California Lottery Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2009

Committed to enhancing education and supporting local communities.

California Lottery is an Enterprise Fund of the State of California.

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2009

California State Lottery
An Enterprise Fund of the State of California

Committed to enhancing education and supporting local communities

Prepared by the
Finance Division of the
California State Lottery

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California State Lottery
Comprehensive Annual Financial Report
For the Fiscal Year Ended
June 30, 2009

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Introductory Section

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600 North Tenth Street
Sacramento, CA 95811
calottery.com

December 31, 2009

The California State Lottery (Lottery) is pleased to provide this Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2009. The Finance Division of the Lottery prepared this CAFR to present an overview of the California State Lottery. 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, 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 report.

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, 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% of the voters. The Lottery was established as an independent state agency to market and sell lottery products to the California public. By law, the Lottery is required to return, as nearly as practical, 50% of revenues to the public in the form of prizes, at least 34% to public education and allocate no more than 16% for administrative costs. The Lottery Act specifies that the Lottery is operated and administered by a five-member Commission appointed by the Governor. A Director, who is appointed by the Governor, serves as the chief administrator of the Lottery. 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.

Lottery ticket sales began on October 3, 1985, with the sale of the first Scratchers® 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®. Daily draw games were introduced in March 1990. The Lottery currently offers seven draw games. Players have 180 days from the date of the drawing to claim prizes, except for Mega Millions jackpot prize which is one year. Retailers pay prizes up to $599 while prizes over $599 are paid directly by the Lottery. A brief description of each game is provided below.

Scratchers® – Scratchers are instant ticket games that are played by scratching the latex covering off a play area and learning "instantly" whether the ticket is a winner. There are different ways to win a Scratchers game, such as matching two or three like symbols, your score beats their score, or your symbol matches a key symbol. The Lottery started Scratchers game sales in October 1985 with a $1 game. Multiple Scratchers games were first offered at retailer locations in October 1991. The Lottery's first Scratchers game that retailed for more than $1 went on sale in October 1993.

SuperLOTTO Plus® – Players select five lotto 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 lotto numbers plus the mega number. Jackpot prizes start at $7 million and have reached more than $190 million. The lowest prize is $1 for matching just the mega number. Winning numbers are drawn every Wednesday and Saturday at 7:57 p.m. PST.

MEGA Millions® – Players select five lotto numbers from a field of 1 through 56 and one mega number from a field of 1 through 46. There are nine prize categories in this game. To win the jackpot, players must match all five lotto numbers plus the mega number. Jackpot prizes start at $12 million and have reached as high as $390 million. Winning numbers are drawn every Tuesday and Friday at 8:00 p.m. PST. MEGA Millions is the largest multi-state lottery game in North America.

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 five different "spots," including two, three, four, five, or eight spots. For example, a player who chooses to play a "three spot" would pick a set of three numbers. There are a total of 14 prize categories in this game. Draws are conducted daily every four minutes with the first draw at 6:04 a.m. and last draw at 2:00 a.m. Twenty numbers are selected for each draw. Draw results are "broadcast" by the gaming system to more than 5,300[1] monitors located in retail locations statewide.

(1) The number of monitors at retail locations constantly changes.

Daily 3 – This daily game was designed to provide very good odds of winning smaller prizes. Players select a set of three numbers from 0 through 9, as well as a play/style where players try to match the three numbers drawn in the exact order or in any other order. Based on the selected play/style (straight, box, or straight/box), there are many ways to win a prize. The top prizes average over $500. Winning numbers are drawn twice a day.

Daily 4 – This daily game was designed to offer a similar playstyle as Daily 3, but with larger prizes. Players select a set of four numbers from 0 through 9, as well as a play style where players try to match whether the three numbers drawn will be in the exact order or in any other order. Based on the selected play/style (straight, box, or straight/box), there are many ways to win a prize. The top prizes average over $5,000. Winning numbers are drawn once a day.

Fantasy 5 – This daily lotto-style game was designed with better odds than Super LOTTO 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 $50,000 and have reached more than $700,000 for matching all five numbers.

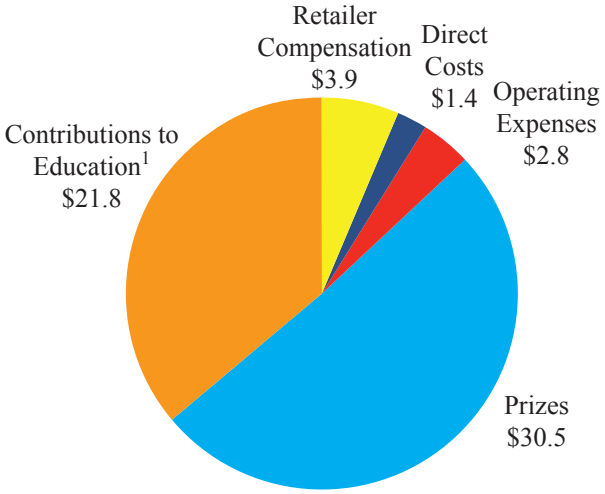
Daily Derby® – This daily game was designed with a horse racing theme, but is not associated with the results of any actual horse race. Players select three "horses" from a field of 12 and a "race time" which is a set of three numbers (e.g. 0, 1, and 9) with each number selected from a field of 0 through 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. The lowest prize is $2 for only matching the 1st place horse.

Raffle - Players may win prizes by matching their raffle numbers to the numbers drawn by the Lottery. Raffle games are offered for a limited time and the prize structure for each Raffle game may vary. The top prize for raffle games offered to date has been $1 million.

From its inception in 1985 through June 30, 2009, the Lottery has generated approximately $59.3 billion in sales and contributed nearly $21.8 billion to schools. The retailers who sell lottery tickets have received almost $3.9 billion in compensation. Approximately $30.5 billion has been won by lucky Lottery winners.

Additionally, by saving money on operations, the Lottery has given more money to schools than the required 34 percent of sales revenues. Since October 1985, the Lottery has contributed an additional $557 million to education through operational savings.

Distribution of Revenues
(in billions)
October 3, 1985 - June 30, 2009



(1) Includes interest income, unclaimed prizes, and other income of approximately $1 .1 billion.

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 a cash basis and a 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 to 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 entities 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 California Lottery.

Draw verification: An independent CPA firm witnesses the draws of Lottery games (except for computer automated drawings of Hot Spot®), and inspects any equipment used in such draws. An independent CPA firm and a Lottery security employee attend and witness each MEGA Millions® draw, regardless of draw location.

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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 audit 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

The Lottery has 640 authorized positions at its headquarters located in Sacramento and at nine district offices located in Sacramento, San Francisco, Hayward, Fresno, Van Nuys, Santa Fe Springs, Santa Ana, San Bernardino, and San Diego.

Debt Administration

The Lottery's long-term liabilities include payments owed to winners of Lotto jackpots and various Scrathers games with annuity prizes. The payments due to winners are funded by amounts invested in zero coupon U. S. Treasury bonds. Since its inception, the Lottery has purchased U.S. Treasury bonds to provide funds for long-term annuity payments to prize winners. However, changes in the financial markets created an opportunity to replace the Lottery's U.S. Treasury bonds with higher yielding high-credit quality instruments that would result in a net increase in proceeds for the Lottery. In 2009, with Commission approval, the Lottery undertook steps to restructure a portion of its investment portfolio with the goal of reducing the cost of investments for long-term annuity prize payments and increasing resources to drive higher sales of Lottery products.

Cash Management

Cash due from approximately 21,242 retailers is collected on a weekly basis through an electronic funds transfer system and deposited into an account within the California State Treasurer's Office. Idle cash is invested in the Surplus Money Investment Fund, and interest earnings are received quarterly. The fund is administered by the Pooled Money Investment Board which is composed of the State Treasurer, the State Controller, and the Director of the Department of Finance.

Risk Management

The Lottery has elected, with a few exceptions, to be self-insured against loss or liability. Losses are accrued when the related liabilities occur. Except for workers' compensation costs initially paid by the State Compensation Insurance Fund for self-insured state agencies, the Lottery has purchased commercial insurance policies for protection from loss on certain assets. Additionally, major or critical contracts for the purchases of goods and services include requirements of vendors to maintain insurance coverage and/or financial security instruments, such as performance bonds or letters of credit.

Major Initiatives

The California State Lottery took big steps toward improving its brand image during fiscal year 2008/2009 by offering exciting new products and promotions and by expanding its vast network of multi-media video monitors that provide players with the latest information about Lottery products. The Lottery also initiated efforts to closely examine its practices and develop a road map for future success by starting the process of writing a new business plan.

The centerpiece of the Lottery's efforts to improve its brand image is an exciting new television program, "Make Me a Millionaire." The new show, which replaced the Big Spin, achieved considerable success in its first six months. Sales of the Scratchers tickets, also called "Make Me a Millionaire," that land lucky players on the show were so strong that they helped lift Scratchers tickets sales across the board. To help generate enthusiasm for the new show and the new Scratchers tickets, the California State Lottery recreated a segment of the show in shopping malls across the state, creating excitement and fun for lucky shoppers.

As part of its effort to create more winners and encourage players to recycle their tickets, the Lottery launched the California Lottery's Replay program that gives customers a second chance to win cash and prizes by going to the California Lottery's Website and registering their non-winning tickets for drawings, music downloads and special prizes like luxury seats at concerts and football games.

In fiscal year, 2008-2009, the Lottery also struck a unique partnership with the California Peace Officers Memorial Foundation on a special Scratchers ticket that helped raise up to $300,000 for the Foundation, which provides assistance and scholarships to the families of slain peace officers throughout the state.

One of the most exciting efforts begun last fiscal year involved an investment in state-of-the-art video monitors. These monitors help keep players informed about the latest Lottery news (including local winners and contributions to local schools). The Lottery solidified its position as an industry leader in this area by beginning the installation of 12,000 new monitors at retailers throughout the state.

Local Economy[1]

Two years into the housing slump, the national and California economies began to face additional headwinds - falling home prices, tight credit conditions, dysfunctional financial markets, and soaring food and energy prices. These headwinds took a toll: The housing downturn worsened. Labor markets weakened. And, at the end of 2007, consumers began to lose confidence in the economy. The struggling housing sector will continue to weigh on the state and national economies.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Lottery for its comprehensive annual financial report for the fiscal year ended June 30, 2008. This was the fifth 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.

(1) Governor's Budget May Revision 2008-09, pages 9 - 14 (1) Governor's Budget May Revision 2008-09, pages 9 - 14

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,

Michael Ota

Michael Ota, Deputy Director
Finance Division

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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, 2008

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

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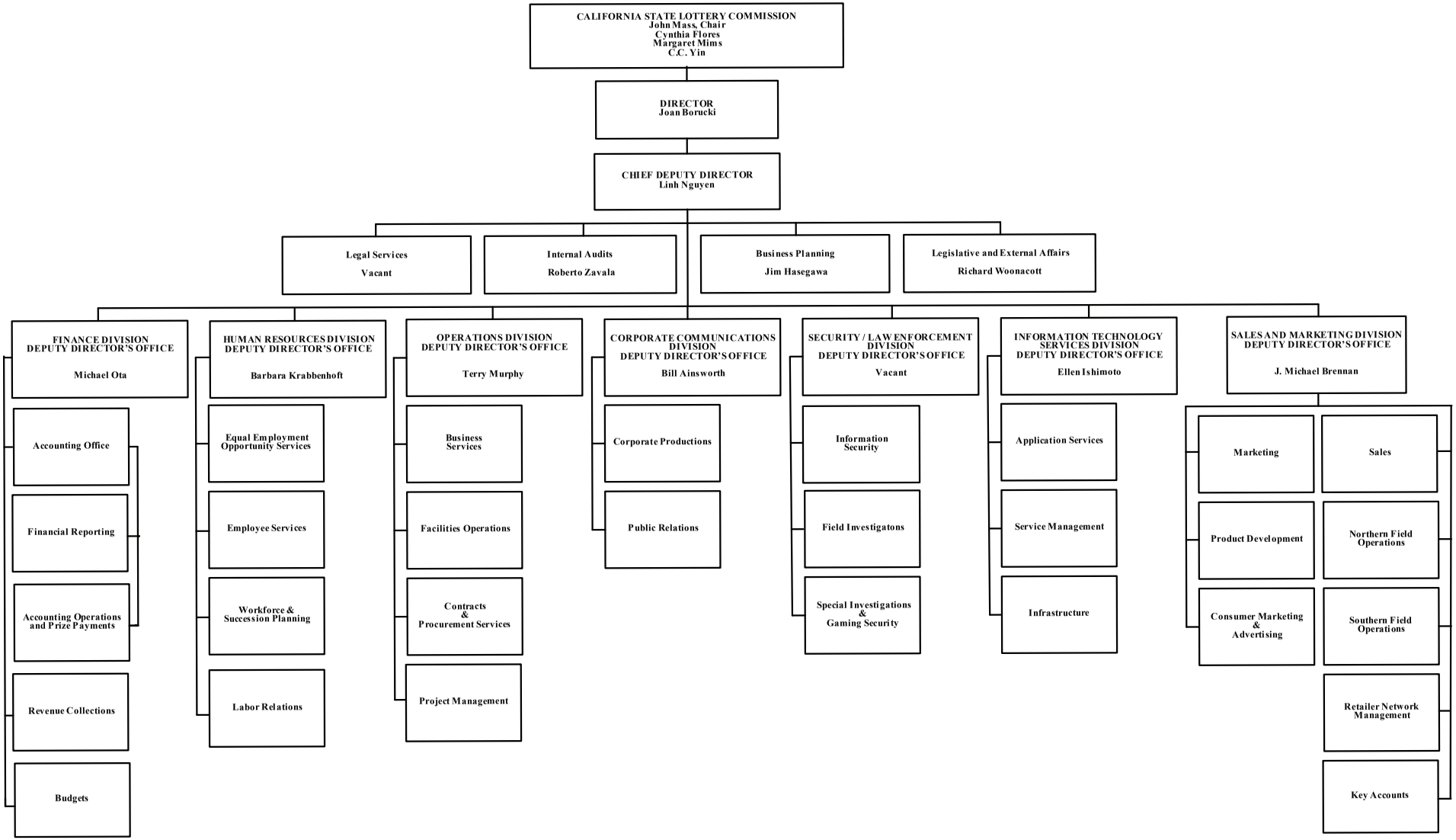
ORGANIZATION CHART WITH PRINCIPAL OFFICIALS



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Financial Section

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KPMG LLP
Suite 800
400 Capitol Mall
Sacramento, CA 95814

Independent Auditors' Report

The California State Lottery Commission
Sacramento, California:

We have audited the accompanying financial statements of the California State Lottery Fund (the Lottery) as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Lottery's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Lottery's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the California State Lottery Fund and do not purport to, and do not, present fairly the financial position of the State of California, as of June 30, 2009, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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, 2009, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 19 through 24 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the California State Lottery Fund's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. 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 express no opinion on them.

KPMG LLP

December 18, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the California State Lottery's financial performance provides an overview of financial activities for the fiscal year ended June 30, 2009. Please read it in conjunction with the California State Lottery Financial Statements that follow this section.

FINANCIAL HIGHLIGHTS

The assets of the Lottery exceeded its liabilities at the close of the most recent fiscal year by $147.0 million, which is attributable primarily to realized and unrealized gains on Lottery investments used to fund future payments due on annuitized lottery prizes.

- With sales for the 2008/2009 fiscal year totaling nearly $3 billion, over $1 billion will be transferred to California's public schools, making this the ninth consecutive year the Lottery transferred more than $1 billion to education. Players and retailers benefited too. The Lottery paid out over $1.5 billion in prizes and $208.1 million in commissions to retailers.

- In January 2009 the Lottery debuted the *Make Me a Millionaire*® TV game show, which proved to be a bright spot in a challenging economy. The show replaces the long-running *Big Spin*® TV show, and features an exciting new format with four different games. Contestants can win prizes such as money and new cars, and one lucky player on each show has a chance to win a rolling jackpot which starts at $1 million. The Make Me a Millionaire *Scratchers*® ticket that lands players on the show proved so popular that it helped increase Scratchers ticket sales to over $1.61 billion, a 4.1 percent increase compared to last year.

- In May 2009 the Lottery launched the *calottery REPLAY*™ program, a feature of the Lottery's Public Web Site (PWS) where players can enter their non-winning Scratchers tickets and get a "2nd Chance to Win." The program offers players extended play with entry into two bonus drawings, and offers the Lottery increased interaction with its players. The Lottery anticipates that providing additional opportunities to win through the calottery REPLAY program will lead to increased sales.

OVERVIEW OF THE FINANCIAL STATEMENTS

These required statements offer short-term and long-term financial information about the California State Lottery. The Statement of Net Assets provides information about the nature and amounts of investments in resources (assets) and obligations (liabilities) 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 Assets. 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 California State Lottery is structured as a single enterprise fund with revenues recognized when earned, not when received.

FINANCIAL ANALYSIS

NET ASSETS

A summary of the California State Lottery's net assets is presented below:

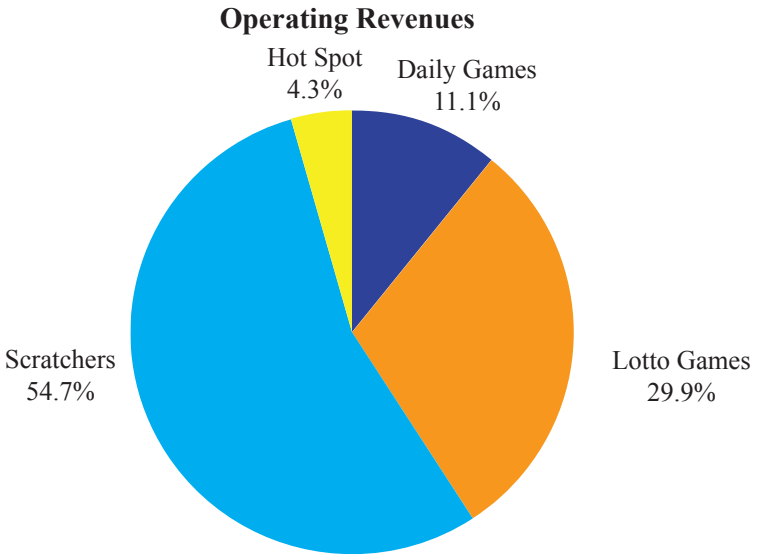
	June 30, 2008	June 30, 2009	Dollar Change	Percent Change
Current and other assets	$ 2,129,347,791	$ 1,993,002,768	$ (136,345,023)	(6.4%)
Capital assets	50,476,492	45,366,173	(5,110,319)	(10.1%)
Total assets	$ 2,179,824,283	$ 2,038,368,941	$ (141,455,342)	(6.5%)
Current liabilities	$ 773,799,257	$ 791,914,833	$ 18,115,576	2.3%
Long-term liability	1,240,941,947	1,099,416,055	(141,525,892)	(11.4%)
Total liabilities	$ 2,014,741,204	$ 1,891,330,888	$ (123,410,316)	(6.1%)
Invested in capital assets	$ 50,476,492	$ 45,366,173	$ (5,110,319)	(10.1%)
Restricted by legislation	165,083,079	147,038,053	(18,045,026)	(10.9%)
Unrestricted (deficit)	(50,476,492)	(45,366,173)	5,110,319	(10.1%)
Total net assets	$ 165,083,079	$ 147,038,053	$ (18,045,026)	(10.9%)

A summary of the California State Lottery's change in net assets is presented below:

	June 30, 2008	June 30, 2009	Dollar Change	Percent Change
Operating revenues – Lottery sales	$ 3,049,620,915	$ 2,954,839,094	$ (94,781,821)	(3.1%)
Prizes	1,619,473,498	1,556,120,634	(63,352,864)	(3.9%)
Sales after prizes	$ 1,430,147,417	$ 1,398,718,460	$ (31,428,957)	(2.2%)
Game costs	266,053,651	259,010,134	(7,043,517)	(2.6%)
Income before operating expenses	$ 1,164,093,766	$ 1,139,708,326	$ (24,385,440)	(2.1%)
Operating expenses	114,191,658	137,180,433	22,988,775	20.1%
Operating income	$ 1,049,902,108	$ 1,002,527,893	$ (47,374,215)	(4.5%)
Non-operating (expenses) revenues	(980,134,429)	(1,020,572,919)	(40,438,490)	4.1%
Change in net assets	$ 69,767,679	$ (18,045,026)	$ (87,812,705)	(125.9%)
Total net assets – beginning of year	95,315,400	165,083,079	69,767,679	73.2%
Total net assets – end of year	$ 165,083,079	$ 147,038,053	$ (18,045,026)	(10.9%)

REVENUES

The following chart shows the major sources and the percentages of operating revenues for the fiscal year ended June 30, 2009:



A summary of total revenues for the fiscal years ended June 30, 2008 and 2009, and the amount and percentage of change in relation to prior year amounts is as follows:

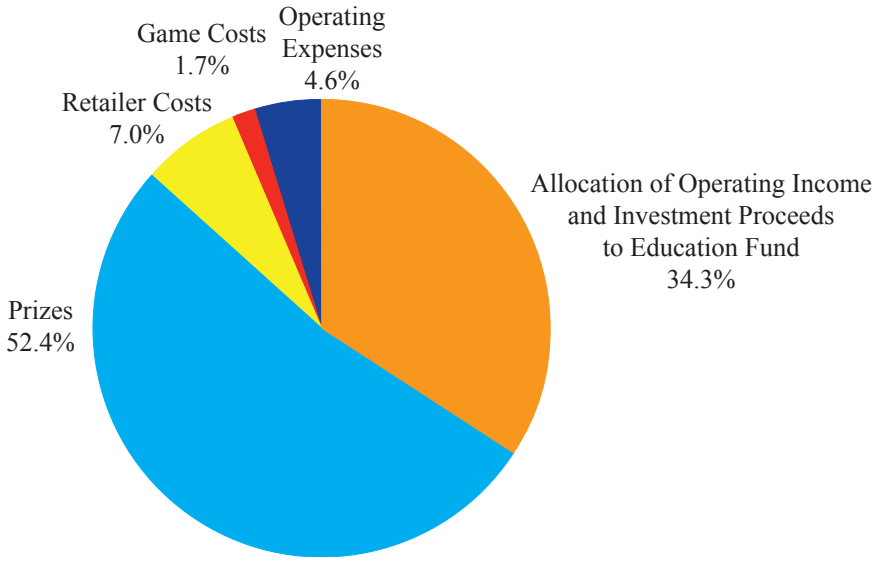
	June 30, 2008	June 30, 2009	Dollar Change	Percent Change
Operating revenues:				
Lotto games	$ 1,022,867,234	$ 883,844,967	$ (139,022,267)	(13.6%)
Scratchers® games	1,551,048,845	1,615,369,207	64,320,362	4.1%
Hot Spot® game	137,582,868	126,361,926	(11,220,942)	(8.2%)
Daily games	329,171,866	329,262,994	91,128	0.0%
Raffle	8,950,102	-	(8,950,102)	(100.0%)
Total operating revenues	$ 3,049,620,915	$ 2,954,839,094	$ (94,781,821)	(3.1%)
Non-operating revenues:				
Unrealized gains (losses) on investments	$ 69,767,679	$ (966,174)	$ (70,733,853)	(101.4%)
Interest on funds held by State Treasurer	18,575,658	8,660,794	(9,914,864)	(53.4%)
Other income	850,326	408,089	(442,237)	(52.0%)
Total non-operating revenues	$ 89,193,663	$ 8,102,709	$ (81,090,954)	(90.9%)
Total revenues	$ 3,138,814,578	$ 2,962,941,803	$ (175,872,775)	(5.6%)

The decrease in operating revenue is primarily attributable to Lotto game sales, although the Hot Spot game also had decreased sales. The economic impact of the recession on California as well as low jackpot levels for the Lotto games contributed to decreased sales. During 2008/2009 there were only three *MEGA Millions*® jackpots that exceeded $200 million, in contrast to five jackpots in the prior fiscal year. The Lottery debuted its new TV show, Make Me a Millionaire, along with a Make Me a Millionaire Scratchers game. The marketing campaign to promote the new game and TV show helped to boost sales across the entire Scratchers product line. Non operating revenue was substantially lower due to a decrease in the fair value of our investments and in SMIF interest received.

EXPENSES

The following chart shows prizes, game costs, operating expenses and allocations as a percentage of operating revenues for the fiscal year ended June 30, 2009:

Prizes, Game Costs, Operating Expenses and Allocations as a Percentage of Operating Revenues and Investment Proceeds



A summary of expenses for the fiscal years ended June 30, 2008 and 2009 , and the amount and percentage change in relation to prior year amounts is as follows:

	June 30, 2008	June 30, 2009	Dollar Change	Percent Change
Prizes:				
Draw game prizes	$ 735,121,224	$ 646,778,087	$ (88,343,137)	(12.0%)
Scratchers game prizes	884,352,274	892,436,016	8,083,742	0.9%
TV Show	-	16,906,531	16,906,531	100.0%
Total prizes	$ 1,619,473,498	$ 1,556,120,634	$ (63,352,864)	(3.9%)
Game costs:				
Retailer costs	$ 213,022,175	$ 208,105,703	$ (4,916,472)	(2.3%)
Draw/Scratchers game costs	53,031,476	50,904,431	(2,127,045)	(4.0%)
Total game costs	$ 266,053,651	$ 259,010,134	$ (7,043,517)	(2.6%)

	June 30, 2008	June 30, 2009	Dollar Change	Percent Change
Operating expenses:				
Salaries, wages, and benefits	$ 48,431,055	$ 49,167,678	$ 736,623	1.5%
Advertising	26,790,304	42,184,700	15,394,396	57.5%
Promotion, public relations, and point of sale	9,035,786	14,064,197	5,028,411	55.6%
Other professional services	7,703,086	7,449,016	(254,070)	(3.3%)
Depreciation and amortization	9,069,714	12,965,067	3,895,353	42.9%
Other general and administrative expenses	13,161,713	11,349,775	(1,811,938)	(13.8%)
Total operating expenses	$ 114,191,658	$ 137,180,433	$ 22,988,775	20.1%
Non-operating expenses:				
Allocations to Education Fund	1,069,328,092	1,027,728,959	(41,599,133)	(3.9%)
Total expenses	$ 3,069,046,899	$ 2,980,040,160	$ (89,006,739)	(2.9%)

The decrease in prize expense, game costs and the allocations to the Education Fund are related to the decrease in the current year's revenues. Prize expense for the new Make Me a Millionaire TV Show was recorded separately, replacing in part some of the Big Spin prize expense which was previously included in Scratchers prize expense. Increases to the advertising and the promotion, public relations and point of sale expenses related to the launch of the new TV show. Radio, television spots, in-store POS, ePOS, ticket messages, monitor messages, mall screens and outdoor billboards were used in the campaign. During the final quarter, additional funds were added to advertising as funds were generated as a result of a restructuring of a portion of the Lottery's investment portfolio. The additional funds supported a $5 Scratcher game and the "Only" advertising campaign which asked, "Isn't any jackpot worth playing for?" The decrease in other professional services reflects a reduction of consultant contracts, which had increased significantly in the prior fiscal year. The increase in depreciation expense was due primarily to writing off part of the current Headquarters building in preparation for construction of a new building.

CAPITAL ASSETS

A summary of capital assets as of June 30, 2008 and 2009, and the amount and percentage of change in relation to prior year amounts is as follows:

	June 30, 2008	June 30, 2009	Dollar Change	Percent Change
Non-depreciable capital assets:				
Land	$ 6,469,219	$ 6,469,219	$ -	0.0%
Depreciable capital assets:				
Gaming equipment	$ 14,340,593	$ 17,618,574	3,277,981	22.9%
Vending machines	34,243,343	34,243,343	-	0.0%
Buildings	31,562,205	33,495,301	1,933,096	6.1%
Data processing equipment	8,964,924	8,958,050	(6,874)	(0.1%)
Office furniture and equipment	7,412,522	8,421,870	1,009,348	13.6%
Leasehold improvements	1,134,372	1,134,372	-	0.0%
Other	6,895,255	6,998,851	103,596	1.5%

	June 30, 2008	June 30, 2009	Dollar Change	Percent Change
Subtotal	$ 104,553,214	$ 110,870,361	6,317,147	6.0%
Less accumulated depreciation	(60,545,941)	(71,973,407)	(11,427,466)	18.9%
Total depreciable capital assets	$ 44,007,273	$ 38,896,954	(5,110,319)	(11.6%)
Capital assets, net	$ 50,476,492	$ 45,366,173	$ (5,110,319)	(10.1%)

The increase in gaming equipment costs is due to the Lottery purchasing equipment for the Make Me a Millionaire TV show. The increase in office furniture and equipment was needed to furnish the new warehouse and district office purchased in the prior fiscal year. The increase in the building account was due to purchases relating to the new district office purchased last year, and to capitalization of the architectural design costs of the new headquarters building which will begin contruction in fiscal year 2009/2010.

LONG - TERM DEBT

At June 30, 2009, the California State Lottery had $1.10 billion in outstanding long-term liability versus $1.24 billion last year, a decrease of 11.30%. Most of the change is attributable to lotto game prize liability as the majority of *SuperLOTTO Plus*® and MEGA Millions® jackpot winners now choose the cash option rather than annuitized payments. In addition, $4.6 million was accrued for the Net OPEB Obligation (NOO) as required by Statement No. 45 of the Governmental Accounting Standards Board, bringing the total accrued OPEB liability to $9.7 million at June 30, 2009. Additional detailed information on long-term prize liability may be found in Note 6 of the accompanying financial statements and additional information on the NOO may be found in Note 10 of the accompanying financial statements.

CONTACTING THE LOTTERY'S FINANCIAL MANAGER

This financial report is designed to provide a general overview of the California State 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 Department, 600 N. 10th Street, Sacramento, CA 95811.

CALIFORNIA STATE LOTTERY FUND
STATEMENT OF NET ASSETS
JUNE 30, 2009

ASSETS

Current assets:	
Cash and cash equivalents (Note 2)	$ 285,742,113
Investments, current portion (Note 2)	245,063,946
Accounts receivable, net of allowances (Note 3)	194,427,041
Due from state funds (Note 4)	2,122,112
Ticket inventories	5,332,020
Other	7,149,061
Total current assets	$ 739,836,293
Non-current assets:	
Investments, less current portion (Note 2)	$ 1,250,386,715
Capital assets, net (Note 5)	45,366,173
Deferred charges, net	2,779,760
Total non-current assets	$ 1,298,532,648
TOTAL ASSETS	$ 2,038,368,941

LIABILITIES

Current liabilities:	
Accounts payable	$ 36,273,706
Current prize liability (Note 6)	474,094,021
Due to state funds (Note 7)	270,967,516
Accrued liabilities	7,456,034
Unearned revenue	3,123,556
Total current liabilities	$ 791,914,833
Non-current liabilities:	
Prize liability, less current portion (Note 6)	$ 1,089,742,055
Other (Note 10)	9,674,000
Total non-current liabilities	$ 1,099,416,055
TOTAL LIABILITIES	$ 1,891,330,888

Commitments and contingencies (Notes 8 and 12)

NET ASSETS

Invested in capital assets	$ 45,366,173
Restricted by legislation (Notes 1 and 2)	147,038,053
Unrestricted deficit	(45,366,173)
TOTAL NET ASSETS	$ 147,038,053

See accompanying notes to the financial statements.

CALIFORNIA STATE LOTTERY FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2009

Operating revenues: Lottery sales	$ 2,954,839,094
Prizes	1,556,120,634
Sales after prizes	$ 1,398,718,460
Less game costs:	
Retailer costs	$ 208,105,703
Draw game costs	33,687,063
Scratchers game costs	17,217,368
Total game costs	$ 259,010,134
Income before operating expenses	$ 1,139,708,326
Operating expenses:	
Salaries, wages, and benefits	$ 49,167,678
Advertising	42,184,700
Promotion, public relations, and point of sale	14,064,197
Other professional services	7,449,016
Depreciation and amortization	12,965,067
Other general and administrative expenses	11,349,775
Total operating expenses	$ 137,180,433
Operating income	$ 1,002,527,893
Non-operating (expenses) revenues:	
Investment earnings (Note 9)	$ 6,747,951
Other income	408,089
Allocation to Education Fund (Note 7)	(1,027,728,959)
Total non-operating (expenses) revenues	$ (1,020,572,919)
Change in net assets	$ (18,045,026)
Total net assets - beginning balance	165,083,079
Total net assets - ending balance	$ 147,038,053

See accompanying notes to the financial statements.

CALIFORNIA STATE LOTTERY FUND
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2009

Cash flows from operating activities:	
Receipts from customers	$ 2,934,523,671
Payments for prizes	(1,857,931,021)
Payments to retailers	(208,109,660)
Payments to suppliers for goods and services	(124,161,499)
Payments to employees	(39,010,567)
Internal activity-payments to state funds	(10,469,628)
Receipts from other states	66,741,577
Other receipts	1,339,027
Net cash flows provided by operating activities	$ 762,921,900
Cash flows from non-capital financing activities:	
Distributions to Education Fund	$ (1,015,585,919)
Net cash flows used in non-capital financing activities	$ (1,015,585,919)
Cash flows from capital and related financing activities:	
Proceeds from disposal of capital assets	$ 104,389
Payments for capital assets	(7,861,855)
Net cash flows used in capital and related financing activities	$ (7,757,466)
Cash flows from investing activities:	
Purchase of securities	$ (677,710,130)
Proceeds from matured securities	283,946,000
Proceeds from sale of securities	659,213,328
Surplus Money Investment Fund interest	10,237,450
Net cash flows provided by investing activities	$ 275,686,648
Increase in cash and cash equivalents	$ 15,265,163
Cash and cash equivalents at July 1, 2008	$ 270,476,950
Cash and cash equivalents at June 30, 2009	$ 285,742,113

See accompanying notes to the financial statements.

CALIFORNIA STATE LOTTERY FUND
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2009

Cash flows from operating activities:	
Operating income	$ 1,002,527,893
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	$ 12,965,067
Provision for doubtful accounts	132,245
Provision for returned tickets	583,912
Provision for free ticket redemptions	(859,948)
Non-cash post retirement benefit plan change	4,636,000
Net gain on retirement or disposal of capital assets	(97,282)
Other income	408,089
Changes in assets and liabilities:	
Increase in accounts receivable	(34,936,646)
Increase in due from other funds net of SMIF	(567,667)
Decrease in ticket inventories	1,510,348
Decrease in other assets	3,387,572
Decrease in deferred charges	2,746,183
Increase in accounts payable	4,889,537
Decrease in prize liability	(235,068,811)
Decrease in due to state funds	(156,816)
Increase in accrued liabilities	744,956
Increase in deferred revenues	77,268
Net cash flows provided by operating activities	$ 762,921,900

Supplemental disclosure of non-cash activities:	
Interest accreted on annuitized prizes	$ 89,324,510
Unclaimed prizes directly allocated to the Education Fund	$ 20,964,857
Unrealized loss on investments	$ (966,174)

See accompanying notes to the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The California State Lottery Fund (the Lottery) was created with the passage of the California State Lottery Act of 1984 (the Act). The Lottery 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 Lottery are separate and distinct from other operations of the State of California.

The Act mandates that, as nearly as practical, 50 percent of the total annual revenues from Lottery sales be returned to the public in the form of prizes and that at least 34 percent be allocated to benefit public education. No more than 16 percent of the total annual revenues from sales of tickets or shares shall be allocated for payment of operating expenses of the Lottery (Note 11).

Basis of Presentation

The Lottery 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 revenue and expenses are those that result from providing services and producing and delivering goods and/or services.

Revenue Recognition – Scratchers Games

Sales of lottery 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 after each game end. Operating revenue is reduced for free tickets. Retailers receive a commission of six percent which is recognized when tickets are sold to the retailers.

Revenue Recognition - Draw Games

Lottery sales are made to the public through gaming terminals at contracted retailers. Revenue is recognized upon the sale to the public. With the exception of MEGA Millions®, the public has the right to cancel a sale on the same day before pool closure. All 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 deferred until those draws become current. The retailers' commission related to the deferred revenue is reflected as a prepaid expense until the related deferred 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 Commission 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 Commission are allocated directly to the Education Fund. Prize expense relative to the California Lottery Television Show is recorded based on the estimated prize structure(s). Periodically, prize expense is adjusted to reflect amounts actually won.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Prizes – Scratchers Games (continued)

Prizes of $1 million or more are generally paid in twenty equal annual installments. The Weekly Grand, the Extravaganza 2000, the Twice as Grand, and the Weekly $2,000 Payday top prizes are paid in weekly installments for twenty years. The Decade of Dollars top prizes are paid in annual installments for ten years. The top prizes for the Cash for 20 Years game and the $750,000 Payday game are paid in annual, graduated payments over twenty-year and twenty-five-year periods, respectively. Prize expense for these 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 which the Lottery acquires to fund the annuity payments. Interest earned is imputed on the annuity using the same interest rate.

The Next Millionaire and the California Millionaire top prizes of $1 million were each paid in a single payment.

Prizes - Draw Games

SuperLOTTO Plus® and MEGA Millions® - Prize expenses for the twice-weekly draw games are 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 selected, all monies allocated for that prize are carried forward to the following drawing and added to the Five of Five plus MEGA number category (grand prize). In the event that no winning share for a specific prize category in 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 MEGA Millions drawing shall be shared by each participating state lottery (Party Lottery) as follows: each Party Lottery shall be responsible for an amount equal to a percentage of that Party Lottery's MEGA Millions sales, said percentage being the proportion of the total Grand/Jackpot prize liability to total MEGA Millions sales. The California State Lottery is prohibited by state law from paying fixed prizes and participating in the liability calculation for prize levels two (2) through nine (9). The California State Lottery shall be solely responsible for its own prize liability for prize levels two (2) through nine (9).

All SuperLOTTO Plus prizes won but not claimed within the specified period are allocated directly to the Education Fund. In the event that a 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 such prize plus interest and the amount contributed for the grand/jackpot prize by the California State Lottery will be allocated directly to the Education Fund. The unclaimed prize monies for all other MEGA Millions prizes categories won in California but not claimed within the specified period are allocated directly to the Education Fund.

Super LOTTO grand/jackpot prizes won prior to April 1, 1998, of $1 million or more are paid in twenty equal annual installments. Effective April 1, 1998, grand/jackpot prizes of $1 million or more are paid either in twenty-six graduated annual payments or in a single payment equal to the cash value of the twenty-six-payment annuity, in accordance with the rules and regulations of the Lottery. Beginning September 21, 2005, claimants have up to 60 days after the date they became entitled to the prize to irrevocably elect to receive the cash value or the annuitized payments. Payments for all other prize categories are made in a single payment.

MEGA Millions grand/jackpot prizes won in California are paid in 26 equal annual installments, however, claimants have up to 60 days after the date they became entitled to the prize to irrevocably elect to receive the cash value of the prize instead of 26 annual payments. Payments for all other prize categories are made in a single payment.

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 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® - 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® - Prize expense for the multiple-draws-per-day game is recognized on the basis of the predetermined prize structure when the revenue is recognized. On November 27, 2006, the Lottery established a Typical Prize Allocation (allocation) for the 8 Spot Match 8 of 8 category and Typical Prize Amounts (amounts) for all spots other than the 8 Spot Match 8 of 8 prize. On that date, the Lottery also made an irrevocable transfer to a Hot Spot Wagered Prize Fund (fund) to pay these allocations and amounts. In addition to the initial transfer, the 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 promotional prize augmentations 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.

Prior to the change made on November 27, 2006, distinct prize categories were established which were 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 Hot Spot prize category was selected, all monies allocated for that prize category were carried forward to the following drawing and added to its respective prize category.

Raffle - The Lottery may periodically conduct raffle games. Players may win prizes by matching their raffle numbers to the numbers drawn by the Lottery. Prize expense for the game is recognized on the basis of a predetermined prize structure when the revenue is recognized. All Raffle prizes won but not claimed within the specified period are allocated directly to the Education Fund. 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).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the investment is reported as a component of total net assets on the Statement of Net Assets.

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

The allowance for doubtful accounts is based on an analysis of collectibility 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 are 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. Capital assets are carried at cost. Depreciation on property and equipment is computed using the straight-line method over estimated lives ranging from three to seven years. Depreciation on buildings, improvements, and land improvements is computed using the straight-line method over estimated lives of five to forty 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.

Deferred Charges

The Lottery incurs costs in connection with certain contracts which extend beyond a one-year period. These costs are deferred and amortized over the life of the contracts. As more fully discussed in Note 12, a prepayment of $35 million was made on the GTECH contract in the 2003/2004 fiscal year.

Advertising

Advertising costs are expensed when the related liability is incurred. Advertising expense totaled $42,184,700 for the year ended June 30, 2009.

Investment Earnings

Investment earnings are composed of unrealized gains or losses associated with the change in fair value of investments, interest income and the difference between interest accreted/earned on investments and interest expense imputed on annuitized prize liability. Unrealized gains and losses are generally not realized as the investments are to satisfy annuitized prizes; however, the investments must be stated at fair value thus creating investment earnings or losses in the interim. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences Payable

Vested vacation balances are accrued as a liability 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.

Government Accounting Standards Board Statement No. 20 (GASB 20)

As required under GASB 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Lottery will continue to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBS) of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. The Lottery has elected under GASB 20 to not apply all FASB Statements and Interpretations issued after November 30, 1989, due to the governmental nature of the Lottery operations.

Government Accounting Standards Board Statement No. 40 (GASB 40)

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.

Government Accounting Standards Board Statement No. 45 (GASB 45)

The Lottery adopted GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during the 2008 fiscal year. This Statement establishes standards for the measurement, recognition and display of other postemployment benefits (OPEB) expenses and related liabilities, note disclosures and, if applicable, required supplementary information.

Government Accounting Standards Board Statement No. 50 (GASB 50)

The Lottery adopted GASB 50, *Pension Disclosures*, during the 2008 fiscal year. GASB 50 more closely aligns the financial reporting requirements for pensions with those for OPEB and, in so doing, enhances information disclosed in notes to financial statements or presented as required supplementary information. There was no significant impact of adopting GASB 50 to the Lottery.

2. DEPOSITS AND INVESTMENTS

The Lottery presents its deposits and investments in accordance with GASB Statement No. 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 assets:

Interest Rate Risk

Interest rate risk is the risk that the value of fixed income securities will decline due to changing interest rates.

2. DEPOSITS AND INVESTMENTS (continued)

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

On January 28, 2009, the Lottery Commission approved an amendment to the Lottery's investment policy that allowed for the restructuring of its investment portfolio to maximize the investment return. Prior to this, the Lottery's policy limited investments to U.S. Treasury zero coupon bonds. The amendment authorizes the Lottery to sell its previously held U.S. Treasury zero coupon bonds and replace them with municipal and agency bonds, as well as with other U.S. Treasuries. The Lottery began restructuring its investment portfolio in May 2009. By replacing U.S. Treasury zero coupon bonds with higher yielding investments the Lottery is able to generate cash proceeds that can be used to further the Lottery's directives.

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, U.S. Treasury bills, zero coupon agency bonds and municipal bonds. Zero coupon U.S. Treasury bonds, zero coupon agency bonds and U.S. Treasury bills are carried at fair value and are adjusted for the accretion of interest based on the purchased yield and maturity date. Municipal bonds are carried at fair value and are adjusted for accrued interest based on the coupon rate.

As of June 30, 2009, the Lottery's investments, with yields ranging from 0.11 percent to 5.78 percent, consist of the following:

	Face Amount	Cost	Fair Value
Current portion:			
U.S. Treasury Holdings	$ 213,232,000	$ 112,756,149	$ 213,014,947
U.S. Agency Holdings	32,449,000	32,244,160	32,048,999
U.S. Municipal Bond Holdings	-	-	-
Total current portion	$ 245,681,000	$ 145,000,309	$ 245,063,946
Long-term portion:			
U.S. Treasury Holdings	$ 1,179,993,000	$ 512,746,553	$ 925,953,386
U.S. Agency Holdings	351,138,000	262,621,833	259,040,154
U.S. Municipal Bond Holdings	65,240,000	65,619,066	65,393,175
Total long-term portion	$ 1,596,371,000	$ 840,987,452	$ 1,250,386,715
Total investments	$ 1,842,052,000	$ 985,987,761	$ 1,495,450,661

2. DEPOSITS AND INVESTMENTS (continued)

Investments (continued)

As discussed in Note 1, the Lottery applies the provisions of GASB 31. In accordance with GASB 31, the Lottery carries its investments at fair value. The fair value of investments is based on published market prices and quotations from an outside investment firm. The following represents the changes in fair value of investments for the year ended June 30, 2009, in accordance with the requirements of GASB 31.

Changes in fair value of investments:	
Unrealized investment gains at July 1, 2008	$ 165,083,079
Realized gain on investment restructuring	(61,376,449)
Unrealized investment losses, current period	(966,174)
Total unrealized investment gains	$ 102,740,456

As previously discussed the Lottery restructured a portion of its investment portfolio during its 2009 fiscal year. In connection with the restructuring, the Lottery sold zero coupon U.S. Treasury bonds with a fair value of $430,124,587, which included unrealized gains of $61,376,449 as of the sale date. The Lottery reinvested $413,992,404 of the sales proceeds generated in U.S. agency and municipal bond holdings. As the U.S. agency and municipal bond holdings carried higher interest rates than the investments sold, the Lottery generated $16,132,183 in net cash proceeds that management determined were unrestricted, and therefore used in operations, as they were not required to be reinvested to meet annuitized prize liabilities. The difference between the unrealized gain as of the day of sale and the net cash proceeds generated of $45,244,305 continues to be reported as restricted net assets as it was required to be reinvested to meet annuititzed prize liabilities. Statutory compliance requirements for the Lottery are more fully discussed in Note 11 (unaudited).

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 Holdings	4.95 years
U.S. Agency Holdings	5.45 years
U.S. Municipal Bond Holdings	7.64 years
Surplus Money Investment Fund	0.64 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 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, 2009. Furthermore, municipal bonds and agency bonds in the Lottery's portfolio at June 30, 2009, do not exceed 5 percent of the total portfolio based on fair value.

Custodial Credit Risk – Investments

The Lottery does not have a formal investment policy for custodial credit risk for investments. As of June 30, 2009, 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 Citbank, N.A.

2. DEPOSITS AND INVESTMENTS (continued)

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, 2009, the carrying value of deposits in the Surplus Money Investment Fund approximated fair value.

State Treasury	$ 10,248,886
Surplus Money Investment Fund	275,481,000
	$ 285,729,886

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; 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, 2009, the allocation of the deposits held by the Lottery in the SMIF was estimated as follows:

	Lottery's Share of SMIF
U.S. Treasury Securities	$ 72,713,346
Federal Agency Debt	54,593,313
IBRD Bonds	1,628,675
Certificates of Deposit	24,837,451
Commercial Paper	11,475,970
Corporate Bonds	1,650,137
Time Deposits	30,163,064
AB 55 and General Fund Loans	78,419,044
Total	$ 275,481,000

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, 2009, 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 2.22 percent for the year ended June 30, 2009.

3. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:	
Amounts due, primarily from retailers	$ 235,509,447
Less: Allowance for free ticket redemption	(32,552,662)
Allowance for doubtful accounts	(4,347,589)
Allowance for ticket returns	(4,182,155)
Accounts receivable, net	$ 194,427,041

4. DUE FROM STATE FUNDS

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

5. CAPITAL ASSETS

Capital assets consist of the following:

	Beginning Balance	Increase	Decrease	Ending Balance
Non-depreciable capital assets:				
Land	$ 6,469,219	$ -	$ -	$ 6,469,219
Depreciable capital assets:				
Gaming equipment	14,340,593	3,278,531	(550)	17,618,574
Vending machines	34,243,343	-	-	34,243,343
Buildings	31,562,205	1,933,096	-	33,495,301
Data processing equipment	8,964,924	275,988	(282,862)	8,958,050
Office furniture and equipment	7,412,522	1,015,240	(5,892)	8,421,870
Leasehold improvements	1,134,372	-	-	1,134,372
Other	6,895,255	1,359,000	(1,255,404)	6,998,851
	$ 111,022,433	$ 7,861,855	$ (1,544,708)	$ 117,339,580
Less accumulated depreciation and amortization:				
Gaming equipment	$ (1,509,410)	$ (3,438,500)	$ -	$ (4,947,910)
Vending machines	(28,005,343)	(2,869,943)	-	(30,875,286)
Buildings	(12,222,095)	(4,585,231)	-	(16,807,326)
Data processing equipment	(7,881,649)	(691,331)	282,572	(8,290,408)
Office furniture and equipment	(5,396,840)	(748,895)	3,711	(6,142,024)
Leasehold improvements	(578,664)	(99,862)	-	(678,526)
Other	(4,951,940)	(531,305)	1,251,318	(4,231,927)
	$ (60,545,941)	$ (12,965,067)	$ 1,537,601	$ (71,973,407)
Capital assets, net	$ 50,476,492	$ (5,103,212)	$ (7,107)	$ 45,366,173

5. CAPITAL ASSETS (continued)

Depreciation and amortization charged to income on capital assets was $12,965,067 for the year ended June 30, 2009. This includes a $3.35 million impairment charge per GASB 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,* due to the impairment of a portion of the Lottery's current Headquarters building, which is due to be demolished in preparation for construction of a new Headquarters building. More information on the construction contract can be found in Note 12.

6. PRIZE LIABILITY

Prize liability consists of the following:

	Scratchers Games	Draw Games	Total
Current:			
Annuitized prizes	$ 16,329,627	$ 288,906,752	$ 305,236,379
Other prizes	141,127,296	27,730,346	168,857,642
Total current prize liability	$ 157,456,923	$ 316,637,098	$ 474,094,021
Long-term annuitized prizes	$ 110,712,000	$ 1,474,068,000	$ 1,584,780,000
Less imputed interest	(32,982,718)	(462,055,227)	(495,037,945)
Net present value of long-term prizes	$ 77,729,282	$ 1,012,012,773	$ 1,089,742,055
Total prize liability	$ 235,186,205	$ 1,328,649,871	$ 1,563,836,076

The amount of prizes due within one year is $474,094,021.

Long-term prize liability as of June 30, 2009, for each of the next five years and for subsequent years is as follows:

	Principal	Interest	Total
For the year ending June 30, 2011	$ 86,082,486	$ 110,137,852	$ 196,220,338
2012	76,395,090	89,277,107	165,672,197
2013	66,628,588	71,162,496	137,791,084
2014	57,207,921	55,881,832	113,089,753
2015	47,504,509	39,869,540	87,374,049
2016-2020	132,462,292	72,161,513	204,623,805
2021-2025	88,848,536	38,558,921	127,407,457
2026-2030	45,011,598	11,862,727	56,874,325
2031-2035	680,073	8,974	689,047
Total long-term prize liability	$ 600,821,093	$ 488,920,962	$ 1,089,742,055

6. PRIZE LIABILITY (continued)

Activity in the prize liability accounts consists of:

Balance, July 1, 2008	$ 1,730,545,233
Prize expense	1,556,120,634
Prize payments	(1,857,931,021)
Grand/Jackpot prize contributions from other Party Lotteries	66,741,577
Interest imputed on annuities	89,324,510
Unclaimed prizes	(20,964,857)
Balance, June 30, 2009	$ 1,563,836,076

7. DUE TO STATE FUNDS

Due to state funds consists of the following:

Due to Education Fund	$ 270,717,516
Due to other state funds	250,000
Total due to state funds	$ 270,967,516

Activity in the Due to Education Fund account consists of:

Balance, July 1, 2008		$ 237,609,619
Allocation to Education Fund, earned by the California State Lottery Fund	$ 1,027,728,959	
Unclaimed prizes directly allocated to the Education Fund	20,964,857	
		1,048,693,816
Distribution to the Education Fund		(1,015,585,919)
Balance, June 30, 2009		$ 270,717,516

8. LEASES

The Lottery leases office, warehouse, and parking lot facilities under operating leases. These leases expire in various years through May 31, 2015. Most operating leases have a provision for early termination. These leases could be terminated between November 2009 and May 2015.

8. LEASES (continued)

The future minimum lease payments under operating leases as of June 30, 2009, are as follows:

	Operating Leases
For the year ending June 30, 2010	$ 1,684,310
2011	1,108,897
2012	790,265
2013	619,165
2014	386,980
Thereafter	258,511
Total minimum payments	$ 4,848,128

Rental expense for all operating leases totaled $1,719,508 for the year ended June 30, 2009.

9. INVESTMENT EARNINGS

Investment earnings consist of:

Interest on funds held by State Treasurer	$ 8,660,794
Change in Fair Market Value of Investments	(966,174)
Interest accreted/earned on investments	88,377,841
	$ 96,072,461
Less interest expense imputed on annuitized prize liability	(89,324,510)
Investment earnings, net	$ 6,747,951

10. RETIREMENT PLAN AND OTHER POSTEMPLOYMENT BENEFITS

Retirement Plan

The Lottery contributes to the Public Employees' Retirement Fund administered by the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. The State of California (State) is considered the employer and the Lottery is a department of the State. 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. Since all state agencies are considered collectively to be a single employer, the actuarial present value of vested and non-vested accumulated plan benefits attributable to the Lottery's employees cannot be determined. Similarly, the net assets available for benefits of Lottery employees cannot be determined. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. CalPERS' annual financial report may be obtained by writing to the California Public Employees' Retirement System, Fiscal Services Division, P.O. Box 942703, Sacramento, California 94229 or by visiting the CalPERS web site at www.CalPERS.ca.gov.

10. RETIREMENT PLAN AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Retirement Plan (continued)

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 depending on the plan selected by the employee. 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 will be prorated based on the years of service.

Active plan members are required to contribute a percentage of their salary depending on their plan selection and employment classification. Employees' required contributions vary from 0.0% to 8.0%. The Lottery is required to contribute at an actuarially determined rate. The Lottery's contributions are based on a percentage of annual covered payroll depending on the plan selected and member status. For the year ended June 30, 2009, the Lottery's payroll for employees covered by CalPERS was approximately $29.9 million and the total payroll for the period was approximately $30.9 million. The contribution requirements of plan members and the Lottery are established and may be amended by CalPERS. Required employer contribution rates (expressed as a percentage of compensation) for the 2008/2009 fiscal year are as follows:

State Miscellaneous Member First Tier	16.574%
State Miscellaneous Member Second Tier	16.470%
State Safety Member	18.411%
Peace Officer	26.064%

The Lottery's pension cost for the year ended June 30, 2009, was equal to the Lottery's required contributions which were determined as part of the most recent actuarial valuation performed by CalPERS dated June 30, 2007.

Three year trend information for the Lottery:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage Of APC Contributed	Net Pension Obligation
6/30/07	$4,444,112	100%	$0
6/30/08	$4,873,529	100%	$0
6/30/09	$4,776,155	100%	$0

Other Postemployment Benefits

Post-retirement health care benefits are also provided to Lottery employees through the programs sponsored by the State as administered by CalPERS and the Department of Personnel Administration (DPA). As the post-retirement health care plan is sponsored by the State it is considered a single-employer plan. The Lottery is considered a department of the State. The total other postemployment benefits (OPEB) actuarial accrued liability is reported at the State level.

Health care and dental benefits may be provided to members depending on the date hired and the years of credited service of a member. Post-retirement health benefits include medical, prescription drug and dental benefits and are currently funded on a pay-as-you-go basis. Employer contributions for health premiums during the 2009 fiscal year maintain the 100/90 percent contribution formula established by the Government Code. Under this formula, the State uses 100 percent of the weighted average premiums of the four largest health benefit plans in order

10. RETIREMENT PLAN AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Other Postemployment Benefits (continued)

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 of the 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 monthly contribution maximums are $478 for a single enrollee, $909 for an enrollee and one dependent, and $1,167 for an enrollee and 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 legislature of the State. If members are not fully vested, the health care and dental contributions will be prorated based on the years of service.

The Lottery paid approximately $2.6 million for post-retirement health and dental benefits for retired members for the year ended June 30, 2009. As discussed in Note 1, the Lottery adopted GASB 45 during its 2008 fiscal year. GASB 45 was implemented prospectively and the Lottery had a zero net OPEB obligation (NOO) upon adoption. The Lottery's annual OPEB cost (AOC) is calculated based on the annual required contribution (ARC). The AOC recorded by the Lottery is calculated by the primary government and represents an allocation of the total ARC of the State, adjusted for interest and other adjustments. The allocation is based on the Lottery's retiree health benefit costs in relation to the total State retiree health benefit costs. The ARC represents the normal cost plus an amortization of the difference between the actuarial accrued liability and any assets available to pay benefits. The AOC for the year ended June 30, 2009, was $7,280,000. The total NOO liability recorded as of June 30, 2009, is $9,674,000. The following table shows the components of the Lottery's AOC, the amount actually contributed to the plan and the NOO as of and for the year ended June 30, 2009 (in thousands).

Net OPEB obligation (NOO), July 1, 2007	$ -
Fund allocated annual OPEB cost (AOC)	7,657
Fund allocated contributions	(2,619)
Net OPEB obligation (NOO), June 30, 2008	5,038
Fund allocated annual OPEB cost (AOC)	7,280
Fund allocated contributions	(2,644)
Net OPEB obligation (NOO), June 30, 2009	$ 9,674

The actuarial valuation report for OPEB may be obtained by writing to the Office of State Controller John Chiang, P.O. Box 942850, Sacramento, CA 94250 or by visiting the State Controller's Web site at www.SCO.ca.gov. The Lottery's ARC, AOC and NOO will be calculated and adjusted for on an annual basis.

11. STATUTORY COMPLIANCE (Unaudited)

Lottery prize payments and other operating expenses are shown below as a percentage of total sales and proceeds generated from investment portfolio restructuring for the year ended June 30, 2009.

Lottery sales	$ 2,954,839,094	
Investment proceeds from portfolio restructuring	16,132,183	
Total sales and proceeds from portfolio restructuring	$ 2,970,971,277	100.00%
Prizes	1,556,120,634	52.38%
Expenses of the Lottery		
Retailer costs	$ 208,105,703	7.00%
Game costs	50,904,431	1.71%
Operating expenses	137,180,433	4.62%
Less bartered operating expenses	(40,000)	0.00%
Total expenses of the Lottery	$ 396,150,567	13.33%
Revenues to Education		
Allocation of sales	$ 1,002,567,893	
Allocation of investment proceeds from portfolio restructuring	16,132,183	
Allocation subtotal	$ 1,018,700,076	34.29%
Unclaimed prizes directly allocated to the Education Fund	20,964,857	
Interest income	8,660,794	
Other income	408,089	
Less bartered income	(40,000)	
Total declared for allocation to the Education Fund	$ 1,048,693,816	

Per the Act and Lottery policy, the Lottery returns, as nearly as practical, 50 percent of the total annual revenues from Lottery sales and proceeds from investment portfolio restructuring to the public in the form of prizes; allocates at least 34 percent to benefit public education; and allocates no more than 16 percent for the payment of expenses of the Lottery. In addition, unclaimed prizes not directly payable by the Lottery Commission, which amounted to $31,708,920 for the year ended June 30, 2009, are recognized as a reduction of prize expense and included in the Lottery's net income that is distributed to the Education Fund.

As discussed in Note 2, the Lottery began restructuring its investment portfolio during its 2009 fiscal year. The proceeds realized from the investment portfolio restructuring were $16,132,183 for the year ended June 30, 2009. The Lottery's policy is to transfer 34 percent of the net proceeds generated directly to education and retain the remaining amount for use in the Lottery's operations. As a result $10,647,242 of the net proceeds generated were used to fund the introduction of a $5 Scratchers game and additional advertising in the 2009 fiscal year. These expenditures were made with the goal of increasing Lottery sales. As these expenditures reduce operating income and ultimately the amount available to education, the Lottery is required to allocate the full amount of the net proceeds generated to achieve a net transfer to education of 34 percent.

Unclaimed prizes directly payable by the Lottery Commission are allocated directly to the Education Fund and all interest earned on funds held in the State Lottery Fund shall be allocated for the benefit of public education. This interest is not to be considered part of the 34 percent of the total annual revenues and proceeds that is otherwise required to be allocated for public education.

12. COMMITMENTS AND CONTINGENCIES

A contract has been awarded to GTECH that includes both gaming and telecommunication systems and services. The Lottery pays a fee of 1.36 percent of sales. The original contract ran through October 13, 2009, and had a total estimated cost of $300 million. On September 2, 2008, the contract was extended for four years to October 13, 2013, and increased $310 million, thus bringing the maximum amount of the contract to $610 million. Approximately $292.3 million in fees have been incurred under the contract as of June 30, 2009.

In addition to the fees incurred, a prepayment of $35 million was made to GTECH by the Lottery at contract inception. GTECH will repay the full amount plus interest via weekly payments equal to 0.2 percent of sales. The prepayment bears interest at a rate equal to the Surplus Money Investment Fund rate plus one-half of one percent. GTECH may repay the outstanding amount after one year of full system operations and any remaining balance must be paid in full at the end of the contract term. The balance outstanding at June 30, 2009, approximated $4.9 million. This amount has been recorded as an other current asset as it is expected to be settled within one year.

In July of 2005 the Lottery was served with an action seeking to prohibit the Lottery from continued participation in the MEGA Millions multi-state lottery game. The Court concluded that the Lottery was authorized to participate in the MEGA Millions game, but did direct the Lottery to resolve, within one year, a conflict between the MEGA Millions prize claim period of one year and the Lottery's statutory prize claim period of 180 days. On September 12, 2007, the Court entered a new order extending the time to resolve the conflict for another eight months. On April 23, 2008, Governor Schwarzenegger signed into law AB 1251, which gave players the right to claim prize money up to one year for jackpots or grand prizes won in a multi-state lottery game. This bill was superseded by AB 1654 which inadvertently resulted in restoration of the 180 day claim period. The Lottery had provided a progress report to the Court on May 9, 2008, based on the initial legislative action, and on May 28, 2008, the Court concluded that the Lottery resolved the conflict. Senate Bill 831 was introduced in March 2009 to reestablish a one year claim period for the MEGA Millions grand/jackpot prize. The bill was passed by the Senate on May 18, 2009 but as of June 30, 2009 had still not been passed by the Assembly. However, the litigation connected to MEGA Millions in California has been resolved and the writ has been discharged.

On June 26, 2009, the Lottery Commission awarded a contract to Otto Construction for pre-construction services and construction of a new Lottery Headquarters building. The estimated construction costs are $46.9 million for demolition, site work, and construction of the new building. An additional $6.8 million is estimated for pre-construction services, green building and operation efficiency elements, and modular furniture. The total contract cost is $53.7 million with additional contingency and escalation allowances of $9.1 million and $1.0 million, respectively.

The Lottery has been named as a defendant in various other 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.

13. 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. 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 of the financial statements taken as a whole.

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Statistical Section

2009 California Lottery
Comprehensive Annual Financial Report

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STATISTICAL SECTION

This part of the California State Lottery's comprehensive annual financial report 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.

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Financial Trends/Revenue Capacity……..... 50
These schedules contain trend information to help the reader understand how the financial performance and well-being have changed over time and how to assess the Lottery's most significant revenue sources, lotto and instant ticket games.

Demographic and Economic Information…….....……...… 54
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…….....…….....…….. 62
These schedules contain data to help the reader understand how the information in the Lottery's financial report relates to the products the Lottery provides and the activities it performs.

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 Assets by Component
Last Ten Fiscal Years

	2000	2001	2002	2003
Invested in capital assets	37,390,430	33,870,755	35,352,134	43,863,510
Restricted by legislation	178,944,900	263,896,052	317,115,490	462,001,089
Unrestricted (deficit)	(37,390,430)	(33,870,755)	(35,352,134)	(43,863,510)
Total net assets	**178,944,900**	**263,896,052**	**317,115,490**	**462,001,089**

CALIFORNIA STATE LOTTERY
Change in Net Assets
Last Ten Fiscal Years

	2000	2001	2002	2003
Operating revenues:				
Lotto games	955,716,932	1,272,355,983	1,275,714,605	1,110,682,365
Scratchers® games	1,188,192,294	1,188,927,861	1,184,119,073	1,211,719,532
Hot Spot®	204,405,640	184,903,440	184,432,561	180,160,160
Daily games	250,064,125	248,654,239	252,106,294	279,007,799
Raffle	-	-	-	-
Total operating revenues	**2,598,378,991**	**2,894,841,523**	**2,896,372,533**	**2,781,569,856**
Prizes	1,369,435,482	1,503,768,458	1,502,966,618	1,451,804,079
Game costs:				
Retailer costs	179,241,747	196,793,920	198,064,491	189,814,979
Draw game costs	42,841,644	52,094,272	47,250,757	45,914,606
Scratchers game costs	32,008,802	33,514,259	32,878,258	32,317,240
Total game costs	**254,092,193**	**282,402,451**	**278,193,506**	**268,046,825**
Operating expenses:				
Salaries, wages and benefits	36,975,998	35,905,740	36,902,774	36,652,764
Advertising	24,479,926	32,901,965	30,421,150	26,385,118
Promotion, public relations and point of sale	8,459,014	9,682,927	11,234,301	7,234,777
Other professional services	4,848,038	7,585,856	8,110,006	6,771,068
Depreciation and amortization	7,545,680	7,633,798	7,972,377	8,069,014
Other general and administrative expenses	6,780,813	9,361,195	10,063,631	9,182,707
Total operating expenses	**89,089,469**	**103,071,481**	**104,704,239**	**94,295,448**
Operating income	885,761,847	1,005,599,133	1,010,508,170	967,423,504
Non-operating (expenses) revenues:				
Unrealized gains (losses) on investments	(24,391,596)	84,951,152	53,219,438	144,885,599
Interest income	21,390,129	26,209,722	16,221,680	9,365,650
Other income	152,875	177,104	455,493	208,850
Allocation of Investment Proceeds*	-	-	-	-
Allocation to Education Fund	(907,304,851)	(1,031,985,959)	(1,027,185,343)	(976,998,004)
Total non-operating (expenses) revenues	**(910,153,443)**	**(920,647,981)**	**(957,288,732)**	**(822,537,905)**
Total change in net assets	**(24,391,596)**	**84,951,152**	**53,219,438**	**144,885,599**

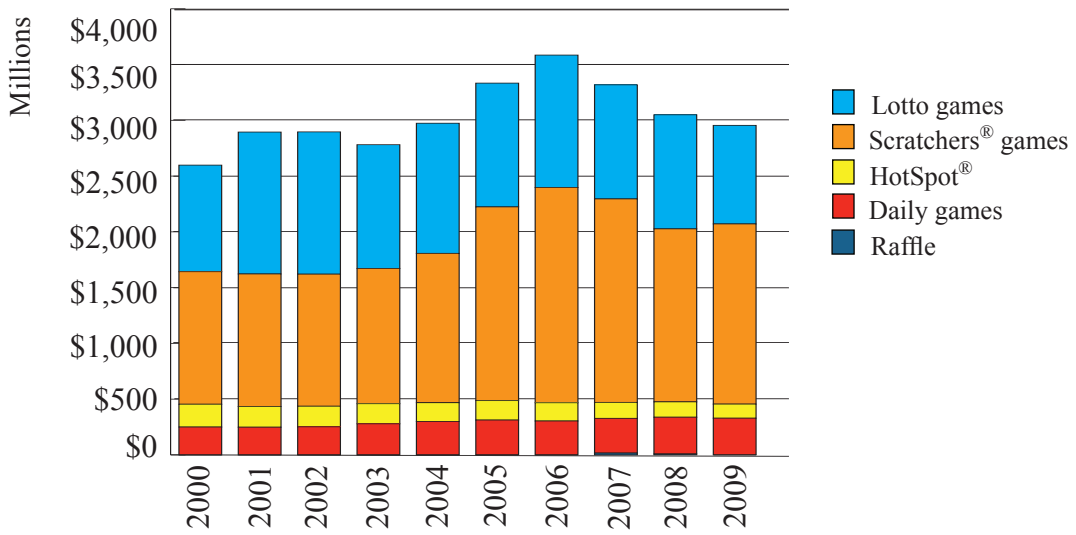
Note: Individual wagers for all Lotto games, Hot Spot and all daily games, with the exception of Daily Derby®, are $1 each. Daily Derby wagers are $2 each. In fiscal year 2006/2007 raffle numbers were $5 each, or $4 each for tickets with 5 or more raffle numbers. In fiscal year 2007/2008 raffle numbers were $5 each. Scratchers games have price points of $1, $2, $3 and $5.

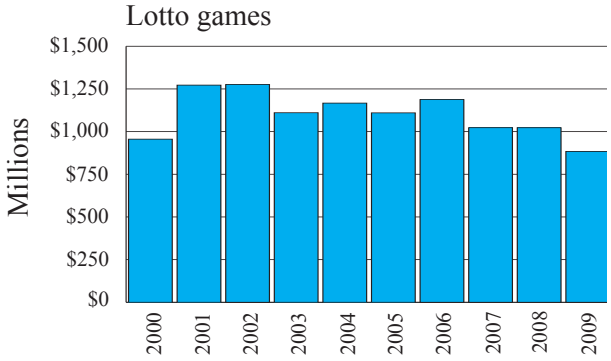
*Beginning May 2009, the Lottery initiated an investment portfolio restructuring program. Per Lottery policy, 34% of the restructuring proceeds are transferred to Education with 66% of the proceeds utilized by the Lottery. The Lottery's investment portfolio restructuring program is more fully explained in the Relevant Financial Policies section of the Transmittal Letter, and in the notes to the Lottery's financial statements.

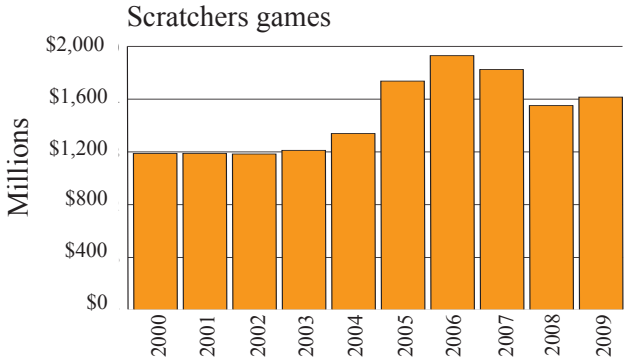
2004	2005	2006	2007	2008	2009
38,071,794	40,968,035	42,926,882	50,203,022	50,476,492	45,366,173
257,765,065	275,906,630	104,231,017	95,315,400	165,083,079	147,038,053
(38,071,794)	(40,968,035)	(42,926,882)	(50,203,022)	(50,476,492)	(45,366,173)
257,765,065	**275,906,630**	**104,231,017**	**95,315,400**	**165,083,079**	**147,038,053**

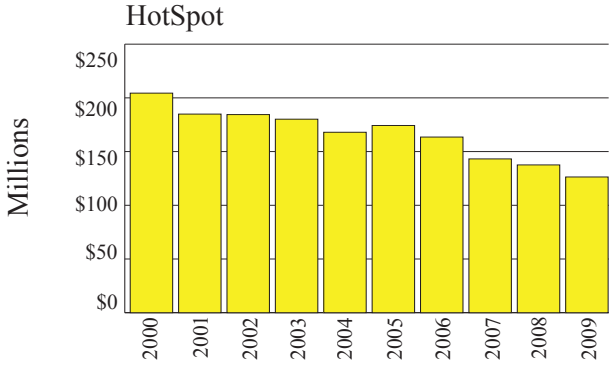
2004	2005	2006	2007	2008	2009
1,166,953,613	1,109,931,087	1,187,725,049	1,023,039,079	1,022,867,234	883,844,967
1,338,975,654	1,736,788,110	1,929,632,771	1,824,355,512	1,551,048,845	1,615,369,207
167,989,890	174,296,572	163,526,309	143,182,870	137,582,868	126,361,926
300,056,560	312,604,900	304,112,122	310,903,219	329,171,866	329,262,994
-	-	-	16,865,825	8,950,102	-
2,973,975,717	**3,333,620,669**	**3,584,996,251**	**3,318,346,505**	**3,049,620,915**	**2,954,839,094**
1,566,027,494	1,795,254,439	1,932,721,443	1,765,643,368	1,619,473,498	1,556,120,634
205,744,975	233,447,844	252,543,062	233,792,642	213,022,175	208,105,703
37,369,964	35,702,574	37,277,061	37,820,168	37,250,758	33,687,063
20,940,277	21,042,547	21,144,506	17,725,019	15,780,718	17,217,368
264,055,216	**290,192,965**	**310,964,629**	**289,337,829**	**266,053,651**	**259,010,134**
40,759,704	41,913,096	41,201,111	42,224,625	48,431,055	49,167,678
30,972,632	36,797,516	25,495,083	33,337,617	26,790,304	42,184,700
9,066,450	10,406,811	9,307,150	8,894,469	9,035,786	14,064,197
7,568,645	5,380,499	5,959,870	5,660,943	7,703,086	7,449,016
8,396,577	7,202,654	8,745,427	9,099,711	9,069,714	12,965,067
10,002,122	8,546,322	11,389,574	11,715,254	13,161,713	11,349,775
106,766,130	**110,246,898**	**102,098,215**	**110,932,619**	**114,191,658**	**137,180,433**
1,037,126,877	1,137,926,367	1,239,211,964	1,152,432,689	1,049,902,108	1,002,527,893
(204,236,024)	18,141,565	(171,675,613)	(8,915,617)	69,767,679	(966,174)
6,688,602	9,877,245	18,442,836	23,296,899	18,575,658	8,660,794
246,224	971,475	853,117	1,199,529	850,326	408,089
-	-	-	-	-	16,132,183
(1,044,061,703)	(1,148,775,087)	(1,258,507,917)	(1,176,929,117)	(1,069,328,092)	(1,027,728,959)
(1,241,362,901)	**(1,119,784,802)**	**(1,410,887,577)**	**(1,161,348,306)**	**(980,134,429)**	**(1,020,572,919)**
(204,236,024)	**18,141,565**	**(171,675,613)**	**(8,915,617)**	**69,767,679**	**(18,045,026)**

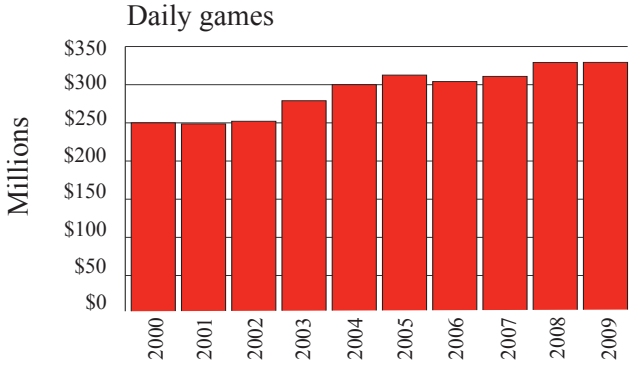
CALIFORNIA STATE LOTTERY
Sales by Product
Last Ten Fiscal Years





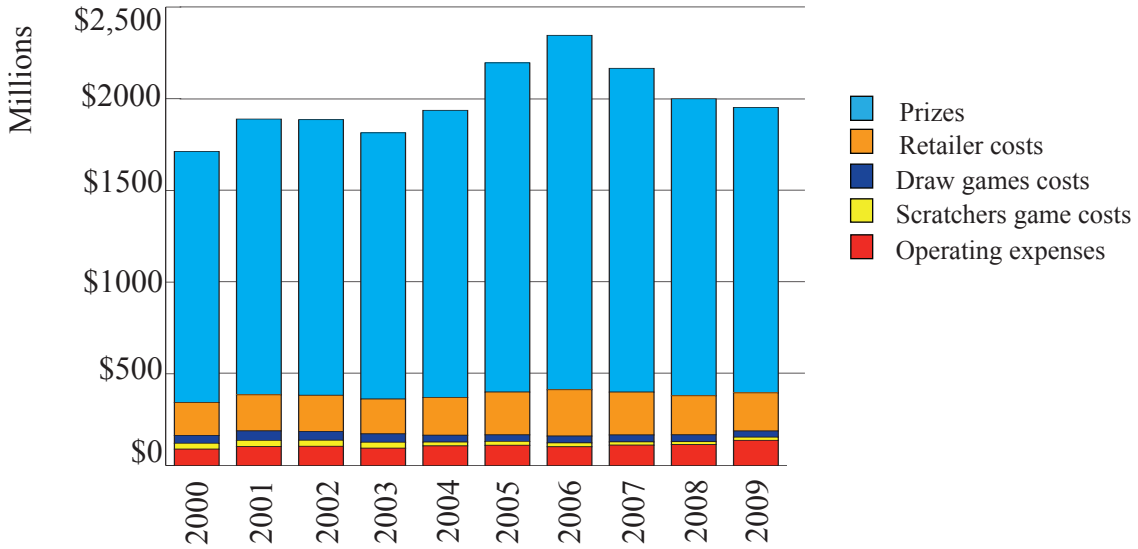


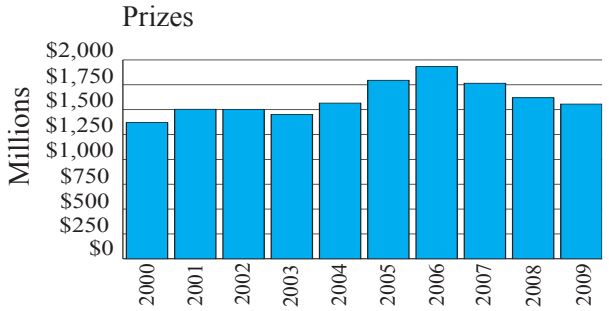


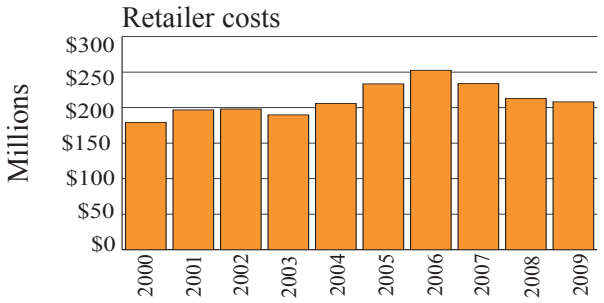


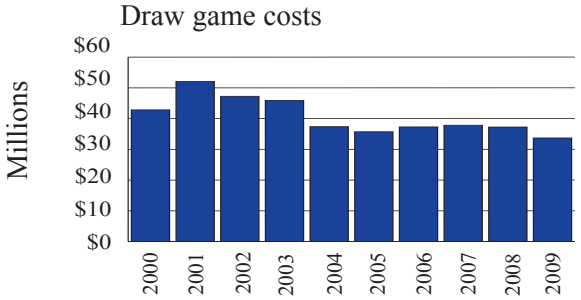
Note: The first "Million Dollar Raffle" game was held in fiscal year 2006/2007. Raffle tickets were available for sale between February 5, 2007 and March 17, 2007. The "New Year's Million Dollar Raffle" tickets were on sale November 19, 2007 - December 30, 2007.

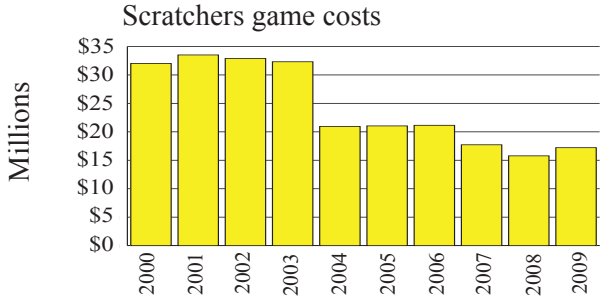
CALIFORNIA STATE LOTTERY
Expenses by Type
Last Ten Fiscal Years

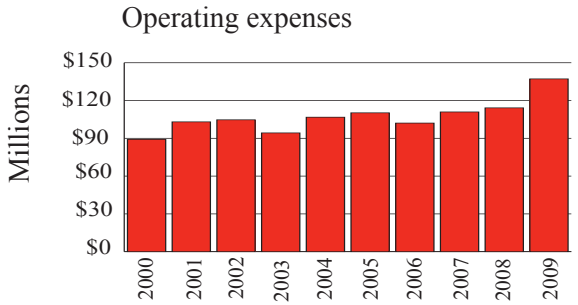












CALIFORNIA STATE LOTTERY
California Demographics and Economic Information
1999 - 2008

	Population (in thousands)	Personal Income (in thousands)	Per Capita Personal Income	Unemployment Rate*
1999	33,499	$1,027,715	$30,679	5.3%
2000	33,999	$1,135,342	$33,394	4.9%
2001	34,507	$1,168,733	$33,869	5.4%
2002	34,916	$1,187,360	$34,006	6.7%
2003	35,307	$1,232,991	$34,922	6.8%
2004	35,630	$1,312,244	$36,830	6.2%
2005	35,885	$1,387,682	$38,670	5.4%
2006	36,121	$1,495,560	$41,404	4.9%
2007	36,378	$1,572,271	$43,221	5.4%
2008	36,757	$1,604,113	$43,641	7.2%

Source: Bureau of Economic Analysis, United States Department of Commerce
* Data source: from Labor Market Information Division, California Employment Development Department
Note: 2009 information is not available and therefore not presented

CALIFORNIA STATE LOTTERY
California Industry Number of Employees By Size Category
2001 - 2004

	2001	2002	2003	2004
Agriculture, Forestry, Fishing, Hunting	451,039	451,089	437,529	419,185
Mining	23,842	20,788	20,127	21,144
Utilities	53,525	54,889	55,650	55,908
Construction	797,563	790,744	808,418	881,632
Manufacturing	1,753,763	1,636,671	1,532,508	1,535,551
Wholesale Trade	650,521	649,120	647,781	652,097
Retail Trade	1,565,702	1,551,883	1,581,467	1,607,565
Transportation and Warehousing	437,071	423,262	408,552	414,976
Information	503,530	483,677	458,816	471,693
Finance and Insurance	565,198	580,217	615,109	621,023
Real Estate and Rental and Leasing	268,817	272,063	275,936	279,684
Services	5,584,467	5,640,072	5,701,711	5,748,117
Nonclassifiable Establishments	48,899	44,349	54,437	70,831
Federal, State and Local Government	2,293,228	2,337,757	2,297,220	2,296,591
Total for All Industries	**14,997,165**	**14,936,581**	**14,895,261**	**15,075,997**

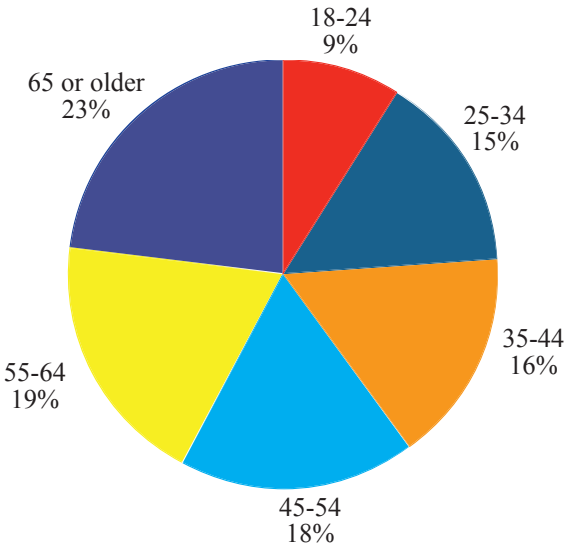
CALIFORNIA STATE LOTTERY
California Industry Number of Employees By Size Category
2005 - 2008

	2005	2006	2007	2008
Agriculture, Forestry, Fishing, Hunting	428,846	437,617	444,478	459,723
Mining	22,564	24,723	25,282	26,698
Utilities	56,204	56,978	58,276	58,575
Construction	944,060	957,256	900,386	782,432
Manufacturing	1,513,778	1,512,772	1,464,136	1,425,225
Wholesale Trade	677,489	706,834	719,608	705,036
Retail Trade	1,657,726	1,672,636	1,673,198	1,615,574
Transportation and Warehousing	417,462	425,350	434,105	432,622
Information	470,521	467,757	476,419	472,152
Finance and Insurance	645,955	641,764	607,118	563,136
Real Estate and Rental and Leasing	287,313	291,700	282,800	274,778
Services	5,903,101	6,077,509	6,200,250	6,232,695
Nonclassifiable Establishments	82,713	29,514	56,682	73,151
Federal, State and Local Government	2,326,568	2,336,653	2,404,511	2,405,547
Total for All Industries	**15,434,300**	**15,639,063**	**15,747,249**	**15,527,344**

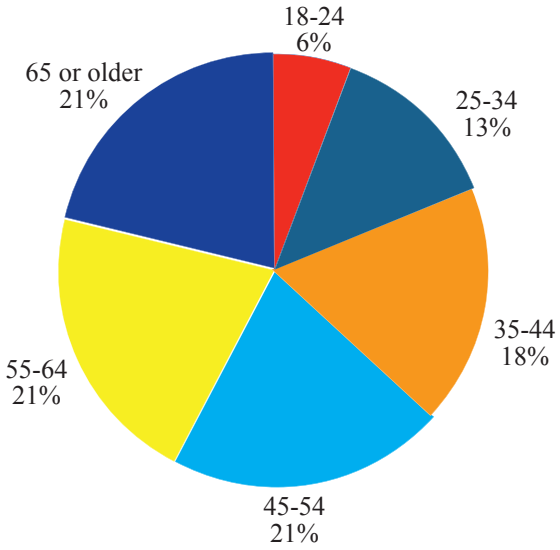
Source: California Employment Development Department
Note: Businesses are designated as "Nonclassifiable Establishments" when there is insufficient information to determine the appropriate industry classification.
Definitions of Terms and Source Notes www.labormarketinfo.edd.ca.gov/?pageid=1035
Due to confidentiality issues, the names of the top individual employers are not available. The industry data provided are intended to provide similar alternative information regarding the concentration of employment in various sectors of the California economy.

CALIFORNIA STATE LOTTERY
California Demographics for Population and Players

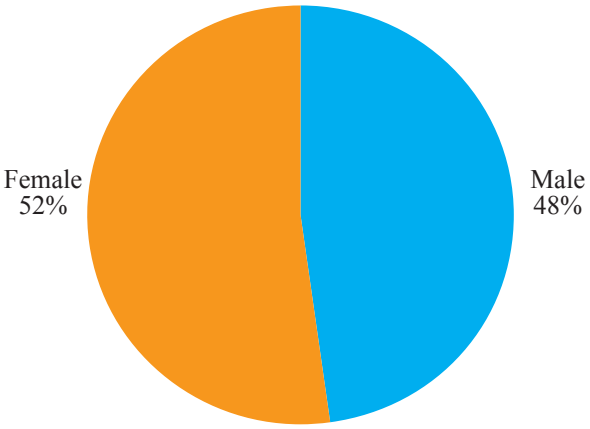
Age of Adult Population



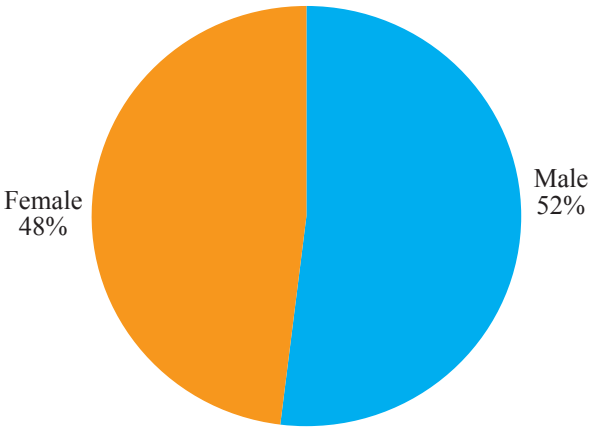
Age of Lottery Players



Gender of Adult Population



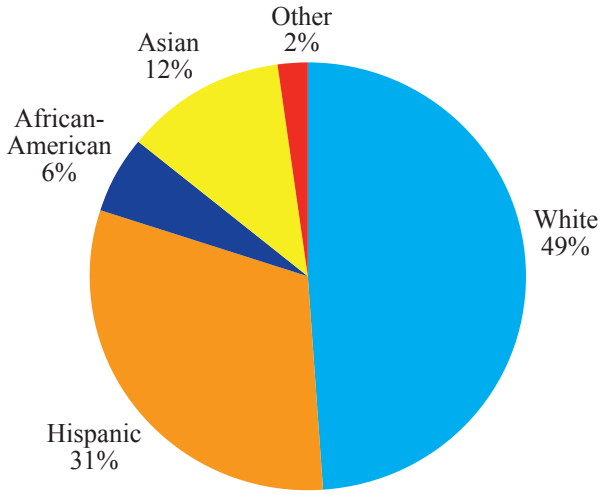
Gender of Lottery Players



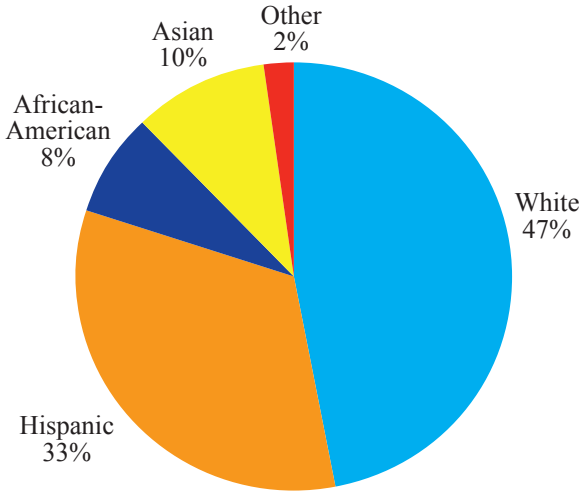
Note: All data are from Communications Effectiveness Tracking Study commissioned by the Lottery and provided by an external vendor for fiscal year 2008/2009. Percentages based on only those responding.

CALIFORNIA STATE LOTTERY
California Demographics for Population and Players

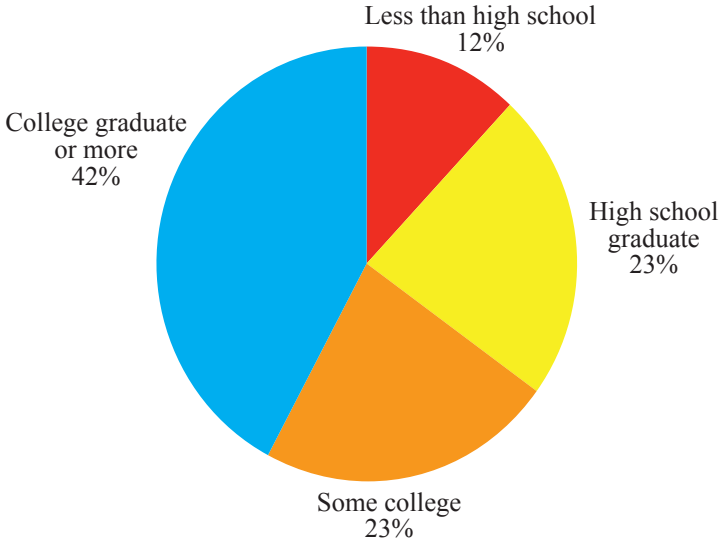
Ethnicity of Adult Population



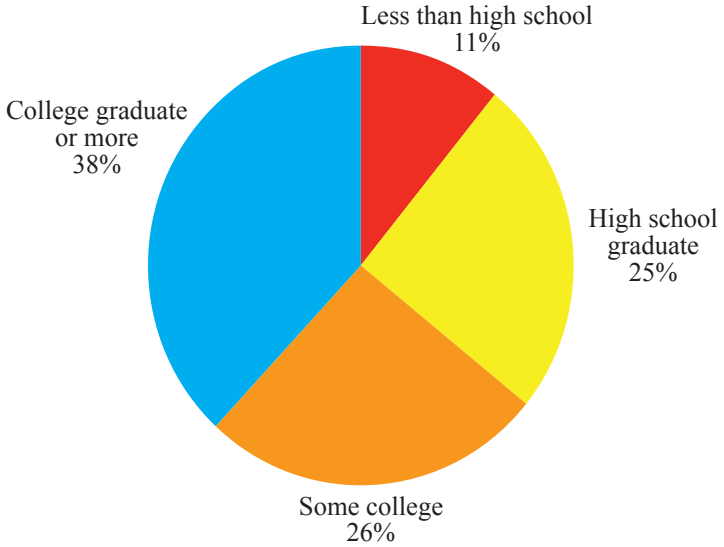
Ethnicity of Lottery Players



Education of Adult Population



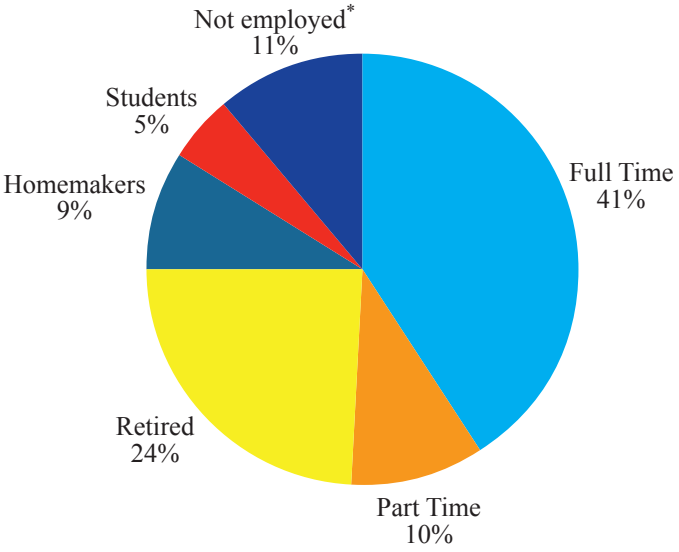
Education of Lottery Players



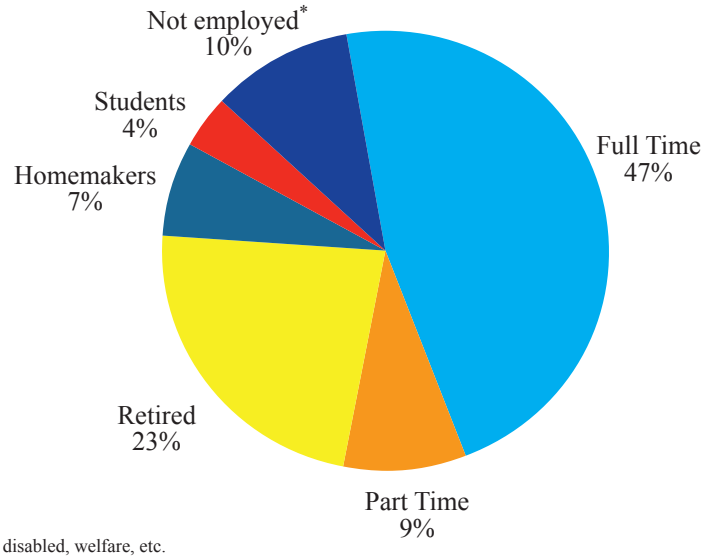
Note: All data are from Communications Effectiveness Tracking Study commissioned by the Lottery and provided by an external vendor for fiscal year 2008/2009. Percentages based on only those responding.

CALIFORNIA STATE LOTTERY
California Demographics for Population and Players

Employment Status of Adult Population

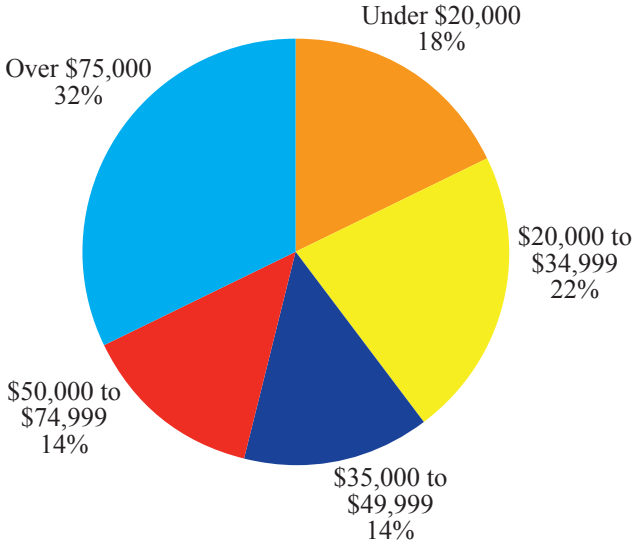


Employment Status of Lottery Players

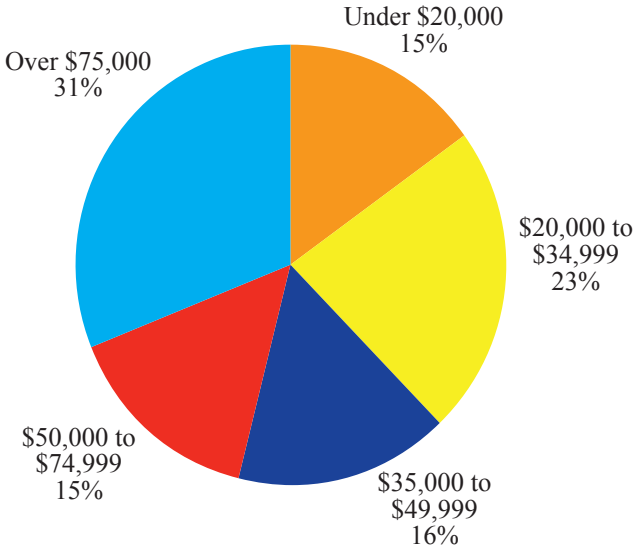


* Includes looking for job, disabled, welfare, etc.

Household Income of Adult Population



Household Income of Lottery Players



Note: All data are from Communications Effectiveness Tracking Study commissioned by the Lottery and provided by an external vendor for fiscal year 2008/2009. Percentages based on only those responding.

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U.S. Lottery Data For Fiscal Year 2008
Excludes Video Lottery Terminal (VLT) sales
(in millions)

	Sales	Prizes	Profit	Population	Sales/Capita
Arizona	$472.9	$262.5	$144.5	6.3	$75
California[++]	$3,049.6	$1,619.5	$1,069.4	36.6	$83
Colorado	$505.8	$314.9	$122.3	4.9	$104
Connecticut	$998.1	$608.2	$283.0	3.5	$285
Delaware[3,4]	$124.9	$65.9	$252.5	0.9	$144
District of Columbia[1,5]	$254.3	N/A	N/A	0.6	$432
Florida	$4,174.8	$2,504.0	$1,288.0	18.3	$229
Georgia	$3,519.3	$2,049.5	$858.4	9.5	$369
Idaho	$137.1	$81.6	$34.8	1.5	$91
Illinois	$2,078.2	$1,166.0	$657.0	12.9	$162
Indiana	$822.8	N/A	N/A	6.3	$130
Iowa	$250.3	N/A	N/A	3.0	$84
Kansas	$247.9	N/A	N/A	2.8	$89
Kentucky	$778.2	$493.1	$192.1	4.2	$184
Louisiana	$373.7	$74.3	$131.9	4.3	$87
Maine	$227.5	N/A	$50.3	1.3	$173
Maryland	$1,673.0	$967.0	$529.0	5.6	$298
Massachusetts	$4,689.4	$3,419.7	$910.0	6.4	$727
Michigan[2,5]	$2,336.1	$1,354.9	$742.2	10.1	$232
Minnesota	$461.5	$279.6	$116.3	5.2	$89
Missouri	$995.5	N/A	$265.1	5.9	$169
Montana	$43.9	$22.8	$11.0	1.0	$46
Nebraska	$122.0	$69.2	$31.0	1.8	$69
New Hampshire	$259.8	$154.6	$75.6	1.3	$197
New Jersey	$2,539.1	$1,469.4	$863.1	8.7	$292
New Mexico	$147.1	$80.1	$40.8	2.0	$75
New York [3,4,5]	$6,673.2	$3,952.9	$2,579.5	19.3	$346
North Carolina	$1,078.2	$577.3	$332.8	9.1	$119
North Dakota	$22.2	N/A	N/A	0.6	$35
Ohio	$2,326.9	N/A	N/A	11.5	$203
Oklahoma	$214.3	$112.8	$71.6	3.6	$59
Oregon[3,4]	$338.7	$220.0	$699.9	3.7	$90
Pennsylvania	$3,089.2	$1,845.4	$928.0	12.4	$248
Rhode Island[3,4]	$241.3	$147.6	$355.5	1.1	$228
South Carolina	$992.5	N/A	$266.0	4.4	$225
South Dakota[3,4]	$42.7	$23.9	$122.1	0.8	$51
Tennessee	N/A	N/A	N/A	N/A	N/A
Texas[5]	$3,671.5	$2,278.0	$1,030.0	23.9	$154
Vermont	$102.0	$64.8	$22.6	0.6	$164
Virginia	$1,386.4	$792.3	$455.3	7.7	$180
Washington	$521.1	N/A	N/A	6.5	$81
West Virginia[3,4]	$198.0	N/A	N/A	1.8	$109
Wisconsin	$494.6	N/A	N/A	5.6	$88

2008 data source: La Fleur's Magazine September/October 2008
(1) Sales as of June 30
(2) Estimated sales
(3) Prizes do not include VLT prizes
(4) Includes traditional and VLT profit
(5) Fiscal year ends June 30 except New York (March 31), Texas (August 31) and District of Columbia and Michigan (Sept. 30)
++ Audited figures with the exception of population

U.S. Lottery Data For Fiscal Year 2009
Excludes Video Lottery Terminal (VLT) sales
(in millions)

	Sales	Prizes	Profit	Population	Sales/Capita
Arizona	$484.5	$282.5	$129.1	6.5	$75
California[++]	$2,954.8	$1,556.1	$1,020.7	36.8	$80
Colorado	$493.4	$301.7	$119.6	4.9	$100
Connecticut	$991.3	$604.7	$283.0	3.5	$283
Delaware[3,4]	$123.2	N/A	N/A	0.9	$141
District of Columbia[1,5]	$246.2	N/A	N/A	0.6	$416
Florida	$3,938.1	$2,412.1	$1,284.8	18.3	$215
Georgia	$3,663.1	$2,148.7	$872.1	9.7	$378
Idaho	$139.8	$85.0	$35.0	1.5	$92
Illinois	$2,095.5	$1,199.1	$625	12.9	$162
Indiana	$732.7	$453.2	$178.9	6.4	$115
Iowa	$243.4	$137.9	$60.6	3.0	$81
Kansas	$241.8	N/A	N/A	2.8	$86
Kentucky	$810.5	$515.9	$204.4	4.3	$190
Louisiana	$378.5	$193.3	$135.9	4.4	$86
Maine	$210.9	$125.7	$49.8	1.3	$160
Maryland	$1,698.1	$1,023.9	$493.2	5.6	$301
Massachusetts	$4,425.5	$3,218.2	$858.4	6.5	$681
Michigan[2,5]	$2,379.0	$1,437.4	$727.5	10.0	$238
Minnesota	$481.3	$295.0	$119.6	5.2	$92
Missouri	$967.2	N/A	$259.0	5.9	$164
Montana	$44.0	$23.1	$10.1	1.0	$45
Nebraska	$123.1	$71.9	$30.2	1.8	$69
New Hampshire	$239.0	$142.1	$68.0	1.3	$182
New Jersey	$2,503.3	$1,450.7	$849.5	8.7	$288
New Mexico	$142.3	$78.3	$40.8	2.0	$72
New York[3,4,5]	$6,695.1	$4,003.8	$2,544.0	19.5	$344
North Carolina	$1,293.1	$811.9	$414.1	9.2	$140
North Dakota	$21.8	$11.3	$6.4	0.6	$34
Ohio	$2,416.3	$1,459.0	$702.3	11.5	$210
Oklahoma	$193.2	$95.9	$69.2	3.6	$53
Oregon[3,4]	$313.8	$205.3	$635.0	3.8	$83
Pennsylvania	$3,088.2	$1,852.5	$910.5	12.4	$248
Rhode Island[3,4]	$238.6	$144.9	$344.3	1.1	$227
South Carolina	$1,003.9	$633.2	$261.2	4.5	$224
South Dakota[3,4]	$41.3	$23.3	$118.2	0.8	$51
Tennessee	N/A	N/A	N/A	N/A	N/A
Texas[5]	$3,720.1	$2,353.5	$1,046.7	24.3	$153
Vermont	$96.0	$60.7	$20.9	0.6	$155
Virginia	$1,365.6	$781.0	$439.1	7.8	$176
Washington	$487.7	N/A	N/A	6.5	$74
West Virginia[3,4]	$198.1	$119.4	$556.7	1.8	$109
Wisconsin	$473.3	N/A	N/A	5.6	$84

2009 data source: La Fleur's Magazine September/October 2009

CALIFORNIA STATE LOTTERY
Number of Employees
Last Ten Fiscal Years

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Executive	37	42	43	45	44	42	34	27	28	30
Finance & Administration/Finance[1, 3]	123	125	118	118	118	119	139	127	69	67
Human Resources[3]	-	-	-	-	-	-	-	-	22	24
Operations[3]	-	-	-	-	-	-	-	-	49	50
Corporate Communications[3]	-	-	-	-	-	-	-	23	13	9
Customer Service[1]	30	30	30	34	30	30	-	-	-	-
Security/Law Enforcement	41	43	43	37	37	43	42	44	47	48
Information Technology Services	123	126	124	119	124	125	94	93	85	88
Marketing[3]	24	24	29	35	35	29	29	34	-	-
Sales/Sales & Marketing[3]	256	256	263	262	262	262	256	272	324	324
Vacant[2]	-	-	-	-	-	-	56	-	-	-
Total	**634**	**646**	**650**	**650**	**650**	**650**	**650**	**620**	**637**	**640**

Source: California State Lottery, Annual Administrative Support Budget for each relevant year
(1) In fiscal year 2005/2006, the Customer Services Division was renamed to Claims and Player Services Department and redirected to the Finance and Administration Division as a part of a reorganization.
(2) In fiscal year 2005/2006, 56 vacant positions were identified to remain vacant. As a result of an organizational efficiency review, 30 of those vacant positions were eliminated and the remaining 26 vacant positions were reallocated among various divisions in fiscal year 2006/2007.
(3) In fiscal year 2008/2009, the Lottery underwent a reorganization. The Finance & Administration Division was divided into three separate divisions: Finance, Human Resources and Operations. As a result of this reorganization, positions were redirected accordingly. In addition, some positions were redirected from the Corporate Communications Division to Operations. The Marketing Division and the Sales Division were combined into one division.

CALIFORNIA STATE LOTTERY
Information about Operating Indicators

The California State Lottery (Lottery) measures much of its success by the amount of money it contributes to California schools and colleges. In fiscal year 2008/2009, the Lottery provided approximately $1.04 billion to education. It was the ninth year in a row that the Lottery has contributed more than $1 billion to California schools. Since its inception in 1985, the Lottery has contributed more than $21.8 billion to California schools out of total sales and investment proceeds of more than $59.27 billion.

The current downturn in the economy has presented the Lottery with a special challenge as it tries to maintain sales. In response, the Lottery has launched several innovative measures, including generating extra cash by restructuring it's investment portfolio and introducing a variety of fun new ways to win. During the past fiscal year, the Lottery introduced California Replay, a Web-based program that offers players a second chance to win cash and prizes. The Lottery also replaced its aging television program, "The Big Spin," with a fast-paced modern game show called "Make Me a Millionaire," which is helping maintain sales.

In addition to economic conditions, Lottery sales are hampered by restrictions that limit our ability to pay out bigger prizes. Based on our own experiences and those of other lotteries, we believe that we would be able to increase sales and our contribution to schools by removing prize restrictions. We are asking lawmakers to provide the Lottery with the authority to pay out more money in prizes to our customers so we can increase sales and generate even larger contributions to California schools and colleges.

CALIFORNIA STATE LOTTERY
Capital Assets, Net
Last Ten Fiscal Years

	2000	2001	2002	2003
Land	4,922,805	4,922,805	4,922,805	4,922,805
Gaming Terminals	8,050,112	5,696,905	3,293,125	1,260,096
Common carrier public network	1,107,460	695,547	313,737	77,821
Vending Machines	3,783	-	3,990,365	14,656,142
Buildings	16,247,191	15,653,578	15,059,966	15,427,027
Data processing equipment	4,723,092	4,197,818	3,455,075	3,604,517
Office furniture and equipment	922,790	728,205	893,072	813,845
Leasehold improvements	13,294	12,204	52,754	103,149
Other	1,399,904	1,963,693	3,371,236	2,998,107
Total capital assets	**37,390,430**	**33,870,755**	**35,352,134**	**43,863,510**

CALIFORNIA STATE LOTTERY
Contributions to Education
Last Ten Fiscal Years

	2000	2001	2002	2003
Allocations to Education Fund	907,304,850	1,031,985,959	1,027,185,343	976,998,004
Unclaimed prizes	40,731,810	79,649,148	36,878,803	42,818,968
Total Contributions to Education	**948,036,660**	**1,111,635,107**	**1,064,064,146**	**1,019,816,972**

2004	2005	2006	2007	2008	2009
4,922,805	4,922,805	4,922,805	4,922,805	6,469,219	6,469,219
22,640	154,651	120,608	14,154,156	12,831,183	12,670,664
-	-	-	-	-	-
11,390,305	14,860,156	16,824,801	10,805,729	6,238,000	3,368,057
14,700,813	15,859,317	16,522,310	15,616,279	19,340,110	16,687,975
3,727,470	2,752,714	2,175,973	1,346,488	1,083,275	667,642
964,074	714,270	1,135,533	1,324,713	2,015,682	2,279,846
132,716	98,614	173,060	591,084	555,708	455,846
2,210,971	1,605,508	1,051,792	1,441,768	1,943,315	2,766,924
38,071,794	**40,968,035**	**42,926,882**	**50,203,022**	**50,476,492**	**45,366,173**

2004	2005	2006	2007	2008	2009
1,044,061,703	1,148,775,087	1,258,507,917	1,176,929,117	1,069,328,092	1,027,728,959
50,195,285	27,019,168	29,490,162	29,217,965	25,617,218	20,964,857
1,094,256,988	**1,175,794,255**	**1,287,998,079**	**1,206,147,082**	**1,094,945,310**	**1,048,693,816**

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600 North 10th Street
Sacramento, CA 95811
916-324-9639
www.calottery.com