

# We are the calottery®

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2013



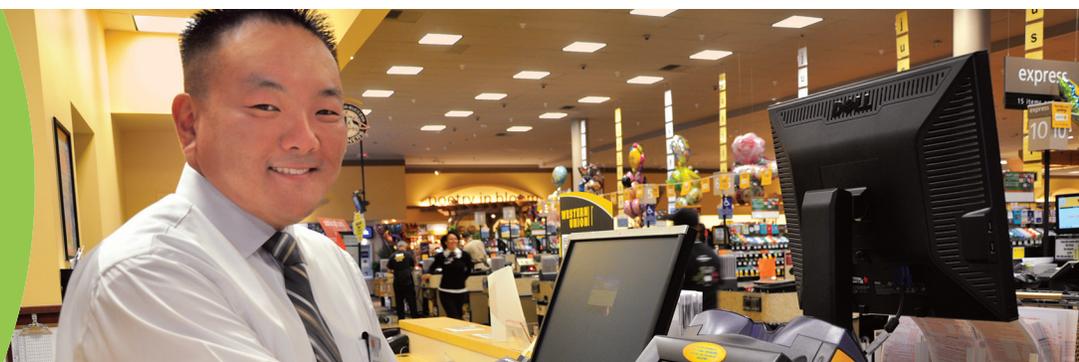
INSPIRING

INNOVATING



WINNING

PROMOTING



CALIFORNIA LOTTERY IS AN ENTERPRISE FUND OF THE STATE OF CALIFORNIA



# California State Lottery

An Enterprise Fund of the State of California



*Committed to enhancing education and supporting local communities*

## Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2013

Prepared by the  
Finance Division of the  
California State Lottery



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# Introductory Section

CALIFORNIA LOTTERY IS AN ENTERPRISE FUND OF THE STATE OF CALIFORNIA





December 31, 2013

To the Citizens of the State of California:

The California State Lottery (Lottery) is pleased to provide this Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013. The Finance Division of the Lottery prepared this CAFR to present an overview of the 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 as a single enterprise fund. The report follows formal standards of the Government Finance Officers Association of the United States and Canada (GFOA). Government organizations that publish this type of report can be compared to each other because similar types of information are included in the 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 percent of the voters. From the ballot initiative, the Lottery was established as an independent state agency to market and sell lottery products to the California public. The Lottery Act specifies that the Lottery is operated and administered by a five-member Commission appointed by the Governor. A Director, who is appointed by the Governor, serves as the chief administrator of the Lottery.

Lottery ticket sales began on October 3, 1985, with the sale of the first Scratchers® 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 the Mega Millions® and Powerball® jackpot prizes which can be claimed within one year. Retailers pay prizes up to and including \$599 while prizes over \$599 are paid directly by the Lottery. A brief description of each game is provided below.

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

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



**Scratchers**<sup>®</sup> – Scratchers games 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.



**Powerball**<sup>®</sup> – Players select five numbers from a field of 1 through 59 and one Powerball number from a field of 1 through 35. There are nine prize categories in this game. To win the jackpot, players must match all five numbers plus the Powerball number. Jackpot prizes start at \$40 million and have reached as high as \$590 million. Winning numbers are drawn every Wednesday and Saturday at 7:59 p.m. PST. Powerball is the largest multi-state lottery game in North America.



**Mega Millions**<sup>®</sup> – Players select five 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 numbers plus the Mega number. Jackpot prizes start at \$12 million and have reached as high as \$656 million. Winning numbers are drawn every Tuesday and Friday at 7:59 p.m. PST.



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



**Hot Spot**<sup>®</sup> – This game was designed primarily for social trade styles like restaurants and bowling centers, but is available at all retailer locations. Players select numbers from a field of 1 through 80 and have a choice of playing ten different “spots.” For example, a player who chooses to play a “three spot” would pick a set of three numbers. Players can also select the “Bulls-eye” option for a chance at winning more prizes if one of their chosen numbers also matches the Bulls-Eye number. There are a total of 92 prize categories (including the Bulls-eye prizes) in this game. 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 winning numbers are selected for each draw, one of them being the Bulls-Eye. Draw results are available statewide at all Lottery retailer locations.



**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 playstyle where players try to match the three numbers drawn in the exact order or in any order. Based on the selected playstyle (straight, box, or straight/box), there are many ways to win a prize. The top prizes average \$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 four numbers drawn will be in the exact order or in any order. Based on the selected playstyle (straight, box, or straight/box), there are many ways to win a prize. The top prize averages \$5,000. Winning numbers are drawn once a day.



**Fantasy 5** – This daily lotto-style game was designed with better odds than SuperLotto Plus. Players select a set of five numbers from 1 through 39. Winning tickets are those that match any two, three, four, or all five of the five numbers drawn. There are four prize categories in this game. Top prizes start at \$50,000 and have reached more than \$700,000 for matching all five numbers.

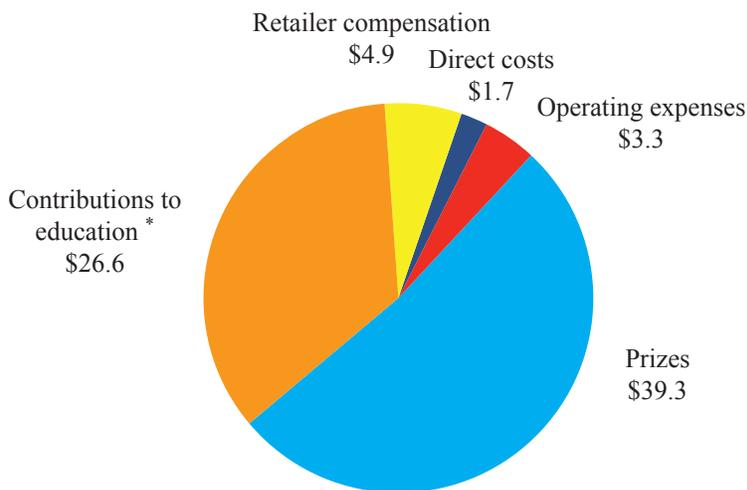


**Daily Derby**® – This daily game was designed with a horse racing theme, but is not associated with the results of any actual horse race. Players select three “horses” from a field of 12 and a “race time” which is a set of three numbers (e.g. 0, 1, and 9) with each number selected from a field of 0 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.



**Raffle** - Players may win prizes by matching their raffle numbers to the winning numbers draw 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.

**Distribution of Revenues**  
(in billions)  
**October 3, 1985 - June 30, 2013**



\* Includes interest income, unclaimed prizes, and other income of approximately \$1.2 billion.

From its inception in 1985 through June 30, 2013, the Lottery has generated approximately \$74.6 billion in sales and contributed over \$26.6 billion to schools. The retailers who sell lottery tickets have received over \$4.9 billion in compensation. Approximately \$39.3 billion has been paid to lucky Lottery winners.

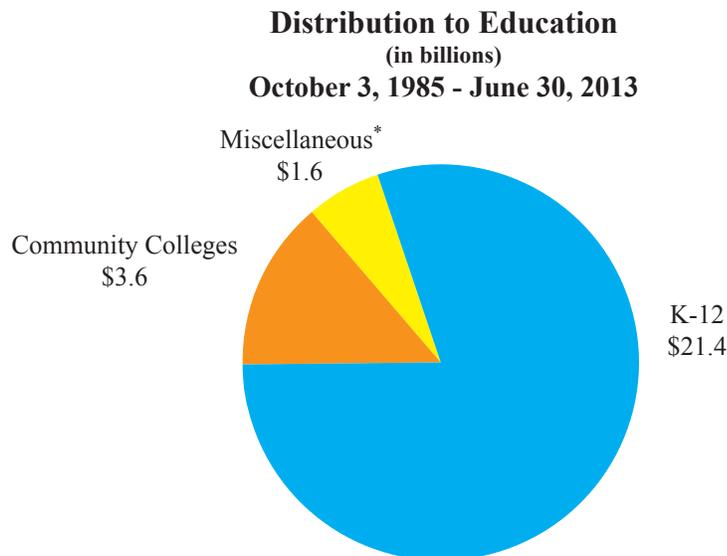
Additionally, by saving money on operations, the Lottery has given more money to schools than required. Since October 1985, the Lottery has contributed approximately \$708 million to education through operational savings.

For the fiscal year ended June 30, 2013, the State Controller issued payments from the Lottery Education Fund to school districts, educational institutions, and state agencies. Payments are made quarterly based on Lottery income and unclaimed prizes.

Funds allocated to various educational entities for the fiscal year ended June 30, 2013, are as follows:

<b>Entity</b>	<b>Amount Allocated</b>
K-12	\$ 1,038,022,637
Community Colleges	168,593,996
California State University	46,172,739
University of California	29,893,447
Department of Developmental Services	336,874
Department of Education - State Special Schools	110,953
Hastings College of the Law	163,813
Juvenile Justice	71,167
<b>Total \$</b>	<b>1,283,365,626</b>

The table above is a display of the amount allocated to education for the fiscal year ended June 30, 2013, and does not reflect the total earned for the fiscal year.



\* Includes payments to California State University, University of California, Hastings College of the Law, Department of Education - State Special Schools, Department of Corrections and Rehabilitation - Division of Juvenile Justice, the Department of State Hospitals (formerly the Department of Mental Health), and the Department of Developmental Services

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

## **Relevant Financial Policies**

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

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

### ***Budgetary Controls***

Budgetary control for the Lottery is addressed through its enabling legislation, which provides specific limitations on operating and administrative expenses. A comprehensive annual budget is prepared in conjunction with the Lottery's Annual Business Plan. The budget is prepared on both 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 entity's ability to achieve its goal. Beyond the human equation, mechanical and technical breakdowns can have equal measure in displaying the limitations of internal controls. Finally, unforeseen circumstances and factors can also materialize that require changes to the traditional internal control structure.

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

*Internal Audits:* Internal Audit personnel provide a continuing review of the internal controls and operations of the 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 attends and witnesses each Mega Millions and Powerball draw, regardless of draw location.

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

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

## **Employees**

For the fiscal year ended June 30, 2013, the Lottery had 759 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.

## **Major Initiatives**

It's been 28 years since California voters overwhelmingly approved the creation of the California Lottery, and we are excited to report that our sales and contributions to public education continue to grow.

This past fiscal year was another record-setting year in terms of total Lottery sales. For Fiscal Year 2012-13, the Lottery reports sales of \$4.45 billion, which represents an increase from last fiscal year's total of \$4.37 billion. In total, the Lottery declared more than \$1.28 billion for allocation to California schools, which makes it the 13th consecutive year that the Lottery has contributed more than a billion dollars to education.

The Lottery's continued growth is attributable to a number of factors. Despite a year that was marked by a lack of the large jackpots we saw in the previous fiscal years, Lottery sales received a late, yet significant boost in April when the first Powerball tickets went on sale. After some careful study and consideration, California became the 45th jurisdiction to add the multi-state Powerball game to its game portfolio after the Lottery Commission in November 2012 unanimously approved the game. Record-setting sales followed soon after Lottery retailers across the state officially began selling tickets on April 8.

We also continue to enjoy the flexibility provided by the passage of AB 142 in 2010. That measure gave the Lottery Commission the freedom to set prize payouts for games, including the ever-popular Scratchers products, at a level that maximizes our contributions to education. As a result, more people are playing the Lottery because more people are winning prizes. In the fiscal year 2011-12, we launched our first-ever \$10 Scratchers game. This year we added several new games at that same price point, which helped increase Scratchers sales by 9.2 percent.

In addition to creating exciting new games for our players and making more millionaires than ever before, the Lottery bolstered its infrastructure to better service our customers and our 21,135 statewide retailers. We also put even more effort toward increasing our family of retailers, looking for new chains as well as "mom and pop" stores to carry our products.

We continue to make the most of our advertising dollars as well. The launch of Powerball was a great success that was

backed by a successful, creative advertising campaign, but we're always on the lookout for new and innovative ways to market our products to a wider variety of players. On that note, we've continued to build our very successful and effective video campaign, and we've also created a social media program that is number one in the nation in terms of Facebook and Twitter fans for any lottery jurisdiction.

And while we're definitely trying to broaden our reach, we remain steadfast in our commitment to responsible gaming. Last year, the Lottery was proud to be awarded a Level 3 Certification for Responsible Gaming from the World Lottery Association. Although that has been a tremendous honor and an achievement only two U.S. state lotteries can boast, we continue to do even more to encourage responsible gaming, protect our players, and protect the integrity of our games and our organization.

### **Economic Outlook\***

The national and California economies continue to recover at a modest pace. There are some signs the economy gained strength in the first quarter of 2013. Consumer spending boosted growth more than expected while housing permits, home values, and construction jobs all grew. Residential real estate conditions in the early months of 2013 were characterized by rising prices coupled with limited inventories of homes for sale. Industry sectors across the board added jobs and unemployment fell. California 2012 GDP grew by 3.5 percent, the fifth highest rate among the states, with manufacturing, construction, and information services showing particularly large gains.

### **Awards and Acknowledgements**

The 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, 2012. This was the tenth consecutive year that the Lottery has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

Respectfully submitted,



Nicholas Buchen  
Chief Financial Officer  
Finance Division

\* Department of Finance, excerpted from the May revision of the Governor's 2013-14 Budget, Economic Outlook section



Government Finance Officers Association

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

Presented to

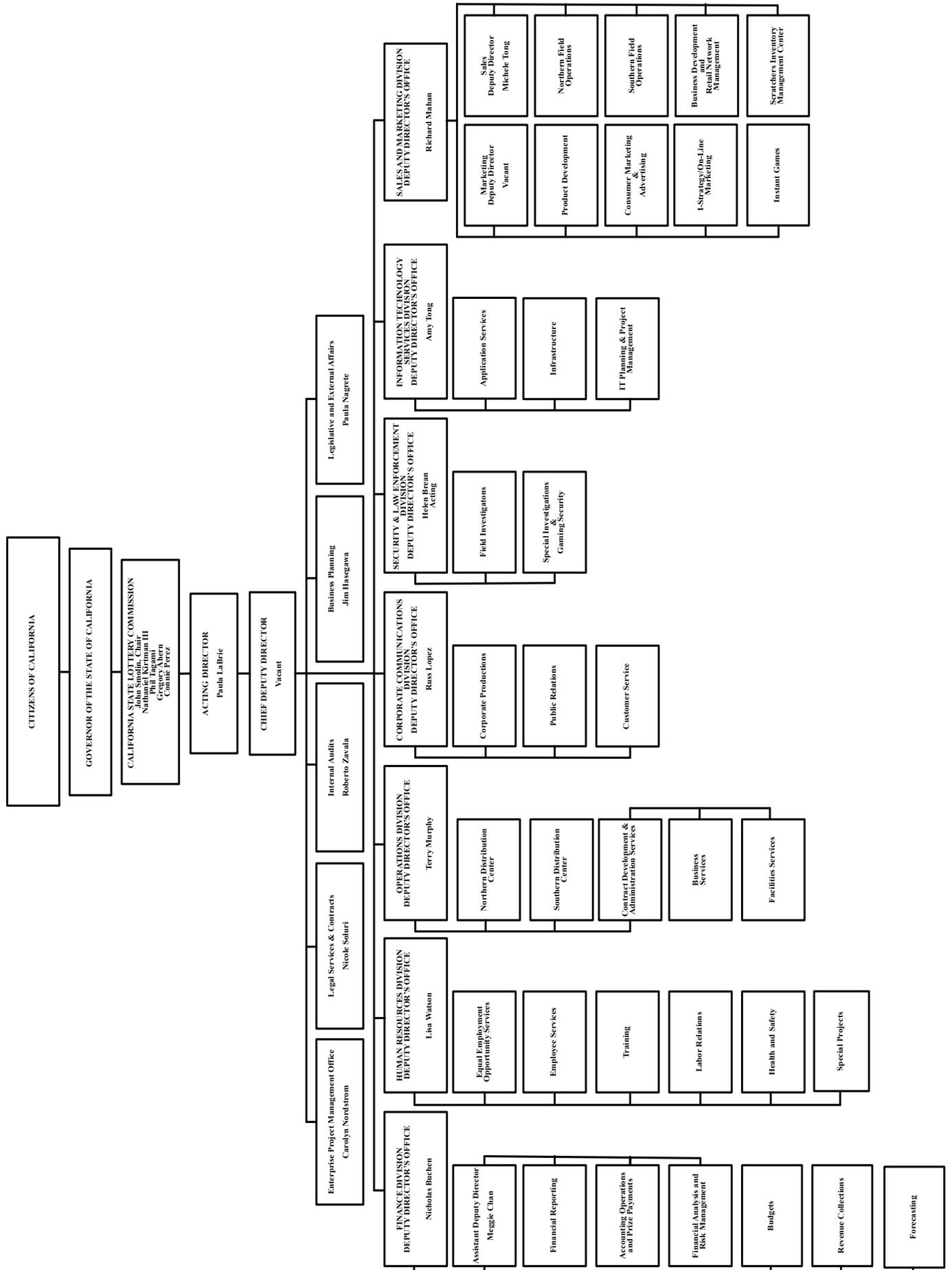
**California State Lottery**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2012**

Executive Director/CEO

# ORGANIZATION CHART WITH PRINCIPAL OFFICIALS



## California State Lottery Commission

Ensuring integrity, security, fairness, and fun.

Our Lottery Commission, whose members are appointed by the Governor, is charged with the authority and responsibility to oversee the California Lottery and ensure its integrity, security, and fairness. Our Commission meets at least once a quarter and their meetings are open to the public.



Gregory Ahern

Sheriff Ahern has been a lifelong resident of Alameda County. He was sworn in as a Deputy Sheriff in 1980, and has served over 32 years as a member of the Alameda County Sheriff's Office. In January 2007, he was sworn in as the 22nd Sheriff of Alameda County.



Nathaniel Kirtman III

Mr. Kirtman has been the senior vice president of publicity for NBC Universal since 2006. He was a vice president of marketing communications for General Electric Aviation from 2005 to 2006, a manager at General Electric from 2002 to 2005 and a senior manager of new media for NBC Entertainment from 1998 to 1999. Mr. Kirtman worked at Warner Bros. as a marketing representative from 1995 to 1998 and as a public affairs representative from 1994 to 1995.



Connie M. Perez

Ms. Perez is a partner at Brown Armstrong Accountancy Corporation, one of the largest accounting firms serving the Central Valley. Ms. Perez has nearly twelve years of governmental and commercial auditing experience. She actively participates in various professional organizations such as the State Association of County Retirement Systems, the California Association of Public Retirement Systems, and the American Institute of Certified Public Accountants. Ms. Perez is also involved as a board member in a number of not-for-profit entities: Treasurer of the California Hispanic Chambers of Commerce; Treasurer of the Latina Leaders of Kern County; and Treasurer of Children Joining Children for Success based in Kern County.



John Smolin

Mr. Smolin has worked in a number of firefighting positions with Los Angeles County since 1998, including serving most recently as a firefighter specialist. Mr. Smolin has been the treasurer for the Los Angeles County Firefighters Local 1014 since 2006. From 1997 to 1998, Mr. Smolin was a firefighter in the City of Glendale. He was self-employed as a certified public accountant from 1995 to 1996 and worked as a certified public accountant at Ernst and Young from 1992 to 1995.



Phil Tagami

Mr. Tagami has worked at the California Capital and Investment Group since 1992, including serving as president and chief executive officer since 2009. He was director of operations for Berger Enterprises from 1987 to 1992.

**California State Lottery Management Team**



Paula D. LaBrie  
Acting Director

Paula LaBrie, Acting Director for the California State Lottery, most recently served as the Lottery’s Chief Deputy Director. Her range of work experience includes business, law, government and public policy. Prior to joining the Lottery in 2012, Ms. LaBrie worked for the AAA of Northern California, Nevada, and Utah automobile club as a litigation attorney and subsequently as legislative counsel. Prior to her 18 years with AAA, Ms. LaBrie was an associate attorney at the law firm of Carroll, Burdick, and McDonough in San Francisco. Before deciding to enter law school she worked as an account administrator at IBM.

Ms. LaBrie holds a Master of Law degree in Government and Public Policy from McGeorge School of Law and a Juris Doctor from UC Hastings College of Law. She earned a Bachelor of Science degree from California State University, Hayward, with a major in Business Administration, concentrating in Marketing and Finance, and an Associate of Arts degree with a major in Art from Merritt College in Oakland.



Nicholas Buchen  
Deputy Director  
Finance



Jim Hasegawa  
Deputy Director  
Business Planning & Research



Russ Lopez  
Deputy Director  
Corporate Communications



Richard Mahan  
Deputy Director  
Sales & Marketing



Terry Murphy  
Deputy Director  
Operations



Paula Negrete  
Deputy Director  
External Affairs



Helen Brean  
Acting Deputy Director  
Security & Law Enforcement



Nicole Soluri  
Chief Counsel



Amy Tong  
Deputy Director  
Information Technology Services



Michele Tong  
Deputy Director  
Sales



Lisa Watson  
Deputy Director  
Human Resources



Roberto Zavala  
Chief  
Internal Audits



Carolyn Nordstrom  
Chief  
Enterprise Project Management Office



Ann Richardson  
Special Advisor to the Chief Deputy





# Financial Section

CALIFORNIA LOTTERY IS AN ENTERPRISE FUND OF THE STATE OF CALIFORNIA





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

## **Independent Auditor's Report**

The California State Lottery Commission  
Sacramento, California:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the California State Lottery Fund (the Lottery) as of and for the year ended June 30, 2013, and the related notes to the financial statements, as listed in the table of contents.

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

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

#### ***Auditor's Responsibility***

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

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

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

#### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the California State Lottery Fund as of June 30, 2013, and the changes in financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



***Emphasis of Matter***

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, 2013, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 19 through 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

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 do not express an opinion or provide any assurance on them.

**KPMG LLP**

October 15, 2013

## 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, 2013. Please read it in conjunction with the California State Lottery Financial Statements that follow this section.

### FINANCIAL HIGHLIGHTS

- Fiscal year 2012-13 saw sales of \$4.45 billion, the highest sales in California State Lottery (Lottery) history, and an increase of \$74.4 million over the prior year. For the 13th consecutive year, the Lottery will transfer over \$1 billion to California public schools.
- For the most part, higher Lottery sales are driven by higher prize payout percentages and by roll-patterns that result in large jackpots for Lotto-type games.
  - Scratchers<sup>®</sup> revenues exceeded those of 2011-12 by 9.2 percent or \$254.7 million. The increase in Scratchers sales was mainly due to continued demand for \$5 and \$10 price-point tickets which provide higher prize payouts.
  - On April 8, 2013, the Lottery joined with the Multi-State Lottery Association (MUSL) to sell \$2 Powerball<sup>®</sup> tickets. Due in part to a record \$590.5 million jackpot on May 18, 2013, Powerball sales of \$183.6 million in California exceeded projections.
  - Sales of Hot Spot<sup>®</sup> - a monitor game similar to Keno - increased 17.8 percent or \$23.3 million over last fiscal year. In October 2012, the Lottery increased the game's prize payout percentage from 56 percent to 63 percent of sales.
- The Lottery paid approximately \$2.7 billion in prizes to players, and approximately \$302.9 million in commissions, cashing bonuses, and other applicable fees to retailers.
- The assets of the Lottery were \$102.1 million greater than the liabilities for the year ended June 30, 2013, which is attributable primarily to realized and unrealized gains on Lottery investments used to fund future payments due on annuitized Lottery prizes.

### OVERVIEW OF THE FINANCIAL STATEMENTS

These required statements offer short-term and long-term financial information about the Lottery. The statement of net position 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 position. This statement measures the success of the Lottery's operations over the past year. The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Lottery's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and provides answers to such questions as where did cash come from and what was cash used for. The financial statements are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The Lottery is structured as a single enterprise fund with revenues recognized when earned, not when received.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FINANCIAL ANALYSIS

#### NET POSITION

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

	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and other assets	\$ 1,742,188,088	\$ 1,701,203,472	\$ (40,984,616)	(2.4 %)
Capital assets	85,183,982	82,251,499	(2,932,483)	(3.4 %)
Total assets	<u>\$ 1,827,372,070</u>	<u>\$ 1,783,454,971</u>	<u>\$ (43,917,099)</u>	<u>(2.4 %)</u>
Current liabilities	\$ 822,090,277	\$ 939,818,016	\$ 117,727,739	14.3 %
Non-current liabilities	849,684,238	741,569,254	(108,114,984)	(12.7 %)
Total liabilities	<u>\$ 1,671,774,515</u>	<u>\$ 1,681,387,270</u>	<u>\$ 9,612,755</u>	<u>0.6 %</u>
Invested in capital assets	\$ 85,183,982	\$ 82,251,499	\$ (2,932,483)	(3.4 %)
Restricted by legislation	155,597,555	102,067,701	(53,529,854)	(34.4 %)
Unrestricted (deficit)	(85,183,982)	(82,251,499)	2,932,483	(3.4 %)
Total net position	<u>\$ 155,597,555</u>	<u>\$ 102,067,701</u>	<u>\$ (53,529,854)</u>	<u>(34.4 %)</u>

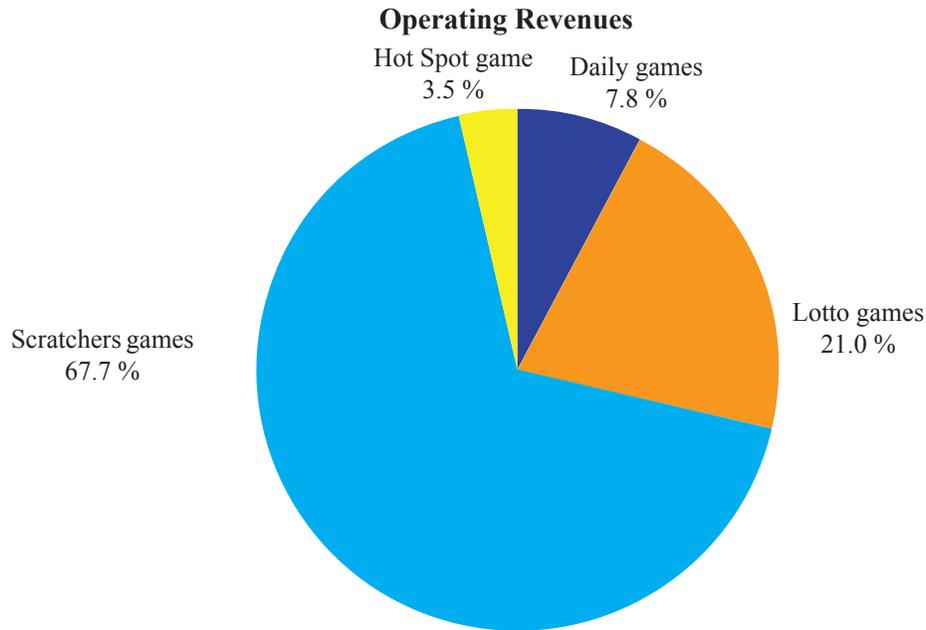
A summary of the California State Lottery's change in net position is presented below:

	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating revenues – Lottery sales	\$ 4,371,491,746	\$ 4,445,874,040	\$ 74,382,294	1.7 %
Prizes	2,560,306,589	2,652,095,102	91,788,513	3.6 %
Sales after prizes	<u>\$ 1,811,185,157</u>	<u>\$ 1,793,778,938</u>	<u>\$ (17,406,219)</u>	<u>(1.0 %)</u>
Game costs	369,863,017	380,097,433	10,234,416	2.8 %
Income before operating expenses	<u>\$ 1,441,322,140</u>	<u>\$ 1,413,681,505</u>	<u>\$ (27,640,635)</u>	<u>(1.9 %)</u>
Operating expenses	143,072,936	152,892,055	9,819,119	6.9 %
Operating income	<u>\$ 1,298,249,204</u>	<u>\$ 1,260,789,450</u>	<u>\$ (37,459,754)</u>	<u>(2.9 %)</u>
Non-operating expenses	(1,245,668,120)	(1,314,319,304)	(68,651,184)	5.5 %
Change in net position	<u>\$ 52,581,084</u>	<u>\$ (53,529,854)</u>	<u>\$ (106,110,938)</u>	<u>(201.8 %)</u>
Total net position – beginning of year	103,016,471	155,597,555	52,581,084	51.0 %
Total net position – end of year	<u>\$ 155,597,555</u>	<u>\$ 102,067,701</u>	<u>\$ (53,529,854)</u>	<u>(34.4 %)</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### REVENUES

The following chart shows the major sources and the percentages of operating revenues for the fiscal year ended June 30, 2013:



A summary of total revenues for the fiscal years ended June 30, 2012 and 2013, and the amount and percentage of change in relation to prior year amounts is as follows:

	June 30, 2012	June 30, 2013	Dollar Change	Percent Change
<b>Operating revenues:</b>				
Lotto games	\$ 1,143,839,339	\$ 935,660,488	\$ (208,178,851)	(18.2 %)
Scratchers games	2,755,381,647	3,010,119,929	254,738,282	9.2 %
Hot Spot game	131,056,826	154,403,306	23,346,480	17.8 %
Daily games	341,213,934	345,690,317	4,476,383	1.3 %
Total operating revenues	<u>\$ 4,371,491,746</u>	<u>\$ 4,445,874,040</u>	<u>\$ 74,382,294</u>	<u>1.7 %</u>
<b>Non-operating revenues:</b>				
Unrealized gains (losses) on investments	\$ 67,517,077	\$ (42,158,289)	\$ (109,675,366)	(162.4 %)
Interest accreted/earned on investments	43,290,197	38,405,632	(4,884,565)	(11.3 %)
Interest on funds held by State				
Treasurer	1,625,718	1,220,691	(405,027)	(24.9 %)
Other income	365,457	47,879	(317,578)	(86.9 %)
Total non-operating revenues	<u>\$ 112,798,449</u>	<u>\$ (2,484,087)</u>	<u>\$ (115,282,536)</u>	<u>(102.2 %)</u>
Total revenues	<u>\$ 4,484,290,195</u>	<u>\$ 4,443,389,953</u>	<u>\$ (40,900,242)</u>	<u>(0.9 %)</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

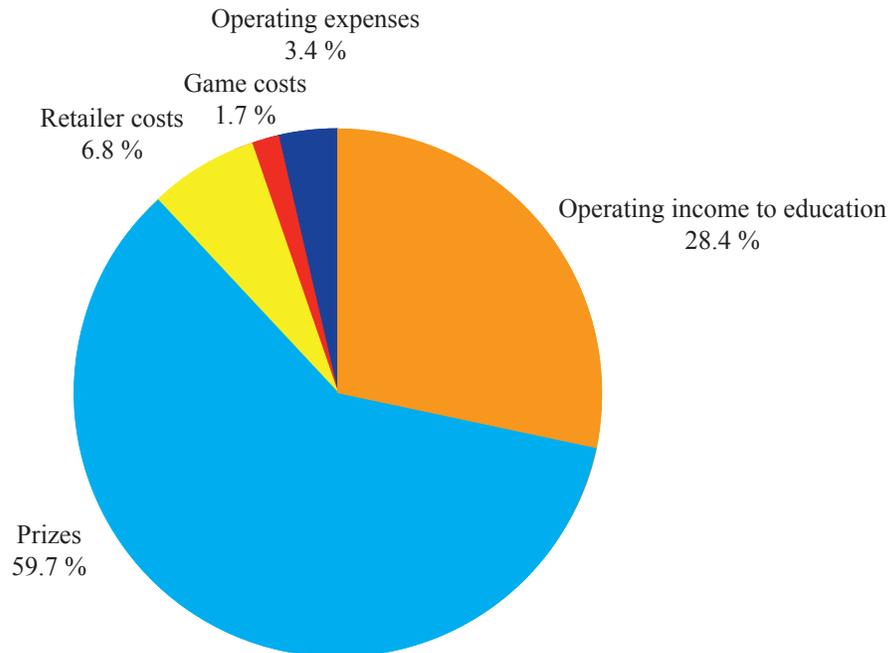
### REVENUES (continued)

Lottery operating revenue increased \$74.4 million or 1.7 percent over the previous year. Scratchers sales increased 9.2 percent over the previous year primarily due to the continued popularity of \$5 and \$10 price-point games. Hot Spot sales increased 17.8 percent mainly due to increasing the prize payout percentage for this game. The increases in Scratchers and Hot Spot sales were largely offset by a decrease in Lotto games sales of 18.2 percent over the previous year, even with the addition of Powerball in April. This decrease was primarily due to fewer large jackpots in fiscal year 2012-13.

### EXPENSES

The following chart shows prizes, game costs, operating expenses, and allocation to education as a percentage of operating revenues for the fiscal year ended June 30, 2013:

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



See Note 11 of the accompanying financial statements for more information on expenses as a percentage of revenues.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### EXPENSES (continued)

A summary of expenses for the fiscal years ended June 30, 2012 and 2013, and the amount and percentage change in relation to prior year amounts is as follows:

	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Prizes:				
Draw game prizes	\$ 792,389,316	\$ 723,654,671	\$ (68,734,645)	(8.7 %)
Scratchers game prizes	<u>1,767,917,273</u>	<u>1,928,440,431</u>	<u>160,523,158</u>	<u>9.1 %</u>
Total prizes	<u>\$ 2,560,306,589</u>	<u>\$ 2,652,095,102</u>	<u>\$ 91,788,513</u>	<u>3.6 %</u>
Game costs:				
Retailer costs	\$ 295,829,989	\$ 302,946,127	\$ 7,116,138	2.4 %
Draw/Scratchers game costs	<u>74,033,028</u>	<u>77,151,306</u>	<u>3,118,278</u>	<u>4.2 %</u>
Total game costs	<u>\$ 369,863,017</u>	<u>\$ 380,097,433</u>	<u>\$ 10,234,416</u>	<u>2.8 %</u>
Operating expenses:				
Salaries, wages, and benefits	\$ 62,937,875	\$ 56,781,125	\$ (6,156,750)	(9.8 %)
Advertising	47,833,141	56,044,193	8,211,052	17.2 %
Promotion, public relations, and point of sale	6,264,927	7,854,549	1,589,622	25.4 %
Other professional services	13,400,277	12,651,314	(748,963)	(5.6 %)
Depreciation and amortization	7,750,918	5,980,272	(1,770,646)	(22.8 %)
Other general and administrative expenses	<u>4,885,798</u>	<u>13,580,602</u>	<u>8,694,804</u>	<u>178.0 %</u>
Total operating expenses	<u>\$ 143,072,936</u>	<u>\$ 152,892,055</u>	<u>\$ 9,819,119</u>	<u>6.9 %</u>
Non-operating expenses:				
Allocation to Education Fund	\$ 1,300,240,379	\$ 1,262,058,020	\$ (38,182,359)	(2.9 %)
Interest imputed on annuitized prize liability	<u>58,226,190</u>	<u>49,777,197</u>	<u>(8,448,993)</u>	<u>(14.5 %)</u>
Total non-operating expenses	<u>\$ 1,358,466,569</u>	<u>\$ 1,311,835,217</u>	<u>\$ (46,631,352)</u>	<u>(3.4 %)</u>
Total expenses	<u>\$ 4,431,709,111</u>	<u>\$ 4,496,919,807</u>	<u>\$ 65,210,696</u>	<u>1.5 %</u>

Draw game prizes decreased in relation to decreased sales. The increase in Scratchers game prizes is mainly attributable to increased sales of the \$5 and \$10 tickets, which provide higher prize payouts. Advertising expense increased due primarily to the launch of Powerball. The increase in promotion, public relations, and point of sale is related primarily to player and retailer promotions to support the launch of Powerball. Depreciation and amortization decreased due to a large expense of gaming equipment in the prior fiscal year. Similarly, the decrease in salary expense and increase in general and administrative expense this year is due to the repayment of furloughed salary in the previous fiscal year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### CAPITAL ASSETS

A summary of capital assets as of June 30, 2012 and 2013, and the amount and percentage of change in relation to prior year amounts is as follows:

	June 30, 2012	June 30, 2013	Dollar Change	Percent Change
Non-depreciable capital assets:				
Land	\$ 6,469,219	\$ 6,469,219	\$ -	0.0 %
Depreciable capital assets:				
Gaming equipment	\$ 14,596,074	\$ 14,392,117	\$ (203,957)	(1.4 %)
Vending machines	34,243,343	30,044,295	(4,199,048)	(12.3 %)
Buildings	68,045,383	69,986,320	1,940,937	2.9 %
Data processing equipment	14,959,450	13,361,656	(1,597,794)	(10.7 %)
Office furniture and equipment	11,469,117	7,642,537	(3,826,580)	(33.4 %)
Leasehold improvements	813,658	813,658	-	0.0 %
Other	6,718,680	6,579,301	(139,379)	(2.1 %)
Subtotal	<u>\$ 150,845,705</u>	<u>\$ 142,819,884</u>	<u>\$ (8,025,821)</u>	<u>(5.3 %)</u>
Less accumulated depreciation	<u>(72,130,942)</u>	<u>(67,037,604)</u>	<u>5,093,338</u>	<u>(7.1 %)</u>
Total depreciable capital assets	<u>\$ 78,714,763</u>	<u>\$ 75,782,280</u>	<u>\$ (2,932,483)</u>	<u>(3.7 %)</u>
Capital assets, net	<u>\$ 85,183,982</u>	<u>\$ 82,251,499</u>	<u>\$ (2,932,483)</u>	<u>(3.4 %)</u>

The decreases in vending machines, data processing equipment, office furniture and equipment, and accumulated depreciation was due primarily to removing fully depreciated assets from our accounting system after completion of a physical inventory. More information on the Lottery's capital assets can be found in Note 5.

### LONG - TERM DEBT

At June 30, 2013, the California State Lottery had approximately \$741.6 million in non-current liabilities, a decrease of 12.7 percent over the previous fiscal year. This decrease is mostly attributable to prize liability, as the majority of jackpot and annuity-level prize winners choose the cash option rather than annuitized payments. In addition, nearly \$6.9 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 \$33.8 million as of June 30, 2013. Additional detailed information on long-term prize liability may be found in Note 6 and additional information on the NOO may be found in Note 10.

### CONTACTING THE LOTTERY'S FINANCIAL MANAGER

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

**CALIFORNIA STATE LOTTERY FUND**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2013**

**ASSETS**

Current assets:	
Cash and cash equivalents (Note 2)	\$ 342,924,471
Investments, current portion (Note 2)	133,867,310
Accounts receivable, net of allowances (Note 3)	362,743,862
Due from state funds (Note 4)	277,485
Ticket inventories	7,863,129
Other	<u>5,767,991</u>
Total current assets	\$ <u>853,444,248</u>
Non-current assets:	
Investments, less current portion (Note 2)	\$ 828,346,531
Capital assets, net (Note 5)	82,251,499
Long-term prepaid charges, net	<u>19,412,693</u>
Total non-current assets	\$ <u>930,010,723</u>
TOTAL ASSETS	\$ <u><u>1,783,454,971</u></u>

**LIABILITIES**

Current liabilities:	
Accounts payable	\$ 54,503,419
Current prize liability (Note 6)	491,122,559
Due to state funds (Note 7)	381,157,181
Accrued liabilities	9,894,217
Unearned revenue	<u>3,140,640</u>
Total current liabilities	\$ <u>939,818,016</u>
Non-current liabilities:	
Prize liability, less current portion (Note 6)	\$ 707,781,254
Other postemployment benefits (Note 10)	<u>33,788,000</u>
Total non-current liabilities	\$ <u>741,569,254</u>
TOTAL LIABILITIES	\$ <u><u>1,681,387,270</u></u>

Commitments and contingencies (Notes 8 and 12)

**NET POSITION**

Invested in capital assets (Note 5)	\$ 82,251,499
Restricted by legislation for prizes (Note 2)	102,067,701
Unrestricted deficit	<u>(82,251,499)</u>
TOTAL NET POSITION	\$ <u><u>102,067,701</u></u>

See accompanying notes to the financial statements.

**CALIFORNIA STATE LOTTERY FUND**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**YEAR ENDED JUNE 30, 2013**

Operating revenues: Lottery sales	\$ 4,445,874,040
Prizes	<u>2,652,095,102</u>
Sales after prizes	<u>\$ 1,793,778,938</u>
Less game costs:	
Retailer costs	\$ 302,946,127
Draw game costs	49,562,417
Scratchers game costs	<u>27,588,889</u>
Total game costs	<u>\$ 380,097,433</u>
Income before operating expenses	<u>\$ 1,413,681,505</u>
Operating expenses:	
Salaries, wages, and benefits	\$ 56,781,125
Advertising	56,044,193
Promotion, public relations, and point of sale	7,854,549
Other professional services	12,651,314
Depreciation and amortization	5,980,272
Other general and administrative expenses	<u>13,580,602</u>
Total operating expenses	<u>\$ 152,892,055</u>
Operating income	<u>\$ 1,260,789,450</u>
Non-operating (expenses) revenues:	
Investment earnings (Note 9)	\$ (2,531,966)
Interest expense imputed on annuitized prize liability	(49,777,197)
Other income	47,879
Allocation to Education Fund (Note 7)	<u>(1,262,058,020)</u>
Total non-operating expenses	<u>\$ (1,314,319,304)</u>
Change in net position	\$ (53,529,854)
Total net position - beginning balance	<u>155,597,555</u>
Total net position - ending balance	<u><u>\$ 102,067,701</u></u>

See accompanying notes to the financial statements.

**CALIFORNIA STATE LOTTERY FUND**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2013**

Cash flows from operating activities:	
Receipts from customers	\$ 4,407,306,637
Payments for prizes	(2,929,424,514)
Payments to retailers	(302,964,653)
Payments to suppliers for goods and services	(191,082,431)
Payments to employees	(43,282,083)
Internal activity-payments to state funds	(12,749,707)
Receipts from other states	142,634,099
Other receipts	<u>120,595</u>
Net cash flows provided by operating activities	<u>\$ 1,070,557,943</u>
Cash flows from non-capital financing activities:	
Distributions to Education Fund	<u>\$ (1,187,365,634)</u>
Net cash flows used in non-capital financing activities	<u>\$ (1,187,365,634)</u>
Cash flows from capital and related financing activities:	
Proceeds from disposal of property and equipment	\$ 4,228
Payments for capital assets	<u>(3,103,020)</u>
Net cash flows used in capital and related financing activities	<u>\$ (3,098,792)</u>
Cash flows from investing activities:	
Purchase of securities	\$ (119,589,610)
Proceeds from matured securities	148,545,000
Proceeds from sale of securities	126,770,915
Investment Portfolio and SMIF interest received	<u>23,801,606</u>
Net cash flows provided by investing activities	<u>\$ 179,527,911</u>
Increase in cash and cash equivalents	<u>\$ 59,621,428</u>
Cash and cash equivalents at July 1, 2012	<u>\$ 283,303,043</u>
Cash and cash equivalents at June 30, 2013	<u><u>\$ 342,924,471</u></u>

See accompanying notes to the financial statements.

**CALIFORNIA STATE LOTTERY FUND  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2013**

Cash flows from operating activities:	
Operating income	\$ 1,260,789,450
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	\$ 5,980,272
Provision for doubtful accounts	670,968
Provision for returned tickets	(8,546,262)
Provision for free ticket redemptions	(3,551,162)
Net non-cash other postemployment cost	6,882,000
Net loss on retirement or disposal of capital assets	51,004
Other income	47,879
Changes in assets and liabilities:	
Increase in accounts receivable	(48,165,449)
Decrease in due from other funds net of SMIF	44,411
Decrease in ticket inventories	83,935
Increase in other assets	(3,552,844)
Increase in long-term prepaid charges	(18,356,208)
Increase in accounts payable	11,696,876
Decrease in prize liability	(134,695,314)
Increase in due to state funds	286,895
Increase in accrued liabilities	580,409
Increase in unearned revenues	311,083
Net cash flows provided by operating activities	<u>\$ 1,070,557,943</u>

Supplemental disclosure of non-cash activities:

Interest accreted on annuitized prizes	<u>\$ 49,777,197</u>
Unclaimed prizes directly allocated to the Education Fund	<u>\$ 22,312,759</u>
Unrealized loss on investments	<u>\$ (42,158,289)</u>
Interest accreted on zero coupon bonds	<u>\$ 16,035,332</u>

See accompanying notes to the financial statements.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

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

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

In addition, AB 142 requires that for each fiscal year beginning with 2010-11, the Lottery's contribution to education under the new percentages be greater than it was in the 2008-09 base fiscal year; otherwise, the law reverts back to previous percentages. Previously, the Act mandated 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, at least 34 percent be allocated to benefit public education, and no more than 16 percent of the total annual revenues from sales of tickets or shares be allocated for payment of operating expenses of the Lottery.

**Basis of Presentation**

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

**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. 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 Powerball and Mega Millions<sup>®</sup>, the public has the right to cancel a sale on the same day before pool closure. All Powerball and Mega Millions sales are final. The applicable retailers' commission of four and one-half to six percent is recognized when sales are made to the public. Recognition of the revenue from sales for future draws is considered unearned until those draws become current. The retailers' commission related to the unearned revenue is reflected as a prepaid expense until the revenue is recognized.

**Prizes – Scratchers Games**

Prize expense for Scratchers games is recognized based on the predetermined prize structure for each game in the period revenue is recognized. Prizes that are not claimed are recognized as unclaimed prizes 180 days after

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

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

**Prizes – Scratchers Games (continued)**

the end of each game. Unclaimed prizes not directly payable by the Lottery are recognized as a reduction of prize expense and included in the Lottery's operating income that is allocated to the Education Fund. Unclaimed prizes directly payable by the Lottery are allocated directly to the Education Fund.

Prizes of \$1 million or more are generally paid in equal, annual installments over 20 or 25 years. The Weekly Grand, the Extravaganza 2000, the Twice as Grand, and the Weekly \$2,000 Payday top prizes are paid in weekly installments over 20 years. The California Lucky for Life games feature top prizes of \$500 to \$5,000 per week, paid in weekly installments over 25 years, or a lump sum cash option. The Decade of Dollars top prizes are paid in annual installments over 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 20-year and 25-year periods, respectively. Prize expense for annuity prizes is based on the present value of the annuity using an interest rate equal to the interest yield on the zero coupon U.S. Treasury bonds which the Lottery acquires to fund the annuity payments. Interest earned is imputed on the annuity using the same interest rate.

The following Scratchers games featured top prizes of \$1 million, each paid in a single payment: The Next Millionaire, California Millionaire, Millions in Cash, \$250 Million Cash Spectacular, and \$1,000,000 Fortune.

**Prizes - Draw Games**

Powerball and Mega Millions - The California Lottery joined the multi-state game Powerball on April 8, 2013, for the draw on April 10, 2013. Prize expense for each of the twice-weekly multi-state draw games is recognized on the basis of the predetermined prize structure when the revenue is recognized. Nine distinct prize categories for each game are established which are dependent upon the amount of money wagered and the quantity of numbers to be matched. In the event that no winning share for a specific prize category of Powerball or Mega Millions is selected, all monies allocated for that prize are carried forward to the following drawing and remain in the pool for that same prize category.

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

Powerball grand/jackpot prizes won in California are paid in 30 graduated, annual installments. Mega Millions grand/jackpot prizes won in California are paid in 26 equal, annual installments. For each game, winners have up to 60 days after the date they become entitled to the prize to irrevocably elect to receive the cash value of the prize instead of annual payments. Payments for all other prize categories are made in a single payment.

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

SuperLotto Plus® - Prize expense for the twice-weekly draw game is recognized on the basis of the predetermined prize structure when the revenue is recognized. Nine distinct prize categories are established which are dependent upon the amount of money wagered and the quantity of numbers to be matched. In the event that no winning share

**CALIFORNIA STATE LOTTERY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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

**Prizes – Draw Games (continued)**

for a specific prize category in SuperLotto Plus is chosen, all monies allocated for that prize are carried forward to the following drawing and added to the Five of Five plus Mega number category (grand prize).

SuperLotto Plus grand/jackpot prizes of \$1 million or more won prior to April 1, 1998, are paid in 20 equal, annual installments. Grand/jackpot prizes of \$1 million or more won between April 1, 1998, and May 10, 2013, are paid either in 26 graduated, annual payments or in a single payment equal to the cash value of the 26-payment annuity, in accordance with the rules and regulations of the Lottery. Beginning September 21, 2005, claimants have up to 60 days after they became entitled to the prize to irrevocably elect to receive the cash payment instead of the annuitized payments. Starting May 11, 2013, grand prizes are paid in 30 graduated, annual payments or in a single payment equal to the estimated cost to fully fund the advertised annuity prize. Such estimated cost is determined by market pricing for U.S. Treasury bonds. Payments for all other prize categories are made in a single payment. All SuperLotto Plus prizes won but not claimed within the specified period are allocated directly to the Education Fund.

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

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

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

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

Hot Spot - 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 Typical Prize Pools (TPP's) for the 8 Spot Match 8 of 8 category and Typical Prize Amounts (TPA's) 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 prizes. On August 1, 2011, the Lottery expanded the prize categories from 5 spots to 10 spots, and expanded the TPP's to include the 9 Spot Match 9 of 9 and the 10 Spot Match 10 of 10 categories. In addition to the initial transfer made in 2006, 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.

**CALIFORNIA STATE LOTTERY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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

**Prizes – Draw Games (continued)**

Prior to the changes made on November 27, 2006, and August 1, 2011, 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. 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).

**Investments**

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

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.

**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 is written off at the end of each game.

**Capital Assets**

The Lottery has adopted a policy of capitalizing assets with an acquisition cost or established value of \$5,000 or greater. Capital assets are carried at cost. Depreciation on property and equipment is computed using the straight-line method over estimated lives ranging from one to seven years. Depreciation on buildings, improvements, and land improvements is computed using the straight-line method over estimated lives of five to 40 years. When assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations in the period of disposal. Amortization of leasehold improvements is computed using the straight-line method over the remaining lease terms.

**CALIFORNIA STATE LOTTERY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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

**Long-term Prepaid Charges**

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

**Advertising**

Advertising costs are expensed when the related liability is incurred. Advertising expense totaled \$56,044,193 for the year ended June 30, 2013.

**Investment Earnings**

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

**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.

**2. DEPOSITS AND INVESTMENTS**

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

**Interest Rate Risk**

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

**Credit Risk**

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

**Custodial Credit Risk**

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

**Concentration of Credit Risk**

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

**CALIFORNIA STATE LOTTERY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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

**Investments**

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

As of June 30, 2013, the Lottery's investments, with yields ranging from 0.06 percent to 6.06 percent, consist of the following:

	<u>Face Amount</u>	<u>Cost</u>	<u>Fair Value</u>
Current portion:			
U.S. Treasury Bonds	\$ 21,338,000	\$ 17,090,957	\$ 21,324,568
U.S. Agency Bonds	85,811,000	76,368,407	85,662,853
U.S. Municipal Bonds	<u>26,700,000</u>	<u>26,702,039</u>	<u>26,879,889</u>
Total current portion	<u>\$ 133,849,000</u>	<u>\$ 120,161,403</u>	<u>\$ 133,867,310</u>
Long-term portion:			
U.S. Treasury Bonds	\$ 184,576,000	\$ 110,138,433	\$ 133,768,947
U.S. Agency Bonds	277,495,000	174,754,160	230,928,395
U.S. Municipal Bonds	<u>420,710,000</u>	<u>422,817,436</u>	<u>463,649,189</u>
Total long-term portion	<u>\$ 882,781,000</u>	<u>\$ 707,710,029</u>	<u>\$ 828,346,531</u>
 Total investments	 <u>\$ 1,016,630,000</u>	 <u>\$ 827,871,432</u>	 <u>\$ 962,213,841</u>

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 independent pricing vendor. The following represents the changes in fair value of investments for the year ended June 30, 2013, in accordance with the requirements of GASB 31.

Changes in fair value of investments:	
Unrealized investment gains at July 1, 2012	\$ 121,248,639
Unrealized investment loss, current period	<u>(42,158,289)</u>
Total unrealized investment gains	<u>\$ 79,090,350</u>

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 conducted an investment portfolio restructuring program from May 2009 through September 2010. By replacing U.S. Treasury zero coupon bonds with higher yielding investments, the Lottery generated cash proceeds that were used to further the Lottery's directives.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

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

**Investments (continued)**

As a result of the restructuring transactions, the interest imputed on prize liability will no longer equal the interest earned on the restructured investment portfolio. The difference will be reported in the statement of revenues, expenses, and changes in net position and result in an adjustment to net position restricted by legislation. As the realized and unrealized investment gain and loss activity relates to investments that must be held to satisfy prize liabilities, they are deemed statutorily restricted and therefore reported as restricted by legislation.

**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 Strips	9.03 years
U.S. Agency Holdings	4.47 years
U.S. Municipal Bond Holdings	7.45 years
Surplus Money Investment Fund	0.76 years

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

The Lottery has adopted a specific policy to manage credit risk in the Lottery’s investment portfolio. The zero coupon U.S. Treasury bonds and U.S. Treasury bills are backed by the full faith and credit of the United States government. Therefore, the U.S. Treasury obligation investments are not considered to have credit risk or a concentration of credit risk, as defined by the Governmental Accounting Standards Board. The Lottery’s policy to manage credit risk requires municipal bonds to have a minimum double A credit rating by Fitch, Moody’s, or Standard and Poor’s to be eligible for purchase as part of the Lottery’s investment portfolio. Agency bonds have a triple A credit rating and the Surplus Money Investment Fund is not rated at June 30, 2013. Credit risk is further mitigated by a \$2.7 million par value agency bond reserve. The bond reserve has a fair value of \$1,799,261.

As of June 30, 2013, the fair value of the Lottery’s investment portfolio expressed as a percentage of Moody’s credit rating categories was as follows:

Moody’s Credit Rating	Fair Value	Percent of Total Portfolio
Aaa	\$ 486,680,315	50.58 %
Aa1	143,358,897	14.90 %
Aa2	52,373,124	5.44 %
Aa3	47,999,225	4.99 %
A1	205,303,820	21.34 %
A3	26,498,460	2.75 %
Totals	<u>\$ 962,213,841</u>	<u>100.00 %</u>

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

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

**Investments (continued)**

The following table provides information about the Lottery's concentration of credit risk. It shows investments by any one issuer representing 5 percent or more of the Lottery's total portfolio, and not explicitly guaranteed by the U.S. government.

Issuer	Cost	Fair Value	Percent of Total Portfolio	Moody's Credit Rating
State of California	\$ 189,475,817	\$ 205,303,820	21.34 %	A1
Commonwealth of Massachusetts	\$ 62,546,830	\$ 66,312,400	6.89 %	Aa1

**Custodial Credit Risk – Investments**

The Lottery does not have a formal investment policy for custodial credit risk for investments. As of June 30, 2013, all the prize investments are uninsured, registered investments held in book-entry form by the State Treasurer's Office in a master custody account with Citibank, N.A.

**Deposits**

The following deposits, included in cash and cash equivalents, are in pools managed by other State of California government units and are not evidenced by securities. Interest income earned on outstanding cash balances is allocated among pool participants based on average daily cash balances. As of June 30, 2013, the carrying value of deposits in the Surplus Money Investment Fund approximated fair value.

State Treasury	\$ 10,449,558
Surplus Money Investment Fund (SMIF)	332,458,000
	<u>\$ 342,907,558</u>

The total cash and cash equivalents of \$342,924,471 also includes retailer payments delivered to the Lottery but not deposited into Lottery accounts by period end. At June 30, 2013, this cash on hand totaled \$16,913.

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.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

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

**Deposits (continued)**

At June 30, 2013, 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	\$ 202,891,607
Federal Agency Debt	23,638,307
IBRD Bonds	2,544,481
Certificates of Deposit	52,410,798
Commercial Paper	24,050,074
Time Deposits	25,298,403
AB 55 and General Fund Loans	1,624,330
Total	\$ 332,458,000

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, 2013, 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 0.31 percent for the year ended June 30, 2013.

**3. ACCOUNTS RECEIVABLE**

Accounts receivable consists of the following:

Amounts due, primarily from retailers	\$ 418,784,592
Less: Allowance for free ticket redemption	(31,654,173)
Allowance for doubtful accounts	(4,145,491)
Allowance for ticket returns	(20,241,066)
Accounts receivable, net	\$ 362,743,862

**4. DUE FROM STATE FUNDS**

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

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**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	14,596,074	-	(203,957)	14,392,117
Vending machines	34,243,343	-	(4,199,048)	30,044,295
Buildings	68,045,383	1,940,937	-	69,986,320
Data processing equipment	14,959,450	671,239	(2,269,033)	13,361,656
Office furniture and equipment	11,469,117	353,664	(4,180,244)	7,642,537
Leasehold improvements	813,658	-	-	813,658
Other	6,718,680	143,673	(283,052)	6,579,301
	<u>\$ 157,314,924</u>	<u>\$ 3,109,513</u>	<u>\$ (11,135,334)</u>	<u>\$ 149,289,103</u>
Less accumulated depreciation and amortization:				
Gaming equipment	\$ (13,401,886)	\$ (606,306)	\$ 168,306	\$ (13,839,886)
Vending machines	(34,243,343)	-	4,199,048	(30,044,295)
Buildings	(2,190,632)	(1,773,139)	-	(3,963,771)
Data processing equipment	(8,896,425)	(1,735,517)	2,262,625	(8,369,317)
Office furniture and equipment	(7,597,963)	(1,126,266)	4,167,769	(4,556,460)
Leasehold improvements	(631,492)	(76,394)	-	(707,886)
Other	(5,169,201)	(662,650)	275,862	(5,555,989)
	<u>\$ (72,130,942)</u>	<u>\$ (5,980,272)</u>	<u>\$ 11,073,610</u>	<u>\$ (67,037,604)</u>
Capital assets, net	<u>\$ 85,183,982</u>	<u>\$ (2,870,759)</u>	<u>\$ (61,724)</u>	<u>\$ 82,251,499</u>

Depreciation and amortization charged to income on capital assets was \$5,980,272 for the year ended June 30, 2013.

**CALIFORNIA STATE LOTTERY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**6. PRIZE LIABILITY**

Prize liability consists of the following:

	Scratchers Games	Draw Games	Total
Current:			
Annuitized prizes	\$ 20,106,371	\$ 193,964,264	\$ 214,070,635
Other prizes	250,142,247	26,909,677	277,051,924
Total current prize liability	\$ 270,248,618	\$ 220,873,941	\$ 491,122,559
Long-term annuitized prizes	\$ 180,351,000	\$ 829,925,000	\$ 1,010,276,000
Less imputed interest	(46,270,539)	(256,224,207)	(302,494,746)
Net present value of long-term prizes	\$ 134,080,461	\$ 573,700,793	\$ 707,781,254
Total prize liability	\$ 404,329,079	\$ 794,574,734	\$ 1,198,903,813

The amount of prizes due within one year is \$491,122,559.

Long-term prize liability as of June 30, 2013, for each of the next five years and for subsequent years is as follows:

	Principal	Interest	Total
For the year ending June 30, 2015	\$ 54,986,448	\$ 64,205,346	\$ 119,191,794
2016	44,873,898	44,044,963	88,918,861
2017	35,707,230	26,769,138	62,476,368
2018	30,141,592	19,108,061	49,249,653
2019	28,788,441	18,251,018	47,039,459
2020-2024	125,068,501	78,488,567	203,557,068
2025-2029	81,814,441	36,545,913	118,360,354
2030-2034	14,947,240	2,211,870	17,159,110
2035-2039	1,711,084	117,503	1,828,587
Total long-term prize liability	\$ 418,038,875	\$ 289,742,379	\$ 707,781,254

Activity in the prize liability accounts consists of:

Balance, July 1, 2012	\$ 1,306,053,466
Prize expense	2,652,095,102
Prize payments	(2,929,424,514)
Grand/Jackpot prize contributions from other Party Lotteries	142,634,099
Interest imputed on annuities	49,777,197
Cash option adjustment	81,222
Unclaimed prizes	(22,312,759)
Balance, June 30, 2013	\$ 1,198,903,813

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**7. DUE TO STATE FUNDS**

Due to state funds consists of the following:

Due to Education Fund	\$ 380,720,287
Due to other state funds	<u>436,894</u>
 Total due to state funds	 <u><u>\$ 381,157,181</u></u>

Activity in the Due to Education Fund account consists of:

Balance, July 1, 2012	\$ 283,715,142
Allocation to Education Fund, earned by the California State Lottery Fund	\$ 1,262,058,020
Unclaimed prizes directly allocated to the Education Fund	<u>22,312,759</u>
	\$ 1,284,370,779
 Distribution to the Education Fund	 <u>(1,187,365,634)</u>
 Balance, June 30, 2013	 <u><u>\$ 380,720,287</u></u>

**8. LEASES**

The Lottery leases office, warehouse, and parking lot facilities under operating leases. These leases expire in various years through October 31, 2019. Most operating leases have a provision for early termination. These leases could be terminated between November 2013 and October 2019.

The future minimum lease payments under operating leases as of June 30, 2013, are as follows:

	Operating Leases
For the year ending June 30, 2014	\$ 1,331,096
2015	1,184,155
2016	977,529
2017	1,004,919
2018	391,891
Thereafter	<u>210,689</u>
 Total minimum payments	 <u><u>\$ 5,100,279</u></u>

Rental expense for all operating leases totaled \$1,519,311 for the year ended June 30, 2013.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**9. INVESTMENT EARNINGS**

Investment earnings consist of:

Interest on funds held by State Treasurer	\$ 1,220,691
Change in Fair Market Value of Investments	(42,158,289)
Interest accreted/earned on investments	38,405,632
Total investment earnings	\$ (2,531,966)

**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](http://www.CalPERS.ca.gov).

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

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 zero to 11 percent. 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, 2013, the Lottery's payroll for employees covered by CalPERS was approximately \$32.2 million and the total payroll for the period was approximately \$32.9 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) as of July 2012 for the 2012-13 fiscal year are as follows:

State Miscellaneous Member First Tier	20.503 %
State Miscellaneous Member Second Tier	20.457 %
State Safety Member	17.503 %
Peace Officer	30.297 %

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

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

**Retirement Plan (continued)**

The Lottery's pension cost for the year ended June 30, 2013, 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, 2011.

Three year trend information for the Lottery:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage Of APC Contributed	Net Pension Obligation
6/30/11	\$5,426,592	100 %	\$0
6/30/12	\$6,800,344	100 %	\$0
6/30/13	\$6,036,633	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 California Department of Human Resources (CalHR). 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 member's years of credited service. 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 2012-13 fiscal year maintained the 100/90 percent contribution formula established by Government Code. Under this formula, the State uses 100 percent of the weighted average premiums of the four largest health benefit plans in order to calculate the maximum amount the State will contribute toward the retiree's health benefits. The State also contributes 90 percent of this average for the health benefits of each 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 estimated contribution is \$622 for a single enrollee, \$1,183 for an enrollee and one dependent, and \$1,515 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 State Legislature. If members are not fully vested, the health care and dental contributions are prorated based on the years of service.

The Lottery paid approximately \$3.7 million for post-retirement health and dental benefits for retired members for the year ended June 30, 2013. The Lottery adopted GASB 45 during the 2007-08 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, 2013, was \$10,581,000. The total NOO liability recorded as of June 30, 2013, is \$33,788,000. 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, 2013, and the previous two fiscal years.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

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

**Other Postemployment Benefits (continued)**

Net OPEB obligation (NOO), July 1, 2010	\$ 14,820,000
Allocated annual OPEB cost (AOC)	8,827,000
Fund allocated contributions	<u>(3,239,000)</u>
Net OPEB obligation (NOO), July 1, 2011	20,408,000
Allocated annual OPEB cost (AOC)	10,088,000
Fund allocated contributions	<u>(3,590,000)</u>
Net OPEB obligation (NOO), June 30, 2012	26,906,000
Allocated annual OPEB cost (AOC)	10,581,000
Fund allocated contributions	<u>(3,699,000)</u>
Net OPEB obligation (NOO), June 30, 2013	<u>\$ 33,788,000</u>

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](http://www.SCO.ca.gov). The Lottery's ARC, AOC, and NOO are calculated and adjusted for on an annual basis.

**11. STATUTORY COMPLIANCE (Unaudited)**

As discussed in Note 1, on April 8, 2010, the Governor signed AB 142 amending the Lottery Act to allow the Lottery to increase the prize payout percentage of its games. Under AB 142, the Lottery is required to return not less than 87 percent of annual revenues to the public in the form of prizes and contributions to education, and to spend no more than 13 percent of annual revenues on operating expenses of the Lottery.

Lottery prize payments, contributions to education, and operating expenses are shown below as a percentage of operating revenue for the year ended June 30, 2013.

Lottery Sales	\$ 4,445,874,040	100.00 %
<hr/>		
Revenue returned to the public		
Prizes	\$ 2,652,095,102	59.65 %
Operating income to education	<u>1,260,817,350</u>	<u>28.36 %</u>
Total revenue returned to the public	<u>\$ 3,912,912,452</u>	<u>88.01 %</u>
<hr/>		
Expenses of the Lottery		
Retailer costs	\$ 302,946,127	6.81 %
Game costs	77,151,306	1.74 %
Operating expenses	152,892,055	3.44 %
Less bartered operating expenses	<u>(27,900)</u>	<u>0.00 %</u>
Total expenses of the Lottery	<u>\$ 532,961,588</u>	<u>11.99 %</u>

**CALIFORNIA STATE LOTTERY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**11. STATUTORY COMPLIANCE (Unaudited, continued)**

A summary of the total funds transferred by the Lottery to the education community for the fiscal year ended June 30, 2013, is shown below.

Revenues to Education	
Allocation of sales - operating income	\$ 1,260,817,350
Unclaimed prizes directly allocated to the Education Fund	22,312,759
Interest income	1,220,691
Other income	47,879
Less bartered income	<u>(27,900)</u>
Total declared for allocation to the Education Fund	<u>\$ 1,284,370,779</u>

**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 up to \$4 billion in one year, and 1.20 percent of sales over \$4 billion. The original contract ran through October 13, 2009, and had a total estimated cost of \$300 million. A series of contract extensions were awarded. The latest, signed by the Director in September 2010, extends the contract to October 13, 2019, and includes a complete upgrade of the gaming system. The total contract expenditure is not to exceed \$1.075 billion. Approximately \$544.6 million in fees have been incurred under the contract as of June 30, 2013.

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, including demolition, pre-construction services, green building elements, and modular furniture, were \$53.8 million. Additionally, estimated contingency and escalation allowances were \$6.8 million and \$3.2 million, respectively. Costs incurred on the contract as of June 30, 2013, were approximately \$61.2 million. Lottery staff moved into the new building in July 2011.

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

**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.

The Lottery has purchased property insurance for its headquarters campus, including its new headquarters building and central utility plant, and thereby has transferred the risk of loss due to a catastrophic event from the Lottery to the insurance carrier. The Lottery has purchased automobile insurance for its fleet of vehicles and insurance for electronic data processing equipment through the California Department of General Services, Office of Risk & Insurance Management.

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







# Statistical Section

CALIFORNIA LOTTERY IS AN ENTERPRISE FUND OF THE STATE OF CALIFORNIA



## STATISTICAL SECTION

This part of the California State Lottery’s comprehensive annual financial (CAFR) 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.

### Contents

Financial Trends/Revenue Capacity.....	50
These schedules contain trend information to help the reader understand how the Lottery’s financial performance and well-being have changed over time and how to assess the most significant revenue sources, lotto and instant ticket games.	
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.....	60
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 Position by Component**  
**Last Ten Fiscal Years**

	2004	2005	2006	2007
Invested in capital assets	38,071,794	40,968,035	42,926,882	50,203,022
Restricted by legislation	257,765,065	275,906,630	104,231,017	95,315,400
Unrestricted (deficit)	(38,071,794)	(40,968,035)	(42,926,882)	(50,203,022)
<b>Total net position</b>	<b>257,765,065</b>	<b>275,906,630</b>	<b>104,231,017</b>	<b>95,315,400</b>

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

	2004	2005	2006	2007
Operating revenues:				
Lotto games	1,166,953,613	1,109,931,087	1,187,725,049	1,023,039,079
Scratchers® games	1,338,975,654	1,736,788,110	1,929,632,771	1,824,355,512
Hot Spot®	167,989,890	174,296,572	163,526,309	143,182,870
Daily games	300,056,560	312,604,900	304,112,122	310,903,219
Raffle	-	-	-	16,865,825
<b>Total operating revenues</b>	<b>2,973,975,717</b>	<b>3,333,620,669</b>	<b>3,584,996,251</b>	<b>3,318,346,505</b>
Prizes	1,566,027,494	1,795,254,439	1,932,721,443	1,765,643,368
Game costs:				
Retailer costs	205,744,975	233,447,844	252,543,062	233,792,642
Draw game costs	37,369,964	35,702,574	37,277,061	37,820,168
Scratchers game costs	20,940,277	21,042,547	21,144,506	17,725,019
<b>Total game costs</b>	<b>264,055,216</b>	<b>290,192,965</b>	<b>310,964,629</b>	<b>289,337,829</b>
Operating expenses:				
Salaries, wages and benefits	40,759,704	41,913,096	41,201,111	42,224,625
Advertising	30,972,632	36,797,516	25,495,083	33,337,617
Promotion, public relations and point of sale	9,066,450	10,406,811	9,307,150	8,894,469
Other professional services	7,568,645	5,380,499	5,959,870	5,660,943
Depreciation and amortization	8,396,577	7,202,654	8,745,427	9,099,711
Other general and administrative expenses	10,002,122	8,546,322	11,389,574	11,715,254
<b>Total operating expenses</b>	<b>106,766,130</b>	<b>110,246,898</b>	<b>102,098,215</b>	<b>110,932,619</b>
Operating income	1,037,126,877	1,137,926,367	1,239,211,964	1,152,432,689
Non-operating (expenses) revenues:				
Investment earnings <sup>1</sup>	(197,547,422)	28,018,810	(153,232,777)	14,381,282
Other income	246,224	971,475	853,117	1,199,529
Allocation to Education Fund <sup>2</sup>	(1,044,061,703)	(1,148,775,087)	(1,258,507,917)	(1,176,929,117)
<b>Total non-operating (expenses) revenues</b>	<b>(1,241,362,901)</b>	<b>(1,119,784,802)</b>	<b>(1,410,887,577)</b>	<b>(1,161,348,306)</b>
<b>Total change in net position</b>	<b>(204,236,024)</b>	<b>18,141,565</b>	<b>(171,675,613)</b>	<b>(8,915,617)</b>

Note: Individual wagers for all Lotto games, Hot Spot and all daily games, with the exception of Daily Derby and Powerball, are \$1 each. Daily Derby and Powerball wagers are \$2 each. In fiscal year 2006-07 raffle numbers were \$5 each, or \$4 each for tickets with 5 or more raffle numbers. In fiscal year 2007-08 raffle numbers were \$5 each. Scratchers games have price points of \$1, \$2, \$3, \$5, and \$10.

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

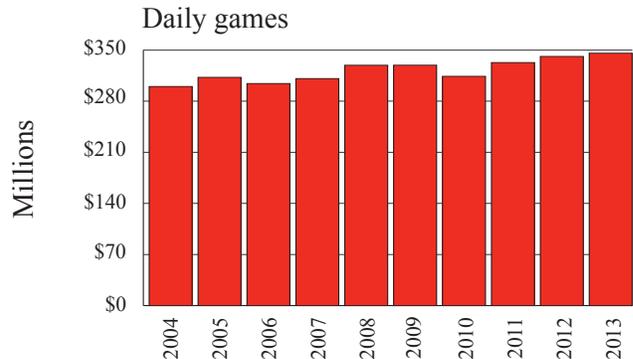
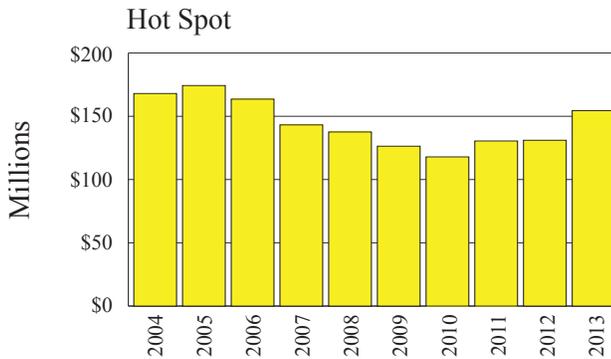
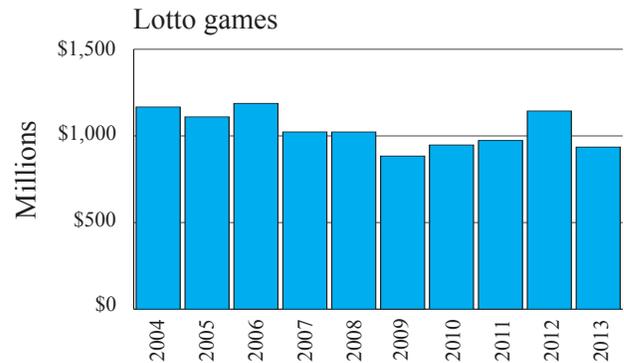
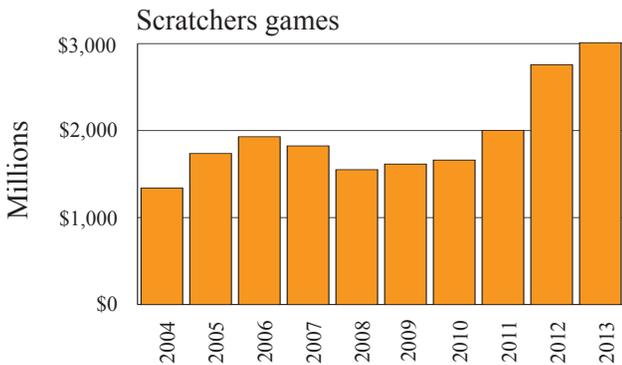
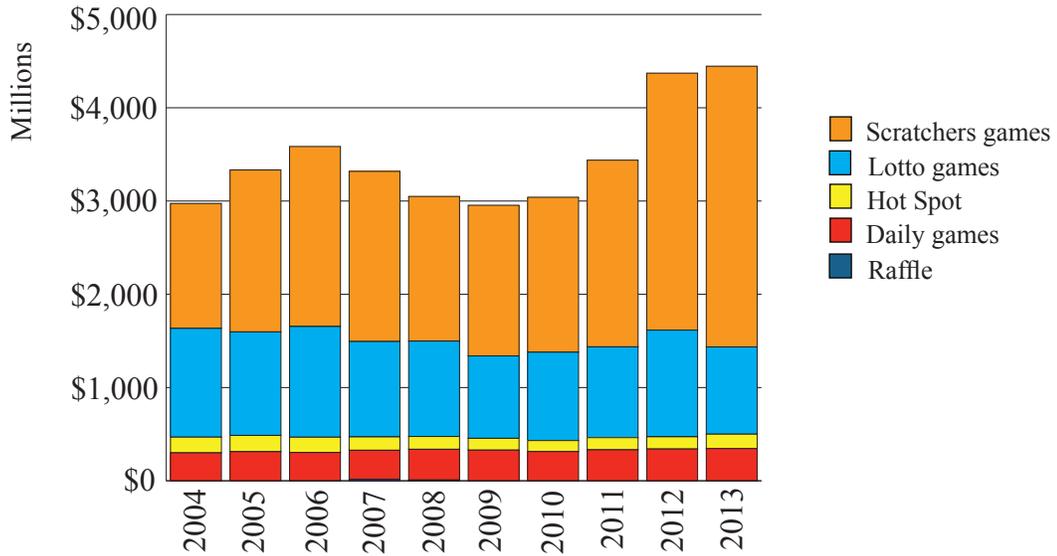
(2) The total declared allocation to Education Fund, per statutory compliance, also includes unclaimed prizes and is not represented in the presentation above. For more information on the total allocation to Education Fund, please refer to Note 11 of the financial statements.

2008	2009	2010	2011	2012	2013
50,476,492	45,366,173	42,511,326	86,505,601	85,183,982	82,251,499
165,083,079	147,038,053	125,850,167	103,016,471	155,597,555	102,067,701
(50,476,492)	(45,366,173)	(42,511,326)	(86,505,601)	(85,183,982)	(82,251,499)
<b>165,083,079</b>	<b>147,038,053</b>	<b>125,850,167</b>	<b>103,016,471</b>	<b>155,597,555</b>	<b>102,067,701</b>

2008	2009	2010	2011	2012	2013
1,022,867,234	883,844,967	947,769,847	973,179,589	1,143,839,339	935,660,488
1,551,048,845	1,615,369,207	1,661,288,086	2,002,090,072	2,755,381,647	3,010,119,929
137,582,868	126,361,926	117,904,491	130,472,138	131,056,826	154,403,306
329,171,866	329,262,994	313,997,442	332,836,199	341,213,934	345,690,317
8,950,102	-	-	-	-	-
<b>3,049,620,915</b>	<b>2,954,839,094</b>	<b>3,040,959,866</b>	<b>3,438,577,998</b>	<b>4,371,491,746</b>	<b>4,445,874,040</b>
1,619,473,498	1,556,120,634	1,611,371,074	1,904,787,955	2,560,306,589	2,652,095,102
213,022,175	208,105,703	214,484,059	233,571,290	295,829,989	302,946,127
37,250,758	33,687,063	35,984,278	35,428,111	48,258,994	49,562,417
15,780,718	17,217,368	18,214,865	20,705,337	25,774,034	27,588,889
<b>266,053,651</b>	<b>259,010,134</b>	<b>268,683,202</b>	<b>289,704,738</b>	<b>369,863,017</b>	<b>380,097,433</b>

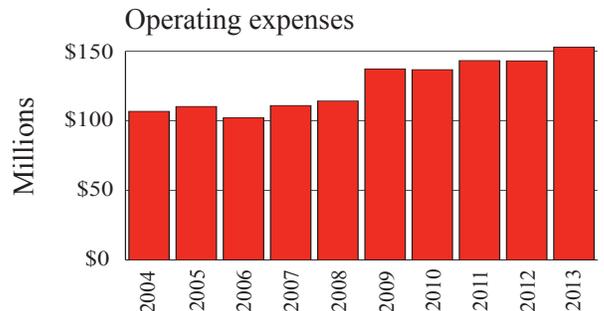
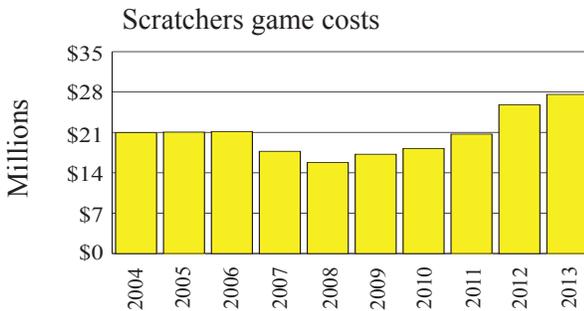
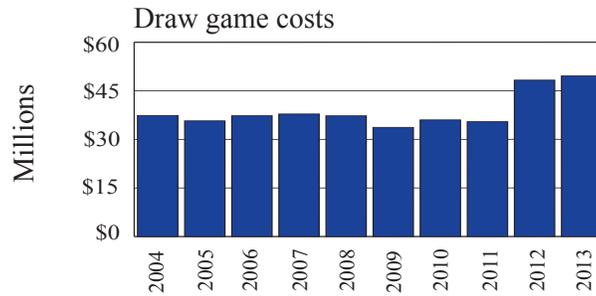
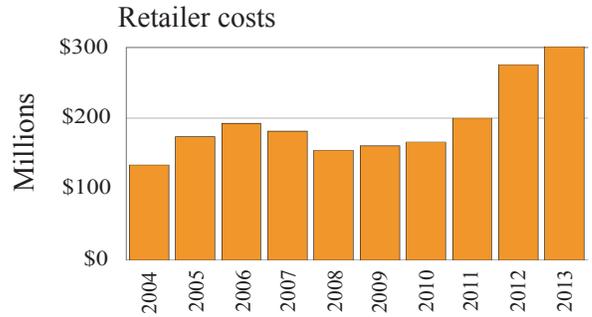
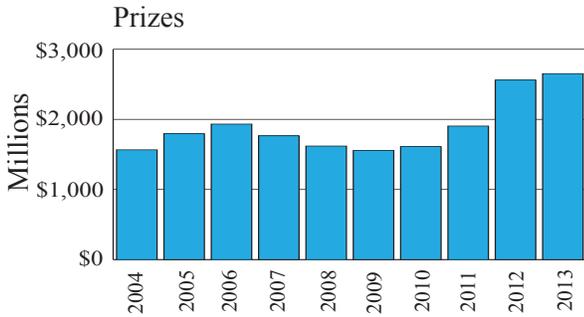
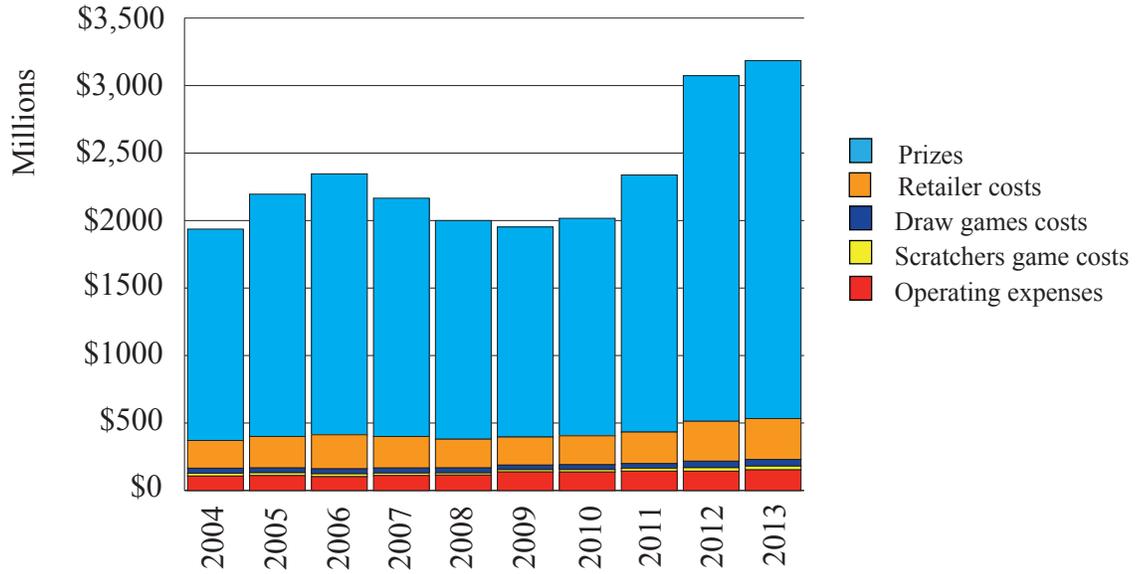
48,431,055	49,167,678	46,011,332	52,084,571	62,937,875	56,781,125
26,790,304	42,184,700	33,666,684	52,982,897	47,833,141	56,044,193
9,035,786	14,064,197	8,025,477	6,635,267	6,264,927	7,854,549
7,703,086	7,449,016	10,341,565	10,677,764	13,400,277	12,651,314
9,069,714	12,965,067	20,417,236	5,874,683	7,750,918	5,980,272
13,161,713	11,349,775	18,277,779	15,012,830	4,885,798	13,580,602
<b>114,191,658</b>	<b>137,180,433</b>	<b>136,740,073</b>	<b>143,268,012</b>	<b>143,072,936</b>	<b>152,892,055</b>
1,049,902,108	1,002,527,893	1,024,165,517	1,100,817,293	1,298,249,204	1,260,789,450
88,343,337	6,747,951	26,795,655	(20,856,697)	54,206,802	(52,309,163)
850,326	408,089	347,694	66,476	365,457	47,879
(1,069,328,092)	(1,027,728,959)	(1,072,496,752)	(1,102,860,768)	(1,300,240,379)	(1,262,058,020)
<b>(980,134,429)</b>	<b>(1,020,572,919)</b>	<b>(1,045,353,403)</b>	<b>(1,123,650,989)</b>	<b>(1,245,668,120)</b>	<b>(1,314,319,304)</b>
<b>69,767,679</b>	<b>(18,045,026)</b>	<b>(21,187,886)</b>	<b>(22,833,696)</b>	<b>52,581,084</b>	<b>(53,529,854)</b>

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



Note: The first "Million Dollar Raffle" game was held in fiscal year 2006-07. Raffle tickets were available for a limited time in 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**  
**2003 - 2012**

	<b>Population (in thousands)</b>	<b>Personal Income (in millions)</b>	<b>Per Capita Personal Income</b>	<b>Unemployment Rate*</b>
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 %
2009	36,962	\$1,572,650	\$42,548	12.0 %
2010	37,349	\$1,590,279	\$42,578	12.4 %
2011	37,692	\$1,645,138	\$43,647	10.9 %
2012	38,041	\$1,768,039	\$46,477	9.8 %

Source: Bureau of Economic Analysis, United States Department of Commerce

\* Data source: from Labor Market Information Division, California Employment Development Department, US Department of Commerce,

Note: 2013 information is not available and therefore not presented.

**CALIFORNIA STATE LOTTERY**  
**California Industry Number of Employees By Size Category**  
**2003 - 2007**

	2003	2004	2005	2006	2007
Agriculture, Forestry, Fishing, Hunting	437,529	419,185	428,846	437,617	444,478
Mining	20,127	21,144	22,564	24,723	25,282
Utilities	55,650	55,908	56,204	56,978	58,276
Construction	808,418	881,632	944,060	957,256	900,386
Manufacturing	1,532,508	1,535,551	1,513,778	1,512,772	1,464,136
Wholesale Trade	647,781	652,097	677,489	706,834	719,608
Retail Trade	1,581,467	1,607,565	1,657,726	1,672,636	1,673,198
Transportation and Warehousing	408,552	414,976	417,462	425,350	434,105
Information	458,816	471,693	470,521	467,757	476,419
Finance and Insurance	615,109	621,023	645,955	641,764	607,118
Real Estate and Rental and Leasing	275,936	279,684	287,313	291,700	282,800
Services	5,701,711	5,748,117	5,903,101	6,077,509	6,200,250
Nonclassifiable Establishments	54,437	70,831	82,713	29,514	56,682
Federal, State and Local Government	2,297,220	2,296,591	2,326,568	2,336,653	2,404,511
<b>Total for All Industries</b>	<b>14,895,261</b>	<b>15,075,997</b>	<b>15,434,300</b>	<b>15,639,063</b>	<b>15,747,249</b>

**CALIFORNIA STATE LOTTERY**  
**California Industry Number of Employees By Size Category**  
**2008 - 2012**

	2008	2009	2010	2011	2012
Agriculture, Forestry, Fishing, Hunting	459,723	434,275	440,265	449,614	463,476
Mining	26,698	23,244	25,011	27,016	28,475
Utilities	58,575	60,288	57,175	58,199	59,160
Construction	782,432	601,982	562,922	580,550	609,365
Manufacturing	1,425,225	1,261,582	1,250,589	1,257,097	1,264,017
Wholesale Trade	705,036	636,330	647,193	661,757	679,339
Retail Trade	1,615,574	1,495,711	1,496,821	1,522,619	1,553,812
Transportation and Warehousing	432,622	396,512	397,932	404,582	415,488
Information	472,152	436,865	429,065	425,193	426,056
Finance and Insurance	563,136	528,813	509,852	512,160	522,529
Real Estate and Rental and Leasing	274,778	250,908	248,452	247,476	253,154
Services	6,232,695	5,947,240	6,063,638	6,216,242	6,519,084
Nonclassifiable Establishments	73,151	72,563	44,336	58,663	59,443
Federal, State and Local Government	2,405,547	2,352,014	2,302,160	2,276,153	2,260,320
<b>Total for All Industries</b>	<b>15,527,344</b>	<b>14,498,327</b>	<b>14,475,411</b>	<b>14,697,321</b>	<b>15,113,718</b>

Source: California Employment Development Department

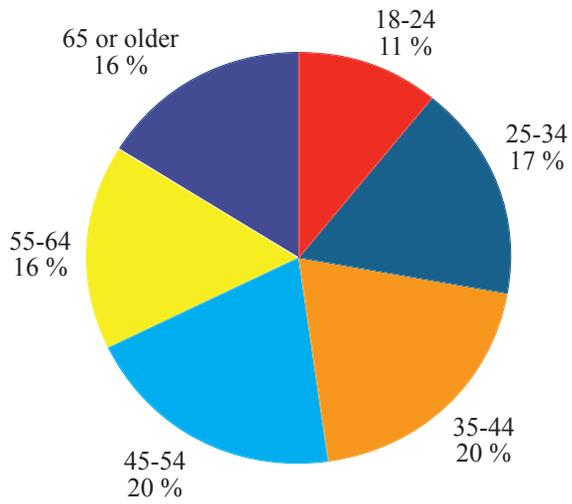
Note: Businesses are designated as "Nonclassifiable Establishments" when there is insufficient information to determine the appropriate industry classification.

Definitions of Terms and Source Notes: [www.labormarketinfo.edd.ca.gov/?pageid=1035](http://www.labormarketinfo.edd.ca.gov/?pageid=1035)

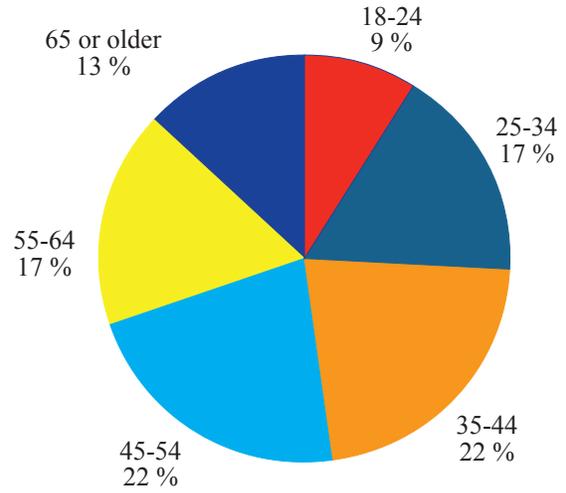
The industry data provided are intended to provide similar alternative information regarding the concentration of employment in various sectors of the California economy. Due to confidentiality issues, the names of the top individual employers are not available.

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

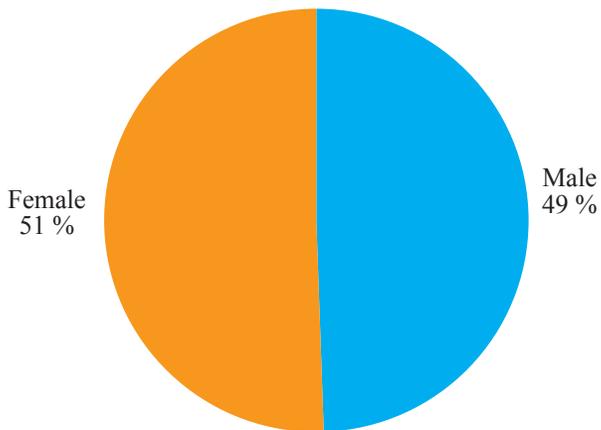
**Age of Adult Population**



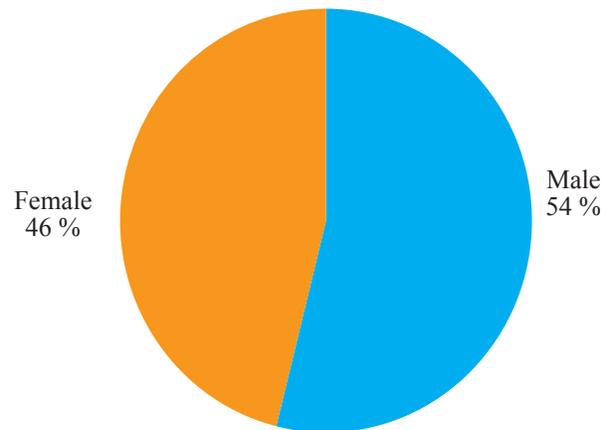
**Age of Lottery Players**



**Gender of Adult Population**



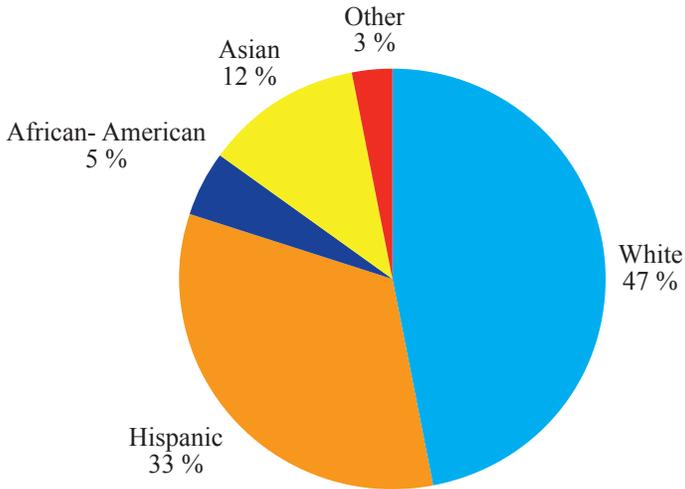
**Gender of Lottery Players**



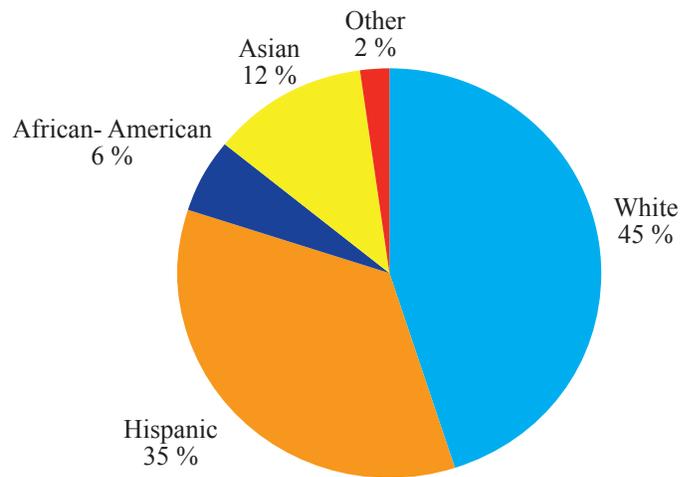
Note: All data are from Communications Effectiveness Tracking Study commissioned by the Lottery and provided by an external vendor for fiscal year 2012-13. Percentages based on only those responding.

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

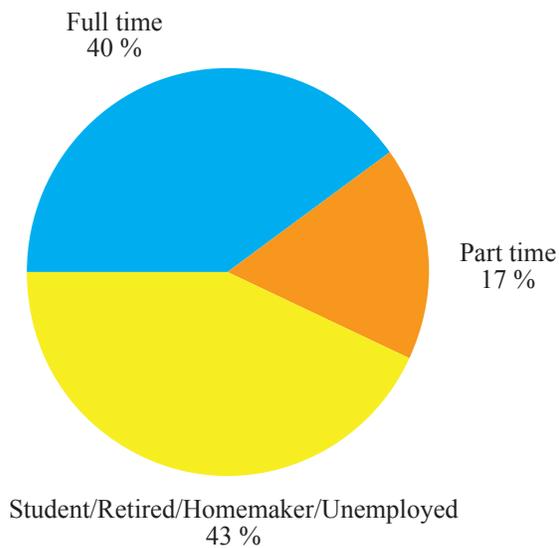
**Ethnicity of Adult Population**



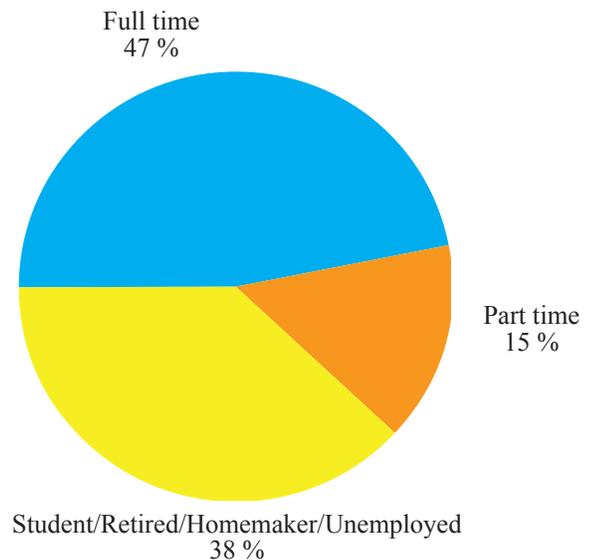
**Ethnicity of Lottery Players**



**Employment Status of Adult Population**



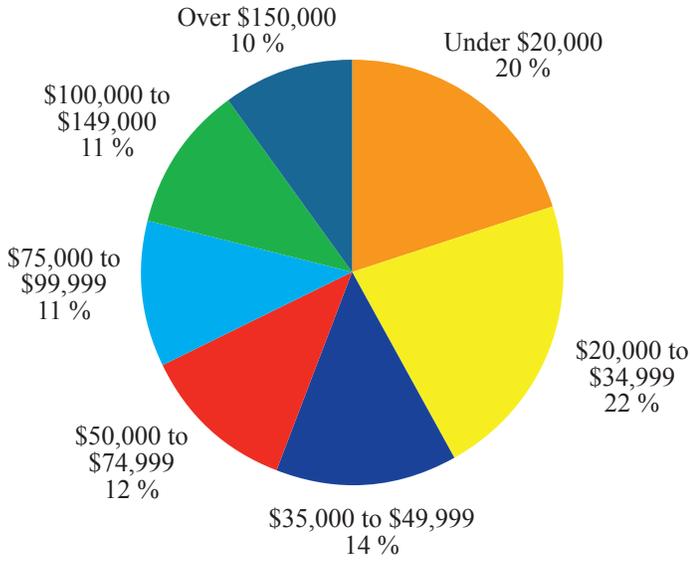
**Employment Status of Lottery Players**



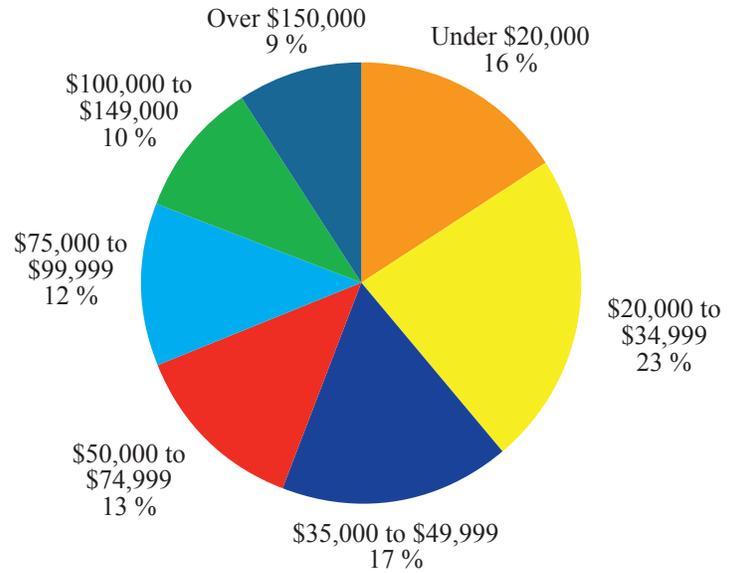
Note: All data are from Communications Effectiveness Tracking Study commissioned by the Lottery and provided by an external vendor for fiscal year 2012-13. Percentages based on only those responding.

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

**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 2012-13. Percentages based on only those responding.



**U.S. Lottery Data For Fiscal Year 2012**  
**Excludes Video Lottery Terminal (VLT) sales**  
**(in millions)**

	<b>Sales</b>	<b>Prizes</b>	<b>Profit</b>	<b>Population</b>	<b>Sales/Capita</b>
Arizona	\$646.7	\$399.7	\$164.7	6.5	\$100
Arkansas	\$473.1	\$315.3	\$97.2	2.9	\$161
California <sup>++</sup>	\$4,371.5	\$2,560.3	\$1,245.7	37.7	\$116
Colorado	\$545.3	\$349.8	\$123.2	5.1	\$107
Connecticut	\$1,081.7	\$659.9	\$310.0	3.6	\$302
Delaware	\$136.0	N/A	\$269.0	0.9	\$150
District of Columbia (ends 6/30)	\$245.0	N/A	N/A	0.6	\$397
Florida	\$4,449.9	\$2,792.5	\$1,317.0	19.1	\$233
Georgia	\$3,834.7	\$2,289.8	\$901.3	9.8	\$391
Idaho	\$175.8	\$108.6	\$41.5	1.6	\$111
Illinois	\$2,670.4	\$1,675.0	\$705.1	12.9	\$208
Indiana	\$855.8	\$535.1	\$227.2	6.5	\$131
Iowa	\$310.9	\$180.4	\$78.7	3.1	\$102
Kansas	\$253.3	\$139.3	\$72.0	2.9	\$88
Kentucky	\$818.8	\$523.2	\$216.4	4.4	\$187
Louisiana	\$429.6	\$180.3	\$156.9	4.6	\$94
Maine	\$227.7	N/A	\$53.8	1.3	\$171
Maryland <sup>2,3</sup>	\$1,794.9	\$1,066.6	\$751.2	5.8	\$308
Massachusetts	\$4,774.1	\$3,396.6	\$981.0	6.6	\$725
Michigan <sup>1,4</sup>	\$2,413.3	\$1,399.1	\$743.8	9.9	\$244
Minnesota	\$520.0	\$320.6	\$123.7	5.3	\$97
Missouri	\$1,099.7	\$689.8	\$280.0	6.0	\$183
Montana	\$52.7	\$28.6	\$13.1	1.0	\$53
Nebraska	\$150.1	\$87.4	\$36.1	1.8	\$81
New Hampshire	\$257.9	\$158.9	\$66.9	1.3	\$196
New Jersey	\$2,754.9	\$1,616.2	\$950.0	8.8	\$312
New Mexico	\$133.7	\$72.0	\$41.3	2.1	\$64
New York <sup>2,3,4</sup>	\$7,012.7	\$4,130.8	\$2,888.0	19.5	\$360
North Carolina	\$1,596.7	\$961.5	\$459.2	9.7	\$165
North Dakota	\$26.0	\$14.0	\$7.6	0.7	\$38
Ohio	\$2,733.3	\$1,680.9	\$771.0	11.5	\$237
Oklahoma	\$199.9	\$103.1	\$70.0	3.8	\$53
Oregon <sup>2,3</sup>	\$323.2	\$221.8	\$549.1	3.9	\$83
Pennsylvania	\$3,480.9	\$2,120.5	\$1,060.0	12.7	\$273
Rhode Island <sup>2,3</sup>	\$249.5	\$155.1	\$377.6	1.1	\$237
South Carolina	\$1,135.6	\$721.4	\$300.0	4.7	\$243
South Dakota <sup>2,3</sup>	\$52.9	\$29.2	\$100.4	0.8	\$64
Tennessee	\$1,311.2	\$770.6	\$323.4	6.4	\$205
Texas <sup>1,4</sup>	\$4,171.5	\$2,667.0	\$1,105.1	25.7	\$162
Vermont	\$101.0	\$64.4	\$22.3	0.6	\$161
Virginia	\$1,616.0	\$962.3	\$487.1	8.1	\$200
Washington	\$535.2	\$312.4	\$137.2	6.8	\$78
West Virginia <sup>2,3</sup>	\$201.3	\$119.5	\$693.8	1.9	\$109
Wisconsin	\$547.4	N/A	\$150.0	5.7	\$96

2012 data source: La Fleur's Magazine September/October 2012

N/A denotes information that is unavailable

(1) Est Sales

(2) Doesn't include VLT prizes

(3) Includes lottery and VLT profit

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

++ Audited figures with the exception of population

**U.S. Lottery Data For Fiscal Year 2013**  
**Excludes Video Lottery Terminal (VLT) sales**  
**(in millions)**

	<b>Sales</b>	<b>Prizes</b>	<b>Profit</b>	<b>Population</b>	<b>Sales/Capita</b>
Arizona	\$692.9	N/A	\$176.5	6.6	\$106
Arkansas	\$439.5	\$292.2	\$147.3	2.9	\$149
California <sup>++</sup>	\$4,445.9	\$2,652.1	\$1,260.8	38.0	\$117
Colorado	\$566.3	\$348.2	\$135.6	5.2	\$109
Connecticut	\$1,122.7	\$699.1	\$312.1	3.6	\$313
Delaware <sup>2,3</sup>	\$146.30	\$99.30	\$235.30	0.9	\$159
District of Columbia (ends 6/30)	\$243.80	N/A	N/A	0.6	\$386
Florida	\$5,013.0	\$3,223.1	\$1,417.0	19.3	\$260
Georgia	\$3,912.2	\$2,332.5	\$927.5	9.9	\$394
Idaho	\$197.6	\$122.7	\$48.2	1.6	\$124
Illinois	\$2,841.3	N/A	N/A	12.9	\$221
Indiana	\$934.0	N/A	N/A	6.5	\$143
Iowa	\$339.3	\$198.7	\$84.9	3.1	\$110
Kansas	\$255.8	\$138.6	\$74.5	2.9	\$89
Kentucky	\$846.7	\$539.9	\$223.8	4.4	\$193
Louisiana	\$447.4	\$236.2	\$160.2	4.6	\$97
Maine	\$227.8	N/A	\$52.9	1.3	\$171
Maryland <sup>2,3</sup>	\$1,756.1	\$1,036.3	\$1,154.0	5.9	\$298
Massachusetts	\$4,807.5	\$3,500.0	\$952.0	6.6	\$723
Michigan <sup>1,4</sup>	\$2,471.0	\$1,467.2	\$748.5	9.9	\$250
Minnesota	\$560.4	\$347.1	\$135.2	5.4	\$104
Missouri	\$1,141.2	\$750.2	\$288.8	6.0	\$190
Montana	\$57.0	\$32.2	\$13.1	1.0	\$57
Nebraska	\$160.9	\$93.1	\$40.0	1.9	\$87
New Hampshire	\$278.7	\$173.4	\$74.3	1.3	\$211
New Jersey	\$2,821.4	\$1,665.1	\$925.0	8.9	\$318
New Mexico	\$141.8	\$77.1	\$43.7	2.1	\$68
New York <sup>2,3,4</sup>	\$7,108.9	\$4,219.0	\$3,045.8	19.6	\$363
North Carolina	\$1,689.8	\$970.9	\$479.5	9.8	\$173
North Dakota	\$27.8	\$14.2	\$13.7	0.7	\$40
Ohio	\$2,694.9	\$1,634.3	\$803.0	11.5	\$233
Oklahoma	\$200.2	\$104.5	\$70.1	3.8	\$52
Oregon <sup>2,3</sup>	\$330.5	\$211.4	\$530.6	3.9	\$85
Pennsylvania	\$3,699.4	\$2,299.0	\$1,067.4	12.8	\$290
Rhode Island <sup>2,3</sup>	\$253.4	\$153.2	\$379.2	1.1	\$241
South Carolina	\$1,199.2	\$775.5	\$306.0	4.7	\$254
South Dakota <sup>2,3</sup>	\$57.2	\$32.2	\$104.5	0.8	\$69
Tennessee	\$1,360.0	N/A	\$339.7	6.5	\$211
Texas <sup>1,4</sup>	\$4,356.0	\$2,815.6	\$1,186.8	26.1	\$167
Vermont	\$102.1	\$64.6	\$22.9	0.6	\$163
Virginia	\$1,689.2	\$1,025.2	\$486.5	8.2	\$206
Washington	\$569.6	\$343.8	\$135.0	6.9	\$83
West Virginia <sup>2,3</sup>	\$195.6	\$112.3	\$1,213.1	1.9	\$105
Wisconsin	\$565.8	N/A	N/A	5.7	\$99

2013 data source: La Fleur's Magazine September/October 2013

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Executive <sup>4</sup>	44	42	34	27	28	30	42	42	41	37
Finance & Administration/Finance <sup>1,3</sup>	118	119	139	127	69	67	70	70	68	76
Human Resources <sup>3</sup>	-	-	-	-	22	24	24	24	26	27
Operations <sup>3,4</sup>	-	-	-	-	49	50	40	40	64	82
Corporate Communications <sup>3</sup>	-	-	-	23	13	9	8	8	16	21
Customer Service <sup>1</sup>	30	30	-	-	-	-	-	-	-	-
Security/Law Enforcement	37	43	42	44	47	48	49	49	50	57
Information Technology Services	124	125	94	93	85	88	88	88	77	85
Marketing <sup>3</sup>	35	29	29	34	-	-	-	-	-	-
Sales/Sales & Marketing <sup>3</sup>	262	262	256	272	324	324	323	323	302	374
Vacant <sup>2</sup>	-	-	56	-	-	-	-	-	-	-
<b>Total</b>	<b>650</b>	<b>650</b>	<b>650</b>	<b>620</b>	<b>637</b>	<b>640</b>	<b>644</b>	<b>644</b>	<b>644</b>	<b>759</b>

Source: California State Lottery, Annual Administrative Support Budget for each relevant year

(1) In fiscal year 2005-06, 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 2005-06, 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 2006-07.

(3) In fiscal year 2008-09, 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.

(4) In fiscal year 2009-10, the Lottery underwent a reorganization. The Enterprise Project Management Office and Contracts were redirected from the Operations Division to the Executive Division.

**CALIFORNIA STATE LOTTERY**  
**Information about Operating Indicators**

No matter the year or economic climate, the California Lottery's beneficiary and top priority is public education and how much money is contributed to that worthy cause. For the fourth year in a row, the Lottery's sales have risen. For Fiscal Year 2012-13, the Lottery reported sales of \$4.45 billion, which represents an increase of more than \$74 million from last fiscal year's record total of \$4.37 billion. In total, the Lottery allocated more than \$1.28 billion to schools in 2012-13. This was the 13th consecutive year the Lottery was able to provide more than a billion dollars to California's public schools.

The past year turned out to be one of our most successful on record in terms of supplemental dollars sent to California schools. Sales remained strong after our record-setting 2011-12 thanks to continued growth of our \$5 and \$10 Scratchers games, as well as our Daily Games category. In addition, the popular multistate Powerball game helped to mitigate the impact that the absence of large draw game jackpots had on sales.

The Lottery plans to continue to build on its big finish to the past fiscal year. Before the year officially came to a close at the end of June, the Lottery unveiled and the Lottery Commission approved a new three-year strategic plan designed to fundamentally strengthen how the Lottery conducts its business. The plan will focus on four key areas – growing our player base, doing all we can to provide our players with exciting products, adding new retailers to our network, and investing in our own infrastructure. With great new games, promotions, and a responsible business plan, the Lottery is poised to take its sales even higher in 2013-14.

The provisions of Assembly Bill 142, which was signed into law in April 2010, continue to allow the Lottery to do more to grow sales and maximize revenues for California schools. We hope to continue our trend to build on our successes while growing our business with the ultimate and important goal of sending even more money to worthy California public schools.

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

	2004	2005	2006	2007
Land	4,922,805	4,922,805	4,922,805	4,922,805
Gaming Terminals	22,640	154,651	120,608	14,154,156
Vending Machines	11,390,305	14,860,156	16,824,801	10,805,729
Buildings	14,700,813	15,859,317	16,522,310	15,616,279
Data processing equipment	3,727,470	2,752,714	2,175,973	1,346,488
Office furniture and equipment	964,074	714,270	1,135,533	1,324,713
Leasehold improvements	132,716	98,614	173,060	591,084
Other	2,210,971	1,605,508	1,051,792	1,441,768
<b>Total capital assets</b>	<b>38,071,794</b>	<b>40,968,035</b>	<b>42,926,882</b>	<b>50,203,022</b>

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

	2004	2005	2006	2007
Allocations to Education Fund	1,044,061,703	1,148,775,087	1,258,507,917	1,176,929,117
Unclaimed prizes	50,195,285	27,019,168	29,490,162	29,217,965
<b>Total Contributions to Education</b>	<b>1,094,256,988</b>	<b>1,175,794,255</b>	<b>1,287,998,079</b>	<b>1,206,147,082</b>

<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
6,469,219	6,469,219	6,469,219	6,469,219	6,469,219	6,469,219
12,831,183	12,670,664	6,365,357	3,916,645	1,194,188	552,231
6,238,000	3,368,057	857,039	-	-	-
19,340,110	16,687,975	23,252,649	64,304,922	65,854,751	66,022,549
1,083,275	667,642	348,351	4,487,258	6,063,025	4,992,339
2,015,682	2,279,846	1,508,253	4,625,176	3,871,154	3,086,077
555,708	455,846	323,349	243,730	182,166	105,772
1,943,315	2,766,924	3,387,109	2,458,651	1,549,479	1,023,312
<b>50,476,492</b>	<b>45,366,173</b>	<b>42,511,326</b>	<b>86,505,601</b>	<b>85,183,982</b>	<b>82,251,499</b>

<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
1,069,328,092	1,027,728,959	1,072,496,752	1,102,860,768	1,300,240,379	1,262,058,020
25,617,218	20,964,857	17,250,466	25,690,477	20,486,176	22,312,759
<b>1,094,945,310</b>	<b>1,048,693,816</b>	<b>1,089,747,218</b>	<b>1,128,551,245</b>	<b>1,320,726,555</b>	<b>1,284,370,779</b>







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