------------------|
| <b>Deferred Outflows of Resources (Note 10)</b> | <u>\$ 73,060,199</u> |
|---|----------------------|

|  |                                |
|--|--------------------------------|
| <b>Total Assets and Deferred Outflows of Resources</b> | <u><u>\$ 2,529,989,925</u></u> |
|--|--------------------------------|

**Liabilities**

|   |                         |
|---|-------------------------|
| Accounts payable                                      | \$ 56,296,662           |
| Current prize liability (Note 6)                      | 1,063,792,036           |
| Due to state funds (Note 7)                           | 442,617,217             |
| Accrued liabilities                                   | 11,592,343              |
| Unearned revenue                                      | 2,382,596               |
| Total current liabilities                             | <u>\$ 1,576,680,854</u> |
| Prize liability, less current portion (Note 6)        | \$ 682,929,149          |
| Net other postemployment benefits liability (Note 10) | 231,853,000             |
| Net pension liability (Note 10)                       | 126,041,964             |
| Inter-fund loan payable                               | 12,978,834              |
| Total non-current liabilities                         | <u>\$ 1,053,802,947</u> |
| Total liabilities                                     | <u>\$ 2,630,483,801</u> |

|  |                      |
|--|----------------------|
| <b>Deferred Inflows of Resources (Note 10)</b> | <u>\$ 51,221,930</u> |
|--|----------------------|

|  |                                |
|--|--------------------------------|
| <b>Total Liabilities and Deferred Inflows of Resources</b> | <u><u>\$ 2,681,705,731</u></u> |
|--|--------------------------------|

**Net Position**

|   |                                |
|---|--------------------------------|
| Net investment in capital assets (Note 5)     | \$ 208,971,820                 |
| Restricted by legislation for prizes (Note 2) | 93,646,606                     |
| Unrestricted deficit                          | (454,334,232)                  |
| Total Net Deficit                             | <u><u>\$ (151,715,806)</u></u> |

See accompanying notes to the financial statements.

**CALIFORNIA STATE LOTTERY FUND**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (DEFICIT)**  
**YEAR ENDED JUNE 30, 2019**

|  |                                |
|--|--------------------------------|
| Operating revenues: Lottery sales                      | \$ 7,388,050,316               |
| 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 <sup>®</sup> 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                     |
| Promotion, public relations, and point of sale         | 9,305,841                      |
| Other professional services                            | 16,898,286                     |
| Depreciation and amortization (Note 5)                 | 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 (Note 9)                           | \$ 85,380,045                  |
| Interest expense imputed on annuitized prize liability | (32,202,400)                   |
| Other income   | 22,036                         |
| Allocation to Education Fund (Note 7)                  | <u>(1,825,224,100)</u>         |
| Total non-operating expenses                           | <u>\$ (1,772,024,419)</u>      |
| Change in net deficit                                  | \$ 37,696,972                  |
| Total net deficit - beginning balance                  | <u>(189,412,778)</u>           |
| Total net deficit - ending balance                     | <u><u>\$ (151,715,806)</u></u> |

See accompanying notes to the financial statements.

**CALIFORNIA STATE LOTTERY FUND  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2019**

|   |                    |
|---|--------------------|
| Cash flows from operating activities:                           |                    |
| Receipts from customers   | \$ 7,390,296,467   |
| Payments for prizes   | (4,893,811,920)    |
| Payments to retailers   | (505,915,051)      |
| Payments to suppliers for goods and services                    | (257,962,262)      |
| Payments to employees   | (83,759,225)       |
| Internal activity - payments to state funds                     | (7,582,330)        |
| Receipts from other states                                      | 565,732,628        |
| Other receipts  | 174,673            |
|   | <hr/>              |
| Net cash flows provided by operating activities                 | \$ 2,207,172,980   |
|   | <hr/>              |
| Cash flows from non-capital financing activities:               |                    |
| Distributions to Education Fund                                 | \$ (1,815,267,367) |
|   | <hr/>              |
| Net cash flows used in non-capital financing activities         | \$ (1,815,267,367) |
|   | <hr/>              |
| Cash flows from capital and related financing activities:       |                    |
| Proceeds from disposal of property and equipment                | \$ 24,160          |
| Payments for capital assets                                     | (30,508,211)       |
|   | <hr/>              |
| Net cash flows used in capital and related financing activities | \$ (30,484,051)    |
|   | <hr/>              |
| Cash flows from investing activities:                           |                    |
| Purchase of securities  | \$ (39,820,815)    |
| Proceeds from matured securities                                | 52,207,000         |
| Investment portfolio and SMIF interest received                 | 26,968,067         |
|   | <hr/>              |
| Net cash flows provided by investing activities                 | \$ 39,354,252      |
|   | <hr/>              |
| Increase in cash and cash equivalents                           | \$ 400,775,814     |
|   | <hr/>              |
| Cash and cash equivalents at July 1, 2018                       | \$ 428,696,124     |
|   | <hr/>              |
| Cash and cash equivalents at June 30, 2019                      | \$ 829,471,938     |
|   | <hr/> <hr/>        |

See accompanying notes to the financial statements.

(Continued)

**CALIFORNIA STATE LOTTERY FUND  
STATEMENT OF CASH FLOWS (CONTINUED)  
YEAR ENDED JUNE 30, 2019**

|   |                         |
|---|-------------------------|
| Cash flows from operating activities:   |                         |
| Operating income  | \$ 1,809,721,391        |
| Adjustments to reconcile operating income to net cash provided by operating activities: |                         |
| Depreciation and amortization   | \$ 18,814,684           |
| Provision for doubtful accounts   | (1,194,289)             |
| Provision for returned tickets  | 3,638,910               |
| Provision for free ticket redemptions   | 1,582,360               |
| Net loss on retirement or disposal of capital assets                                    | 3,846                   |
| Other income  | 22,036                  |
| Changes in assets and liabilities:  |                         |
| Increase in accounts receivable   | (24,001,657)            |
| Increase in due from other funds net of SMIF  | (62,927)                |
| Decrease in ticket inventories  | 162,276                 |
| Decrease in other assets  | 3,551,794               |
| Decrease in long-term prepaid charges   | 922,528                 |
| Decrease in accounts payable  | (10,751,219)            |
| Increase in prize liability   | 387,513,380             |
| Decrease in due to state funds  | (9,833,725)             |
| Increase in accrued liabilities   | 783,291                 |
| Increase in unearned revenues   | 205,832                 |
| Increase in OPEB and net pension liability  | 26,094,469              |
|   | <hr/>                   |
| Net cash flows provided by operating activities   | <u>\$ 2,207,172,980</u> |

Supplemental disclosure of non-cash activities:

|   |                      |
|---|----------------------|
| Interest accreted on annuitized prizes                    | <u>\$ 32,202,400</u> |
| Unclaimed prized directly allocated to the Education Fund | <u>\$ 45,523,184</u> |
| Unrealized gain on investments                            | <u>\$ 39,163,769</u> |
| Interest accreted on zero coupon bonds                    | <u>\$ 18,276,692</u> |

See accompanying notes to the financial statements.

**CALIFORNIA STATE LOTTERY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

The California State Lottery Fund (the Fund) was created with the passage of the California State Lottery Act of 1984 (the Act). The Fund is a part of the primary government of the State of California and is reported as a proprietary fund and business-type activity within the State of California's financial statements. The purpose of the Act is to support the preservation of the rights, liberties, and welfare of the people by providing additional monies to benefit education without the imposition of additional or increased taxes. The operations of the Fund are separate and distinct from other operations of the State of California.

Effective April 8, 2010, Chapter 13, Statutes of 2010 (AB 142) amended the Act to allow the California State Lottery (Lottery) to offer its players a higher prize payout percentage. Research has shown that higher prize payouts result in increased sales revenues and thus will afford increased allocations to education. Under AB 142 beginning with the 2010-11 fiscal year, the Lottery is required to return not less than 87 percent of revenues to the public in the form of prizes and contributions to education, and to spend no more than 13 percent of revenues on operating expenses of the Lottery.

**Basis of Presentation**

The Fund is accounted for as an enterprise fund. The financial statements are prepared on the accrual basis of accounting and the economic resources measurement focus in accordance with accounting principles generally accepted in the United States of America. Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. The principal operating revenues of the Fund come from the sale of lottery tickets. The principal operating expenses of the Fund are prizes, retailer commissions, game costs, contractual services, advertising and marketing, salaries and benefits, depreciation of assets, and general and administrative costs.

**Revenue Recognition – Scratchers Games**

Sales of Scratchers tickets are made to the public through contracted retailers. Revenue is recognized upon the sale of tickets to the retailers for active games. An allowance is recognized for the retailers' right to return unsold tickets. Operating revenue is reduced for free tickets and for unsold tickets remaining in vending machines. Retailers receive a commission of up to six percent which is recognized when tickets are sold to the retailers.

**Revenue Recognition - Draw Games**

Lottery sales for draw games are made to the public through gaming terminals at contracted retailers. Revenue is recognized upon the sale to the public. With the exception of Powerball® and Mega Millions®, the public has the right to cancel a sale on the same day before pool closure. All Powerball and Mega Millions sales are final. The applicable retailers' commission of four and one-half to six percent is recognized when sales are made to the public. Recognition of the revenue from sales for future draws is considered unearned until those draws become current. The retailers' commission related to the unearned revenue is reflected as a prepaid expense until the revenue is recognized.

**Prizes – Scratchers Games**

Prize expense for Scratchers games is recognized based on the predetermined prize structure for each game in the period revenue is recognized. Prizes that are not claimed are recognized as unclaimed prizes 180 days after the end of each game. Unclaimed prizes not directly payable by the Lottery are recognized as a reduction of prize expense and included in the Lottery's operating income that is allocated to the Education Fund. Unclaimed prizes directly payable by the Lottery are allocated directly to the Education Fund.

**CALIFORNIA STATE LOTTERY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Prizes – Scratchers Games (continued)**

Scratchers games with annuitized prizes are generally paid in equal, annual installments over 20 or 25 years. Some games offer graduated, annual payments, and others offer the choice of an annuitized prize paid in weekly, monthly, or annual installments, or a lump sum cash payment. Prize expense for annuity prizes is based on the present value of the annuity using an interest rate equal to the interest yield on the zero coupon U.S. Treasury bonds. Interest earned is imputed on the annuity using the same interest rate.

**Prizes - Draw Games**

Powerball and Mega Millions - Prize expense for each of the twice-weekly multi-state draw games is recognized on the basis of the predetermined prize structure when the revenue is recognized. Nine distinct prize categories for each game are established which are dependent upon the amount of money wagered and the quantity of numbers to be matched. In the event that no winning share for a specific prize category of Powerball or Mega Millions is selected, all monies allocated for that prize are carried forward to the following drawing and remain in the pool for that same prize category.

The total Grand/Jackpot Prize liability for each multi-state Powerball or Mega Millions drawing is shared by each participating state lottery (Party Lottery) as follows: each Party Lottery is responsible for an amount equal to a percentage of that Party Lottery's Powerball or Mega Millions sales, said percentage being the proportion of the total Grand/Jackpot Prize liability to the total Powerball or Mega Millions sales. The California Lottery is prohibited by state law from paying fixed prizes and participating in the liability calculation for prize levels two through nine. The California Lottery is therefore solely responsible for its own prize liability for levels two through nine for the multi-state games.

Powerball and Mega Millions Grand/Jackpot Prizes won in California are paid in 30 graduated, annual installments. For each game, winners have up to 60 days after the date the Lottery validates the winning ticket and authorizes payment to irrevocably elect to receive the cash value of the prize instead of annual payments. Payments for all other prize categories are made in a single payment.

In the event that a Powerball or Mega Millions Grand/Jackpot Prize won in California is unclaimed, the prize monies will be returned to the Party Lotteries in the same ratio that each Party Lottery contributed to the prize plus interest, and the amount contributed by the California State Lottery will be allocated directly to the Education Fund. The unclaimed prize monies for all other Powerball or Mega Millions prize categories won in California but not claimed within the specified period are allocated directly to the Education Fund.

SuperLotto Plus<sup>®</sup> - Prize expense for the twice-weekly draw game is recognized on the basis of the predetermined prize structure when the revenue is recognized. Nine distinct prize categories are established which are dependent upon the amount of money wagered and the quantity of numbers to be matched. In the event that no winning share for a specific prize category in SuperLotto Plus is chosen, all monies allocated for that prize are carried forward to the following drawing and added to the 5 of 5 plus Mega number category (Grand Prize).

SuperLotto Plus Grand/Jackpot Prizes of \$1 million or more won between April 1, 1998, and May 10, 2013, are paid either in 26 graduated, annual payments or in a single payment equal to the cash value of the 26-payment annuity, in accordance with the rules and regulations of the Lottery. Starting May 11, 2013, Grand Prizes are paid in 30 graduated, annual payments or in a single payment equal to the estimated cost to fully fund the annuity prize as advertised prior to the draw. Such estimated cost is determined by market pricing for U.S. Treasury bonds. Claimants have up to 60 days after the Lottery validates the winning ticket and authorizes payment to irrevocably elect to receive the cash payment instead of the annuitized payments. Payments for all other prize categories are made in a single payment. All SuperLotto Plus prizes won but not claimed within the specified period are allocated directly to the Education Fund.

**CALIFORNIA STATE LOTTERY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Prizes - Draw Games (continued)**

Fantasy 5 - Prize expense for the seven-draws-per-week game is recognized on the basis of the predetermined prize structure when the revenue is recognized. Distinct prize categories are established which are dependent upon the amount of money wagered and the quantity of numbers to be matched. In the event that no winning share for a specific prize category is selected, all monies allocated for that prize category are carried forward to the following drawing and added to the 5 of 5 prize category. All Fantasy 5 prizes won but not claimed within the specified period are allocated directly to the Education Fund.

Daily 3 - Prize expense for the two-draws-per-day game is recognized on the basis of the predetermined prize structure when the revenue is recognized. Distinct prize categories are established which are dependent upon the amount of money wagered, the quantity of numbers to be matched, and the order of numbers chosen. All Daily 3 prizes won but not claimed within the specified period are allocated directly to the Education Fund.

Daily 4 - Prize expense for the seven-draws-per-week game is recognized on the basis of the predetermined prize structure when the revenue is recognized. Distinct prize categories are established which are dependent upon the amount of money wagered, the quantity of numbers to be matched, and the order of numbers chosen. All Daily 4 prizes won but not claimed within the specified period are allocated directly to the Education Fund.

Daily Derby<sup>®</sup> - Prize expense for the seven-draws-per-week game is recognized on the basis of the predetermined prize structure when the revenue is recognized. Distinct prize categories are established which are dependent upon the amount of money wagered, the quantity of numbers to be matched, and the order of numbers chosen. In the event that no winning share for a specific prize category is selected, all monies allocated for that prize category are carried forward to the following drawing and added to the Grand Prize category. All Daily Derby prizes won but not claimed within the specified period are allocated directly to the Education Fund.

Hot Spot<sup>®</sup> - Prize expense for the multiple-draws-per-day game is recognized on the basis of the predetermined prize structure when the revenue is recognized. The game includes Typical Prize Pools for the 8 Spot Match 8 of 8, the 9 Spot Match 9 of 9, and the 10 Spot Match 10 of 10 categories, and Typical Prize Amounts for all other spots. The Hot Spot Wagered Prize Fund (fund) balance is adjusted daily based upon daily sales contributions and prizes won. In the event the balance in the fund is not sufficient to pay the allocations and amounts of a particular draw, prizes will be systematically reduced until the fund is sufficient to pay the reduced amounts. The Director will authorize promotions to ensure that the fund balance at the end of any given fiscal year is liquidated. All Hot Spot prizes won but not claimed within the specified period are allocated directly to the Education Fund.

Raffle - The Lottery may periodically conduct raffle games. The \$1 million top prizes for the two raffle games held to date were each paid in single payments.

**Cash Equivalents**

Cash equivalents represent cash deposited in the Surplus Money Investment Fund (SMIF) of the State of California.

**Investments**

The Lottery applies Statement No. 31 of the Governmental Accounting Standards Board (GASB 31), *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement establishes accounting and financial reporting standards for all investments held by governmental external investment pools and establishes fair value standards for other governmental entities. In accordance with GASB 31, the Lottery has stated investments at fair value. The difference between the carrying value and the fair value of investments is reported as a component of total net position restricted by legislation for prizes on the statement of net position (deficit).

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investments (continued)**

The Lottery applies GASB 40, *Deposit and Investment Risk Disclosures – An Amendment of GASB Statement No. 3*. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement also are required to be disclosed.

The Lottery applies GASB 72, *Fair Value Measurement and Application*, which supersedes some paragraphs of GASB 31 and requires additional disclosures related to fair value measurements, the level of fair value hierarchy, and valuation techniques.

**Allowances for Doubtful Accounts, Ticket Returns, and Free Ticket Redemptions**

The allowance for doubtful accounts is based on an analysis of collectability of accounts receivable which considers the age of the accounts and historical collection results. An allowance for ticket returns for Scratchers games is estimated using sales revenue and historical return data for the games in progress at the end of the reporting period. An allowance for free ticket redemptions for Scratchers games is estimated using sales revenue and free ticket redemption data for games in progress at the end of the reporting period.

**Ticket Inventories**

Inventories are carried at cost and consist of tickets for games in progress not yet sold to retailers and tickets for future games. The cost of tickets is charged to operations when the tickets are sold to retailers. The cost of unissued and returned tickets is written off at the end of each game.

**Capital Assets**

The Lottery has adopted a policy of capitalizing assets with an acquisition cost or established value of \$5,000 or greater. Additionally, the Lottery capitalizes all gaming equipment as well as the purchase of like-kind assets totaling \$5 million or more in a single purchase. Capital assets are carried at cost. Depreciation on property and equipment is computed using the straight-line method over estimated useful lives ranging from one to ten years. Depreciation on buildings, improvements, and land improvements is computed using the straight-line method over estimated useful lives of five to 40 years. When 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 operations in the period of disposal. Amortization of leasehold improvements is computed using the straight-line method over the remaining lease terms.

**Long-term Prepaid Charges**

The Lottery incurs costs in connection with certain contracts which extend beyond a one-year period. These costs are prepaid and amortized over the life of the contracts.

**Pensions**

The Lottery has adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement requires recognition of a liability equal to the net pension liability, which is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits. This Statement requires that most changes in the net pension liability be included in pension expense in the period of the change.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Pensions (continued)**

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California Lottery Fund and additions to or deductions from the California Lottery Fund's fiduciary net position have been determined on the same basis as they are reported by the California Public Employees' Retirement System (CalPERS) Financial Office. 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.

**Other Postemployment Benefits**

The Lottery has adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Other postemployment benefits (OPEB) include retiree health and dental benefits. This Statement requires recognition of a liability equal to the net OPEB liability, which is measured as the total OPEB liability, less the amount of the OPEB plan's fiduciary net position. The total OPEB liability is required to be determined through an actuarial valuation. Projections of benefit payments are required to be based on claims costs, or age-adjusted premiums approximating claims costs, and the benefit terms and legal agreements existing at the measurement date.

For purposes of measuring the net OPEB liability, deferred outflows and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the California Lottery Fund and additions to or deductions from the California Lottery Fund's fiduciary net position have been determined on the same basis as they are reported by the State. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Deferred Outflows of Resources and Deferred Inflows of Resources**

Changes in net pension liability not included in pension expense are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension liability are reported as deferred outflows of resources. The unamortized net difference between projected and actual earnings on investments are recorded as deferred inflows of resources.

Changes in net OPEB liability not included in OPEB expense are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net OPEB liability are reported as deferred outflows of resources. The unamortized net difference between projected and actual earnings on investments are recorded as deferred inflows of resources.

**Advertising**

Advertising costs are expensed when the related liability is incurred. Advertising expense totaled \$66,773,171 for the year June 30, 2019.

**Investment Earnings**

Investment earnings are composed of unrealized gains or losses associated with the change in fair value of investments and interest income including interest accreted on investments. Unrealized gains and losses are generally not realized as the investments are held to maturity at which time they are used to satisfy annuitized prizes. As investments must be stated at fair value, investment earnings or losses are created as a result of the adjustment from carrying value to fair value. Generally, all cash is held on deposit with the California State Treasurer and is invested by that office in the Surplus Money Investment Fund. Interest on funds held by the State Treasurer is distributed quarterly.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Restricted Assets**

All of the Lottery's investments are restricted in that they are held to maturity in order to pay annuitized prizes. In addition, a portion of the Lottery's cash and cash equivalents and accounts receivable are also restricted to satisfy outstanding prize liability. At June 30, 2019, restricted cash and cash equivalents is approximately \$423.3 million and restricted accounts receivable is approximately \$567.3 million.

**Compensated Absences Payable**

Vested vacation balances are included in accrued liabilities and adjusted quarterly.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**2. DEPOSITS AND INVESTMENTS**

The Lottery presents its deposits and investments in accordance with GASB 40, *Deposit and Investment Risk Disclosures – An Amendment of GASB Statement No. 3*. This statement requires the disclosure of the following risks to the extent that they exist at the date of the statement of net position (deficit):

**Interest Rate Risk**

Interest rate risk is the risk that the value of fixed income securities will decline due to changing interest rates. The prices of fixed income securities with longer time to maturity tend to be more sensitive to changes in interest rates than those with shorter durations.

**Credit Risk**

Credit risk is the risk that a debt issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline.

**Custodial Credit Risk**

Custodial credit risk is the risk that, in the event a financial institution or counterparty fails, the investor will not be able to recover the value of its deposits, investments, or collateral.

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of an investor's holdings in a single issuer.

**Investments**

The deposit and investment policies of the Lottery are determined by the Lottery Commission and state statute. Prize investments consist of zero coupon U.S. Treasury bonds, zero coupon agency bonds, and municipal bonds. Zero coupon U.S. Treasury bonds and zero coupon agency bonds are carried at fair value and are adjusted for the accretion of interest based on the purchase yield and maturity date. Municipal bonds are carried at fair value, and interest is accrued based on the coupon rate.

The Lottery holds investments that are measured at fair value on a recurring basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Because investing is not a core part of the Lottery's mission, the Lottery determined that the disclosure related to these investments need only be disaggregated by major type.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**2. DEPOSITS AND INVESTMENTS (continued)**

**Investments (continued)**

The Lottery categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles, based on the valuation inputs used to measure the fair value of the asset. The Lottery uses Level 1 inputs, which are quoted prices in active markets for identical assets. The Lottery applies the market approach to value its investments, which uses prices and other relevant information generated by market transactions involving identical or similar assets. The Lottery uses a third party brokerage firm to obtain quoted market prices of its debt securities.

As of June 30, 2019, the Lottery's investments consist of the following:

|                         | <u>Face Amount</u>    | <u>Cost</u>           | <u>Fair Value</u>     |
|-------------------------|-----------------------|-----------------------|-----------------------|
| Current portion:        |                       |                       |                       |
| U.S. Treasury Bonds     | \$ 20,045,000         | \$ 17,821,178         | \$ 19,870,625         |
| U.S. Municipal Bonds    | 39,830,000            | 39,865,204            | 40,279,401            |
| Total current portion   | <u>\$ 59,875,000</u>  | <u>\$ 57,686,382</u>  | <u>\$ 60,150,026</u>  |
| Long-term portion:      |                       |                       |                       |
| U.S. Treasury Bonds     | \$ 572,891,000        | \$ 330,015,941        | \$ 434,412,970        |
| U.S. Agency Bonds       | 152,025,000           | 73,318,112            | 137,161,326           |
| U.S. Municipal Bonds    | 178,310,000           | 178,511,642           | 200,299,590           |
| Total long-term portion | <u>\$ 903,226,000</u> | <u>\$ 581,845,695</u> | <u>\$ 771,873,886</u> |
| Total investments       | <u>\$ 963,101,000</u> | <u>\$ 639,532,077</u> | <u>\$ 832,023,912</u> |

Yields on the Lottery's investments range from 0.96 percent to 5.89 percent for Treasury bonds, from 4.68 percent to 5.51 percent for agency bonds, and from 4.37 percent to 6.06 percent for municipal bonds.

The following represents the changes in fair value of investments for the year ended June 30, 2019:

Changes in fair value of investments:

|   |                      |
|---|----------------------|
| Unrealized investment gains at July 1, 2018 | \$ 43,708,376        |
| Unrealized investment gain, current period  | 39,163,769           |
| Total unrealized investment gain            | <u>\$ 82,872,145</u> |

The fair value of the investments is equal to the original cost plus accreted interest plus the unrealized investment gains. As a result of investment restructuring transactions completed in 2010, the interest imputed on prize liability does not equal the interest earned on the restructured investment portfolio. The difference is reported in the statement of revenues, expenses, and changes in net position (deficit) and results in an adjustment to net position restricted by legislation. As the realized and unrealized investment gain and loss activity relates to investments that must be held to satisfy prize liabilities, they are deemed statutorily restricted and therefore reported as restricted by legislation.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**2. DEPOSITS AND INVESTMENTS (continued)**

**Interest Rate Risk – Investments**

The Lottery does not have a specific policy to manage interest rate risk, as investments are purchased to mirror the payment stream of recorded prize liability. The Lottery's investments have weighted average maturities based on the final maturity dates of all investments as follows:

|                               |             |
|-------------------------------|-------------|
| U.S. Treasury Bonds           | 10.80 years |
| U.S. Agency Bonds             | 4.22 years  |
| U.S. Municipal Bonds          | 4.91 years  |
| Surplus Money Investment Fund | 0.47 years  |

**Credit Risk and Concentration of Credit Risk - Investments**

The Lottery has adopted a specific policy to manage credit risk in the Lottery's investment portfolio. The zero coupon U.S. Treasury bonds and U.S. Treasury bills are backed by the full faith and credit of the United States government. Therefore, the U.S. Treasury obligation investments are not considered to have credit risk or a concentration of credit risk, as defined by the Governmental Accounting Standards Board. The Lottery's policy to manage credit risk requires municipal bonds to have a minimum double A credit rating by Fitch, Moody's, or Standard and Poor's to be eligible for purchase as part of the Lottery's investment portfolio. Agency bonds have a triple A credit rating and the Surplus Money Investment Fund is not rated at June 30, 2019. Credit risk is further mitigated by a \$2.7 million par value agency bond reserve. The bond reserve has a fair value of \$2,355,509 as of June 30, 2019.

As of June 30, 2019, the fair value of the Lottery's investment portfolio expressed as a percentage of Moody's credit rating categories was as follows:

| Moody's Credit Rating | Fair Value            | Percent of<br>Total Portfolio |
|-----------------------|-----------------------|-------------------------------|
| Aaa                   | \$ 593,643,905        | 71.35%                        |
| Aa1                   | 140,719,562           | 16.91%                        |
| Aa3                   | 45,712,025            | 5.50%                         |
| A1                    | 28,604,550            | 3.44%                         |
| Baa3                  | 19,084,330            | 2.29%                         |
| Ba1                   | 4,259,540             | 0.51%                         |
| Totals                | <u>\$ 832,023,912</u> | <u>100.00%</u>                |

The following table provides information about the Lottery's concentration of credit risk. It shows investments by any one issuer representing five percent or more of the Lottery's total portfolio, and not explicitly guaranteed by the U.S. government.

| Issuer                        | Cost          | Fair Value    | Percent of<br>Total Portfolio | Moody's<br>Credit Rating |
|-------------------------------|---------------|---------------|-------------------------------|--------------------------|
| Commonwealth of Massachusetts | \$ 62,546,830 | \$ 67,889,000 | 8.30%                         | Aa1                      |

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**2. DEPOSITS AND INVESTMENTS (continued)**

**Custodial Credit Risk – Investments**

The Lottery does not have a formal investment policy for custodial credit risk for investments. As of June 30, 2019, all the prize investments are uninsured, registered investments held in book-entry form by the State Treasurer's Office in a master custody account with Citibank, N.A.

**Deposits**

The following deposits, included in cash and cash equivalents, are in pools managed by other State of California government units and are not evidenced by securities. Interest income earned on outstanding cash balances is allocated among pool participants based on average daily cash balances. As of June 30, 2019, the carrying value of deposits in the Surplus Money Investment Fund approximated fair value.

|                                      |                |
|--------------------------------------|----------------|
| State Treasury                       | \$ 6,571,679   |
| Surplus Money Investment Fund (SMIF) | 822,776,000    |
|                                      | \$ 829,347,679 |

At June 30, 2019, the total cash and cash equivalents of \$829,471,938 includes \$124,259 cash on hand. This is made up primarily of retailer payments delivered to the Lottery but not deposited into Lottery accounts by period end.

The SMIF consists of available cash of all special funds of the State of California which do not have investment authority of their own. Cash balances in excess of needs in any of these participating funds are invested by the State Treasurer. The Pooled Money Investment Board (PMIB) provides regulatory oversight over the State Treasurer's pooled investment program and is responsible for determining whether any cash balances of the participating funds are in excess of current needs and available for investment, or whether it is necessary to liquidate previous investments to meet current requirements. The PMIB is composed of the State Treasurer, as chairman; the State Controller; and the Director of Finance for the State of California.

All of the resources of the SMIF are invested through the Pooled Money Investment Account (PMIA). By law, PMIA monies can be invested only in the following categories: U.S. Government securities; securities of federally-sponsored agencies; debentures; domestic corporate bonds; interest-bearing time deposits in California banks, savings and loan associations, and credit unions; prime-rated commercial paper; repurchase and reverse repurchase agreements; security loans; banker's acceptances; negotiable certificates of deposit; and loans to various bond funds.

At June 30, 2019, the allocation of the deposits held by the Lottery in the SMIF was estimated as follows:

|                              | Lottery's Share<br>of SMIF |
|------------------------------|----------------------------|
| U.S. Treasury Securities     | \$ 402,584,297             |
| Federal Agency Debt          | 172,618,405                |
| Supranational Debentures     | 5,759,432                  |
| Bank Notes                   | 4,689,823                  |
| Certificates of Deposit      | 140,447,863                |
| Commercial Paper             | 52,657,664                 |
| Time Deposits                | 37,929,974                 |
| AB 55 and General Fund Loans | 6,088,542                  |
| Total                        | \$ 822,776,000             |

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**2. DEPOSITS AND INVESTMENTS (continued)**

**Deposits (continued)**

The value of the deposits in the State Treasurer's pooled investment program, including the SMIF, is equal to the dollars deposited in the program. The fair value of the position in the program may be greater or less than the value of the deposits, with the difference representing the unrealized gain or loss. As of June 30, 2019, this difference was immaterial to the valuation of the deposits held by the Lottery in the SMIF.

The Lottery's share in the interest earnings of the PMIA is based on its ratio of dollar-day contributions to the total dollar-day investments of the PMIA. The overall return on investment for the PMIA was 2.3 percent for the year ended June 30, 2019.

**3. ACCOUNTS RECEIVABLE**

Accounts receivable consist of the following at June 30, 2019:

|  |                       |
|--|-----------------------|
| Amounts due, primarily from retailers      | \$ 672,957,371        |
| Less: Allowance for free ticket redemption | (46,943,261)          |
| Allowance for doubtful accounts            | (5,082,164)           |
| Allowance for ticket returns               | (51,386,338)          |
| Accounts receivable, net                   | <u>\$ 569,545,608</u> |

**4. DUE FROM STATE FUNDS**

Due from state funds consists primarily of interest income due on cash deposited with the State Treasurer in the Surplus Money Investment Fund.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**5. CAPITAL ASSETS**

Capital assets consist of the following at June 30, 2019:

|  | Beginning<br>Balance    | Increase               | Decrease            | Ending<br>Balance       |
|--|-------------------------|------------------------|---------------------|-------------------------|
| Non-depreciable capital assets:                    |                         |                        |                     |                         |
| Land   | \$ 18,798,281           | \$ —                   | \$ —                | \$ 18,798,281           |
| Depreciable capital assets:                        |                         |                        |                     |                         |
| Gaming equipment                                   | 60,368,715              | —                      | —                   | 60,368,715              |
| Vending machines                                   | 81,237,108              | —                      | (366,626)           | 80,870,482              |
| Buildings  | 114,690,361             | 26,625,244             | —                   | 141,315,605             |
| Data processing equipment                          | 14,668,483              | 2,521,003              | —                   | 17,189,486              |
| Office furniture and equipment                     | 8,557,385               | 286,635                | (31,792)            | 8,812,228               |
| Leasehold improvements                             | 620,651                 | —                      | —                   | 620,651                 |
| Other  | 11,168,877              | 1,075,329              | (253,660)           | 11,990,546              |
|  | <u>\$ 310,109,861</u>   | <u>\$ 30,508,211</u>   | <u>\$ (652,078)</u> | <u>\$ 339,965,994</u>   |
| Less accumulated depreciation and<br>amortization: |                         |                        |                     |                         |
| Gaming equipment                                   | \$ (31,659,003)         | \$ (7,362,289)         | \$ —                | \$ (39,021,292)         |
| Vending machines                                   | (38,545,952)            | (6,219,557)            | 338,620             | (44,426,889)            |
| Buildings  | (14,136,522)            | (2,825,717)            | —                   | (16,962,239)            |
| Data processing equipment                          | (12,984,615)            | (557,298)              | —                   | (13,541,913)            |
| Office furniture and equipment                     | (7,891,162)             | (227,480)              | 31,792              | (8,086,850)             |
| Leasehold improvements                             | (620,465)               | (186)                  | —                   | (620,651)               |
| Other  | (6,965,843)             | (1,622,157)            | 253,660             | (8,334,340)             |
|  | <u>\$ (112,803,562)</u> | <u>\$ (18,814,684)</u> | <u>\$ 624,072</u>   | <u>\$ (130,994,174)</u> |
| Capital assets, net                                | <u>\$ 197,306,299</u>   | <u>\$ 11,693,527</u>   | <u>\$ (28,006)</u>  | <u>\$ 208,971,820</u>   |

Depreciation and amortization charged to income on capital assets was 18,814,684 for the year ended June 30, 2019.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**6. PRIZE LIABILITY**

Prize liability consists of the following at June 30, 2019:

|                                       | Scratchers<br>Games          | Draw Games                     | Total                          |
|---------------------------------------|------------------------------|--------------------------------|--------------------------------|
| Current:                              |                              |                                |                                |
| Annuitized prizes                     | \$ 21,264,219                | \$ 501,820,829                 | \$ 523,085,048                 |
| Other prizes                          | 499,884,647                  | 40,822,341                     | 540,706,988                    |
| Total current prize liability         | <u>\$ 521,148,866</u>        | <u>\$ 542,643,170</u>          | <u>\$ 1,063,792,036</u>        |
| Long-term annuitized prizes           | \$ 207,539,000               | \$ 744,087,000                 | \$ 951,626,000                 |
| Less imputed interest                 | <u>(50,505,079)</u>          | <u>(218,191,772)</u>           | <u>(268,696,851)</u>           |
| Net present value of long-term prizes | <u>\$ 157,033,921</u>        | <u>\$ 525,895,228</u>          | <u>\$ 682,929,149</u>          |
| Total prize liability                 | <u><u>\$ 678,182,787</u></u> | <u><u>\$ 1,068,538,398</u></u> | <u><u>\$ 1,746,721,185</u></u> |

The amount of prizes due within one year is \$1,063,792,036.

Long-term prize liability as of June 30, 2019, for each of the next five years and for subsequent years is as follows:

|                                   | Principal                    | Interest                     | Total                        |
|-----------------------------------|------------------------------|------------------------------|------------------------------|
| For the year ending June 30, 2021 | \$ 38,405,825                | \$ 32,312,479                | \$ 70,718,304                |
| 2022                              | 37,173,497                   | 31,204,673                   | 68,378,170                   |
| 2023                              | 35,984,241                   | 30,083,414                   | 66,067,655                   |
| 2024                              | 33,839,185                   | 26,624,537                   | 60,463,722                   |
| 2025                              | 31,394,167                   | 22,639,405                   | 54,033,572                   |
| 2026-2030                         | 124,499,303                  | 63,407,344                   | 187,906,647                  |
| 2031-2035                         | 64,208,801                   | 10,723,986                   | 74,932,787                   |
| 2036-2040                         | 52,155,879                   | 6,678,402                    | 58,834,281                   |
| 2041-2045                         | 34,154,885                   | 4,275,992                    | 38,430,877                   |
| 2046-2047                         | 3,061,549                    | 101,585                      | 3,163,134                    |
| Total long-term prize liability   | <u><u>\$ 454,877,332</u></u> | <u><u>\$ 228,051,817</u></u> | <u><u>\$ 682,929,149</u></u> |

Activity in the prize liability accounts consists of:

|  |                                |
|--|--------------------------------|
| Balance, July 1, 2018  | \$ 1,372,528,588               |
| Prize expense  | 4,715,592,673                  |
| Prize payments   | (4,893,811,920)                |
| Grand/Jackpot Prize contributions from Other Party Lotteries | 565,732,628                    |
| Interest imputed on annuities                                | 32,202,400                     |
| Unclaimed prizes   | <u>(45,523,184)</u>            |
| Balance, June 30, 2019                                       | <u><u>\$ 1,746,721,185</u></u> |

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**7. DUE TO STATE FUNDS**

Due to state funds consists of the following at June 30, 2019:

|                          |                       |
|--------------------------|-----------------------|
| Due to Education Fund    | \$ 441,283,049        |
| Due to other state funds | 1,334,168             |
|                          | <u>1,334,168</u>      |
| Total due to state funds | <u>\$ 442,617,217</u> |

Activity in the Due to Education Fund account consists of:

|  |                   |                        |
|--|-------------------|------------------------|
| Balance, July 1, 2018  |                   | \$ 385,803,132         |
| Allocation to Education Fund, earned<br>by the California State Lottery Fund | \$ 1,825,224,100  |                        |
| Unclaimed prizes directly allocated<br>to the Education Fund                 | <u>45,523,184</u> |                        |
|  |                   | \$ 1,870,747,284       |
| Distribution to the Education Fund   |                   | <u>(1,815,267,367)</u> |
| Balance, June 30, 2019   |                   | <u>\$ 441,283,049</u>  |

**8. LEASES**

The Lottery leases office, warehouse, and parking lot facilities under operating leases. These leases expire in various years through September 30, 2027. Most operating leases have a provision for early termination. These leases could be terminated between March 2020 and September 2027.

The future minimum lease payments under operating leases as of June 30, 2019, are as follows:

|                                   | Operating<br>Leases |
|-----------------------------------|---------------------|
| For the year ending June 30, 2020 | \$ 221,865          |
| 2021                              | 184,653             |
| 2022                              | 192,040             |
| 2023                              | 199,721             |
| 2024                              | 207,710             |
| Thereafter                        | <u>733,301</u>      |
| Total minimum payments            | <u>\$ 1,739,290</u> |

Rental expense for all operating leases totaled \$587,532 for the year ended June 30, 2019.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**9. INVESTMENT EARNINGS**

Investment earnings consist of:

|   |               |
|---|---------------|
| Interest on funds held by State Treasurer | \$ 15,480,673 |
| Change in fair value of investments       | 39,163,769    |
| Interest accreted/earned on investments   | 30,735,603    |
| Total investment gain                     | \$ 85,380,045 |

**10. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS**

**Pension Plan Description, Benefits Provided, and Employees Covered**

The Lottery contributes to agent multiple-employer public employee defined benefit pension plans in the Public Employees' Retirement Fund (PERF) administered by CalPERS. The State of California (State) is considered the employer and the Lottery is a department of the State. The Lottery has employees who are enrolled in either the State Miscellaneous Plan (First Tier and Second Tier) or the State Peace Officers/Firefighters Plan. CalPERS provides retirement benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State and uses the accrual basis of accounting. Benefit provisions and all other requirements are established by state statute. All state agencies are considered collectively to be a single employer, and the actuarial present value of vested and non-vested accumulated plan benefits attributable to the Lottery's employees is determined as the Lottery's percentage of the State as a single employer. Similarly, the assets available for benefits of Lottery employees is determined as the Lottery's percentage of the State. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. CalPERS' annual financial report may be obtained by visiting the CalPERS website at [www.CalPERS.ca.gov](http://www.CalPERS.ca.gov).

Generally, full-time employees are eligible to participate as members of CalPERS and are eligible to retire at age 50 with at least five years of service (or age 55 with at least ten years of service for second tier members). Employees hired after January 1, 2013, must be at least age 52 to retire. Annual retirement benefits are determined based on age at retirement, the length of membership service, and the amount of earnings based on the highest or last 12 or 36 consecutive months' average. Health care and dental benefits may be provided to members depending on the date hired and the years of credited service of a member. If members are not fully vested, the health care and dental contributions are prorated based on the years of service.

For this current year report, the following timeframes are used:

|                         |                               |
|-------------------------|-------------------------------|
| Valuation Date          | June 30, 2017                 |
| Measurement Date        | June 30, 2018                 |
| Measurement Period (MP) | July 1, 2017 to June 30, 2018 |

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**10. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

**Pension Plan Contributions**

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the MP ended June 30, 2018, the average active employee contribution rate for the Miscellaneous Plan is 6.766 percent of annual pay, and the employer's contribution rate is 28.401 percent of annual payroll; for the Peace Officers/Firefighters Plan, the average active employee contribution rate is 11.412 percent of annual pay, and the employer's contribution rate is 44.245 percent of annual payroll. These rates reflect PERL Section 20683.2, which mandates that certain employees contribute more as of July 1, 2013. Furthermore, any reduction in employer contributions due to the increase in the employee contributions must be paid by the employer towards the unfunded liability. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any employer-paid member contributions or situations where members are paying a portion of the employer contribution.

**Pension Plan Discount Rate**

CalPERS prepared the GASB 68 Accounting Valuation Reports for the State of California for the eight plans in which the State participates. CalPERS utilized a discount rate of 7.15 percent, which includes the plans' administrative expenses. To determine whether the municipal bond rate should be used in the calculation of the discount rate for each plan, CalPERS stress-tested plans that would be most likely to result in a discount rate that would differ from the actuarially assumed discount rate. Based on the plans tested, none of the plan assets were exhausted. Therefore, the current 7.15 percent rate was determined to be appropriate and the use of the municipal bond rate calculation was not necessary.

**Pension Plan Change of Assumption**

In 2018, demographic assumptions and the inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions dated December 2017. The study is available on the CalPERS web site.

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

At June 30, 2019, the Lottery reported a liability of \$126 million for its proportionate share of the State's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The SCO determined the Lottery's proportionate share based on the Lottery's share of pensionable compensation to the State's total pensionable compensation amounts for each plan in which the Lottery participates, to provide the Lottery's net pension liability and related GASB 68 accounting elements. At June 30, 2018, the Lottery's proportion was 0.369 percent for the State Miscellaneous Plan and 0.072 percent for the State Peace Officers/Firefighters Plan. These proportions represent an increase of 0.017 percentage points for the State Miscellaneous Plan and a decrease of .003 percentage points for the State Peace Officers/Firefighters Plan from the proportions measured as of June 30, 2017.

**CALIFORNIA STATE LOTTERY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**10. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

**Pension Liabilities, Pension Expense, and Deferred Outflows and Deferred Inflows of Resources Related to Pensions (continued)**

After adjusting for the difference in proportionate share, the Lottery's net pension liability for the Miscellaneous Plan decreased \$18.9 million during the MP to \$116 million, and the Lottery's net pension liability for the Peace Officers/Firefighters Plan decreased \$1 million during the MP to \$10 million. As of June 30, 2019, the Lottery recognized a total net pension liability of \$126 million.

For the MP ended June 30, 2018, the Lottery recognized pension expense of \$18.9 million. As of the measurement date of June 30, 2018, the Lottery had deferred outflows and deferred inflows of resources related to pensions as follows:

| Deferred outflows of resources:  | Miscellaneous<br>Plan | Peace Officers/<br>Firefighters Plan | Total                |
|--|-----------------------|--------------------------------------|----------------------|
| Pension contributions made subsequent to the measurement date                    | \$ 14,462,081         | \$ 1,162,437                         | \$ 15,624,518        |
| Change in proportionate share  | 6,365,045             | —                                    | 6,365,045            |
| Change of Assumption   | 10,460,941            | 1,162,557                            | 11,623,498           |
| Difference between expected and actual experience                                | 1,244,134             | 255,797                              | 1,499,931            |
| Net difference between projected and actual earnings on pension plan investments | 1,198,055             | 78,152                               | 1,276,207            |
| Total  | <u>\$ 33,730,256</u>  | <u>\$ 2,658,943</u>                  | <u>\$ 36,389,199</u> |

| Deferred inflows of resources:                    | Miscellaneous<br>Plan | Peace Officers/<br>Firefighters Plan | Total                 |
|---|-----------------------|--------------------------------------|-----------------------|
| Change in proportionate share                     | \$ (2,403,353)        | \$ —                                 | \$ (2,403,353)        |
| Change of Assumption                              | (3,844,958)           | (14,411)                             | (3,859,369)           |
| Difference between expected and actual experience | (820,527)             | (127,681)                            | (948,208)             |
| Total   | <u>\$ (7,068,838)</u> | <u>\$ (142,092)</u>                  | <u>\$ (7,210,930)</u> |

Exclusive of deferred outflows related to payments after the measurement date, which will be recognized as a reduction of the net pension liability in the measurement period ended June 30, 2019, the net amount of deferred outflows (inflows) of resources related to pensions that will be recognized in pension expense during the next five years and thereafter is as follows:

| Measurement Period Ended<br>June 30 | Miscellaneous<br>Plan | Peace Officers/<br>Firefighters Plan | Total                |
|-------------------------------------|-----------------------|--------------------------------------|----------------------|
| 2019                                | \$ 9,987,918          | \$ 686,691                           | \$ 10,674,609        |
| 2020                                | 5,083,559             | 444,753                              | 5,528,312            |
| 2021                                | (2,113,224)           | 164,584                              | (1,948,640)          |
| 2022                                | (758,916)             | 58,386                               | (700,530)            |
| 2023                                | —                     | —                                    | —                    |
| Total                               | <u>\$ 12,199,337</u>  | <u>\$ 1,354,414</u>                  | <u>\$ 13,553,751</u> |

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**10. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

**Actuarial Methods and Assumptions Used to Determine Total Pension Liability**

For the MP ended June 30, 2018, the total pension liability was determined by rolling forward the June 30, 2017, total pension liability, based on the following actuarial methods and assumptions:

|                                   |   |
|-----------------------------------|---|
| Actuarial Cost Method:            | Entry Age Normal in accordance with the requirements of GASB Statement No. 68.  |
| Discount Rate:                    | 7.15%   |
| Inflation:                        | 2.5%  |
| Salary Increases:                 | Varies by entry age and service.  |
| Mortality Rate Table:             | Derived using CalPERS' membership data for all funds.   |
| Post Retirement Benefit Increase: | Contract cost of living adjustment up to 2.0% until purchasing power protection allowance floor on purchasing power applies, 2.5% thereafter. |

The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using 90 percent of Scale MP 2016 published by the Society of Actuaries. For more details on this table, please refer to the December 2017 Experience Study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

**Long-term Expected Rate of Return**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS' staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**10. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

**Long-term Expected Rate of Return (continued)**

The table below reflects the expected real rate of return by asset class. An expected inflation rate of 2 percent was used for real return years 1-10. For real return years 11+, an inflation rate of 2.92 percent was used.

| Asset Class      | Assumed Asset<br>Allocation | Real Return<br>Years 1-10 | Real Return<br>Years 11+ |
|------------------|-----------------------------|---------------------------|--------------------------|
| Global equity    | 50.00%                      | 4.80%                     | 5.98 %                   |
| Fixed income     | 28.00%                      | 1.00%                     | 2.62 %                   |
| Inflation assets | —                           | 0.77%                     | 1.81 %                   |
| Private equity   | 8.00%                       | 6.30%                     | 7.23 %                   |
| Real assets      | 13.00%                      | 3.75%                     | 4.93 %                   |
| Liquidity        | 1.00%                       | —                         | (0.92)%                  |
| Total            | 100.00%                     |                           |                          |

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of the California Lottery Fund as of the MD ended June 30, 2018, calculated using the discount rate of 7.15 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

|                             | Discount Rate<br>-1% (6.15%) | Current<br>Discount Rate<br>(7.15%) | Discount Rate<br>+1% (8.15%) |
|-----------------------------|------------------------------|-------------------------------------|------------------------------|
| Miscellaneous Plan          | \$ 166,253,843               | \$ 115,967,776                      | \$ 73,827,138                |
| Peace Officers/Firefighters | \$ 14,869,161                | \$ 10,074,188                       | \$ 6,146,246                 |
| Plan Total                  | \$ 181,123,004               | \$ 126,041,964                      | \$ 79,973,384                |

**Pension Plan Fiduciary Net Position**

Each plan's fiduciary net position disclosed in the accounting valuation report provided by CalPERS may differ from the plan's assets reported in the funding actuarial valuation report due to several reasons; the accounting valuation report must keep items such as deficiency reserves and fiduciary self-insurance included as assets. These amounts are excluded for rate setting purposes in the funding actuarial valuation report.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**10. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

**OPEB Plan Description, Benefits Provided and Employees Covered**

Other postemployment benefits are provided to Lottery employees through the State's agent multiple-employer defined benefit plan, which operates as a cost-sharing defined benefit plan for the Lottery. The State participates in the CalPERS Health Program governed by the Public Employees' Medical & Hospital Care Act and the State Employees' Dental Care Act. The program covers state employees by law. Plan assets are held in the California Employees Retiree Benefit Trust (CERBT) and the State has adopted an investment strategy expected to return approximately 7 percent per year over the long term.

Retiree healthcare benefits include medical, prescription drug, and dental benefits. The state pays a portion of retired Lottery employee health benefits based on the employee's bargaining unit (BU), date hired, and years of service. As of the measurement date of June 30, 2018, the Lottery had 757 active employees in 9 different bargaining units, 528 inactive (retired) employees receiving benefits, and no inactive employees entitled to but not yet receiving benefits. On average, approximately 95 percent of all eligible retirees elect healthcare coverage under the plan.

|                                   |                               |
|-----------------------------------|-------------------------------|
| Valuation Date / Measurement Date | June 30, 2018                 |
| Measurement Period                | July 1, 2017 to June 30, 2018 |

**OPEB Contributions**

The State and employees in all bargaining units have agreed to pre-fund retiree healthcare benefits. The State and all active members make contributions into separate accounts for each respective bargaining unit. Contributions are based on a percentage of pensionable compensation with the ultimate goal of contributing 100 percent of the actuarially determined normal cost shared equally between the State and employees. Pre-funding contributions and investment income are not available to pay plan benefits until 2046 or the year that actuarial accrued liabilities are fully funded, whichever comes first. Pre-funding agreements are subject to collective bargaining and legislative approval.

The State also makes pay-as-you-go contributions for benefits paid to current retirees and the portion of benefits paid to future retirees that are not pre-funded. Employer contributions for health premiums during the 2018-19 fiscal year maintained the 100/90 percent contribution formula established by Government Code. Under this formula, the State uses 100 percent of the weighted average premiums of the four largest health benefit plans in order to calculate the maximum amount the State will contribute toward the retiree's health benefits. The State also contributes 90 percent of this average for the health benefits of each retiree's dependents. The retiree is responsible for paying all health benefit plan costs that exceed the average of the four largest benefit plans. The 2018 maximum monthly state contributions are \$725 for a single enrollee, \$1,377 for an enrollee with one dependent, and \$1,766 for an enrollee with two or more dependents. Dental care premiums vary by plan and number of dependents. The contribution formulas are subject to approval and amendment by the State Legislature. Employees in most bargaining units have agreed to changes in benefits for employees hired after certain effective dates. If members are not fully vested, the healthcare and dental contributions are prorated based on the years of service.

For the fiscal year ended June 30, 2019, the Lottery paid approximately \$5.6 million for retiree health and dental benefits, as allocated to the Lottery as part of the State's prorata cost recovery program. The Lottery also paid a pre-funding contribution of \$452,452.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**10. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

**OPEB Discount Rate**

The State Controller's Office (SCO) commissioned the Actuarial Valuation Report of the State of California Retiree Health Benefits Program as of June 30, 2018. For purposes of developing the full-funding normal cost, actuarial liability and actuarially-determined contribution, a discount rate of 7.0 percent was used. The discount rate used to develop Total OPEB Liability and Service Cost was based on a blended rate for each respective actuarial valuation group comprised of 3.62 percent if pre-funding assets are not available to pay benefits and 7.0 percent if pre-funding assets are available to pay benefits.

The long-term expected rate of return on OPEB plan investments was determined by using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. Expected compound (geometric) returns were calculated over a closed period. Based on separate expected nominal returns for the short-term (first 10 years) and the long-term (11+ years), a single expected return rate of 7 percent was calculated for the short-term and long-term periods. If applied to expected cash flows during that period, the resulting present value of benefits is expected to be consistent with the present value of benefits that would be determined by applying the short and long-term expected rates to the same cash flows.

The table below reflects long-term expected real rate of return by asset class. An expected inflation rate of 2 percent was used for real return years 1-10. For real return years 11+, an inflation rate of 2.92 percent was used.

| Asset Class                             | Target Asset<br>Allocation | Real Return<br>Years 1-10 | Real Return<br>Years 11+ |
|---|----------------------------|---------------------------|--------------------------|
| Global equity                           | 59.00%                     | 4.80%                     | 5.98%                    |
| Fixed income                            | 25.00%                     | 1.10%                     | 2.62%                    |
| Treasury inflation-protected securities | 5.00%                      | 0.25%                     | 1.46%                    |
| Real estate investment trusts           | 8.00%                      | 3.50%                     | 5.00%                    |
| Commodities                             | 3.00%                      | 1.50%                     | 2.87%                    |
| Total                                   | <u>100.00%</u>             |                           |                          |

**OPEB Liabilities, OPEB Expense, and Deferred Outflows and Deferred Inflows of Resources Related to OPEB**

The SCO calculated the Lottery's proportionate share of the State's net OPEB liability and other GASB 75 accounting elements for the measurement period July 1, 2017, through June 30, 2018. The calculation was based on the Lottery's total combined OPEB pre-funding and pay-as-you-go contribution amounts during the measurement period as a ratio of the State's total combined OPEB pre-funding and pay-as-you-go contribution amounts during the same period, for each bargaining unit in which the Lottery has employees. This allocation basis was a change from the prior year, when the SCO used a ratio of the Lottery's pensionable compensation to the State's total pensionable compensation in the bargaining units in which the Lottery had employees. The use of OPEB contributions was preferred over pensionable compensation because of the direct relationship between the State's OPEB liability, and the actual amounts contributed by state agencies and funds (on behalf of the collective bargaining units and other groups represented in the State's actuarial valuation report) to reduce this liability.

At the start of the measurement period, July 1, 2017, the Lottery's net OPEB liability was \$218.1 million. The change in allocation basis and proportionate share from prior year resulted in an increase of \$30.1 million. During the measurement period, the Lottery's net OPEB liability decreased \$16.3 million, resulting in a net OPEB liability of \$231.9 million as of June 30, 2018.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**10. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

**OPEB Liabilities, OPEB Expense, and Deferred Outflows and Deferred Inflows of Resources Related to OPEB (continued)**

The Lottery's net OPEB liability for the measurement period ending June 30, 2018, was 0.27 percent of the State's net OPEB liability. The Lottery's net OPEB liability for the measurement period ending June 30, 2017, was 0.24 percent of the State's net OPEB liability.

For the measurement period ended June 30, 2018, the Lottery had an OPEB expense of \$9.7 million.

As of June 30, 2018, the Lottery had deferred outflows and deferred inflows of resources related to OPEB as follows:

|   | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources |
|---|-----------------------------------|----------------------------------|
| OPEB contributions made subsequent to the measurement date          | \$ 7,082,000                      | \$ —                             |
| Change in proportionate share                                       | 28,419,000                        | —                                |
| Change in pay-as-you-go contributions                               | 349,000                           | (75,000)                         |
| Difference between expected and actual experience                   | 820,000                           | (17,508,000)                     |
| Change of assumptions   | —                                 | (26,428,000)                     |
| Net difference between projected and actual earnings on investments | 1,000                             | —                                |
| <b>Total</b>  | <b>\$ 36,671,000</b>              | <b>\$ (44,011,000)</b>           |

Exclusive of deferred outflows related to payments after the measurement date, the net amount of deferred outflows (inflows) of resources related to OPEB will be recognized in OPEB expense as follows:

| Measurement Period Ended<br>June 30 |                        |
|-------------------------------------|------------------------|
| 2019                                | \$ (2,949,000)         |
| 2020                                | (3,041,000)            |
| 2021                                | (3,393,000)            |
| 2022                                | (3,314,000)            |
| 2023                                | (2,718,000)            |
| 2024                                | 798,000                |
| 2025                                | 195,000                |
| <b>Total</b>                        | <b>\$ (14,422,000)</b> |

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**10. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

**Actuarial Methods and Assumptions Used to Determine Total OPEB Liability**

For the measurement period ended June 30, 2018, the total OPEB liability was based on the following actuarial methods and assumptions:

|                              |  |
|------------------------------|--|
| Actuarial Cost Method:       | Entry Age Normal in accordance with the requirements of GASB Statement No. 75.   |
| Inflation:                   | 2.5%   |
| Salary Increases:            | Varies by entry age and service.   |
| Investment Rate of Return:   | 7.00%, net of OPEB plan investment expenses but without reduction for OPEB plan administrative expenses.   |
| Healthcare Cost Trend Rates: | Pre-Medicare: Actual rates for 2019, increasing to 7.50% in 2020, then decreasing 0.50% per year to an ultimate rate of 4.50% for 2026 and later years.<br>Post-Medicare: Actual rates for 2019, increasing to 8.00% in 2020, then decreasing 0.50% per year to an ultimate rate of 4.50% for 2027 and later years.<br>Dental: 0.26% in 2019 and 4.50% thereafter. |
| Discount Rate:               | 3.90%, which represents the weighted average blended rate for each valuation group, consisting of 7.00% when assets are available to pay benefits, otherwise the 20-year Municipal G.O. Bond AA Index rate of 3.62%.   |
| Participation Rate:          | On average, approximately 95% of all eligible retirees elect healthcare coverage.  |
| Mortality Rate Table         | Derived using CalPERS' membership data for all members.  |

The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using 90 percent of Scale MP 2016 published by the Society of Actuaries. For more details on this table, refer to the 2017 CalPERS Experience Study for the period from 1997 to 2015. Other demographic assumptions used in the June 30, 2018, valuation were also based on the results of the Experience Study, including updates to termination, disability, and retirement rates. The Experience Study report is available at [www.CalPERS.ca.gov](http://www.CalPERS.ca.gov).

Healthcare related assumptions such as plan participation, aging factors, adjustments for disabled members, and adjustments for children of current retirees and survivors, are based on the 2015 GRS experience study for the period from 2007 to 2014, commissioned by the SCO. Other healthcare assumptions such as member healthcare plan selection, coverage and continuance, select and ultimate healthcare cost trend rates, and per capita claim costs and expenses, are based on the most current information available. To obtain the GRS experience study, email the SCO at [StateGovReports@sco.ca.gov](mailto:StateGovReports@sco.ca.gov).

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**10. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

**Sensitivity of the Net OPEB Liability to Changes in the Discount Rate**

The following presents the net OPEB liability of the California Lottery Fund as of the measurement period ended June 30, 2018, calculated using the blended discount rates for each bargaining unit, as well as what the net OPEB liability would be if it were calculated using a rate the is one percentage point lower and one percentage point higher than the current rate.

|                    | Blended<br>Discount Rate<br>-1% | Current Blended<br>Discount Rate | Blended<br>Discount Rate<br>+1% |
|--------------------|---------------------------------|----------------------------------|---------------------------------|
| Net OPEB Liability | \$ 273,442,000                  | \$ 231,853,000                   | \$ 198,685,000                  |

**Sensitivity of the Net OPEB Liability to Changes in the Healthcare Trend Rate**

One of the key assumptions influencing OPEB costs is the assumed growth or trend in healthcare costs. The healthcare trend assumption for OPEB actuarial valuations spans over the lifetime of a covered retiree. Actuaries generally compare the growth in general inflation, wages, healthcare costs and other goods and services when setting the healthcare trend assumption.

The following presents the net OPEB liability of the California Lottery Fund as of the measurement period ended June 30, 2018, calculated using the healthcare trend rate of 4.5 percent, as well as what the net OPEB liability would be if it were calculated using a rate the is one percentage point lower (3.5 percent) and one percentage point higher (5.5 percent) higher than the current rate.

|                    | Trend Rate -1%<br>(3.50%) | Current Trend<br>Rate (4.50%) | Trend Rate +1%<br>(5.50%) |
|--------------------|---------------------------|-------------------------------|---------------------------|
| Net OPEB Liability | \$ 202,287,000            | \$ 231,853,000                | \$ 269,696,000            |

**OPEB Plan Fiduciary Net Position**

The fiduciary net position is the market value of the assets of the trust dedicated to the defined benefit provisions. As of the valuation report dated June 30, 2018, the net fiduciary position of the State's OPEB plans is approximately \$874 million. The Lottery's proportionate fiduciary net position for the bargaining units in which it has employees is approximately \$411,000.

The actuarial valuation report for OPEB may be obtained by writing to the Office of State Controller Betty T. Yee, P.O. Box 942850, Sacramento, CA 94250, or by visiting the State Controller's web site at [www.SCO.ca.gov](http://www.SCO.ca.gov).

**CALIFORNIA STATE LOTTERY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**11. COMMITMENTS AND CONTINGENCIES**

On September 28, 2017, the California State Lottery Commission approved a contract amendment to the existing contract with IGT Global Solutions Corporation (IGT) to provide both gaming and telecommunications systems and services. The amendment extends the contract seven years to October 31, 2026, and increases the maximum expenditure amount by \$800 million to \$2.25 billion. The amended contract, which became effective November 1, 2017, includes adjusted contract pricing, a gaming system upgrade, additional equipment, and other services and support. Under the amended contract, the Lottery pays a percentage of sales compensation of 1.0735 percent of annual sales, up to and including \$7 billion, and 1 percent of sales for the portion of annual sales exceeding \$7 billion.

As of June 30, 2019, approximately \$1.16 billion in cumulative expenses have been incurred. Additionally, \$1.2 million of prepaid equipment costs will be amortized and expensed over the period ending October 31, 2026, and approximately \$117.8 million of capitalized gaming equipment and vending machines has been purchased. Of this, approximately \$60 million has been recorded as depreciation expense.

The Lottery has been named as a defendant in various lawsuits and claims. While the ultimate monetary outcome of these claims cannot be estimated at this time, it is the opinion of management, after consulting with legal counsel, that the disposition of any litigation in which the Lottery is involved will not have a material adverse effect on the financial condition or on the results of operations of the Lottery.

**12. RISK MANAGEMENT**

Since its inception, the Lottery has been primarily self-insured for risks such as flood, business interruption, theft, employee errors and omissions, and other potential liabilities. Losses are recognized when conditions for accrual are met.

The Lottery has purchased property insurance for its owned facilities, including its headquarters building and central utility plant, its Northern and Southern Distribution Centers, and various district offices throughout the state. Thereby, the Lottery has transferred the risk of loss due to a catastrophic event from the Lottery to the insurance carrier. The Lottery has purchased automobile insurance for its fleet of vehicles through the California Department of General Services, Office of Risk & Insurance Management.

Liabilities for workers' compensation costs are accrued based on estimates derived from the State Compensation Insurance Fund. This estimate is based on actuarial reviews of the employee workers' compensation program and includes indemnity payments, compensation benefits, and leave benefits. The liability for workers' compensation claims is not material to the financial statements taken as a whole.

**13. SUBSEQUENT EVENTS**

The Lottery has evaluated subsequent events from the statement of net position (deficit) date through June 26, 2020, the date at which financial statements were available to be issued, and except as noted below, has determined that there are no other items to disclose.

On March 19, 2020, Governor Gavin Newsom announced a stay-at-home order for California in response to the COVID-19 pandemic. Initially, approximately 4 percent of Lottery retailers shut their stores and Lottery sales were down approximately 25 percent to 30 percent across all products due to decreased foot traffic in retail locations that remained open. The Lottery continued operations by implementing a telework program and social distancing measures. As of early June, approximately half the retailers who shut their stores have reopened, and Lottery sales have recovered significantly. The duration of the stay-at-home order and the impact on Lottery sales and funds earned for our beneficiary are uncertain, and cannot be reasonably estimated at this time.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2019  
(Unaudited)**

**SCHEDULE 1**

Schedule of Lottery's Proportionate Share of the Net Pension Liability and Related Ratios as of June 30, 2019.

Last ten fiscal years<sup>1</sup>

| <b>Miscellaneous Plan</b>   | <b>2018<sup>2</sup></b> | <b>2017</b>   | <b>2016</b>   | <b>2015</b>  | <b>2014</b>  |
|---|-------------------------|---------------|---------------|--------------|--------------|
| Lottery's proportion of the net pension liability   | 0.36915%                | 0.35196%      | 0.36851%      | 0.33587%     | 0.30341%     |
| Lottery's proportionate share of the net pension liability                                    | \$115,967,778           | \$128,590,173 | \$122,027,896 | \$94,857,230 | \$72,238,786 |
| Lottery's proportionate share of covered payroll  | \$45,237,758            | \$40,797,632  | \$41,236,048  | \$35,739,920 | \$30,401,343 |
| Lottery's proportionate share of the net pension liability as a percentage of covered payroll | 256.35%                 | 315.19%       | 295.93%       | 265.41%      | 237.62%      |
| Plan fiduciary net position as a percentage of the total pension liability                    | 71.83%                  | 66.42%        | 66.81%        | 70.68%       | 74.17%       |

| <b>Peace Officers/Firefighters Plan</b>                                    | <b>2018<sup>2</sup></b> | <b>2017</b>  | <b>2016</b>  | <b>2015</b> | <b>2014</b> |
|--|-------------------------|--------------|--------------|-------------|-------------|
| Lottery's proportion of the net pension liability                          | 0.07244%                | 0.07500%     | 0.07989%     | 0.08278%    | 0.08345%    |
| Lottery's proportionate share of the net pension liability                 | \$10,074,188            | \$11,448,242 | \$10,934,505 | \$9,661,744 | \$8,477,066 |
| Lottery's proportionate share of covered payroll                           | \$2,576,685             | \$2,562,521  | \$2,590,072  | \$2,578,862 | \$2,528,966 |
| Lottery's proportionate share of the net pension liability as a percentage | 390.97%                 | 446.76%      | 422.17%      | 374.65%     | 335.20%     |
| Plan fiduciary net position as a percentage of the total pension liability | 70.53%                  | 65.89%       | 66.10%       | 69.61%      | 72.19%      |

<sup>1</sup>The Lottery implemented GASB 68 in the fiscal year ended June 30, 2015, therefore no information is available for the measurement periods prior to June 30, 2014.

<sup>2</sup>The date in the column heading is the measurement date of the collective net pension liability, which is one year prior to the reporting period.

See accompanying independent auditors' report

**CALIFORNIA STATE LOTTERY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2019**  
**(Unaudited)**

**SCHEDULE 2**

Schedule of Employer Contributions Related to Pensions as of June 30, 2019.

Last ten fiscal years<sup>1</sup>

| <b>Miscellaneous Plan</b>   | <b>2019</b>  | <b>2018</b>  | <b>2017</b>  | <b>2016</b>  | <b>2015</b>  |
|---|--------------|--------------|--------------|--------------|--------------|
| Actuarially determined contribution                                   | \$13,857,459 | \$12,542,790 | \$10,834,123 | \$10,019,407 | \$8,132,027  |
| Contributions in relation to the actuarially determined contributions | (14,462,081) | (12,854,881) | (10,905,791) | (10,371,960) | (8,676,959)  |
| Contribution Excess   | \$(604,622)  | \$(312,091)  | \$(71,668)   | \$(352,553)  | \$(544,932)  |
| Lottery's covered payroll   | \$49,272,524 | \$45,237,758 | \$40,797,632 | \$41,236,048 | \$35,739,920 |
| Contributions as a percentage of covered payroll                      | 29.35%       | 28.42%       | 26.73%       | 25.15%       | 24.28%       |

| <b>Peace Officers/Firefighters Plan</b>                               | <b>2019</b> | <b>2018</b> | <b>2017</b> | <b>2016</b> | <b>2015</b> |
|---|-------------|-------------|-------------|-------------|-------------|
| Actuarially determined contribution                                   | \$1,101,924 | \$1,059,524 | \$1,007,403 | \$956,456   | \$899,085   |
| Contributions in relation to the actuarially determined contributions | (1,162,437) | (1,140,046) | (1,074,285) | (1,009,612) | (950,819)   |
| Contribution Excess   | \$(60,513)  | \$(80,522)  | \$(66,882)  | \$(53,156)  | \$(51,734)  |
| Lottery's covered payroll   | \$2,562,611 | \$2,576,685 | \$2,562,521 | \$2,590,072 | \$2,578,862 |
| Contributions as a percentage of covered payroll                      | 45.36%      | 44.24%      | 41.92%      | 38.98%      | 36.87%      |

<sup>1</sup>The Lottery implemented GASB 68 in the fiscal year ended June 30, 2015, therefore no information is available for the measurement periods prior to June 30, 2014.

**Notes to Schedule of Employer Contributions**

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2018-19 were derived from the June 30, 2017, Funding Valuation Report.

|                            |   |
|----------------------------|---|
| Actuarial Cost Method      | Entry Age Normal.   |
| Amortization Method/Period | For details, see June 30, 2017, Funding Valuation Report.   |
| Asset Valuation Method     | Market value of assets; for details, see June 30, 2017, Funding Valuation Report.   |
| Inflation                  | 2.625%  |
| Salary Increase            | Varies by entry age and service.  |
| Payroll Growth             | 2.875%  |
| Investment Rate of Return  | 7.25% Net of pension plan investment and administrative expenses; includes inflation.   |
| Retirement Age             | The probabilities of retirement are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015.  |
| Mortality                  | The probabilities of mortality are based on 15 years of mortality improvements using 90 percent of Scale MP 2016 published by the Society of Actuaries. For more details, please refer to the 2017 CalPERS Experience Study for the period from 1997 to 2015. |

See accompanying independent auditors' report

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2019  
(Unaudited)**

**SCHEDULE 3**

Schedule of Lottery's Proportionate Share of the Net Other Postemployment Benefits Liability and Related Ratios as of June 30, 2019.

(In thousands)

Last ten fiscal years<sup>1</sup>

|   | <b>2018<sup>2</sup></b> | <b>2017</b> |
|---|-------------------------|-------------|
| Lottery's proportion of the net other postemployment benefits liability   | 0.27087%                | 0.23962%    |
| Lottery's proportionate share of the net other postemployment benefits liability                                    | \$231,853               | \$218,073   |
| Lottery's covered payroll   | \$51,835                | \$47,814    |
| Lottery's proportionate share of the net other postemployment benefits liability as a percentage of covered payroll | 447.29%                 | 456.09%     |
| Plan fiduciary net position as a percentage of the total other postemployment benefits liability                    | 1.01%                   | 0.55%       |

<sup>1</sup>The Lottery implemented GASB 75 in the fiscal year ended June 30, 2018, therefore no information is available for the measurement periods prior to June 30, 2017.

<sup>2</sup>The date in the column heading is the measurement date of the net other postemployment liability, which is one year prior to the reporting period.

See accompanying independent auditors' report

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2019  
(Unaudited)**

**SCHEDULE 4**

Schedule of Employer Contributions Related to Other Postemployment Benefits Year Ended June 30, 2019.

(In thousands)

Last ten fiscal years<sup>1</sup>

|   | <b>2019</b> | <b>2018</b> |
|---|-------------|-------------|
| Actuarially determined contributions                                  | \$6,066     | \$5,533     |
| Contributions in relation to the actuarially determined contributions | \$6,066     | \$5,533     |
| Contribution deficiency   | —           | —           |
| Lottery's covered payroll   | \$51,835    | \$47,814    |
| Contributions as a percentage of covered payroll                      | 11.7%       | 11.57%      |

<sup>1</sup>The Lottery implemented GASB 75 in the fiscal year ended June 30, 2018, therefore no information is available for the measurement periods prior to June 30, 2017.

**Notes to Schedule of Employer Contributions**

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2018-19 were derived from the June 30, 2017, Funding Valuation Report.

|                       |  |
|-----------------------|--|
| Actuarial Cost Method | Entry Age Normal and the blended discount rates as required by GASB Statement No. 75. The Normal Cost and Actuarial Accrued Liability for the purpose of calculating the Actuarially Determined Contribution were developed using the Entry Age Normal Actuarial Cost Method and a full-funding discount rate of 7 percent.              |
| Inflation             | 2.50%  |
| Payroll Growth        | 2.75%  |
| Retirement Age        | The probabilities of retirement are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015.   |
| Mortality             | The mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board. For purposes of the mortality rates, the revised rates include 15 years of projected ongoing mortality improvement using 90 percent of Scale MP 2016 published by the Society of Actuaries. |

See accompanying independent auditors' report



PRODUCT PLAN  
PART IN DIFFERENT SECTOR  
ANNUAL REPORT  
TYPE OF MARKET



- COMPANY / SUBSYSTEM 01
- COMPANY / SUBSYSTEM 02
- COMPANY / SUBSYSTEM 03
- COMPANY / SUBSYSTEM 04
- COMPANY / SUBSYSTEM 05
- COMPANY / SUBSYSTEM 06

THE OVER INVESTED SECTOR ALLOW TO CONTRIBUTE TO THE FULL COMPANY GROWTH AND PROTECT OF INVESTMENT AND MARKET. TO ALLOW TO REVEAL MORE EFFICIENCY AND AS A RESULT OF ECONOMIC GROWTH. THE COMPANY AT THE END OF PRESENTATION OF RESULTS CAN BE PROBABLY PROBABLY.

REVENUE OF PROJECT WITH INVESTING IN LAST FIVE QUARTERS



A photograph of two young students in a classroom. On the left, a boy with brown hair and glasses is wearing a white shirt and a dark tie, writing in a notebook with a pen. On the right, a girl with reddish-brown hair is also wearing a white shirt and a dark tie, resting her chin on her hand and looking towards the boy. They are sitting at a desk with an open book. The background is a bright window with a view of a cityscape. A green horizontal bar is overlaid across the middle of the image, containing the text 'Statistical Section'.

# Statistical Section



## STATISTICAL SECTION

This part of the California State Lottery's Comprehensive Annual Financial Report (CAFR) presents detailed information as a context for understanding what the information in the financial statements and note disclosures says about the Lottery's overall financial health.

### Contents

|   |    |
|---|----|
| Financial Trends/Revenue Capacity   | 66 |
| These schedules contain trend information to help the reader understand how the Lottery's financial performance and well-being have changed over time and how to assess the most significant revenue sources, lotto and instant ticket games games. |    |
| Demographic and Economic Information  | 72 |
| These schedules offer demographic and economic indicators to help the reader understand the environment within which the Lottery's financial activities take place.   |    |
| Operating Information   | 80 |
| These schedules contain data to help the reader understand how the California State Lottery's performance compares to other United States lotteries.  |    |

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports or the audited financial statements for the relevant year.

**CALIFORNIA STATE LOTTERY**  
**Net Position by Component**  
**Last Ten Fiscal years**

|                                       | 2010               | 2011               | 2012               | 2013               |
|---------------------------------------|--------------------|--------------------|--------------------|--------------------|
| Invested in capital assets            | 42,511,326         | 86,505,601         | 85,183,982         | 82,251,499         |
| Restricted by legislation             | 125,850,167        | 103,016,471        | 155,597,555        | 102,067,701        |
| Unrestricted deficit                  | (42,511,326)       | (86,505,601)       | (85,183,982)       | (82,251,499)       |
| <b>Total net position<sup>1</sup></b> | <b>125,850,167</b> | <b>103,016,471</b> | <b>155,597,555</b> | <b>102,067,701</b> |

**CALIFORNIA STATE LOTTERY**  
**Change in Net Position**  
**Last Ten Fiscal years**

|  | 2010                   | 2011                   | 2012                   | 2013                   |
|--|------------------------|------------------------|------------------------|------------------------|
| Operating revenues:                            |                        |                        |                        |                        |
| Lotto games                                    | 947,769,847            | 973,179,589            | 1,143,839,339          | 935,660,488            |
| Scratchers <sup>®</sup> games                  | 1,661,288,086          | 2,002,090,072          | 2,755,381,647          | 3,010,119,929          |
| Hot Spot <sup>®</sup>                          | 117,904,491            | 130,472,138            | 131,056,826            | 154,403,306            |
| Daily games                                    | 313,997,442            | 332,836,199            | 341,213,934            | 345,690,317            |
| <b>Total operating revenues</b>                | <b>3,040,959,866</b>   | <b>3,438,577,998</b>   | <b>4,371,491,746</b>   | <b>4,445,874,040</b>   |
| Prizes   | 1,611,371,074          | 1,904,787,955          | 2,560,306,589          | 2,652,095,102          |
| Game costs:                                    |                        |                        |                        |                        |
| Retailer costs                                 | 214,484,059            | 233,571,290            | 295,829,989            | 302,946,127            |
| Gaming system costs                            | 35,984,278             | 35,428,111             | 48,258,994             | 49,562,417             |
| Scratchers game costs                          | 18,214,865             | 20,705,337             | 25,774,034             | 27,588,889             |
| <b>Total game costs</b>                        | <b>268,683,202</b>     | <b>289,704,738</b>     | <b>369,863,017</b>     | <b>380,097,433</b>     |
| Operating expenses:                            |                        |                        |                        |                        |
| Salaries, wages and benefits                   | 46,011,332             | 52,084,571             | 62,937,875             | 56,781,125             |
| Advertising                                    | 33,666,684             | 52,982,897             | 47,833,141             | 56,044,193             |
| Promotion, public relations and point of sale  | 8,025,477              | 6,635,267              | 6,264,927              | 7,854,549              |
| Other professional services                    | 10,341,565             | 10,677,764             | 13,400,277             | 12,651,314             |
| Depreciation and amortization                  | 20,417,236             | 5,874,683              | 7,750,918              | 5,980,272              |
| Other general and administrative expenses      | 18,277,779             | 15,012,830             | 4,885,798              | 13,580,602             |
| <b>Total operating expenses</b>                | <b>136,740,073</b>     | <b>143,268,012</b>     | <b>143,072,936</b>     | <b>152,892,055</b>     |
| Operating income                               | 1,024,165,517          | 1,100,817,293          | 1,298,249,204          | 1,260,789,450          |
| Non-operating (expenses) revenues:             |                        |                        |                        |                        |
| Investment earnings <sup>2</sup>               | 26,795,655             | (20,856,697)           | 54,206,802             | (52,309,163)           |
| Other income                                   | 347,694                | 66,476                 | 365,457                | 47,879                 |
| Allocation to Education Fund <sup>3</sup>      | (1,072,496,752)        | (1,102,860,768)        | (1,300,240,379)        | (1,262,058,020)        |
| <b>Total non-operating (expenses) revenues</b> | <b>(1,045,353,403)</b> | <b>(1,123,650,989)</b> | <b>(1,245,668,120)</b> | <b>(1,314,319,304)</b> |
| <b>Total change in net position</b>            | <b>(21,187,886)</b>    | <b>(22,833,696)</b>    | <b>52,581,084</b>      | <b>(53,529,854)</b>    |

Note: Individual wagers for all SuperLotto Plus<sup>®</sup>, Hot Spot, and all daily games, with the exception of Daily Derby<sup>®</sup>, are \$1 each. Daily Derby, Mega Millions<sup>®</sup>, and Powerball<sup>®</sup> wagers are \$2 each. Scratchers games have price points of \$1, \$2, \$3, \$5, \$10, \$20, and \$30.

(1) Beginning net position was reduced \$90,210,412 in fiscal year 2014-15 due to changes in net pension liability reporting requirements. Beginning net position was reduced \$155,152,000 in fiscal year 2017-18 due to changes in net OPEB liability requirements. Please refer to Note 10 of the financial statements.

(2) Investment earnings include interest expense imputed on annuitized prize liability.

(3) The total declared allocation to Education Fund, per statutory compliance, also includes unclaimed prizes and is not represented in the presentation above. For more information on the total allocation to Education Fund, please refer to Note 7 of the financial statements.

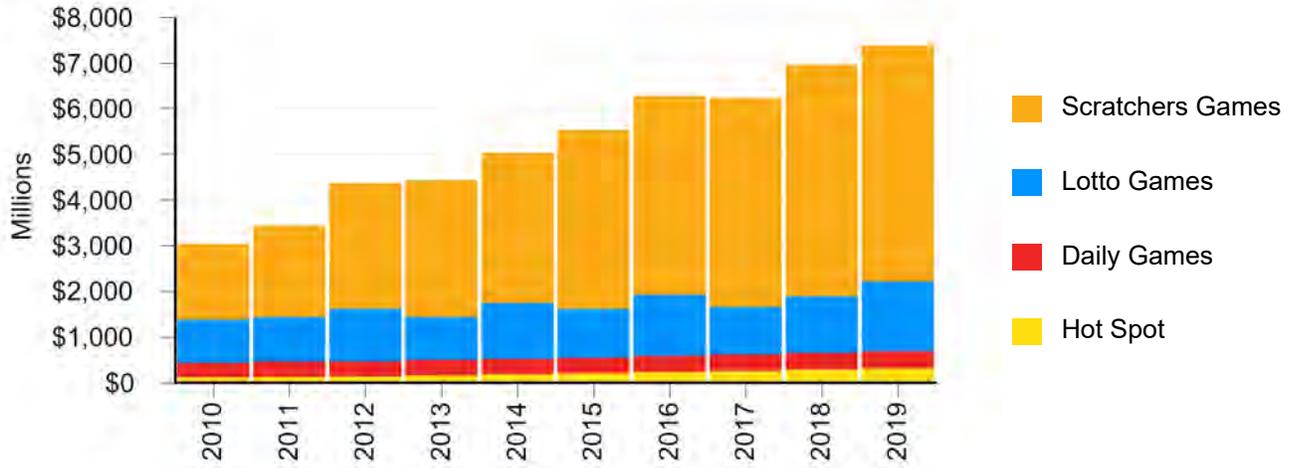
**CALIFORNIA STATE LOTTERY**  
**Net Position by Component**  
**Last Ten Fiscal years**

| 2014               | 2015             | 2016              | 2017               | 2018                 | 2019                 |
|--------------------|------------------|-------------------|--------------------|----------------------|----------------------|
| 95,330,193         | 129,585,496      | 163,916,171       | 185,709,466        | 197,306,299          | 208,971,820          |
| 101,108,957        | 94,228,359       | 146,172,959       | 87,372,386         | 55,949,634           | 93,646,606           |
| (95,330,193)       | (219,795,908)    | (254,126,583)     | (275,919,878)      | (442,668,711)        | (454,334,232)        |
| <b>101,108,957</b> | <b>4,017,947</b> | <b>55,962,547</b> | <b>(2,838,026)</b> | <b>(189,412,778)</b> | <b>(151,715,806)</b> |

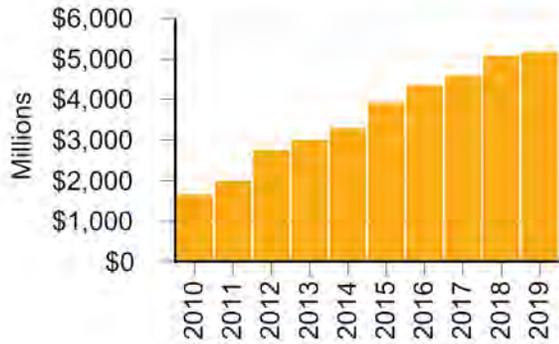
**CALIFORNIA STATE LOTTERY**  
**Change in Net Position**  
**Last Ten Fiscal years**

| 2014                   | 2015                   | 2016                   | 2017                   | 2018                   | 2019                   |
|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| 1,230,661,985          | 1,064,489,378          | 1,337,129,994          | 1,041,071,687          | 1,234,092,648          | 1,526,370,543          |
| 3,288,922,307          | 3,915,381,412          | 4,351,826,436          | 4,576,028,713          | 5,077,397,175          | 5,170,791,532          |
| 188,390,807            | 206,439,141            | 232,286,264            | 255,808,131            | 288,701,169            | 313,779,077            |
| 326,686,325            | 338,540,662            | 354,354,594            | 360,559,892            | 365,601,121            | 377,109,164            |
| <b>5,034,661,424</b>   | <b>5,524,850,593</b>   | <b>6,275,597,288</b>   | <b>6,233,468,423</b>   | <b>6,965,792,113</b>   | <b>7,388,050,316</b>   |
| 3,082,376,405          | 3,501,745,873          | 3,955,791,373          | 3,963,453,360          | 4,476,580,353          | 4,715,592,673          |
| 345,513,054            | 380,344,945            | 432,985,606            | 433,656,258            | 480,545,143            | 505,903,081            |
| 70,486,877             | 68,881,598             | 78,276,791             | 81,566,527             | 90,998,838             | 92,088,597             |
| 29,540,698             | 29,990,183             | 36,485,518             | 34,819,169             | 36,600,840             | 39,207,904             |
| <b>445,540,629</b>     | <b>479,216,726</b>     | <b>547,747,915</b>     | <b>550,041,954</b>     | <b>608,144,821</b>     | <b>637,199,582</b>     |
| 66,108,672             | 70,480,064             | 79,415,769             | 91,254,303             | 101,054,859            | 99,664,223             |
| 63,699,190             | 62,273,530             | 74,280,130             | 76,690,663             | 68,113,747             | 66,773,171             |
| 14,507,326             | 10,664,151             | 10,990,631             | 8,657,038              | 9,552,414              | 9,305,841              |
| 13,331,461             | 11,843,044             | 14,367,836             | 14,266,695             | 15,321,484             | 16,898,286             |
| 6,075,176              | 8,950,492              | 13,528,573             | 16,889,648             | 18,310,965             | 18,814,684             |
| 16,370,667             | 16,435,133             | 19,806,524             | 18,036,889             | 12,658,281             | 14,080,465             |
| <b>180,092,492</b>     | <b>180,646,414</b>     | <b>212,389,463</b>     | <b>225,795,236</b>     | <b>225,011,750</b>     | <b>225,536,670</b>     |
| 1,326,651,898          | 1,363,241,580          | 1,559,668,537          | 1,494,177,874          | 1,656,055,189          | 1,809,721,391          |
| 290,350                | (5,633,320)            | 55,232,507             | (54,067,894)           | (22,715,200)           | 53,177,645             |
| 27,400                 | 53,155                 | 193,432                | 93,932                 | 124,554                | 22,036                 |
| (1,327,928,392)        | (1,364,542,013)        | (1,563,149,876)        | (1,499,004,485)        | (1,664,887,295)        | (1,825,224,100)        |
| <b>(1,327,610,642)</b> | <b>(1,370,122,178)</b> | <b>(1,507,723,937)</b> | <b>(1,552,978,447)</b> | <b>(1,687,477,941)</b> | <b>(1,772,024,419)</b> |
| <b>(958,744)</b>       | <b>(6,880,598)</b>     | <b>51,944,600</b>      | <b>(58,800,573)</b>    | <b>(31,422,752)</b>    | <b>37,696,972</b>      |

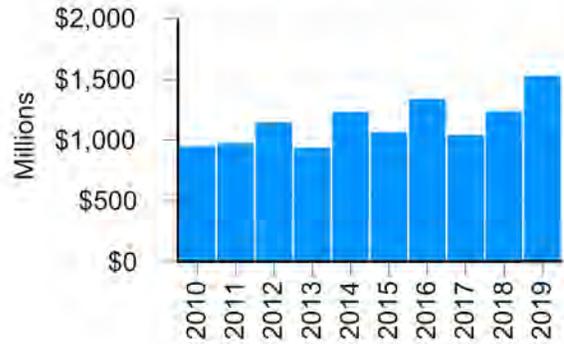
**CALIFORNIA STATE LOTTERY**  
**Sales by Product**  
**Last Ten Fiscal Years**



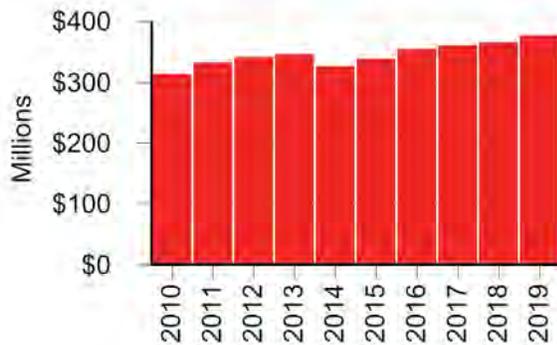
Scratchers games



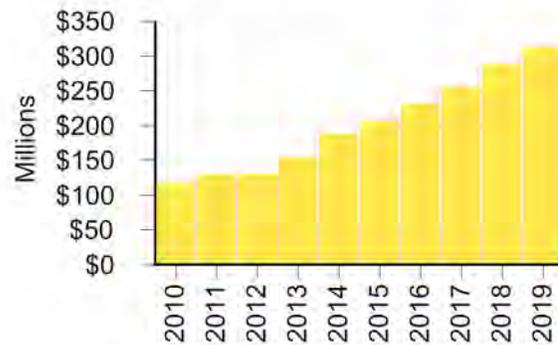
Lotto games



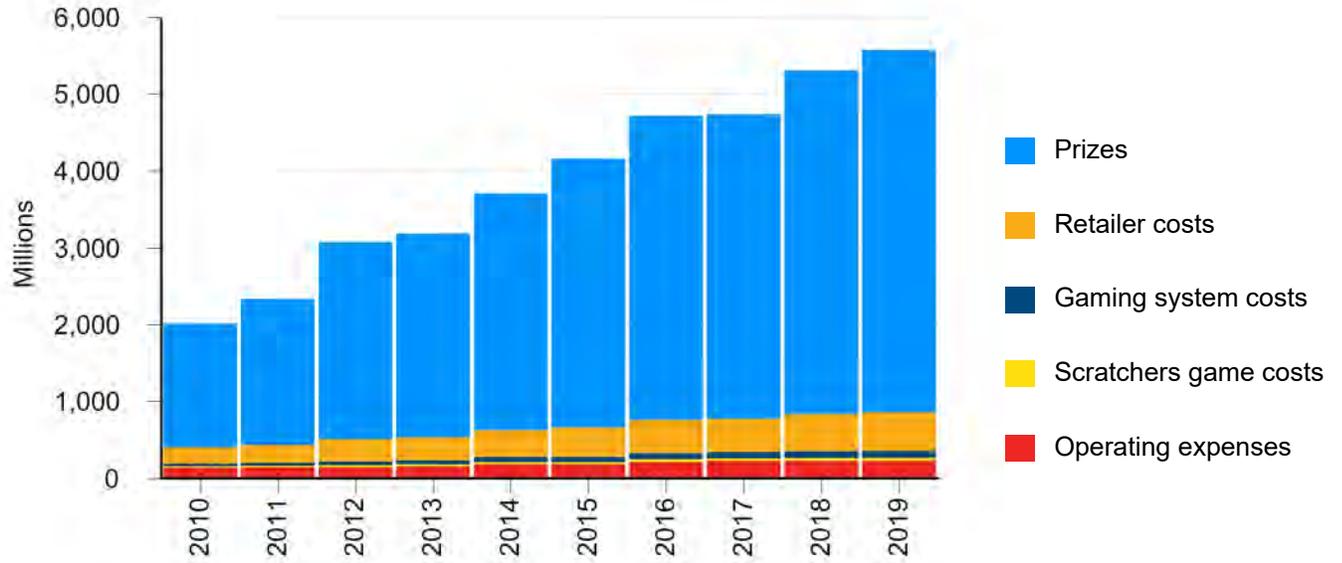
Daily games



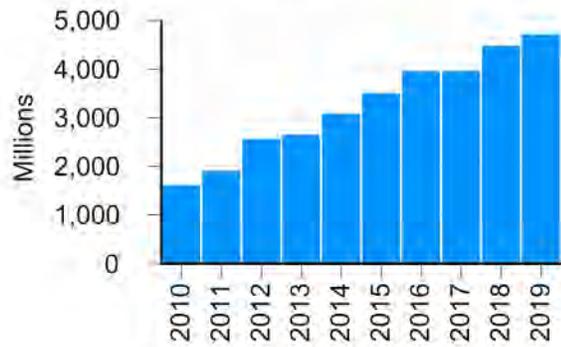
Hot Spot



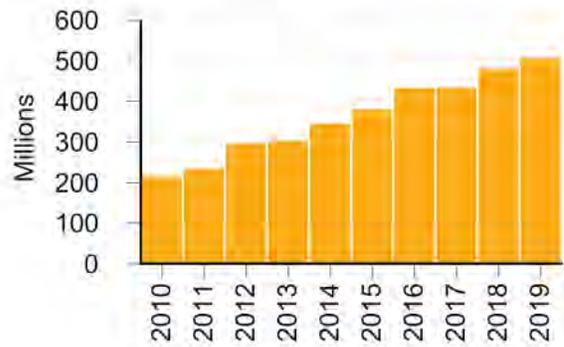
**CALIFORNIA STATE LOTTERY  
Expenses by Type  
Last Ten Fiscal Years**



**Prizes**

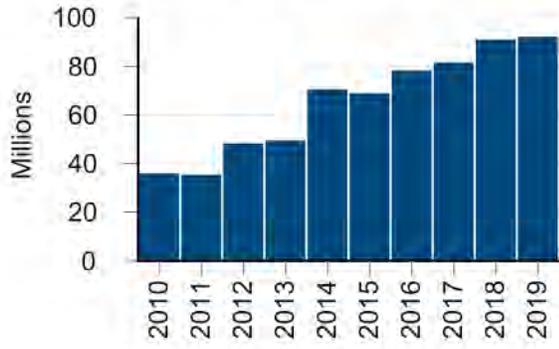


**Retailer costs**

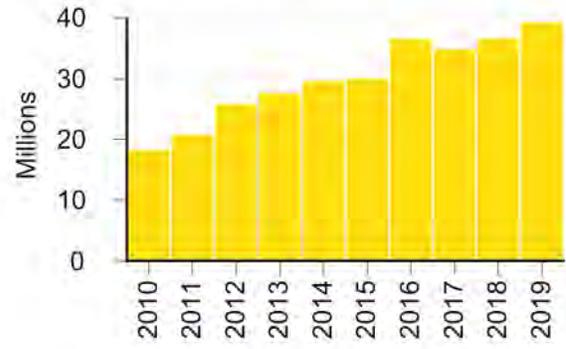


**CALIFORNIA STATE LOTTERY**  
**Expenses by Type**  
**Last Ten Fiscal Years**  
**(continued)**

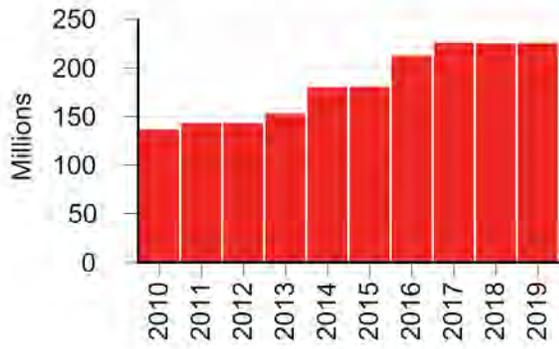
Gaming system costs



Scratchers game costs



Operating expenses





**CALIFORNIA STATE LOTTERY**  
**California Demographics and Economic Information**  
**2009 - 2018**

|      | <b>Population<br/>(in thousands)</b> | <b>Personal Income<br/>(in thousands)</b> | <b>Per Capita<br/>Personal Income</b> | <b>Unemployment<br/>Rate</b> |
|------|--------------------------------------|---|---------------------------------------|------------------------------|
| 2009 | 36,962                               | \$1,572,650                               | \$42,548                              | 12.0%                        |
| 2010 | 37,349                               | \$1,590,279                               | \$42,578                              | 12.4%                        |
| 2011 | 37,692                               | \$1,645,138                               | \$43,647                              | 10.9%                        |
| 2012 | 38,041                               | \$1,768,039                               | \$46,477                              | 9.8%                         |
| 2013 | 38,333                               | \$1,817,010                               | \$47,401                              | 7.9%                         |
| 2014 | 38,803                               | \$1,944,369                               | \$50,109                              | 6.8%                         |
| 2015 | 39,145                               | \$2,103,669                               | \$53,741                              | 5.7%                         |
| 2016 | 39,250                               | \$2,212,691                               | \$56,374                              | 5.0%                         |
| 2017 | 39,636                               | \$2,409,537                               | \$60,792                              | 4.2%                         |
| 2018 | 39,625                               | \$2,558,708                               | \$64,574                              | 4.1%                         |

Source: All data except unemployment rate is from the Bureau of Economic Analysis, United States Department of Commerce; unemployment rates from Labor Market Information Division, California Employment Development Department. Note: 2019 information is not available and therefore not presented.

**CALIFORNIA STATE LOTTERY**  
**California Industry Number of Employees by Size Category**  
**2009 - 2013**

|   | 2009              | 2010              | 2011              | 2012              | 2013              |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Agriculture, Forestry, Fishing, Hunting | 434,275           | 440,265           | 449,614           | 463,476           | 463,169           |
| Mining                                  | 23,244            | 25,011            | 27,016            | 28,475            | 27,986            |
| Utilities                               | 60,288            | 57,175            | 58,199            | 59,160            | 58,240            |
| Construction                            | 601,982           | 562,922           | 580,550           | 609,365           | 656,000           |
| Manufacturing                           | 1,261,582         | 1,250,589         | 1,257,097         | 1,264,017         | 1,265,860         |
| Wholesale Trade                         | 636,330           | 647,193           | 661,757           | 679,339           | 702,319           |
| Retail Trade                            | 1,495,711         | 1,496,821         | 1,522,619         | 1,553,812         | 1,587,467         |
| Transportation and Warehousing          | 396,512           | 397,932           | 404,582           | 415,488           | 433,112           |
| Information                             | 436,865           | 429,065           | 425,193           | 426,056           | 445,121           |
| Finance and Insurance                   | 528,813           | 509,852           | 512,160           | 522,529           | 520,579           |
| Real Estate and Rental and Leasing      | 250,908           | 248,452           | 247,476           | 253,154           | 260,584           |
| Services                                | 5,947,240         | 6,063,638         | 6,216,242         | 6,519,084         | 6,809,757         |
| Nonclassifiable Establishment           | 72,563            | 44,336            | 58,663            | 59,443            | 36,808            |
| Federal, State and Local Government     | 2,352,014         | 2,302,160         | 2,276,153         | 2,260,320         | 2,276,164         |
| <b>Total for All Industries</b>         | <b>14,498,327</b> | <b>14,475,411</b> | <b>14,697,321</b> | <b>15,113,718</b> | <b>15,543,166</b> |

**CALIFORNIA STATE LOTTERY**  
**California Industry Number of Employees by Size Category**  
**2014 - 2018**

|   | 2014              | 2015              | 2016              | 2017              | 2018              |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Agriculture, Forestry, Fishing, Hunting | 467,923           | 471,566           | 474,766           | 473,554           | 410,315           |
| Mining                                  | 29,142            | 25,668            | 21,218            | 20,130            | 20,614            |
| Utilities                               | 57,829            | 57,577            | 58,008            | 57,766            | 56,068            |
| Construction                            | 691,811           | 748,872           | 789,841           | 830,446           | 877,644           |
| Manufacturing                           | 1,283,779         | 1,303,651         | 1,304,915         | 1,318,709         | 1,324,696         |
| Wholesale Trade                         | 713,642           | 719,576           | 718,853           | 723,984           | 705,541           |
| Retail Trade                            | 1,615,557         | 1,645,332         | 1,654,247         | 1,670,450         | 1,728,821         |
| Transportation and Warehousing          | 455,070           | 488,428           | 517,790           | 553,571           | 619,572           |
| Information                             | 459,781           | 486,838           | 517,275           | 526,390           | 550,261           |
| Finance and Insurance                   | 514,826           | 523,933           | 540,844           | 544,423           | 540,296           |
| Real Estate and Rental and Leasing      | 265,335           | 271,617           | 278,001           | 285,957           | 299,221           |
| Services                                | 7,056,066         | 7,247,138         | 7,442,898         | 7,630,490         | 7,969,114         |
| Nonclassifiable Establishment           | 63,478            | 102,851           | 119,680           | 82,201            | 1,807             |
| Federal, State and Local Government     | 2,317,813         | 2,388,336         | 2,434,565         | 2,346,343         | 2,520,424         |
| <b>Total for All Industries</b>         | <b>15,992,052</b> | <b>16,481,383</b> | <b>16,872,901</b> | <b>17,064,414</b> | <b>17,624,394</b> |

Source: California Employment Development Department

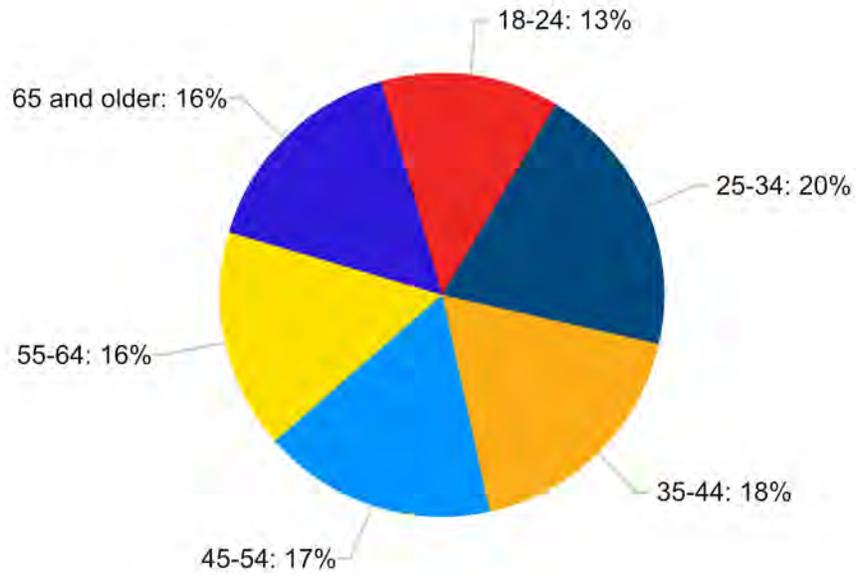
Note: Businesses are designated as "Nonclassifiable Establishments" when there is insufficient information to determine the appropriate industry classification.

Definitions of Terms and Source Notes: [www.labormarketinfo.edd.ca.gov](http://www.labormarketinfo.edd.ca.gov)

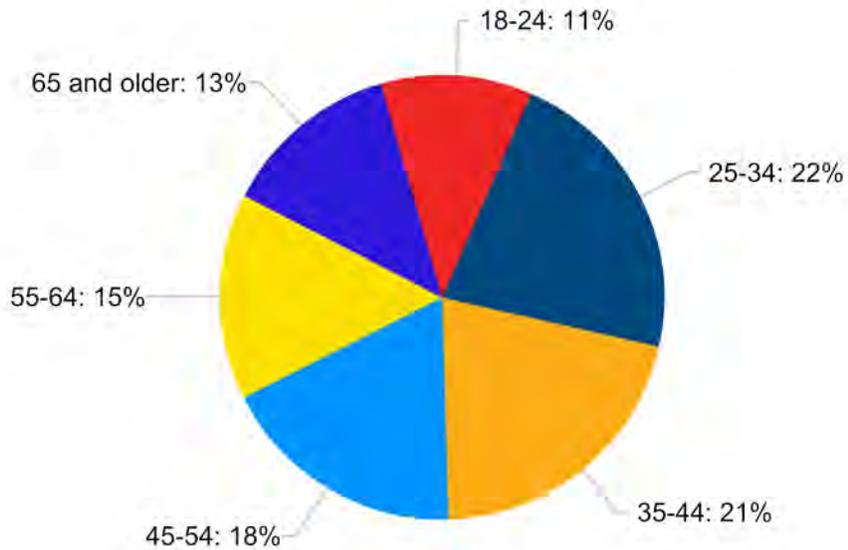
The industry data provided are intended to provide similar alternative information regarding the concentration of employment in various sectors of the California economy. Due to confidentiality issues, the names of the top individual employers are not available.

**CALIFORNIA STATE LOTTERY**  
**California Demographics for Population and Players**

**Age of Adult Population**



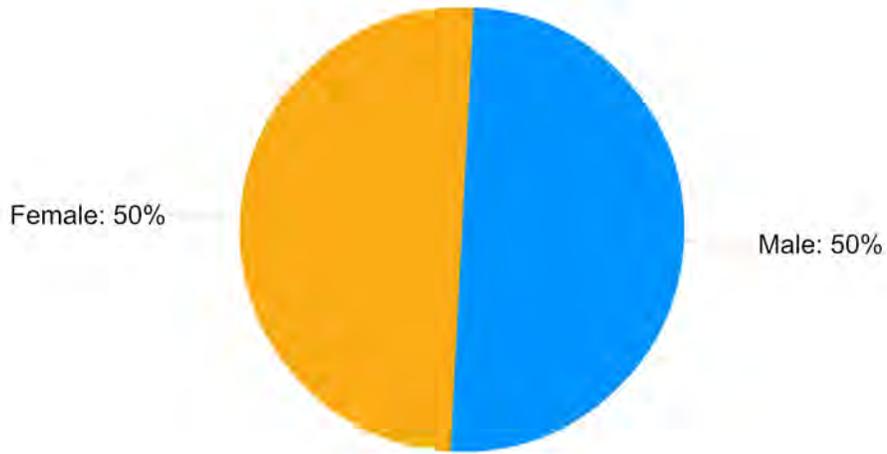
**Age of Lottery Players**



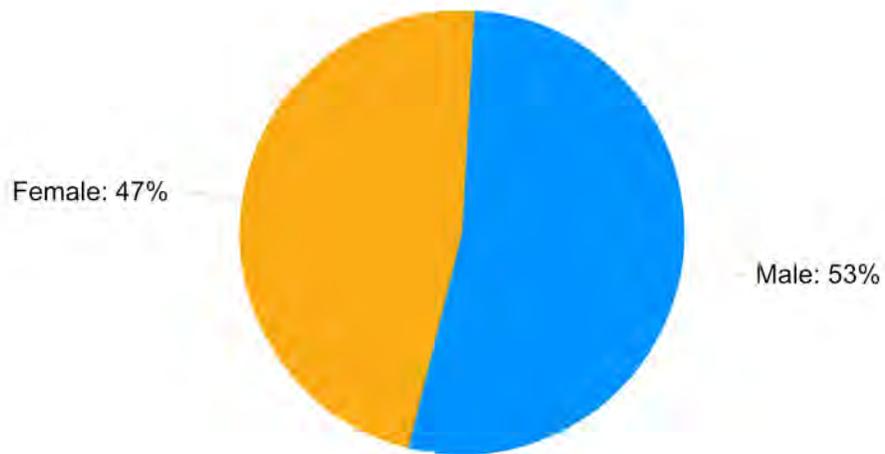
Note: All data are from the Continuous Tracking Study commissioned by the Lottery and provided by an external vendor for fiscal year 2018-19. Percentages based on only those responding. Some displays may not add to 100% due to rounding.

**CALIFORNIA STATE LOTTERY**  
**California Demographics for Population and Players**

**Gender of Adult Population**



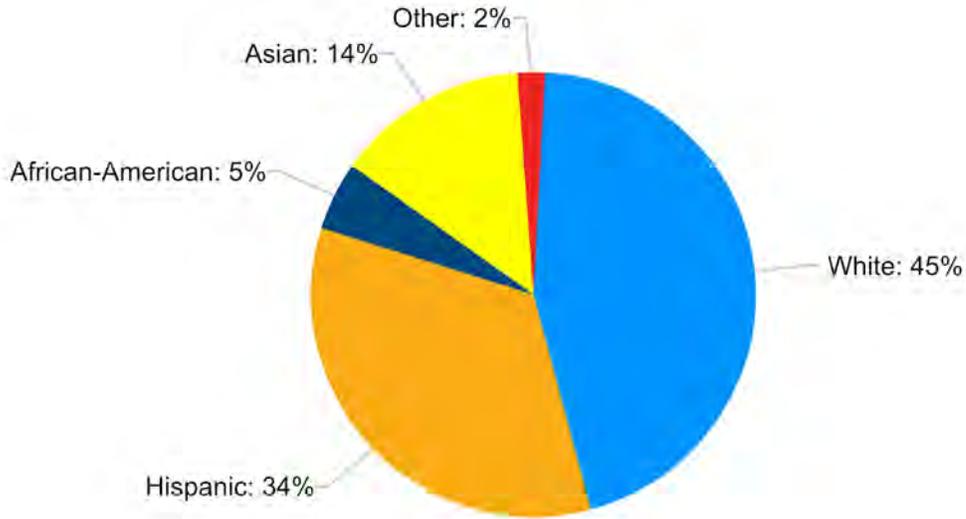
**Gender of Lottery Players**



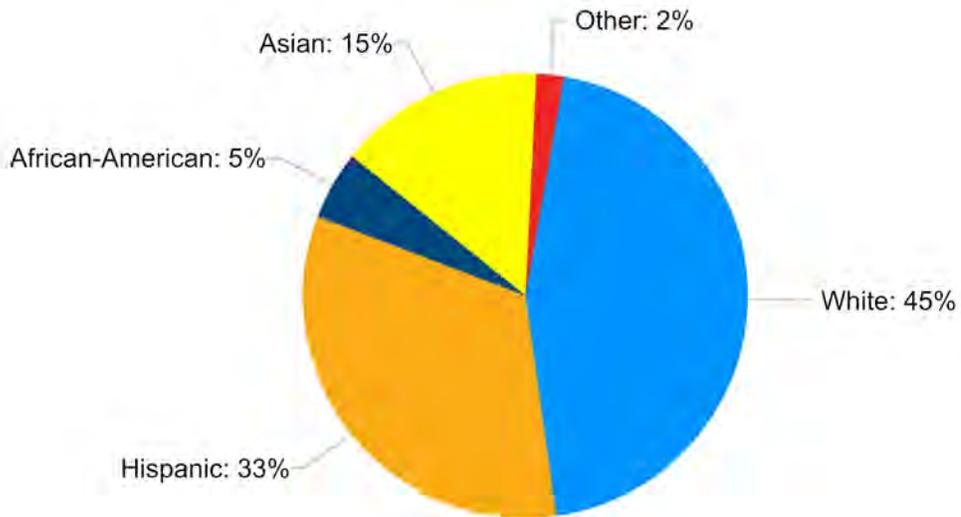
Note: All data are from the Continuous Tracking Study commissioned by the Lottery and provided by an external vendor for fiscal year 2018-19. Percentages based on only those responding. Some displays may not add to 100% due to rounding.

**CALIFORNIA STATE LOTTERY**  
**California Demographics for Population and Players**

**Ethnicity of Adult Population**



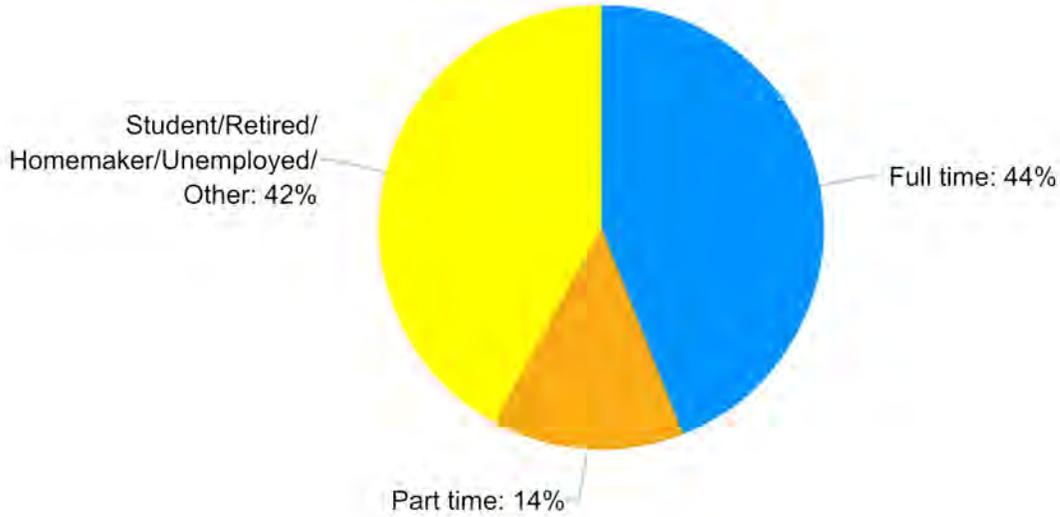
**Ethnicity of Lottery Players**



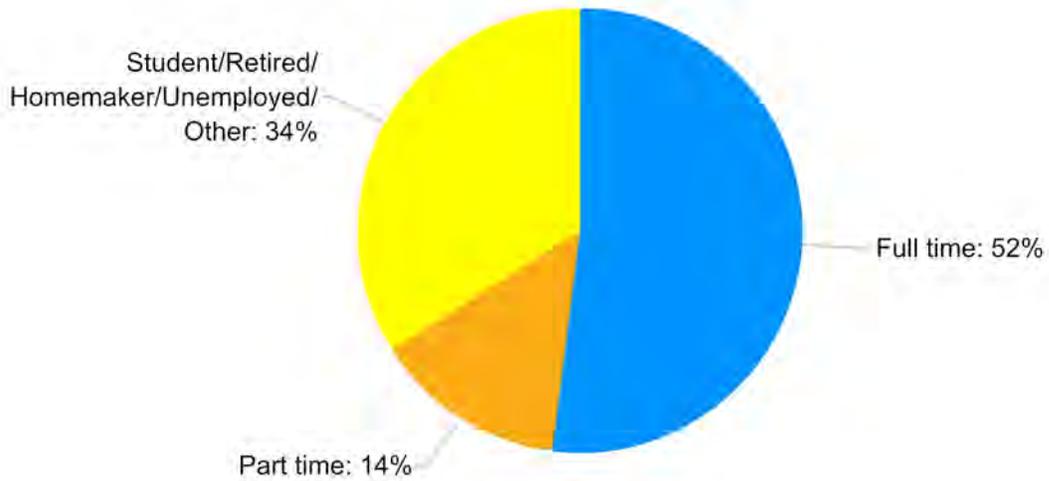
Note: All data are from the Continuous Tracking Study commissioned by the Lottery and provided by an external vendor for fiscal year 2018-19. Percentages based on only those responding. Some displays may not add to 100% due to rounding.

**CALIFORNIA STATE LOTTERY**  
**California Demographics for Population and Players**

**Employment Status of Adult Population**



**Employment Status of Lottery Players**



Note: All data are from the Continuous Tracking Study commissioned by the Lottery and provided by an external vendor for fiscal year 2018-19. Percentages based on only those responding. Some displays may not add to 100% due to rounding.

**CALIFORNIA STATE LOTTERY**  
**California Demographics for Population and Players**

**Household Income of Adult Population**



**Household Income of Lottery Players**



Note: All data are from the Continuous Tracking Study commissioned by the Lottery and provided by an external vendor for fiscal year 2018-19. Percentages based on only those responding. Some displays may not add to 100% due to rounding.



**U.S. Lottery Data For Fiscal Year 2018**  
**Excludes Video Lottery Terminal (VLT) sales**  
**(in millions)**

|                                   | Population | Sales   | Prizes  | Profit  | Sales/Capita |
|-----------------------------------|------------|---------|---------|---------|--------------|
| Arizona                           | 6.9        | \$981.4 | \$580.4 | \$210.0 | \$142        |
| Arkansas                          | 3.0        | 499.7   | 341.9   | —       | 167          |
| California <sup>++</sup>          | 39.3       | 6,965.8 | 4,476.6 | 1,700.9 | 178          |
| Colorado                          | 5.5        | 612.0   | 383.5   | 140.7   | 110          |
| Connecticut                       | 3.6        | 1,267.6 | 792.6   | 350.0   | 354          |
| Delaware <sup>2,3</sup>           | 1.0        | 231.6   | 138.4   | 254.5   | 243          |
| District of Columbia <sup>4</sup> | 0.7        | 212.1   | —       | —       | 311          |
| Florida                           | 20.6       | 6,700.8 | 4,844.8 | 1,757.6 | 325          |
| Georgia                           | 10.3       | 4,597.8 | 2,768.7 | 1,143.5 | 446          |
| Idaho                             | 1.7        | 265.1   | 176.1   | 53.8    | 158          |
| Illinois                          | 12.8       | 2,928.4 | 1,913.5 | —       | 229          |
| Indiana                           | 6.6        | 1,270.1 | 797.3   | 306.1   | 191          |
| Iowa                              | 3.1        | 371.0   | 227.2   | 87.1    | 118          |
| Kansas                            | 2.9        | 284.3   | 157.9   | 74.8    | 98           |
| Kentucky                          | 4.4        | 1,042.5 | 657.4   | 266.4   | 235          |
| Louisiana                         | 4.7        | 491.0   | 263.6   | 172.0   | 105          |
| Maine                             | 1.3        | 288.9   | 192.5   | 63.0    | 217          |
| Maryland <sup>2,3</sup>           | 6.0        | 2,033.7 | 1,246.8 | 1,252.3 | 338          |
| Massachusetts                     | 6.8        | 5,340.4 | 3,891.0 | 986.0   | 784          |
| Michigan <sup>1,4</sup>           | 9.9        | 3,543.7 | 2,174.1 | 937.8   | 357          |
| Minnesota                         | 5.5        | 596.5   | 370.6   | 145.1   | 108          |
| Missouri                          | 6.1        | 1,314.5 | 906.2   | 306.1   | 216          |
| Montana                           | 1.0        | 57.2    | 32.6    | 10.7    | 55           |
| Nebraska                          | 1.9        | 183.4   | 106.6   | 45.3    | 96           |
| New Hampshire                     | 1.3        | 330.9   | 211.7   | 87.5    | 248          |
| New Jersey                        | 8.9        | 3,299.5 | —       | —       | 369          |
| New Mexico                        | 2.1        | 134.0   | 73.1    | 40.2    | 64           |
| New York <sup>2,3,4</sup>         | 19.7       | 7,938.8 | 4,815.9 | 3,371.9 | 402          |
| North Carolina                    | 10.1       | 2,605.3 | 1,647.8 | 655.1   | 257          |
| North Dakota                      | 0.8        | 31.3    | —       | —       | 41           |
| Ohio <sup>2,3</sup>               | 11.6       | 3,160.1 | 1,998.7 | 1,087.7 | 272          |
| Oklahoma                          | 3.9        | 221.1   | 126.6   | 63.2    | 56           |
| Oregon <sup>2,3</sup>             | 4.1        | 368.4   | 227.4   | 726.1   | 90           |
| Pennsylvania                      | 12.8       | 4,200.6 | 2,733.8 | 1,093.6 | 329          |
| Rhode Island <sup>2,3</sup>       | 1.1        | 258.4   | 162.1   | 365.0   | 245          |
| South Carolina                    | 5.0        | 1,750.2 | 1,149.8 | 437.9   | 353          |
| South Dakota <sup>2,3</sup>       | 0.9        | 58.1    | 33.5    | 124.0   | 67           |
| Tennessee                         | —          | —       | —       | 421.7   | —            |
| Texas <sup>1,4</sup>              | 27.9       | 5,613.3 | 3,722.6 | 1,438.1 | 201          |
| Vermont                           | 0.6        | 132.4   | 87.4    | 27.1    | 212          |
| Virginia                          | 8.4        | 2,139.8 | 1,307.7 | 606.2   | 254          |
| Washington                        | 7.3        | 733.9   | 460.5   | 182.7   | 101          |
| West Virginia <sup>2,3</sup>      | 1.8        | 177.0   | 106.5   | 477.1   | 97           |
| Wisconsin                         | 5.8        | 667.4   | —       | —       | 115          |
| Wyoming                           | 0.6        | 28.8    | 14.8    | 4.7     | 49           |

2018 data source: La Fleur's Magazine September/October 2018

(1) Estimated Sales

(2) Doesn't include VLT prizes

(3) Includes lottery and VLT profit

(4) Fiscal year ends June 30 except New York (March 31), Texas (August 31), District of Columbia and Michigan (Sept. 30)

++ Audited figures with the exception of population/sales per capita

**U.S. Lottery Data For Fiscal Year 2019**  
**Excludes Video Lottery Terminal (VLT) sales**  
**(in millions)**

|                                   | Population | Sales     | Prizes  | Profit  | Sales/Capita |
|-----------------------------------|------------|-----------|---------|---------|--------------|
| Arizona                           | 7.2        | \$1,073.0 | \$ —    | \$ —    | \$150        |
| Arkansas                          | 3.0        | 515.5     | 349.9   | 98.4    | 171          |
| California**                      | 39.6       | 7,388.1   | 4,715.6 | 1,870.7 | 187          |
| Colorado                          | 5.7        | 679.8     | 416.9   | 166.5   | 119          |
| Connecticut                       | 3.6        | 1,333.9   | 822.8   | 370.0   | 373          |
| Delaware <sup>2,3</sup>           | 1.0        | 354.7     | —       | —       | 367          |
| District of Columbia <sup>4</sup> | 0.7        | 213.3     | 121.6   | 92.3    | 304          |
| Florida                           | 21.3       | 7,151.2   | 4,628.7 | 1,917.2 | 336          |
| Georgia                           | 10.5       | 4,776.0   | 2,876.4 | 1,207.4 | 454          |
| Idaho                             | 1.8        | 287.9     | 190.0   | 60.0    | 164          |
| Illinois                          | 12.7       | 2,977.6   | 1,907.2 | —       | 234          |
| Indiana                           | 6.7        | 1,347.8   | 860.0   | —       | 201          |
| Iowa                              | 3.2        | 390.9     | 241.8   | 92.8    | 124          |
| Kansas                            | 2.9        | 308.2     | 172.7   | 74.9    | 106          |
| Kentucky                          | 4.5        | 1,129.7   | 724.8   | 283.6   | 253          |
| Louisiana                         | 4.7        | 524.0     | 285.3   | 184.3   | 112          |
| Maine                             | 1.3        | 299.5     | 196.8   | 62.7    | 224          |
| Maryland <sup>2,3</sup>           | 6.0        | 2,187.3   | 1,362.2 | 1,305.3 | 362          |
| Massachusetts                     | 6.9        | 5,480.1   | 3,987.0 | 1,092.0 | 794          |
| Michigan <sup>1,4</sup>           | 10.0       | 3,830.8   | 2,381.1 | 991.3   | 383          |
| Minnesota                         | 5.6        | 636.8     | 395.6   | 153.2   | 113          |
| Missouri                          | 6.1        | 1,352.6   | 982.8   | 346.7   | 221          |
| Montana                           | 1.1        | 61.3      | 34.5    | 12.2    | 58           |
| Nebraska                          | 1.9        | 192.0     | 112.5   | 46.6    | 100          |
| New Hampshire                     | 1.4        | 375.9     | 241.5   | 103.3   | 277          |
| New Jersey                        | 8.9        | 3,479.1   | —       | —       | 391          |
| New Mexico                        | 2.1        | 143.6     | 77.0    | 43.1    | 69           |
| New York <sup>2,3,4</sup>         | 19.5       | 8,227.6   | 4,919.6 | 3,474.0 | 421          |
| North Carolina                    | 10.4       | 2,859.6   | 1,845.3 | 692.5   | 275          |
| North Dakota                      | 0.8        | 35.4      | 17.9    | —       | 47           |
| Ohio <sup>2,3</sup>               | 11.7       | 3,360.8   | 2,139.8 | 1,153.9 | 288          |
| Oklahoma                          | 3.9        | 241.7     | 141.5   | 67.4    | 61           |
| Oregon <sup>2,3</sup>             | 4.2        | 380.1     | 235.1   | 730.1   | 91           |
| Pennsylvania                      | 12.8       | 4,503.3   | 2,927.1 | 1,143.2 | 352          |
| Rhode Island <sup>2,3</sup>       | 1.1        | 263.3     | 165.3   | 397.3   | 249          |
| South Carolina                    | 5.1        | 1,980.9   | 1,312.1 | 488.6   | 390          |
| South Dakota <sup>2,3</sup>       | 0.9        | 63.1      | 35.5    | 129.0   | 72           |
| Tennessee                         | 6.8        | —         | —       | —       | —            |
| Texas <sup>1,4</sup>              | 28.7       | 6,247.2   | 4,130.4 | 1,622.2 | 218          |
| Vermont                           | 0.6        | 139.3     | 90.7    | 29.5    | 223          |
| Virginia                          | 8.5        | 2,293.6   | 1,401.7 | 649.7   | 269          |
| Washington                        | 7.5        | 803.3     | —       | —       | 107          |
| West Virginia <sup>2,3</sup>      | 1.8        | 201.3     | 119.2   | 461.3   | 111          |
| Wisconsin                         | 5.8        | 713.1     | —       | —       | 123          |
| Wyoming                           | 0.6        | 37.6      | 14.3    | 6.6     | 65           |

2019 data source: La Fleur's Magazine September/October 2019

**CALIFORNIA STATE LOTTERY**  
**Number of Employees**  
**Last Ten Fiscal Years**

|                                       | 2010       | 2011       | 2012       | 2013       | 2014       | 2015       | 2016       | 2017       | 2018       | 2019       |
|---------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Executive <sup>2</sup>                | 42         | 42         | 41         | 37         | 44         | 43         | 44         | 40         | 41         | 49         |
| Finance                               | 70         | 70         | 68         | 76         | 77         | 78         | 80         | 82         | 83         | 88         |
| Human Resources                       | 24         | 24         | 26         | 27         | 27         | 28         | 27         | 29         | 29         | 31         |
| Operations <sup>1</sup>               | 40         | 40         | 64         | 82         | 77         | 77         | 88         | 42         | 43         | 43         |
| Corporate Communications <sup>2</sup> | 8          | 8          | 16         | 21         | 23         | 24         | 24         | 25         | 24         | —          |
| Security & Law Enforcement            | 49         | 49         | 50         | 57         | 59         | 59         | 58         | 65         | 64         | 66         |
| Information Technology Services       | 88         | 88         | 77         | 85         | 87         | 95         | 101        | 110        | 112        | 112        |
| Sales & Marketing <sup>1, 2</sup>     | 323        | 323        | 302        | 374        | 397        | 399        | 399        | 448        | 448        | 470        |
| <b>Total</b>                          | <b>644</b> | <b>644</b> | <b>644</b> | <b>759</b> | <b>791</b> | <b>803</b> | <b>821</b> | <b>841</b> | <b>844</b> | <b>859</b> |

Source: California State Lottery, Annual Administrative Support Budget for each relevant year  
Note: Staffing levels are based on Lottery Commission approval as of that year.

(1) In fiscal year 2016-17, the Lottery underwent a reorganization. The warehouse staff were redirected from the Operations Division to the Sales & Marketing Division.

(2) In fiscal year 2018-19, the Lottery underwent a reorganization. The Corporate Communications staff were redirected to the Executive Division and the Sales & Marketing Division.

**CALIFORNIA STATE LOTTERY**  
**Information About Operating Indicators**

Per the California Lottery's stated mission, the top priority continues to be the maximization of supplemental funds for California's public schools - the Lottery's one and only beneficiary. For the first time in the Lottery's 34-year history, total sales surpassed the \$7 billion mark. For FY 2018-19, the California Lottery reported sales of \$7.39 billion.

This record-setting figure helped the Lottery transfer the most supplemental funding it ever has to California public schools: \$1.87 billion. It marks the 19th consecutive year that the Lottery has provided more than \$1 billion to California's K-12 schools, community colleges, California State University and University of California campuses and several specialized schools.

While this supplemental funding is a modest amount of money (considering it's divided among more than 1,100 school districts throughout the Golden State), there's no question these are dollars that schools depend on and deeply appreciate.

During FY 2018-19, the California Lottery unveiled its FY 2019-20 business plan. Every year, the ultimate goals are the same - increase sales in a responsible manner to earn more supplemental funding for public schools; and work hard to become the largest Lottery in the country (based on sales).

In support of these goals, Lottery staff has developed four objectives for the upcoming fiscal year. They include:

- Grow sales of all jackpot games and Hot Spot.
- Continue moderate growth of Scratchers sales, with emphasis on the more profitable, lower price points.
- Improve the customer experience for players, retailers, and internal customers.
- Elevate perceptions about the Lottery to grow player base.

Strategies to achieve these objectives include concentrating on increasing sales of our most profitable products; engaging existing players and attracting new players; expanding and modernizing services for retailers and players; increasing our retailer network; and, continuing our focus on responsible gaming.

As we look to the future, there is continuing confidence that the Lottery's solid business plan will continue to propel one of the largest revenue-generating California state agencies forward to new heights. Not only will these four key pillars help deliver robust sales and funding for education in the upcoming fiscal year, perhaps more importantly, they build toward future growth down the road.

**CALIFORNIA STATE LOTTERY**  
**Capital Assets, Net**  
**Last Ten Fiscal Years**

|                                | <b>2010</b>       | <b>2011</b>       | <b>2012</b>       | <b>2013</b>       |
|--------------------------------|-------------------|-------------------|-------------------|-------------------|
| Land                           | 6,469,219         | 6,469,219         | 6,469,219         | 6,469,219         |
| Gaming Terminals               | 6,365,357         | 3,916,645         | 1,194,188         | 552,231           |
| Vending Machines               | 857,039           | —                 | —                 | —                 |
| Buildings                      | 23,252,649        | 64,304,922        | 65,854,751        | 66,022,549        |
| Data processing equipment      | 348,351           | 4,487,258         | 6,063,025         | 4,992,339         |
| Office furniture and equipment | 1,508,253         | 4,625,176         | 3,871,154         | 3,086,077         |
| Leasehold improvements         | 323,349           | 243,730           | 182,166           | 105,772           |
| Other                          | 3,387,109         | 2,458,651         | 1,549,479         | 1,023,312         |
| <b>Total capital assets</b>    | <b>42,511,326</b> | <b>86,505,601</b> | <b>85,183,982</b> | <b>82,251,499</b> |

**CALIFORNIA STATE LOTTERY**  
**Contributions to Education**  
**Last Ten Fiscal Years**

|   | <b>2010</b>          | <b>2011</b>          | <b>2012</b>          | <b>2013</b>          |
|---|----------------------|----------------------|----------------------|----------------------|
| Allocations to Education Fund           | 1,072,496,752        | 1,102,860,768        | 1,300,240,379        | 1,262,058,020        |
| Unclaimed prizes                        | 17,250,466           | 25,690,477           | 20,486,176           | 22,312,759           |
| <b>Total Contributions to Education</b> | <b>1,089,747,218</b> | <b>1,128,551,245</b> | <b>1,320,726,555</b> | <b>1,284,370,779</b> |

**CALIFORNIA STATE LOTTERY**  
**Capital Assets, Net**  
**Last Ten Fiscal Years**

| <b>2014</b>       | <b>2015</b>        | <b>2016</b>        | <b>2017</b>        | <b>2018</b>        | <b>2019</b>        |
|-------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| 6,469,219         | 9,743,325          | 11,577,348         | 15,893,968         | 18,798,281         | 18,798,281         |
| 193,002           | 14,504,545         | 29,726,121         | 32,743,102         | 28,709,712         | 21,347,423         |
| 15,286,994        | 25,905,293         | 36,245,295         | 41,240,019         | 42,691,156         | 36,443,593         |
| 64,235,581        | 70,189,200         | 78,818,382         | 90,566,226         | 100,553,839        | 124,353,366        |
| 4,260,428         | 4,125,357          | 2,850,624          | 1,046,034          | 1,683,868          | 3,647,573          |
| 2,256,668         | 1,482,826          | 606,197            | 610,104            | 666,223            | 725,378            |
| 29,378            | 5,318              | 2,939              | 1,299              | 186                | —                  |
| 2,598,923         | 3,629,632          | 4,089,265          | 3,608,714          | 4,203,034          | 3,656,206          |
| <b>95,330,193</b> | <b>129,585,496</b> | <b>163,916,171</b> | <b>185,709,466</b> | <b>197,306,299</b> | <b>208,971,820</b> |

**CALIFORNIA STATE LOTTERY**  
**Contributions to Education**  
**Last Ten Fiscal Years**

| <b>2014</b>          | <b>2015</b>          | <b>2016</b>          | <b>2017</b>          | <b>2018</b>          | <b>2019</b>          |
|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| 1,327,928,392        | 1,364,542,013        | 1,563,149,876        | 1,499,004,485        | 1,664,887,295        | 1,825,224,100        |
| 21,672,671           | 27,177,013           | 24,266,723           | 46,520,996           | 36,049,311           | 45,523,184           |
| <b>1,349,601,063</b> | <b>1,391,719,026</b> | <b>1,587,416,599</b> | <b>1,545,525,481</b> | <b>1,700,936,606</b> | <b>1,870,747,284</b> |

## 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.