

KNOW

EMBRACE

STRENGTHEN

TEACH

LEARN

SEE

BELIEVE

UNDERSTAND

*imagine the*

# Possibilities

ACCEPT

CREATE

COMMUNICATE

FEEL

LEAD

DEVELOP

VISUALIZE

PROMOTE

PROTECT

INSPIRE

ENHANCE

BUILD

BE

ELEVATE



COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

*California Lottery*





California Lottery

*Committed to enhancing education and supporting local communities*

## Comprehensive Annual Financial Report

*For the Fiscal Year Ended June 30, 2014*

*Prepared by the Finance Division of the California Lottery*

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# California Lottery

Comprehensive Annual Financial Report

For the Fiscal Year Ended

June 30, 2014

## TABLE OF CONTENTS

### INTRODUCTORY SECTION

Letter of Transmittal.....	3
2013 Certificate of Achievement for Excellence in Financial Reporting.....	10
Organization Chart with Principal Officials.....	11

### FINANCIAL SECTION

Independent Auditors' Report.....	17
Management's Discussion and Analysis.....	19
Financial Statements	
Statement of Net Position.....	26
Statement of Revenues, Expenses, and Changes in Net Position.....	27
Statement of Cash Flows.....	28
Notes to Financial Statements.....	30

### STATISTICAL SECTION

Net Position By Component - Last Ten Fiscal Years.....	50
Change in Net Position - Last Ten Fiscal Years.....	50
Sales by Product - Last Ten Fiscal Years.....	52
Expenses by Type - Last Ten Fiscal Years.....	53
California Demographics and Economic Information.....	54
California Industry Number of Employees By Size Category.....	55
California Demographics for Population and Players.....	56
U.S. Lottery Data for Fiscal Years 2013 and 2014.....	60
Number of Employees - Last Ten Fiscal Years.....	62
Information about Operating Indicators.....	63
Capital Assets, Net - Last Ten Fiscal Years.....	64
Contributions to Education - Last Ten Fiscal Years.....	64

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# Introductory Section

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December 31, 2014

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, 2014. The Finance Division of the Lottery prepared this CAFR to present an overview of the Lottery. Pursuant to Government Code section 8880.46.5, the CAFR includes the Lottery's annual financial statements presented in accordance with accounting principles generally accepted in the United States of America and audited in accordance with auditing standards generally accepted in the United States of America.

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

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

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

### **Profile of the Lottery**

The Lottery was created by a 1984 ballot initiative that was approved by 58 percent of the voters. The Lottery was established as an independent state agency to market and sell lottery products to the California public. The Lottery Act specifies that the Lottery is operated and administered by a five-member Commission appointed by the Governor. A Director, who is 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 eight 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 requires the Lottery to return at least 87 percent of revenues to the public in the form of prizes and contributions to education, and established a cap of 13 percent of revenues as the amount the Lottery may spend on operating expenses. Prior to AB 142, the Lottery was required to return, as nearly as practical, 50 percent of revenues to the public in the form of prizes; at least 34 percent to public education; and allocate no more than 16 percent to administrative costs. As a result of the revenue distribution changes from AB 142, the Lottery expects to continue to deliver increases in sales and net revenues to the public in the form of both prizes and contributions to education.

 **Scratchers** are Lottery games/tickets that are played by removing a scratch-off coating to reveal symbols and “instantly” learn whether the ticket is a winner. Games are offered in a variety of price-points and feature many different themes and play styles. The Lottery started Scratchers game sales in October 1985 with a \$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. Currently, the Lottery offers \$1, \$2, \$3, \$5, \$10, and \$20 Scratchers games/tickets.

 **Powerball** – 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** – Players select five numbers from a field of 1 through 75 and one mega number from a field of 1 through 15. There are nine prize categories in this game. To win the jackpot, players must match all five numbers plus the Mega number. Jackpot prizes in this multi-state game start at \$15 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**® – Players select five numbers from a field of 1 through 47 and one mega number from a field of 1 through 27. There are nine prize categories in this game. To win the jackpot, players must match all five numbers plus the Mega number. Jackpot prizes start at \$7 million and have reached more than \$190 million. Winning numbers are drawn every Wednesday and Saturday at 7:57 p.m. PST.

 **Hot Spot**® – This game was designed primarily for social trade styles like restaurants and bowling centers, but is available at all retailer locations. Players select numbers from a field of 1 through 80 and have a choice of playing ten different “spots.” For example, a player who chooses to play a “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. PST. 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, each 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, each from 0 through 9, as well as a playstyle where players try to match whether the four numbers drawn will be in the exact order 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.

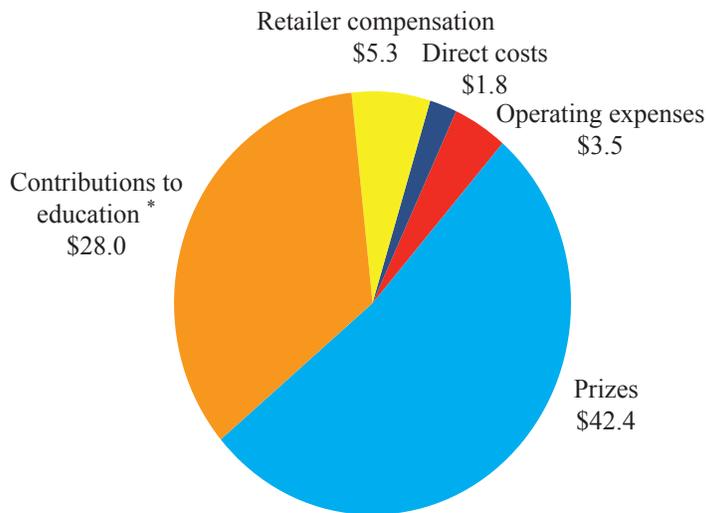


**Fantasy 5** – This daily lotto-style game was designed with better odds than SuperLotto Plus. Players select a set of five numbers from 1 through 39. Winning tickets are those that match any two, three, four, or all five of the five numbers drawn. There are four prize categories in this game. Top prizes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

**Distribution of Revenues**  
(in billions)  
**October 3, 1985 - June 30, 2014**



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

From its inception in 1985 through June 30, 2014, the Lottery has generated approximately \$79.6 billion in sales and contributed nearly \$28 billion to schools. The retailers who sell lottery tickets have received approximately \$5.3 billion in compensation. Approximately \$42.4 billion has been paid to lucky Lottery winners.

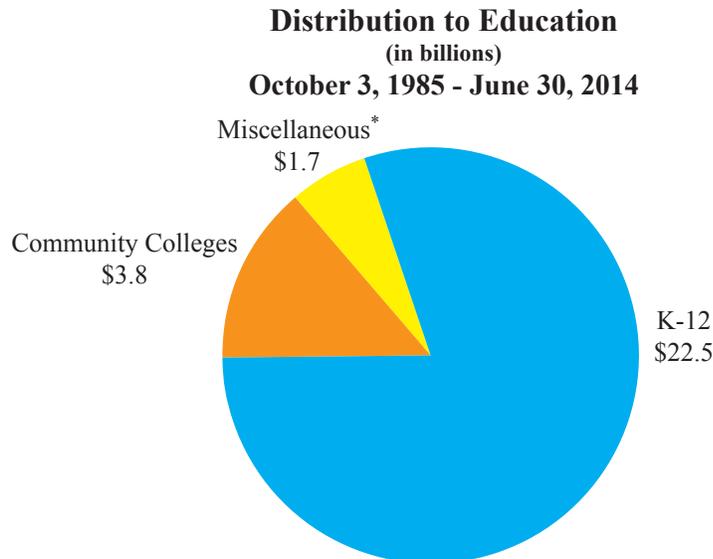
Additionally, by saving money on operations, the Lottery has given more money to schools than required. Since October 1985, the Lottery has contributed approximately \$737 million to education through operational savings.

For the fiscal year ended June 30, 2014, 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, 2014, are as follows:

<b>Entity</b>	<b>Amount Allocated</b>
K-12	\$ 1,088,290,145
Community Colleges	182,343,573
California State University	46,644,561
University of California	30,835,592
Department of Developmental Services	276,305
Department of Education - State Special Schools	115,607
Hastings College of the Law	142,927
Juvenile Justice	52,828
<b>Total \$</b>	<b>1,348,701,538</b>

The table above is a display of the amount allocated to education for the fiscal year ended June 30, 2014, 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 the cash basis and the full accrual basis of accounting. It is also prepared in distinct, quarterly segments to facilitate comparison to the quarterly financial statements.

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

### ***Internal Controls***

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

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

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

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

## **Internal Controls (continued)**

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

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

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

## **Employees**

As of June 2014, the Lottery Commission authorized a total of 791 positions for the Lottery's headquarters located in Sacramento; for its nine district offices located in Sacramento, San Francisco, Hayward, Fresno, Van Nuys, Santa Fe Springs, Santa Ana, San Bernardino, and San Diego; and for its two distribution centers located in West Sacramento and Rancho Cucamonga.

## **Major Initiatives**

It has been nearly 30 years since California voters overwhelmingly approved the creation of the California Lottery, and each year the Lottery continues to grow and do more to further its mission of supporting California's public schools with supplemental funding. This past fiscal year was another record-setting year in terms of total Lottery sales, and it was also the best year ever for total funding allocated to schools.

For Fiscal Year 2013-14, the Lottery reports sales of slightly more than \$5 billion, which represents an increase of approximately 13 percent from last fiscal year's total of more than \$4.4 billion. In total, the Lottery earned over \$65 million more for schools this year than last year – about \$1.35 billion in total – which makes it the 14th consecutive year that the Lottery has contributed more than a billion dollars to education.

The California Lottery remains the fastest growing lottery in the United States and is now the third largest in the country in terms of sales. A number of factors contribute to that lofty status, and several of those factors will continue to position the Lottery for future success.

First of all, the California Lottery continues to set prize payouts at a level that results in more winners being made every day. When people win money, they tell their friends and continue to purchase Lottery products. When more Lottery products are purchased, more money is generated for schools in California.

In addition, rather than continuing to offer the same products year after year, the Lottery continues to examine the experience and best practices of other jurisdictions to see what can work for its customers. This year the Lottery offered the first-ever \$20 Scratchers ticket at more than 21,000 retail locations across the state. The Lottery's first full year of Powerball sales also contributed to our growth in revenues.

## **Major Initiatives (continued)**

Further, the Lottery kicked off a new three-year strategic plan centered around four main themes – products, players, retailers, and infrastructure. Throughout all these changes and new ideas the Lottery continues to strive to grow its business in a thoughtful, sustainable manner.

Lastly, while sales and profits are a good indicator of success, it is recognized that the California Lottery has a responsibility beyond selling products. The Lottery's Corporate Social Responsibility Program continues to grow stronger year after year. The Lottery remains one of only two state lotteries to achieve a Level Three Certification for Responsible Gaming from the World Lottery Association, and a good portion of this fiscal year was spent working toward a Level Four Certification, which would make California the only lottery in the United States to have that distinction.

## **Economic Outlook\***

California's economy continues to recover at a steady pace; the unemployment rate fell 0.3 percentage points to 7.8 percent in April after remaining at 8.1 percent the first three months of 2014. California also had improvements in building activity with multi-family home building in April surging to its highest levels since March 2007. Sales of existing single family homes increased 7.4 percent in April to 394,070, the largest monthly gain since January 2011. Further signs that California's financial position continues to improve, bond ratings for the state rose from A1 to Aa3 by Moody's report, which is a clear indicator the State of California's financial position continues to improve.

## **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, 2013. This was the eleventh consecutive year that the Lottery has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

Respectfully submitted,



Nicholas Buchen  
Deputy Director  
Finance Division

\* Department of Finance, excerpted from the May revision of the Governor's 2014-15 Budget, Economic Outlook section



Government Finance Officers Association

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

Presented to

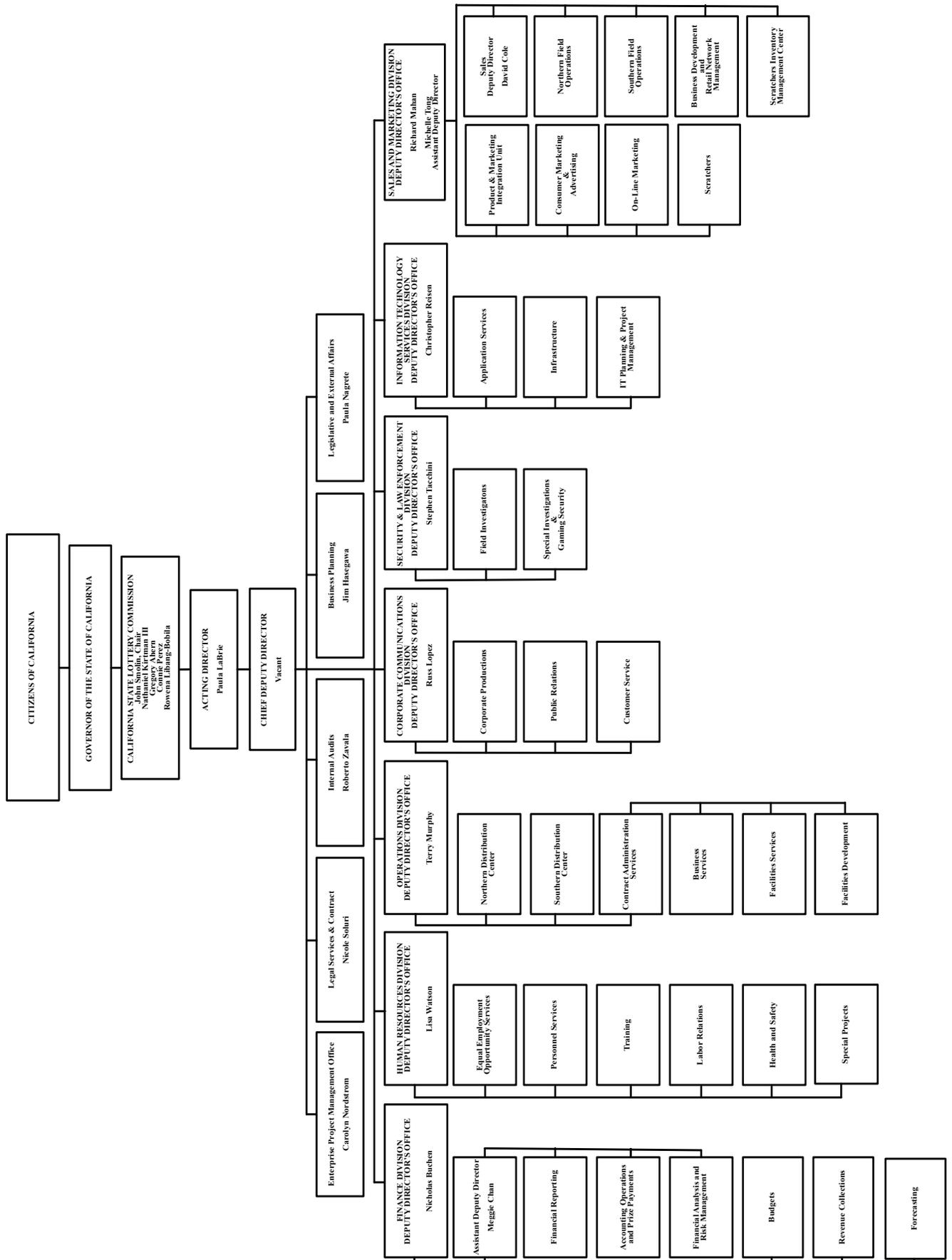
**California State Lottery**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2013**

Executive Director/CEO

# ORGANIZATION CHART WITH PRINCIPAL OFFICIALS



## California State Lottery Commission

Ensuring integrity, security, fairness, and fun.

The 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. The 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 has been a member of the Alameda County Sheriff's office since he was sworn in as a Deputy Sheriff in 1980. 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 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.



**Rowena Libang-Bobila**

Ms. Libang-Bobila has been a member of the State Bar of California since 1996, and has practiced law for eighteen years in both the public and private sectors. She served as Lead Trial Attorney and held similar professional capacities at the San Francisco City Attorney's Office for nearly fifteen years. She is currently the Principal Attorney at the Rowena T. Libang Law Offices, specializing in asset and wealth preservation, bankruptcy and immigration. Ms. Libang-Bobila worked as an Immigration Caseworker in U.S. Senator Alan Cranston's California office, after completing her Bachelor of Arts degree at the University of California, Davis. From 1990 to 1991, she was one of 12 individuals chosen nationally to post-graduate leadership training under the Coro Foundation's Fellowship in Public Affairs, that included a three-month assignment in Washington D.C. under its National Fellowship Program. Ms. Libang-Bobila is a member of the California Minority Counsel Program, the Asian American Bar Association of the Greater Bay Area, and the Filipino-American Bar Association of Northern California. She earned a Juris Doctor degree from the University of California, Hastings School of Law.



**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.

## 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



**David Cole**  
Deputy Director  
Sales



**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



**Chris Reisen**  
Deputy Director  
Information Technology Services



**Stephen Tacchini**  
Deputy Director  
Security & Law Enforcement



**Nicole Soluri**  
Chief Counsel



**Lisa Watson**  
Deputy Director  
Human Resources



**Michele Tong**  
Assistant Deputy Director  
Sales & Marketing



**Carolyn Nordstrom**  
Chief  
Enterprise Project Management Office



**Roberto Zavala**  
Chief  
Internal Audits



**Ann Richardson**  
Special Advisor to the Chief Deputy

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# Financial Section

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

## **Independent Auditors' 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, 2014, 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.

#### ***Auditors' Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2014, 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, 2014, 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 25 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 14, 2014

## 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, 2014. Please read it in conjunction with the California State Lottery Financial Statements that follow this section.

### FINANCIAL HIGHLIGHTS

- Fiscal year 2013-14 saw sales of \$5.03 billion, once again the highest sales in California State Lottery (Lottery) history. This represents an increase of approximately \$588.8 million or 13.2 percent over the prior year.
- The funds the Lottery allocated to California public schools were also the highest in Lottery history at nearly \$1.35 billion, making this the 14th consecutive year the Lottery has transferred over \$1 billion to its beneficiary.
- Scratchers<sup>®</sup> games, Lotto games, and Hot Spot<sup>®</sup> continue to be strong performers:
  - Lotto games - Powerball<sup>®</sup>, Mega Millions<sup>®</sup>, and SuperLotto Plus<sup>®</sup> - had a combined growth of 31.5 percent or \$295 million during 2013-14. The first full year of Powerball sales, and large jackpots in both Powerball and Mega Millions, contributed to this growth.
  - The Hot Spot monitor game had a sales increase of 22 percent or \$34 million over the last fiscal year. This is the fourth straight year sales for this popular Keno-style game have increased.
  - Scratchers revenues exceeded those of the previous fiscal year by 9.3 percent or \$278.8 million. The increase in Scratchers sales was due to continued demand for \$5 and \$10 price-point tickets and the introduction of the Lottery's first \$20 price-point game.
- The Lottery returned more than \$3.4 billion to the public in the form of prizes and retailer compensation. Of this, the Lottery paid approximately \$3.1 billion in prizes to players, and approximately \$345.5 million in commissions, cashing bonuses, and other applicable fees to retailers.
- The assets of the Lottery were \$101.1 million greater than the liabilities for the year ended June 30, 2014, 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:

	June 30, 2013	June 30, 2014	Dollar Change	Percent Change
Current and other assets	\$ 1,701,203,472	\$ 1,662,602,592	\$ (38,600,880)	(2.3 %)
Capital assets	82,251,499	95,330,193	13,078,694	15.9 %
Total assets	<u>\$ 1,783,454,971</u>	<u>\$ 1,757,932,785</u>	<u>\$ (25,522,186)</u>	<u>(1.4 %)</u>
Current liabilities	\$ 939,818,016	\$ 932,530,147	\$ (7,287,869)	(0.8 %)
Non-current liabilities	741,569,254	724,293,681	(17,275,573)	(2.3 %)
Total liabilities	<u>\$ 1,681,387,270</u>	<u>\$ 1,656,823,828</u>	<u>\$ (24,563,442)</u>	<u>(1.5 %)</u>
Net investment in capital assets	\$ 82,251,499	\$ 95,330,193	\$ 13,078,694	15.9 %
Restricted by legislation	102,067,701	101,108,957	(958,744)	(0.9 %)
Unrestricted deficit	(82,251,499)	(95,330,193)	(13,078,694)	15.9 %
Total net position	<u>\$ 102,067,701</u>	<u>\$ 101,108,957</u>	<u>\$ (958,744)</u>	<u>(0.9 %)</u>

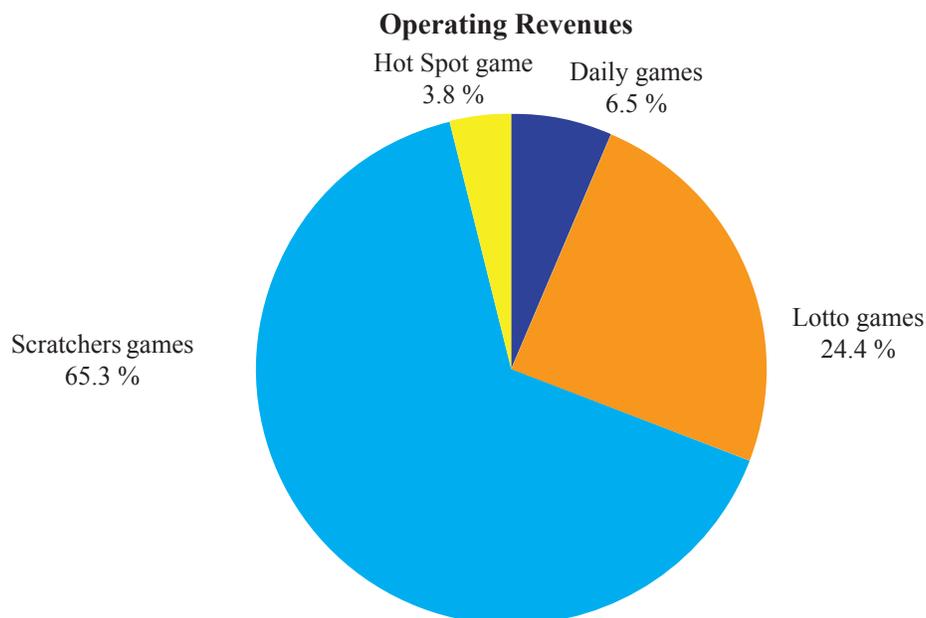
A summary of the California State Lottery's change in net position is presented below:

	June 30, 2013	June 30, 2014	Dollar Change	Percent Change
Operating revenues – Lottery sales	\$ 4,445,874,040	\$ 5,034,661,424	\$ 588,787,384	13.2 %
Prizes	2,652,095,102	3,082,376,405	430,281,303	16.2 %
Sales after prizes	<u>\$ 1,793,778,938</u>	<u>\$ 1,952,285,019</u>	<u>\$ 158,506,081</u>	<u>8.8 %</u>
Game costs	380,097,433	445,540,629	65,443,196	17.2 %
Income before operating expenses	<u>\$ 1,413,681,505</u>	<u>\$ 1,506,744,390</u>	<u>\$ 93,062,885</u>	<u>6.6 %</u>
Operating expenses	152,892,055	180,092,492	27,200,437	17.8 %
Operating income	<u>\$ 1,260,789,450</u>	<u>\$ 1,326,651,898</u>	<u>\$ 65,862,448</u>	<u>5.2 %</u>
Non-operating expenses	(1,314,319,304)	(1,327,610,642)	(13,291,338)	1.0 %
Change in net position	<u>\$ (53,529,854)</u>	<u>\$ (958,744)</u>	<u>\$ 52,571,110</u>	<u>(98.2 %)</u>
Total net position – beginning of year	155,597,555	102,067,701	(53,529,854)	(34.4 %)
Total net position – end of year	<u>\$ 102,067,701</u>	<u>\$ 101,108,957</u>	<u>\$ (958,744)</u>	<u>(0.9 %)</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, 2014:



A summary of total revenues for the fiscal years ended June 30, 2013 and 2014, and the amount and percentage of change in relation to prior year amounts is as follows:

	June 30, 2013	June 30, 2014	Dollar Change	Percent Change
<b>Operating revenues:</b>				
Lotto games	\$ 935,660,488	\$ 1,230,661,985	\$ 295,001,497	31.5 %
Scratchers games	3,010,119,929	3,288,922,307	278,802,378	9.3 %
Hot Spot game	154,403,306	188,390,807	33,987,501	22.0 %
Daily games	345,690,317	326,686,325	(19,003,992)	(5.5 %)
Total operating revenues	<u>\$ 4,445,874,040</u>	<u>\$ 5,034,661,424</u>	<u>\$ 588,787,384</u>	<u>13.2 %</u>
<b>Non-operating revenues:</b>				
Unrealized gains (losses) on investments	\$ (42,158,289)	\$ 4,829,544	\$ 46,987,833	(111.5 %)
Interest accreted/earned on investments	38,405,632	37,209,821	(1,195,811)	(3.1 %)
Interest on funds held by State				
Treasurer	1,220,691	1,249,094	28,403	2.3 %
Other income	47,879	27,400	(20,479)	(42.8 %)
Total non-operating revenues	<u>\$ (2,484,087)</u>	<u>\$ 43,315,859</u>	<u>\$ 45,799,946</u>	<u>(1843.7 %)</u>
Total revenues	<u><u>\$ 4,443,389,953</u></u>	<u><u>\$ 5,077,977,283</u></u>	<u><u>\$ 634,587,330</u></u>	<u><u>14.3 %</u></u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

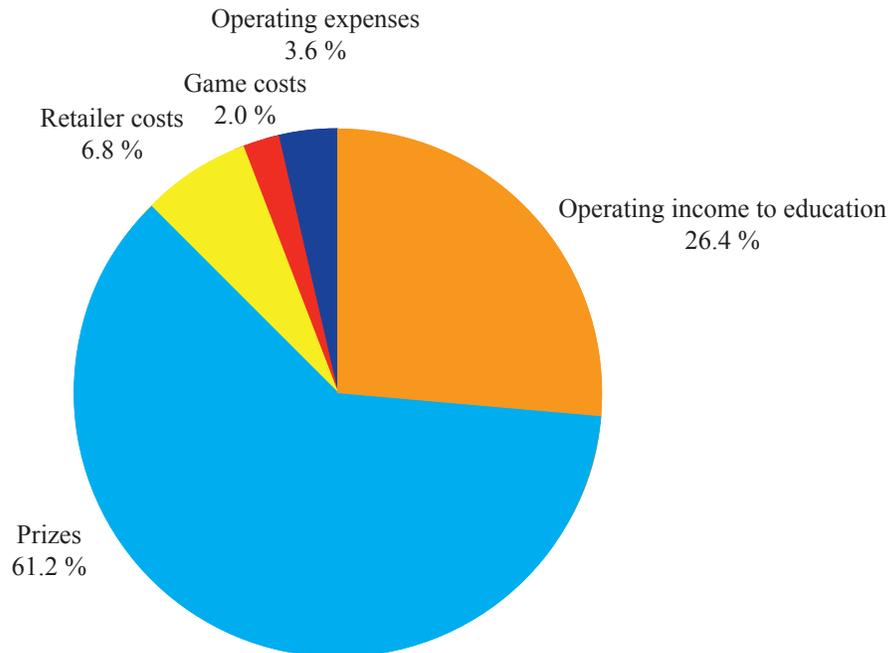
### REVENUES (continued)

Lottery operating revenue increased \$588.8 million or 13.2 percent over the previous year, increasing to more than \$5 billion. Lotto games led this increase in sales, with a growth of 31.5 percent or \$295 million, due to large jackpots in both the Mega Millions and Powerball games. Hot Spot sales increased 22 percent during 2013-14, the first full year of higher prize payouts for this game. Promotions and an increase in social media related to Hot Spot also helped to increase sales. Scratchers sales increased 9.3 percent over the previous year primarily due to the introduction of a \$20 price-point game as well as the continued popularity of \$5 and \$10 price-point games. Non-operating revenue increased \$45.8 million due primarily to unrealized gains on investments purchased to pay annuitized prizes.

### 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, 2014:

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



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### EXPENSES (continued)

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, 2014.

Lottery Sales	\$ 5,034,661,424	100.0 %
Revenue returned to the public		
Prizes	\$ 3,082,376,405	61.2 %
Operating income to education	<u>1,326,663,398</u>	<u>26.4 %</u>
Total revenue returned to the public	<u>\$ 4,409,039,803</u>	<u>87.6 %</u>
Expenses of the Lottery		
Retailer costs	\$ 345,513,054	6.8 %
Game costs	100,027,575	2.0 %
Operating expenses	180,092,492	3.6 %
Less bartered operating expenses	<u>(11,500)</u>	<u>0.00 %</u>
Total expenses of the Lottery	<u>\$ 625,621,621</u>	<u>12.4 %</u>

A summary of the total funds transferred by the Lottery to the education community for the fiscal year ended June 30, 2014, is shown below.

Revenues to Education	
Allocation of sales - operating income	\$ 1,326,663,398
Unclaimed prizes directly allocated to the Education Fund	21,672,671
Interest income	1,249,094
Other income	27,400
Less bartered income	<u>(11,500)</u>
Total declared for allocation to the Education Fund	<u>\$ 1,349,601,063</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### EXPENSES (continued)

A summary of expenses for the fiscal years ended June 30, 2013 and 2014, and the amount and percentage change in relation to prior year amounts is as follows:

	<u>June 30, 2013</u>	<u>June 30, 2014</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Prizes:				
Draw game prizes	\$ 723,654,671	\$ 879,474,109	\$ 155,819,438	21.5 %
Scratchers game prizes	1,928,440,431	2,202,902,296	274,461,865	14.2 %
Total prizes	<u>\$ 2,652,095,102</u>	<u>\$ 3,082,376,405</u>	<u>\$ 430,281,303</u>	<u>16.2 %</u>
Game costs:				
Retailer costs	\$ 302,946,127	\$ 345,513,054	\$ 42,566,927	14.1 %
Draw/Scratchers game costs	77,151,306	100,027,575	22,876,269	29.7 %
Total game costs	<u>\$ 380,097,433</u>	<u>\$ 445,540,629</u>	<u>\$ 65,443,196</u>	<u>17.2 %</u>
Operating expenses:				
Salaries, wages, and benefits	\$ 56,781,125	\$ 66,108,672	\$ 9,327,547	16.4 %
Advertising	56,044,193	63,699,190	7,654,997	13.7 %
Promotion, public relations, and point of sale	7,854,549	14,507,326	6,652,777	84.7 %
Other professional services	12,651,314	13,331,461	680,147	5.4 %
Depreciation and amortization	5,980,272	6,075,176	94,904	1.6 %
Other general and administrative expenses	13,580,602	16,370,667	2,790,065	20.5 %
Total operating expenses	<u>\$ 152,892,055</u>	<u>\$ 180,092,492</u>	<u>\$ 27,200,437</u>	<u>17.8 %</u>
Non-operating expenses:				
Allocation to Education Fund	\$ 1,262,058,020	\$ 1,327,928,392	\$ 65,870,372	5.2 %
Interest imputed on annuitized prize liability	49,777,197	42,998,109	(6,779,088)	(13.6 %)
Total non-operating expenses	<u>\$ 1,311,835,217</u>	<u>\$ 1,370,926,501</u>	<u>\$ 59,091,284</u>	<u>4.5 %</u>
Total expenses	<u>\$ 4,496,919,807</u>	<u>\$ 5,078,936,027</u>	<u>\$ 582,016,220</u>	<u>12.9 %</u>

Prize expense and game costs increased as sales increased. Additionally, Scratchers prize expense increased due to the continued emphasis on games with higher prize payouts, and game costs increased with the purchase of gaming equipment and signs. Advertising expense increased due primarily to a Powerball awareness campaign and to more jackpot alerts. The increase in promotion, public relations and point of sale was due to a point of sale refresh effort, and to a new promotions team that held numerous promotional events throughout the state. Salaries increased as the Lottery added 61 positions during fiscal year 2013-14. Other general and administrative expense increased due to the additional staff, mobile devices supplied to the sales force, additional sales conferences, and costs related to a new method of shipping Scratchers tickets back to the warehouses.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### CAPITAL ASSETS

A summary of capital assets as of June 30, 2013 and 2014, and the amount and percentage of change in relation to prior year amounts is as follows:

	June 30, 2013	June 30, 2014	Dollar Change	Percent Change
Non-depreciable capital assets:				
Land	\$ 6,469,219	\$ 6,469,219	\$ -	0.0 %
Depreciable capital assets:				
Gaming equipment	\$ 14,392,117	\$ 14,362,992	\$ (29,125)	(0.2 %)
Vending machines	30,044,295	43,462,289	13,417,994	44.7 %
Buildings	69,986,320	69,986,320	-	0.0 %
Data processing equipment	13,361,656	12,406,696	(954,960)	(7.1 %)
Office furniture and equipment	7,642,537	7,756,106	113,569	1.5 %
Leasehold improvements	813,658	813,658	-	0.0 %
Other	6,579,301	8,495,074	1,915,773	29.1 %
Subtotal	<u>\$ 142,819,884</u>	<u>\$ 157,283,135</u>	<u>\$ 14,463,251</u>	<u>10.1 %</u>
Less accumulated depreciation	<u>(67,037,604)</u>	<u>(68,422,161)</u>	<u>(1,384,557)</u>	<u>2.1 %</u>
Total depreciable capital assets	<u>\$ 75,782,280</u>	<u>\$ 88,860,974</u>	<u>\$ 13,078,694</u>	<u>17.3 %</u>
Capital assets, net	<u>\$ 82,251,499</u>	<u>\$ 95,330,193</u>	<u>\$ 13,078,694</u>	<u>15.9 %</u>

Capital assets increased 15.9 percent over the previous fiscal year primarily due to the purchase of new, updated vending machines. Additionally, the Lottery purchased vehicles for new sales staff, to replace old vehicles, and for use at promotional events. More information on the Lottery's capital assets can be found in Note 5.

### LONG - TERM DEBT

At June 30, 2014, the California State Lottery had approximately \$724.3 million in non-current liabilities, a decrease of 2.3 percent over the previous fiscal year. This decrease is attributable to prize liability, as the majority of jackpot and annuity-level prize winners choose the cash option rather than annuitized payments. In addition, approximately \$7.3 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 \$41.1 million as of June 30, 2014. 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, 2014**

**ASSETS**

Current assets:		
Cash and cash equivalents (Note 2)	\$	316,260,517
Investments, current portion (Note 2)		116,629,017
Accounts receivable, net of allowances (Note 3)		404,238,835
Due from state funds (Note 4)		295,282
Ticket inventories		7,486,214
Other		<u>5,303,833</u>
Total current assets	\$	<u>850,213,698</u>
Non-current assets:		
Investments, less current portion (Note 2)	\$	796,206,592
Capital assets, net (Note 5)		95,330,193
Long-term prepaid charges, net		<u>16,182,302</u>
Total non-current assets	\$	<u>907,719,087</u>
<b>TOTAL ASSETS</b>		<b><u><u>\$ 1,757,932,785</u></u></b>

**LIABILITIES**

Current liabilities:		
Accounts payable	\$	52,691,594
Current prize liability (Note 6)		551,259,865
Due to state funds (Note 7)		314,911,688
Accrued liabilities		10,688,184
Unearned revenue		<u>2,978,816</u>
Total current liabilities	\$	<u>932,530,147</u>
Non-current liabilities:		
Prize liability, less current portion (Note 6)	\$	683,179,681
Other postemployment benefits (Note 10)		<u>41,114,000</u>
Total non-current liabilities	\$	<u>724,293,681</u>
<b>TOTAL LIABILITIES</b>		<b><u><u>\$ 1,656,823,828</u></u></b>

Commitments and contingencies (Notes 8 and 11)

**NET POSITION**

Net investment in capital assets (Note 5)	\$	95,330,193
Restricted by legislation for prizes (Note 2)		101,108,957
Unrestricted deficit		<u>(95,330,193)</u>
<b>TOTAL NET POSITION</b>	\$	<b><u><u>101,108,957</u></u></b>

See accompanying notes to the financial statements.

**CALIFORNIA STATE LOTTERY FUND**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**YEAR ENDED JUNE 30, 2014**

Operating revenues: Lottery sales		\$ 5,034,661,424
Prizes		<u>3,082,376,405</u>
Sales after prizes		<u>\$ 1,952,285,019</u>
Less game costs:		
Retailer costs		\$ 345,513,054
Draw game costs		70,486,877
Scratchers <sup>®</sup> game costs		<u>29,540,698</u>
Total game costs		<u>\$ 445,540,629</u>
Income before operating expenses		<u>\$ 1,506,744,390</u>
Operating expenses:		
Salaries, wages, and benefits		\$ 66,108,672
Advertising		63,699,190
Promotion, public relations, and point of sale		14,507,326
Other professional services		13,331,461
Depreciation and amortization		6,075,176
Other general and administrative expenses		<u>16,370,667</u>
Total operating expenses		<u>\$ 180,092,492</u>
Operating income		<u>\$ 1,326,651,898</u>
Non-operating (expenses) revenues:		
Investment earnings (Note 9)		\$ 43,288,459
Interest expense imputed on annuitized prize liability		(42,998,109)
Other income		27,400
Allocation to Education Fund (Note 7)		<u>(1,327,928,392)</u>
Total non-operating expenses		<u>\$ (1,327,610,642)</u>
Change in net position		\$ (958,744)
Total net position - beginning balance		<u>102,067,701</u>
Total net position - ending balance		<u>\$ 101,108,957</u>

See accompanying notes to the financial statements.

**CALIFORNIA STATE LOTTERY FUND**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2014**

Cash flows from operating activities:	
Receipts from customers	\$ 5,013,486,952
Payments for prizes	(3,567,223,613)
Payments to retailers	(345,503,499)
Payments to suppliers for goods and services	(218,881,446)
Payments to employees	(50,725,767)
Internal activity-payments to state funds	(15,070,429)
Receipts from other states	499,057,503
Other receipts	<u>141,301</u>
Net cash flows provided by operating activities	<u>\$ 1,315,281,002</u>
Cash flows from non-capital financing activities:	
Distributions to Education Fund	<u>\$ (1,415,701,540)</u>
Net cash flows used in non-capital financing activities	<u>\$ (1,415,701,540)</u>
Cash flows from capital and related financing activities:	
Proceeds from disposal of property and equipment	\$ 38,746
Payments for capital assets	<u>(19,177,790)</u>
Net cash flows used in capital and related financing activities	<u>\$ (19,139,044)</u>
Cash flows from investing activities:	
Purchase of securities	\$ (65,036,957)
Proceeds from matured securities	134,853,000
Investment Portfolio and SMIF interest received	<u>23,079,585</u>
Net cash flows provided by investing activities	<u>\$ 92,895,628</u>
Decrease in cash and cash equivalents	<u>\$ (26,663,954)</u>
Cash and cash equivalents at July 1, 2013	<u>\$ 342,924,471</u>
Cash and cash equivalents at June 30, 2014	<u><u>\$ 316,260,517</u></u>

See accompanying notes to the financial statements.

**CALIFORNIA STATE LOTTERY FUND  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2014**

Cash flows from operating activities:	
Operating income	\$ 1,326,651,898
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	\$ 6,075,176
Provision for doubtful accounts	464,780
Provision for returned tickets	(175,065)
Provision for free ticket redemptions	632,358
Net non-cash other postemployment cost	7,326,000
Net gain on retirement or disposal of capital assets	(14,826)
Other income	27,400
Changes in assets and liabilities:	
Increase in accounts receivable	(42,663,781)
Decrease in ticket inventories	376,915
Decrease in other assets	464,159
Decrease in long-term prepaid charges	3,230,391
Decrease in accounts payable	(1,811,824)
Increase in prize liability	14,210,295
Decrease in due to state funds	(145,017)
Increase in accrued liabilities	793,967
Decrease in unearned revenues	(161,824)
Net cash flows provided by operating activities	<u>\$ 1,315,281,002</u>

Supplemental disclosure of non-cash activities:

Interest accreted on annuitized prizes	<u>\$ 42,998,109</u>
Unclaimed prizes directly allocated to the Education Fund	<u>\$ 21,672,671</u>
Unrealized gain on investments	<u>\$ 4,829,544</u>
Interest accreted on zero coupon bonds	<u>\$ 15,608,267</u>

See accompanying notes to the financial statements.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**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®, 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, 2014**

**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.

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

**Prizes - Draw Games**

Powerball and Mega Millions - 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 and Mega Millions grand/jackpot prizes won in California are paid in 30 graduated, annual installments. For each game, winners have up to 60 days after the date 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<sup>®</sup> - Prize expense for the twice-weekly draw game is recognized on the basis of the predetermined prize structure when the revenue is recognized. Nine distinct prize categories are established which are dependent upon the amount of money wagered and the quantity of numbers to be matched. In the event that no winning share for a specific prize category in SuperLotto Plus is chosen, all monies allocated for that prize are carried forward to the following drawing and added to the 5 of 5 plus Mega number category (grand prize).

SuperLotto Plus grand/jackpot prizes of \$1 million or more won 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

**CALIFORNIA STATE LOTTERY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

**Prizes – Draw Games (continued)**

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<sup>®</sup> - Prize expense for the multiple-draws-per-day game is recognized on the basis of the predetermined prize structure when the revenue is recognized. 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 promotions to ensure that the fund balance at the end of any given fiscal year is liquidated. All Hot Spot prizes won but not claimed within the specified period are allocated directly to the Education Fund.

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.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

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

**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 ten 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.

**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 \$63,699,190 for the year ended June 30, 2014.

**CALIFORNIA STATE LOTTERY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

**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.

**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.

**CALIFORNIA STATE LOTTERY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

**Investments (continued)**

As of June 30, 2014, 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	\$ 11,992,000	\$ 11,011,264	\$ 11,984,745
U.S. Agency Bonds	41,913,000	35,309,531	41,865,992
U.S. Municipal Bonds	<u>62,000,000</u>	<u>62,075,284</u>	<u>62,778,280</u>
Total current portion	<u>\$ 115,905,000</u>	<u>\$ 108,396,079</u>	<u>\$ 116,629,017</u>
Long-term portion:			
U.S. Treasury Bonds	\$ 280,973,000	\$ 163,617,295	\$ 194,924,537
U.S. Agency Bonds	235,582,000	139,444,628	195,906,756
U.S. Municipal Bonds	<u>358,710,000</u>	<u>360,287,857</u>	<u>405,375,299</u>
Total long-term portion	<u>\$ 875,265,000</u>	<u>\$ 663,349,780</u>	<u>\$ 796,206,592</u>
 Total investments	 <u>\$ 991,170,000</u>	 <u>\$ 771,745,859</u>	 <u>\$ 912,835,609</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, 2014, in accordance with the requirements of GASB 31.

Changes in fair value of investments:

Unrealized investment gains at July 1, 2013	\$ 79,090,350
Unrealized investment gain, current period	<u>4,829,544</u>
Total unrealized investment gains	<u>\$ 83,919,894</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.

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.

**CALIFORNIA STATE LOTTERY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

**Interest Rate Risk – Investments**

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

U.S. Treasury Strips	10.82 years
U.S. Agency Holdings	5.04 years
U.S. Municipal Bond Holdings	6.43 years
Surplus Money Investment Fund	0.64 years

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

The Lottery has adopted a specific policy to manage credit risk in the Lottery's investment portfolio. The zero coupon U.S. Treasury bonds and U.S. Treasury bills are backed by the full faith and credit of the United States government. Therefore, the U.S. Treasury obligation investments are not considered to have credit risk or a concentration of credit risk, as defined by the Governmental Accounting Standards Board. The Lottery's policy to manage credit risk requires municipal bonds to have a minimum double A credit rating by 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, 2014. Credit risk is further mitigated by a \$2.7 million par value agency bond reserve. The bond reserve has a fair value of \$1,889,976.

As of June 30, 2014, 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	\$ 457,744,209	50.15 %
Aa1	147,445,919	16.15 %
Aa2	51,576,962	5.65 %
Aa3	228,626,921	25.05 %
A3	22,031,735	2.41 %
Baa1	5,409,863	0.59 %
Totals	<u>\$ 912,835,609</u>	<u>100.00 %</u>

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

Issuer	Cost	Fair Value	Percent of Total Portfolio	Moody's Credit Rating
State of California	\$ 164,475,817	\$ 178,345,496	19.54 %	Aa3
Commonwealth of Massachusetts	\$ 62,546,830	\$ 69,039,180	7.56 %	Aa1
New York City	\$ 47,293,479	\$ 51,576,962	5.65 %	Aa2

**CALIFORNIA STATE LOTTERY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

**Custodial Credit Risk – Investments**

The Lottery does not have a formal investment policy for custodial credit risk for investments. As of June 30, 2014, 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, 2014, the carrying value of deposits in the Surplus Money Investment Fund approximated fair value.

State Treasury	\$ 11,703,737
Surplus Money Investment Fund (SMIF)	<u>304,519,000</u>
	<u>\$ 316,222,737</u>

The total cash and cash equivalents of \$316,260,517 also includes retailer payments delivered to the Lottery but not deposited into Lottery accounts by period end. At June 30, 2014, this cash on hand totaled \$37,780.

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, 2014**

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

**Deposits (continued)**

At June 30, 2014, 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	\$ 163,901,568
Federal Agency Debt	25,321,633
Supranational Debentures	704,014
Bank Notes	2,817,613
Certificates of Deposit	56,352,696
Commercial Paper	31,451,134
Time Deposits	22,494,600
AB 55 and General Fund Loans	1,475,742
Total	\$ 304,519,000

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, 2014, 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 0.25 percent for the year ended June 30, 2014.

**3. ACCOUNTS RECEIVABLE**

Accounts receivable consists of the following:

Amounts due, primarily from retailers	\$ 461,201,638
Less: Allowance for free ticket redemption	(32,286,531)
Allowance for doubtful accounts	(4,610,271)
Allowance for ticket returns	(20,066,001)
Accounts receivable, net	\$ 404,238,835

**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, 2014**

**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	14,392,117	-	(29,125)	14,362,992
Vending machines	30,044,295	15,538,474	(2,120,480)	43,462,289
Buildings	69,986,320	-	-	69,986,320
Data processing equipment	13,361,656	1,152,534	(2,107,494)	12,406,696
Office furniture and equipment	7,642,537	204,575	(91,006)	7,756,106
Leasehold improvements	813,658	-	-	813,658
Other	6,579,301	2,282,207	(366,434)	8,495,074
	<u>\$ 149,289,103</u>	<u>\$ 19,177,790</u>	<u>\$ (4,714,539)</u>	<u>\$ 163,752,354</u>
Less accumulated depreciation and amortization:				
Gaming equipment	\$ (13,839,886)	\$ (355,615)	\$ 25,511	\$ (14,169,990)
Vending machines	(30,044,295)	(251,480)	2,120,480	(28,175,295)
Buildings	(3,963,771)	(1,786,968)	-	(5,750,739)
Data processing equipment	(8,369,317)	(1,884,445)	2,107,494	(8,146,268)
Office furniture and equipment	(4,556,460)	(1,013,678)	70,700	(5,499,438)
Leasehold improvements	(707,886)	(76,394)	-	(784,280)
Other	(5,555,989)	(706,596)	366,434	(5,896,151)
	<u>\$ (67,037,604)</u>	<u>\$ (6,075,176)</u>	<u>\$ 4,690,619</u>	<u>\$ (68,422,161)</u>
Capital assets, net	<u>\$ 82,251,499</u>	<u>\$ 13,102,614</u>	<u>\$ (23,920)</u>	<u>\$ 95,330,193</u>

Depreciation and amortization charged to income on capital assets was \$6,075,176 for the year ended June 30, 2014.

**CALIFORNIA STATE LOTTERY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**6. PRIZE LIABILITY**

Prize liability consists of the following:

	Scratchers Games	Draw Games	Total
Current:			
Annuitized prizes	\$ 21,409,648	\$ 189,439,940	\$ 210,849,588
Other prizes	311,762,795	28,647,482	340,410,277
Total current prize liability	<u>\$ 333,172,443</u>	<u>\$ 218,087,422</u>	<u>\$ 551,259,865</u>
Long-term annuitized prizes	\$ 190,880,000	\$ 797,253,000	\$ 988,133,000
Less imputed interest	<u>(49,070,104)</u>	<u>(255,883,215)</u>	<u>(304,953,319)</u>
Net present value of long-term prizes	<u>\$ 141,809,896</u>	<u>\$ 541,369,785</u>	<u>\$ 683,179,681</u>
Total prize liability	<u><u>\$ 474,982,339</u></u>	<u><u>\$ 759,457,207</u></u>	<u><u>\$ 1,234,439,546</u></u>

The amount of prizes due within one year is \$551,259,865.

Long-term prize liability as of June 30, 2014, for each of the next five years and for subsequent years is as follows:

	Principal	Interest	Total
For the year ending June 30, 2016	\$ 47,645,762	\$ 49,132,085	\$ \$96,777,847
2017	38,494,010	30,059,284	68,553,294
2018	32,922,596	21,623,162	54,545,758
2019	31,550,777	20,686,696	52,237,473
2020	30,211,628	19,716,029	49,927,657
2021-2025	130,260,306	82,141,215	212,401,521
2026-2030	79,772,675	31,586,102	111,358,777
2031-2035	20,968,789	1,777,463	22,746,252
2036-2040	10,185,708	230,065	10,415,773
2041-2045	<u>4,151,531</u>	<u>63,798</u>	<u>4,215,329</u>
Total long-term prize liability	<u><u>\$ 426,163,782</u></u>	<u><u>\$ 257,015,899</u></u>	<u><u>\$ 683,179,681</u></u>

Activity in the prize liability accounts consists of:

Balance, July 1, 2013	\$ 1,198,903,813
Prize expense	3,082,376,405
Prize payments	(3,567,223,613)
Grand/Jackpot prize contributions from Other Party Lotteries	499,057,503
Interest imputed on annuities	42,998,109
Unclaimed prizes	<u>(21,672,671)</u>
Balance, June 30, 2014	<u><u>\$ 1,234,439,546</u></u>

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**7. DUE TO STATE FUNDS**

Due to state funds consists of the following:

Due to Education Fund	\$ 314,619,810
Due to other state funds	<u>291,878</u>
 Total due to state funds	 <u><u>\$ 314,911,688</u></u>

Activity in the Due to Education Fund account consists of:

Balance, July 1, 2013	\$ 380,720,287
Allocation to Education Fund, earned by the California State Lottery Fund	\$ 1,327,928,392
Unclaimed prizes directly allocated to the Education Fund	<u>21,672,671</u>
	\$ 1,349,601,063
 Distribution to the Education Fund	 <u>(1,415,701,540)</u>
 Balance, June 30, 2014	 <u><u>\$ 314,619,810</u></u>

**8. LEASES**

The Lottery leases office, warehouse, and parking lot facilities under operating leases. These leases expire in various years through September 30, 2023. Most operating leases have a provision for early termination. These leases could be terminated between December 2014 and September 2023.

The future minimum lease payments under operating leases as of June 30, 2014, are as follows:

	Operating Leases
For the year ending June 30, 2015	\$ 1,447,808
2016	1,292,991
2017	1,329,057
2018	724,942
2019	524,519
Thereafter	<u>1,276,175</u>
 Total minimum payments	 <u><u>\$ 6,595,492</u></u>

Rental expense for all operating leases totaled \$1,536,337 for the year ended June 30, 2014.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**9. INVESTMENT EARNINGS**

Investment earnings consist of:

Interest on funds held by State Treasurer	\$ 1,249,094
Change in Fair Market Value of Investments	4,829,544
Interest accreted/earned on investments	37,209,821
Total investment earnings	\$ 43,288,459

**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 13 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, 2014, the Lottery's payroll for employees covered by CalPERS was approximately \$38.6 million and the total payroll for the period was approximately \$39.3 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 2013 for the 2013-14 fiscal year are as follows:

State Miscellaneous Member First Tier	21.121 %
State Miscellaneous Member Second Tier	20.992 %
State Safety Member	17.205 %
Peace Officer	30.495 %

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

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

**Retirement Plan (continued)**

The Lottery's pension cost for the year ended June 30, 2014, was equal to the Lottery's required contributions which were determined as part of the actuarial valuation performed by CalPERS dated June 30, 2012.

Three year trend information for the Lottery:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage Of APC Contributed	Net Pension Obligation
6/30/12	\$6,800,344	100 %	\$0
6/30/13	\$6,036,633	100 %	\$0
6/30/14	\$7,262,938	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 2013-14 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 \$642 for a single enrollee, \$1,218 for an enrollee and one dependent, and \$1,559 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 \$4 million for post-retirement health and dental benefits for retired members for the year ended June 30, 2014. 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, 2014, was \$11,346,000. The total NOO liability recorded as of June 30, 2014, is \$41,114,000. 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, 2014, and the previous two fiscal years.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

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

**Other Postemployment Benefits (continued)**

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), July 1, 2012	26,906,000
Allocated annual OPEB cost (AOC)	10,581,000
Fund allocated contributions	<u>(3,699,000)</u>
Net OPEB obligation (NOO), July 1, 2013	33,788,000
Allocated annual OPEB cost (AOC)	11,346,000
Fund allocated contributions	<u>(4,020,000)</u>
Net OPEB obligation (NOO), June 30, 2014	<u>\$ 41,114,000</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. 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, 1.20 percent of sales over \$4 billion and up to \$5 billion, and 1.10 percent of sales over \$5 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 \$637.1 million in fees have been incurred under the contract as of June 30, 2014.

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

**12. RISK MANAGEMENT**

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

The Lottery has purchased property insurance for its 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.

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# Statistical Section

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## STATISTICAL SECTION

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

### Contents

Financial Trends/Revenue Capacity.....	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 California State Lottery’s performance compares to other United States lotteries.	

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

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

	2005	2006	2007	2008
Invested in capital assets	40,968,035	42,926,882	50,203,022	50,476,492
Restricted by legislation	275,906,630	104,231,017	95,315,400	165,083,079
Unrestricted deficit	(40,968,035)	(42,926,882)	(50,203,022)	(50,476,492)
<b>Total net position</b>	<b>275,906,630</b>	<b>104,231,017</b>	<b>95,315,400</b>	<b>165,083,079</b>

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

	2005	2006	2007	2008
Operating revenues:				
Lotto games	1,109,931,087	1,187,725,049	1,023,039,079	1,022,867,234
Scratchers® games	1,736,788,110	1,929,632,771	1,824,355,512	1,551,048,845
Hot Spot®	174,296,572	163,526,309	143,182,870	137,582,868
Daily games	312,604,900	304,112,122	310,903,219	329,171,866
Raffle	-	-	16,865,825	8,950,102
<b>Total operating revenues</b>	<b>3,333,620,669</b>	<b>3,584,996,251</b>	<b>3,318,346,505</b>	<b>3,049,620,915</b>
Prizes	1,795,254,439	1,932,721,443	1,765,643,368	1,619,473,498
Game costs:				
Retailer costs	233,447,844	252,543,062	233,792,642	213,022,175
Draw game costs	35,702,574	37,277,061	37,820,168	37,250,758
Scratchers game costs	21,042,547	21,144,506	17,725,019	15,780,718
<b>Total game costs</b>	<b>290,192,965</b>	<b>310,964,629</b>	<b>289,337,829</b>	<b>266,053,651</b>
Operating expenses:				
Salaries, wages and benefits	41,913,096	41,201,111	42,224,625	48,431,055
Advertising	36,797,516	25,495,083	33,337,617	26,790,304
Promotion, public relations and point of sale	10,406,811	9,307,150	8,894,469	9,035,786
Other professional services	5,380,499	5,959,870	5,660,943	7,703,086
Depreciation and amortization	7,202,654	8,745,427	9,099,711	9,069,714
Other general and administrative expenses	8,546,322	11,389,574	11,715,254	13,161,713
<b>Total operating expenses</b>	<b>110,246,898</b>	<b>102,098,215</b>	<b>110,932,619</b>	<b>114,191,658</b>
Operating income	1,137,926,367	1,239,211,964	1,152,432,689	1,049,902,108
Non-operating (expenses) revenues:				
Investment earnings <sup>1</sup>	28,018,810	(153,232,777)	14,381,282	88,343,337
Other income	971,475	853,117	1,199,529	850,326
Allocation to Education Fund <sup>2</sup>	(1,148,775,087)	(1,258,507,917)	(1,176,929,117)	(1,069,328,092)
<b>Total non-operating (expenses) revenues</b>	<b>(1,119,784,802)</b>	<b>(1,410,887,577)</b>	<b>(1,161,348,306)</b>	<b>(980,134,429)</b>
<b>Total change in net position</b>	<b>18,141,565</b>	<b>(171,675,613)</b>	<b>(8,915,617)</b>	<b>69,767,679</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, \$10, and \$20.

(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 7 of the financial statements.

2009	2010	2011	2012	2013	2014
45,366,173	42,511,326	86,505,601	85,183,982	82,251,499	95,330,193
147,038,053	125,850,167	103,016,471	155,597,555	102,067,701	101,108,957
(45,366,173)	(42,511,326)	(86,505,601)	(85,183,982)	(82,251,499)	(95,330,193)
<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>	<b>101,108,957</b>

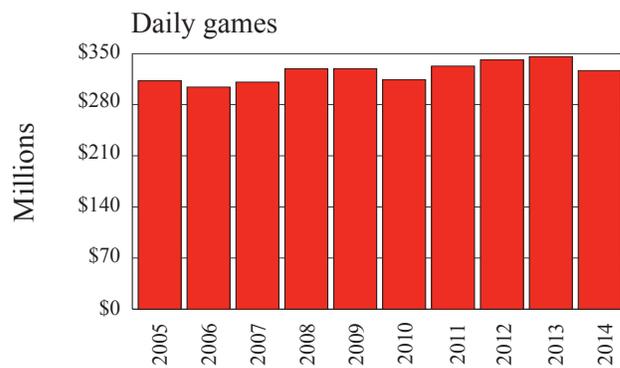
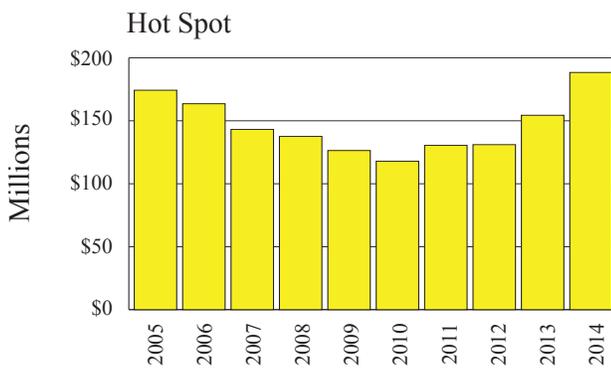
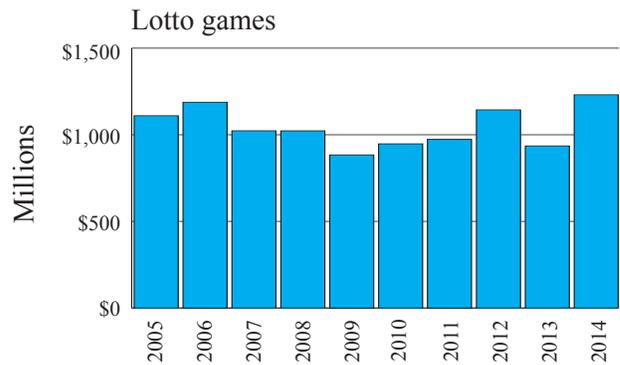
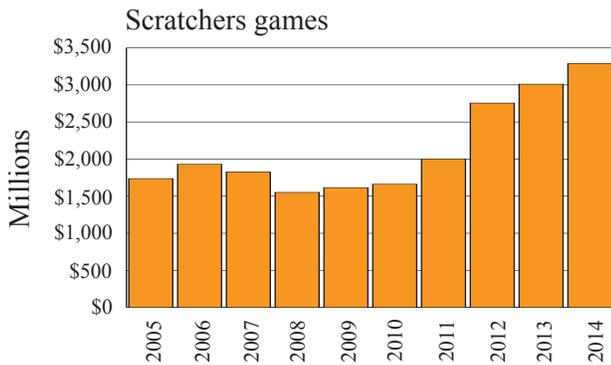
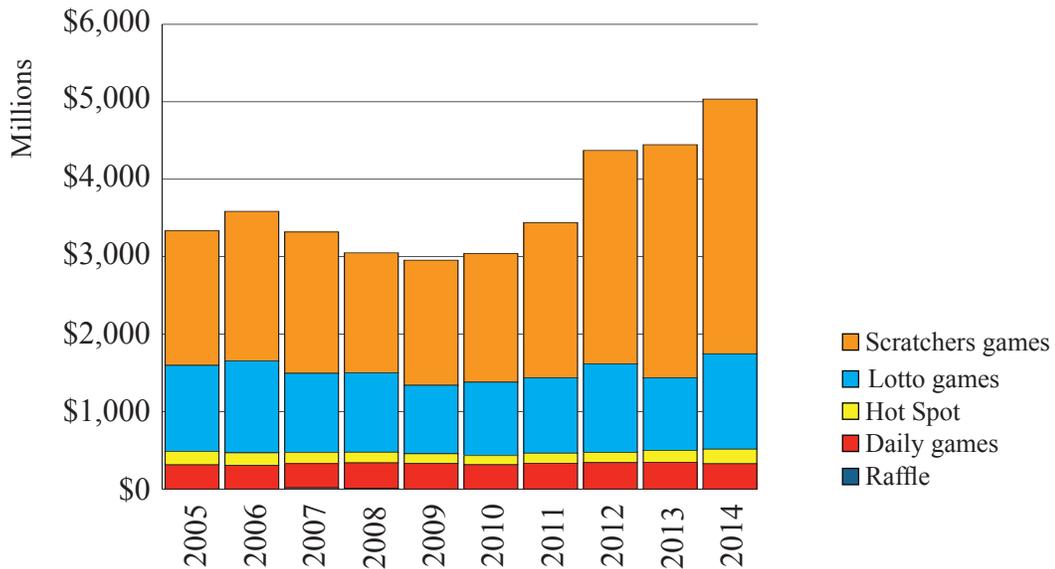
2009	2010	2011	2012	2013	2014
883,844,967	947,769,847	973,179,589	1,143,839,339	935,660,488	1,230,661,985
1,615,369,207	1,661,288,086	2,002,090,072	2,755,381,647	3,010,119,929	3,288,922,307
126,361,926	117,904,491	130,472,138	131,056,826	154,403,306	188,390,807
329,262,994	313,997,442	332,836,199	341,213,934	345,690,317	326,686,325
-	-	-	-	-	-
<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>	<b>5,034,661,424</b>
1,556,120,634	1,611,371,074	1,904,787,955	2,560,306,589	2,652,095,102	3,082,376,405

208,105,703	214,484,059	233,571,290	295,829,989	302,946,127	345,513,054
33,687,063	35,984,278	35,428,111	48,258,994	49,562,417	70,486,877
17,217,368	18,214,865	20,705,337	25,774,034	27,588,889	29,540,698
<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>	<b>445,540,629</b>

49,167,678	46,011,332	52,084,571	62,937,875	56,781,125	66,108,672
42,184,700	33,666,684	52,982,897	47,833,141	56,044,193	63,699,190
14,064,197	8,025,477	6,635,267	6,264,927	7,854,549	14,507,326
7,449,016	10,341,565	10,677,764	13,400,277	12,651,314	13,331,461
12,965,067	20,417,236	5,874,683	7,750,918	5,980,272	6,075,176
11,349,775	18,277,779	15,012,830	4,885,798	13,580,602	16,370,667
<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>	<b>180,092,492</b>

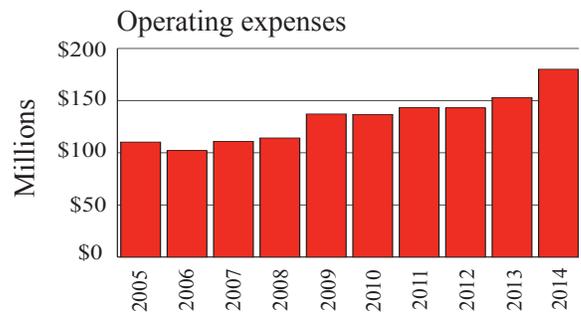
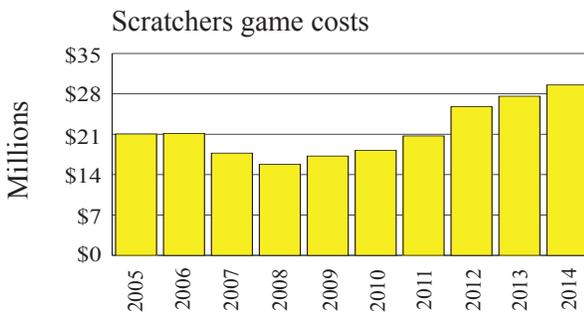
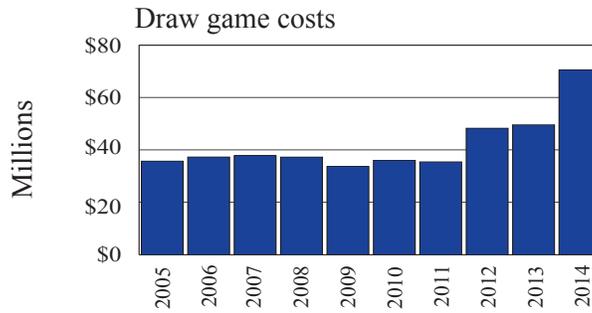
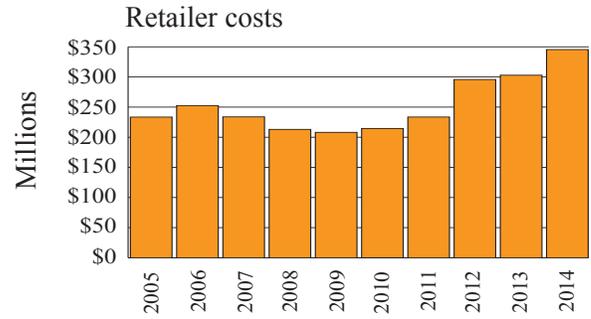
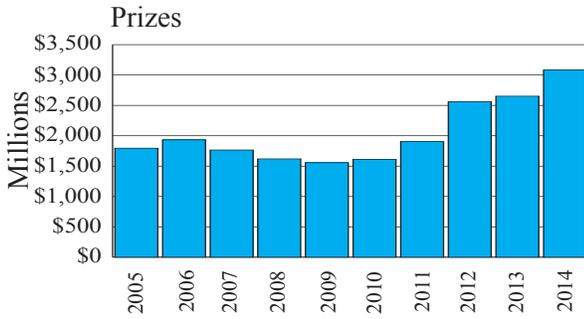
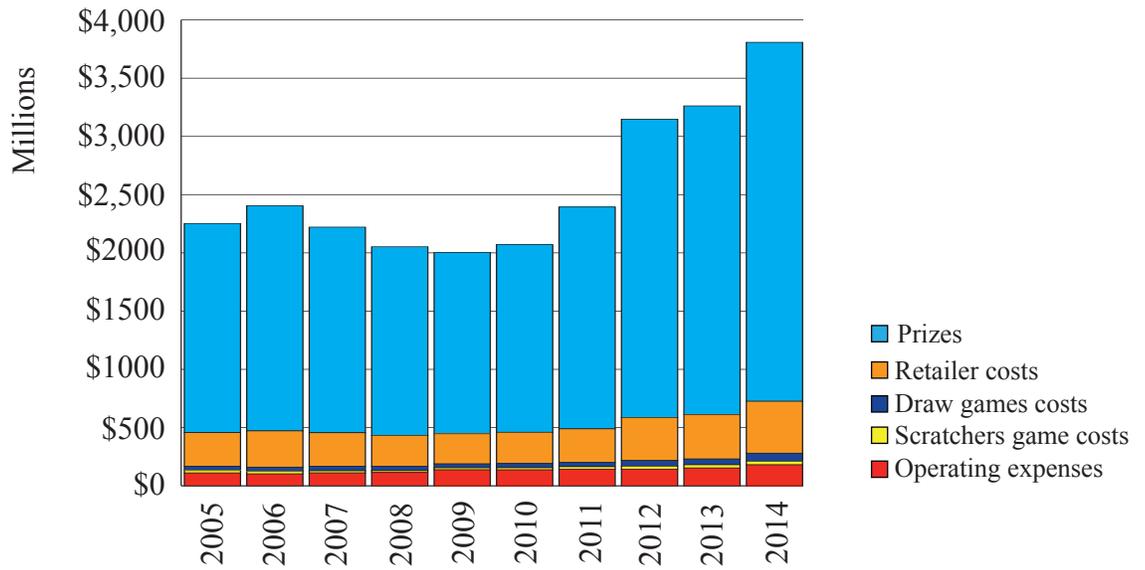
1,002,527,893	1,024,165,517	1,100,817,293	1,298,249,204	1,260,789,450	1,326,651,898
6,747,951	26,795,655	(20,856,697)	54,206,802	(52,309,163)	290,350
408,089	347,694	66,476	365,457	47,879	27,400
(1,027,728,959)	(1,072,496,752)	(1,102,860,768)	(1,300,240,379)	(1,262,058,020)	(1,327,928,392)
<b>(1,020,572,919)</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>(1,327,610,642)</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>	<b>(958,744)</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**  
**2004 - 2013**

	<b>Population (in thousands)</b>	<b>Personal Income (in millions)</b>	<b>Per Capita Personal Income</b>	<b>Unemployment Rate*</b>
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 %
2013	38,333	\$1,817,010	\$47,401	7.9 %

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: 2014 information is not available and therefore not presented.

**CALIFORNIA STATE LOTTERY**  
**California Industry Number of Employees By Size Category**  
**2004 - 2008**

	2004	2005	2006	2007	2008
Agriculture, Forestry, Fishing, Hunting	419,185	428,846	437,617	444,478	459,723
Mining	21,144	22,564	24,723	25,282	26,698
Utilities	55,908	56,204	56,978	58,276	58,575
Construction	881,632	944,060	957,256	900,386	782,432
Manufacturing	1,535,551	1,513,778	1,512,772	1,464,136	1,425,225
Wholesale Trade	652,097	677,489	706,834	719,608	705,036
Retail Trade	1,607,565	1,657,726	1,672,636	1,673,198	1,615,574
Transportation and Warehousing	414,976	417,462	425,350	434,105	432,622
Information	471,693	470,521	467,757	476,419	472,152
Finance and Insurance	621,023	645,955	641,764	607,118	563,136
Real Estate and Rental and Leasing	279,684	287,313	291,700	282,800	274,778
Services	5,748,117	5,903,101	6,077,509	6,200,250	6,232,695
Nonclassifiable Establishments	70,831	82,713	29,514	56,682	73,151
Federal, State and Local Government	2,296,591	2,326,568	2,336,653	2,404,511	2,405,547
<b>Total for All Industries</b>	<b>15,075,997</b>	<b>15,434,300</b>	<b>15,639,063</b>	<b>15,747,249</b>	<b>15,527,344</b>

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

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

Source: California Employment Development Department

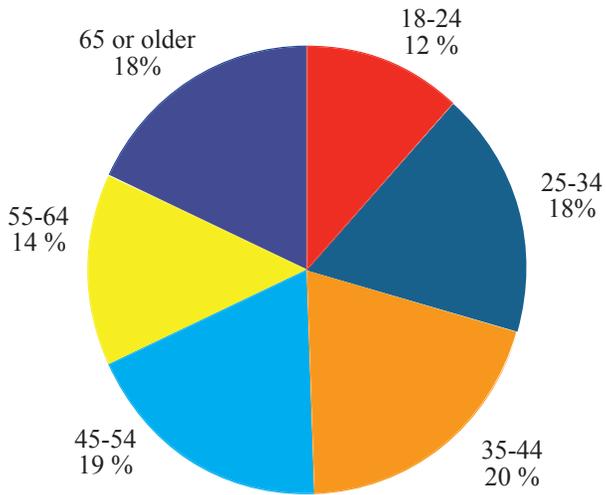
Note: Businesses are designated as "Nonclassifiable Establishments" when there is insufficient information to determine the appropriate industry classification.

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

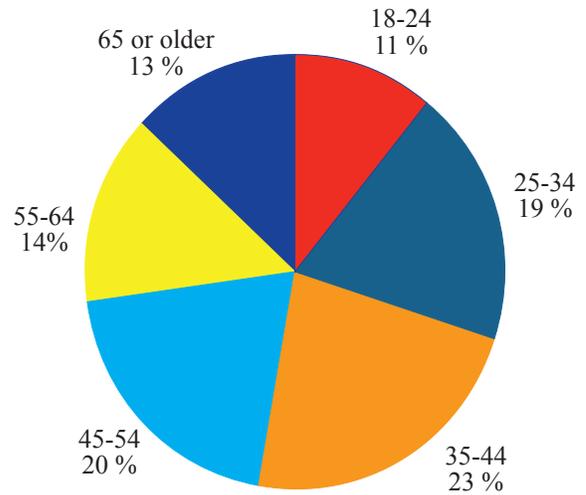
The industry data provided are intended to provide similar alternative information regarding the concentration of employment in various sectors of the California economy. Due to confidentiality issues, the names of the top individual employers are not available.

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

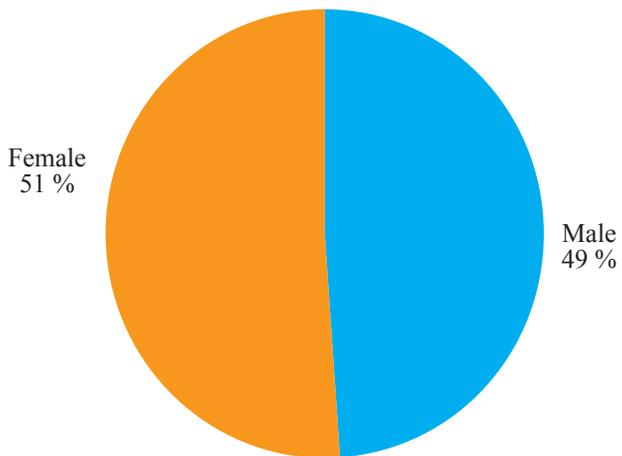
**Age of Adult Population**



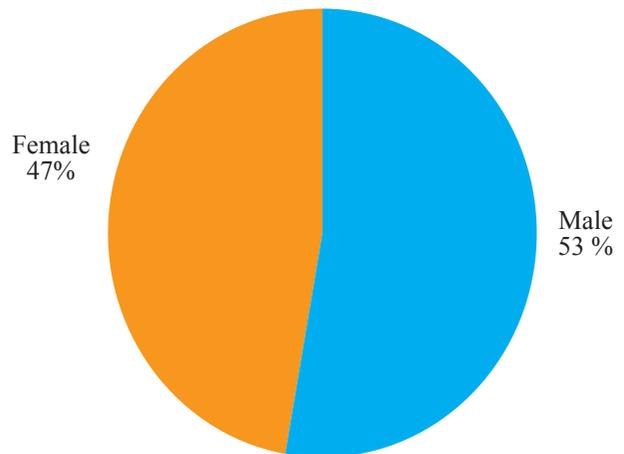
**Age of Lottery Players**



**Gender of Adult Population**



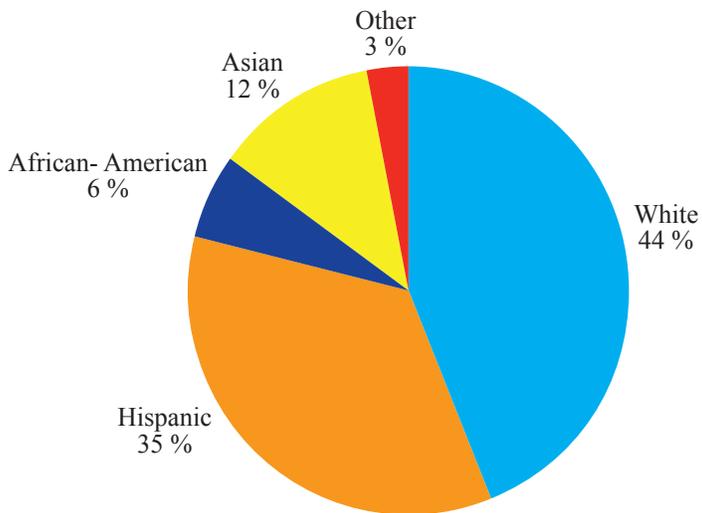
**Gender of Lottery Players**



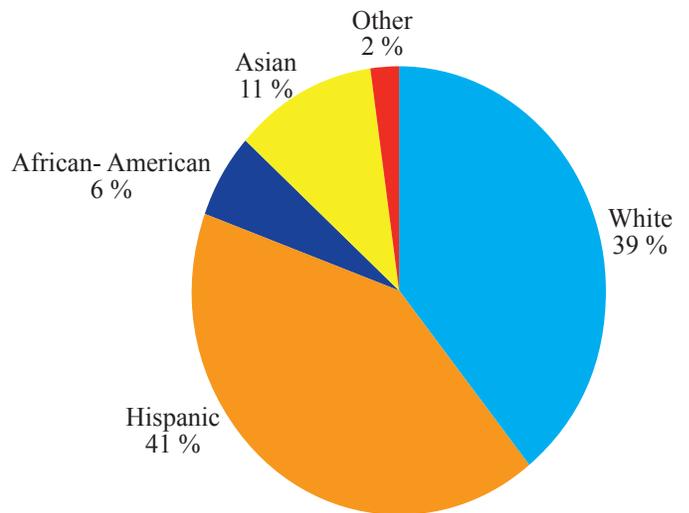
Note: All data are from Communications Effectiveness Tracking Study commissioned by the Lottery and provided by an external vendor for fiscal year 2013-14. Percentages based on only those responding. Some displays may not add to 100% due to rounding.

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

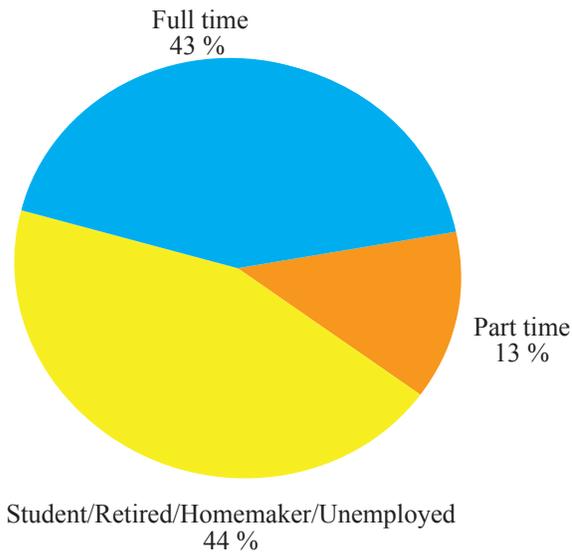
**Ethnicity of Adult Population**



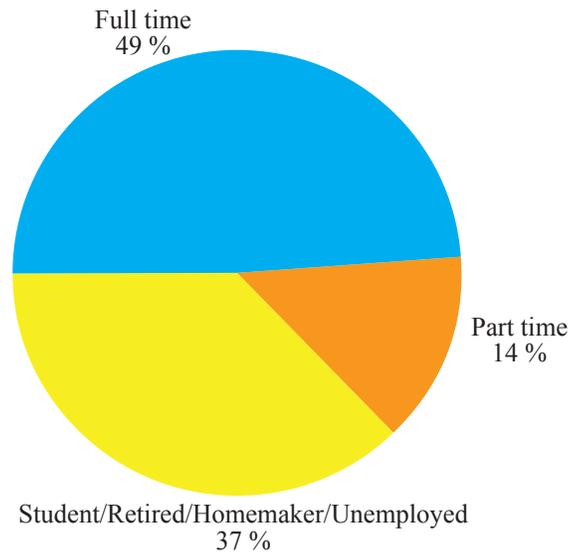
**Ethnicity of Lottery Players**



**Employment Status of Adult Population**



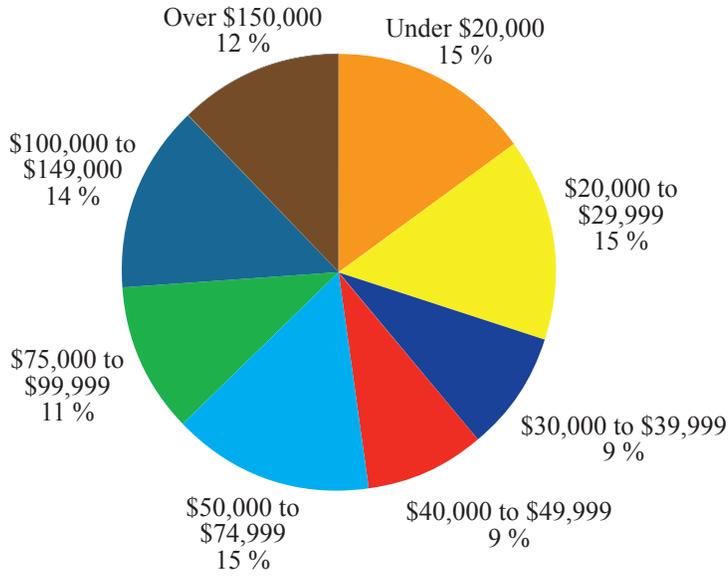
**Employment Status of Lottery Players**



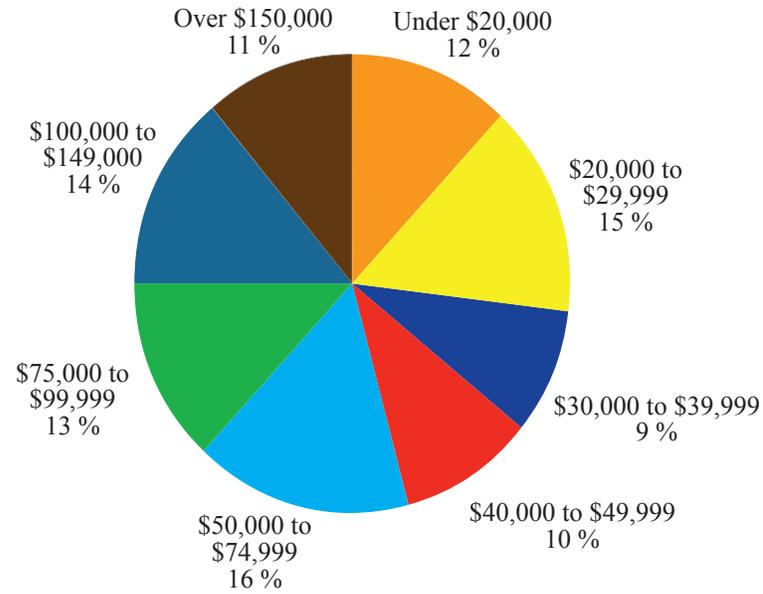
Note: All data are from Communications Effectiveness Tracking Study commissioned by the Lottery and provided by an external vendor for fiscal year 2013-14. Percentages based on only those responding. Some displays may not add to 100% due to rounding.

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

**Household Income of Adult Population**



**Household Income of Lottery Players**



Note: All data are from Communications Effectiveness Tracking Study commissioned by the Lottery and provided by an external vendor for fiscal year 2013-14. Percentages based on only those responding. Some displays may not add to 100% due to rounding.

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**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	\$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 <sup>2,3</sup>	\$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

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/sales per capita

**U.S. Lottery Data For Fiscal Year 2014**  
**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	\$724.0	\$460.00	\$175.00	6.6	\$109
Arkansas	\$410.1	\$275.00	\$135.10	3.0	\$139
California <sup>++</sup>	\$5,034.7	\$3,082.40	\$1,326.60	38.3	\$131
Colorado	\$545.0	\$336.60	\$130.10	5.3	\$103
Connecticut	\$1,112.4	\$668.80	\$319.50	3.6	\$309
Delaware <sup>2,3</sup>	\$148.4	\$31.50	\$544.70	0.9	\$160
District of Columbia	\$219.4	\$120.60	\$98.70	0.6	\$339
Florida	\$5,368.2	\$3,625.10	\$1,490.00	19.6	\$275
Georgia	\$4,022.2	\$2,413.80	\$940.10	10.0	\$403
Idaho	\$209.0	\$133.20	\$49.00	1.6	\$130
Illinois	\$2,791.8	N/A	N/A	12.9	\$217
Indiana	\$1,018.7	\$636.60	\$250.20	6.6	\$155
Iowa	\$314.1	\$186.20	\$73.90	3.1	\$102
Kansas	\$258.2	\$139.80	\$74.30	2.9	\$89
Kentucky	\$856.4	\$547.60	\$226.00	4.4	\$195
Louisiana	\$449.0	\$237.40	\$170.70	4.6	\$97
Maine	\$219.1	\$148.10	\$51.80	1.3	\$165
Maryland <sup>2,3</sup>	\$1,724.0	\$254.90	\$1,024.20	5.9	\$291
Massachusetts	\$4,824.7	\$3,515.00	\$971.00	6.7	\$721
Michigan <sup>1,4</sup>	\$2,609.1	\$1,548.40	\$763.10	9.9	\$264
Minnesota	\$531.5	\$328.00	\$127.90	5.4	\$98
Missouri	\$1,143.4	\$771.00	\$267.30	6.0	\$189
Montana	\$53.3	\$29.50	\$12.10	1.0	\$52
Nebraska	\$157.8	\$92.80	\$37.60	1.9	\$84
New Hampshire	\$275.0	\$171.80	\$72.40	1.3	\$208
New Jersey	\$2,895.8	N/A	N/A	8.9	\$325
New Mexico	\$136.0	\$74.10	\$40.90	2.1	\$65
New York <sup>2,3,4</sup>	\$7,314.2	\$4,407.90	\$3,173.00	19.7	\$372
North Carolina	\$1,839.3	\$1,068.30	\$503.10	9.8	\$187
North Dakota	\$27.0	\$14.20	N/A	0.7	\$37
Ohio <sup>2,3</sup>	\$2,735.0	\$1,714.20	\$904.30	11.6	\$236
Oklahoma	\$191.1	\$97.50	\$66.90	3.9	\$50
Oregon <sup>2,3</sup>	\$310.1	\$202.00	\$542.80	3.9	\$79
Pennsylvania	\$3,799.6	\$2,376.70	\$1,081.50	12.8	\$297
Rhode Island <sup>2,3</sup>	\$242.8	\$148.60	\$376.30	1.1	\$231
South Carolina	\$1,264.4	\$811.10	\$323.40	4.8	\$265
South Dakota <sup>2,3</sup>	\$54.9	\$437.30	\$104.70	0.8	\$65
Tennessee	\$1,417.0	N/A	N/A	6.5	\$218
Texas <sup>4</sup>	\$4,384.6	\$2,817.30	\$1,220.70	26.4	\$166
Vermont	\$102.3	\$65.00	\$22.60	0.6	\$163
Virginia	\$1,810.8	\$1,082.50	\$532.70	8.3	\$219
Washington	\$595.1	\$362.70	\$148.30	7.0	\$85
West Virginia <sup>2,3</sup>	\$188.6	\$110.70	\$1,103.60	1.9	\$102
Wisconsin	\$568.8	N/A	N/A	5.7	\$99

2014 data source: La Fleur's Magazine September/October 2014

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Executive <sup>4</sup>	42	34	27	28	30	42	42	41	37	44
Finance & Administration/Finance <sup>1,3</sup>	119	139	127	69	67	70	70	68	76	77
Human Resources <sup>3</sup>	-	-	-	22	24	24	24	26	27	27
Operations <sup>3,4</sup>	-	-	-	49	50	40	40	64	82	77
Corporate Communications <sup>3</sup>	-	-	23	13	9	8	8	16	21	23
Customer Service <sup>1</sup>	30	-	-	-	-	-	-	-	-	-
Security & Law Enforcement	43	42	44	47	48	49	49	50	57	59
Information Technology Services	125	94	93	85	88	88	88	77	85	87
Marketing <sup>3</sup>	29	29	34	-	-	-	-	-	-	-
Sales/Sales & Marketing <sup>3</sup>	262	256	272	324	324	323	323	302	374	397
Vacant <sup>2</sup>	-	56	-	-	-	-	-	-	-	-
<b>Total</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>	<b>791</b>

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

Note: Staffing levels are based on Lottery Commission approval as of that year.

(1) In fiscal year 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 many supplemental dollars are transferred to California public schools. In total, the Lottery sent more than \$65 million more to schools this year than last year – about \$1.35 billion in Fiscal Year 2013-14. This was the 14th consecutive year the Lottery was able to provide more than one billion dollars to California's K-12 schools, Community Colleges, California State University and University of California campuses and several specialized public schools. And while this increase in school funding may not sound like a lot, it is money schools depend on.

For the fifth year in a row, Lottery ticket sales have increased. For FY 2013-14, the Lottery reported sales of more than \$5 billion – the first time in its nearly 30 year history that sales have eclipsed that mark – which represents a 13.2 percent increase from last fiscal year's total of \$4.4 billion.

The Lottery was able to contribute more in the past year thanks to a sales increase fueled by strong Scratchers, Mega Millions,<sup>®</sup> and Powerball<sup>®</sup> sales. Scratchers ticket sales, which always make up the majority of total Lottery sales, saw an increase due to the introduction of the Lottery's first-ever \$20 Scratchers game. The Mega Millions and Powerball games were boosted by an extraordinary amount of large jackpots.

Also, earlier in FY 2013-14 the Lottery unveiled a new strategic plan that was designed to fundamentally strengthen how the Lottery conducts business over the next three years. The Lottery wants to appeal to a greater number of players, thoughtfully offer products that appeal to those players, expand its retailer base, and give its staff tools and resources to efficiently handle the demands of its own growth. With this strategic road map in place, as well as new games and promotions on the way, the Lottery is poised to take its sales and contributions to education to new heights in FY 2014-15.

It's been nearly five years since the Legislature passed and the Governor signed Assembly Bill 142, which gave the Lottery more flexibility in determining the appropriate levels for prize payouts. In that time, the Lottery has been able to send hundreds of millions more dollars to schools than it ever could have if the measure were not enacted. As we move forward, the Lottery's goal is to continue to grow in a responsible way and continue to focus on ways to increase supplemental funding for our state's public schools.

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

	2005	2006	2007	2008
Land	4,922,805	4,922,805	4,922,805	6,469,219
Gaming Terminals	154,651	120,608	14,154,156	12,831,183
Vending Machines	14,860,156	16,824,801	10,805,729	6,238,000
Buildings	15,859,317	16,522,310	15,616,279	19,340,110
Data processing equipment	2,752,714	2,175,973	1,346,488	1,083,275
Office furniture and equipment	714,270	1,135,533	1,324,713	2,015,682
Leasehold improvements	98,614	173,060	591,084	555,708
Other	1,605,508	1,051,792	1,441,768	1,943,315
<b>Total capital assets</b>	<b>40,968,035</b>	<b>42,926,882</b>	<b>50,203,022</b>	<b>50,476,492</b>

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

	2005	2006	2007	2008
Allocations to Education Fund	1,148,775,087	1,258,507,917	1,176,929,117	1,069,328,092
Unclaimed prizes	27,019,168	29,490,162	29,217,965	25,617,218
<b>Total Contributions to Education</b>	<b>1,175,794,255</b>	<b>1,287,998,079</b>	<b>1,206,147,082</b>	<b>1,094,945,310</b>

<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
6,469,219	6,469,219	6,469,219	6,469,219	6,469,219	6,469,219
12,670,664	6,365,357	3,916,645	1,194,188	552,231	193,002
3,368,057	857,039	-	-	-	15,286,994
16,687,975	23,252,649	64,304,922	65,854,751	66,022,549	64,235,581
667,642	348,351	4,487,258	6,063,025	4,992,339	4,260,428
2,279,846	1,508,253	4,625,176	3,871,154	3,086,077	2,256,668
455,846	323,349	243,730	182,166	105,772	29,378
2,766,924	3,387,109	2,458,651	1,549,479	1,023,312	2,598,923
<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>95,330,193</b>

<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
1,027,728,959	1,072,496,752	1,102,860,768	1,300,240,379	1,262,058,020	1,327,928,392
20,964,857	17,250,466	25,690,477	20,486,176	22,312,759	21,672,671
<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>	<b>1,349,601,063</b>

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