

*California Lottery*<sup>®</sup>

An Agency of the State of California

# COMPREHENSIVE ANNUAL FINANCIAL REPORT



FOR THE FISCAL YEAR ENDED JUNE 30, 2004



*California Lottery*  
Comprehensive Annual Financial Report  
For the fiscal year ended  
June 30, 2004

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# California Lottery<sup>®</sup>

## Introductory Section



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**California Lottery**  
600 North 10th Street  
Sacramento, California 95814

December 31, 2004

**To the citizens of California:**

The California Lottery (the Lottery) is pleased to provide this Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2004. The Finance Department of the California Lottery prepared this CAFR, which includes its 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, to present an overview of the California Lottery. The California Lottery, an agency of the State of California, was created in 1984 and is operated as a business enterprise within the framework of state laws and regulations.

The mission of the California Lottery is to implement the public's mandate to provide supplemental funds for public education by maximizing the sale of creative and entertaining lottery products. In carrying out this mission, the Lottery is guided by the principles of efficiency, integrity and customer service.

The CAFR covers financial activity of the California Lottery in 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 kinds of information are included in the three sections.

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.

**Introductory Section**

This section includes this transmittal letter describing the Lottery and its business activities, and the California Lottery organization chart with the names of the principal officials. This section is not audited because it contains subjective information.

**Audited Financial Section**

This section contains the Independent Auditors' Report, management's discussion and analysis, and the audited financial statements and the related notes.

## Statistical Section

This section covers other relevant financial, economic, and demographic statistical information, including lottery industry data. This information has not been audited.

Management is responsible for the accuracy and completeness of the presentation, including all disclosures in the report. To the best of our knowledge, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position, results of operations, and the cash flows of the Lottery. All disclosures necessary to gain an understanding of the Lottery's financial activities have been included.

## History of the Lottery

The California Lottery was created by a 1984 ballot initiative that was approved by 58% of the voters. The Lottery was established as an independent state agency to market and sell lottery products to the California public. By law, the Lottery is required to return 50% of revenues to prizes, at least 34% to public education and no more than 16% for administrative costs. The 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, heads the Lottery. The Legislature has the authority to amend the Lottery Act by a two-thirds majority if, by doing so, it furthers the purposes of the measure.

Lottery ticket sales began on October 3, 1985 with the sale of the first instant game ticket called "California Jackpot". Over 21 million tickets were sold on the very first day. Over 1.7 billion tickets were sold in the first 9 months. On-line sales began on October 14, 1986 with Lotto 6/49. Nineteen years later, the Lottery has had sales over \$43 billion and offers a full range of lottery products.

## Economic Outlook

The national and California economies have shown some recovery in the last year. The improvement is evident in broad measures of the economy-Gross Domestic Product, sales, personal income, business investment, business profits and international trade, among others.<sup>1</sup>

According to the California State Budget, California's economy is continuing to rebound. Job growth is picking up, and the unemployment rate is forecasted to decrease from 6.3% to 6.1% in 2005.<sup>2</sup> Personal income in California is also projected to increase in the coming year by 5.6%.<sup>3</sup> Taxable sales, tourism and exports of California merchandise have also increased over the past year.

Output growth will slow somewhat in 2005 as consumer spending and business investment grow less quickly.<sup>4</sup> Other than insufficient job growth, the primary risks to the outlook are higher interest rates and inflation<sup>5</sup>. Changes in the economy will continue to affect personal disposable incomes and spending patterns, which in turn could affect future lottery sales.

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<sup>1</sup> Governor's Budget May Revision 2004-05, May 13, 2004 <http://www.dof.ca.gov>, p. 9

<sup>2</sup> Ibid.,pg 10.

<sup>3</sup> Ibid.,pg 10.

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

## Lottery Products

The California Lottery offers different games in two styles of play, Scratchers and on-line draw style games. Description of the games follows:

### Scratchers



**Scratchers®** – Scratchers are off-line instant games that are played by scratching the latex covering off a play area to reveal combinations and learning “instantly” whether the ticket is a winner. There are different ways to win a Scratchers game, such as matching two or three like symbols, your score beats their score, or your symbol matches a key symbol. The Lottery started Scratchers game sales in October 1985 with a \$1 game. Multiple Scratchers games were initially offered in October 1991. Sales for the Lottery’s first Scratchers game that retailed for over \$1 began in October 1993. Retailers pay prizes of up to \$599 and prizes for over \$599 are paid directly by the Lottery. Players have 180 days from the announced end-of-game to claim prizes.

**Draw Games** – The California Lottery started draw game sales in October 1986 with Lotto 6/49. Daily draw games were introduced in March 1990. The Lottery currently offers five draw games. All draw game prizes are pari-mutuel and players have 180 days from the date of the drawing to claim cash prizes. Retailers pay prizes up to \$599 and prizes for over \$599 are paid directly by the Lottery. A brief description of each draw game is provided below.



**SuperLotto Plus®** – Players select five lotto numbers from a field of 1 to 47 and one mega number from a field of 1 to 27. There are nine prize categories in this game. To win the jackpot, players must match all five lotto numbers plus the mega number. Jackpot prizes start at \$7 million and have reached over \$190 million. The lowest prize is \$1 for matching just the mega number. Winning numbers are drawn every Wednesday and Saturday at 7:57 p.m. In SuperLotto Plus, large jackpots fuel game sales and typically, more than 40% of the sales come from draws where the jackpot is \$30 million or more.

### HOT SPOT



**Hot Spot®** – This game was designed primarily for social retail trade styles like restaurants and bowling centers, but is available at all retailer locations. Players select from a field of 1 to 80 numbers and have a choice of playing five different “spots”. They can play two, three, four, five, or eight spots. If players choose to play a “three spot”, then they would pick a set of three numbers. There are a total of 14 prize categories in this game. Draws are conducted daily every five minutes with the first draw at 6:05 a.m. and last draw at 2:00 a.m. Twenty winning numbers are selected for each draw. Draw results are “broadcast” by the gaming system to over 5,000 television monitors located in retail locations statewide.

### DAILY 3



**Daily 3** – This daily game was designed to provide very good odds of winning smaller prizes. Players select a set of three numbers from 0 to 9. Players can try to match the three numbers drawn in the exact order or in various combinations. There are seven prize categories in this game. The top prize averages between \$400 and \$600. Winning numbers are drawn twice a day.

### Fantasy 5



**Fantasy 5** – This daily lotto-style game was designed to have better odds than SuperLotto Plus. Players select a set of five numbers from 1 to 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 over \$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 twelve and a “race time” which is a set of three unique numbers (e.g., 0, 1, 9) with each number selected from a field of 0 to 9. There are five prize categories in this game. Top prizes start at \$50,000 and have reached over \$800,000 for matching the race time and all three horses in exact order. The lowest prize is \$2 for matching the 1<sup>st</sup> place horse.

## **Highlights of Fiscal Year 2004**

### ***Another Billion Dollar Contribution to Education***

The California Lottery had yet another great year in the 2003-2004 fiscal year. Total sales were over \$2.97 billion, which represents the highest sales since the Lottery’s launch in 1985. This sales volume led to more than \$1 billion raised for the State’s public schools. This marks the fourth consecutive year of a contribution of over \$1 billion to education.

### ***Largest Gaming System Transition***

During the past fiscal year, the Lottery also completed the implementation of one of the largest gaming systems. More than 80,000 pieces of new equipment were installed in over 18,000 retailer locations. The new equipment uses satellite technology to limit system downtime, and has streamlined the transaction process for the retailer and player.

### ***Sales***

Total sales increased by more than \$192 million over the previous year. The majority of the increase came from Scratcher sales that grew to \$1.339 billion, a 10.5% increase from the previous year. The Bingo game, launched in May 2003, was available for the full twelve months of the fiscal year and yielded strong sales. Sales were even better when a second Bingo game was introduced and retailers were stocked with both games. A \$5 game, Red, Hot & Blue 7’s was introduced in May 2004 and had sales of approximately \$78 million by the end of the fiscal year. No other game has ever performed so well.

### ***Website Enhancements***

A redesigned Lottery website went on-line to the public in March 2004. The website offers updated graphics, an easier interface for players and quicker links to often-used features. One of the most visited State of California websites; the California Lottery website has proved an invaluable resource for both players and retailers.

### ***The Big Spin Television Show***

The Big Spin Television show, which is aired weekly across the state, got a face lift in November 2003, with a new set and a new game, “Aces High”. This game replaced California Gold in which ten contestants are reduced to one lucky person who spins the wheel and has a chance to win the top prize of \$3 million.

### ***National Problem Gambling Awareness Week***

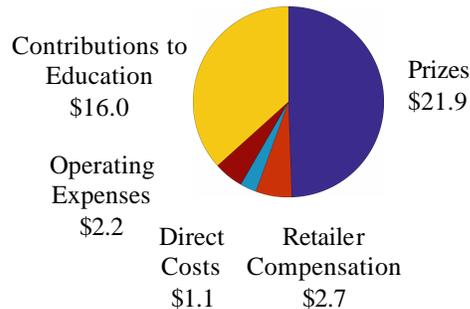
In March, the Lottery kicked off a campaign for national Problem Gambling Awareness Week. The statewide campaign included a public service announcement that aired statewide and an informative bilingual (Spanish/English) website with helpful information regarding problem gambling as well as links to other informational sites. Additionally, participating Lottery retailers displayed brochures highlighting problem gambling warning signs and who to call for help.

## Financial Information

The California Lottery operates like a business within the state government structure. The Lottery functions as an enterprise activity, in which lottery tickets are sold to fund all costs of running the Lottery business and to generate supplemental funding to California's K-12 schools, colleges, and universities. Since its inception in 1985 and through June 30, 2004, the Lottery has generated over \$43 billion in sales. The retailers who sell the lottery tickets have received \$2.7 billion in compensation. Approximately \$21.9 billion has been won by lucky winners

including 1,757 millionaires. Additionally, the Lottery has exceeded its mandate, requiring that 34 percent of all lottery sales revenues, interest income, and unclaimed prizes be given to public education. Since October 1985, the Lottery has contributed an additional \$481 million to education through operational savings.

### Distribution of Revenues (in billions) October 3, 1985 - June 30, 2004



### *Accounting System and Policies*

The California 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 California Lottery is addressed through its enabling legislation, which provides specific limitations on operating and administrative expenses. A comprehensive annual budget is prepared in conjunction with the Lottery's Annual Business Plan. The budget is prepared on both a cash basis and a full accrual basis of accounting. It is also prepared in distinct quarterly segments to facilitate comparison to the quarterly financial statements. The budget is based on sales forecasts, industry trends, program proposals, and approved action plans. While the Lottery does not have a legislatively approved budget, the operating budget is submitted to the Lottery Commission with the 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.

To enhance controls, management has separated responsibilities and provides approval and oversight for the following functions: personnel and payroll; purchasing and accounts payable; general ledger and accounts receivable; 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:

*Draw verification:* An independent certified public accountant (CPA) must witness the draws (except for computer automated drawings) of Lottery games, and inspect any equipment used in such draws, before and after each draw.

*Security evaluation:* An independent firm experienced in security procedures conducts a comprehensive study and evaluation of all aspects of security in the operation of the Lottery on a bi-annual basis.

*State Administrative Manual (SAM) 20000 audit:* The State Controller's Office performs a study and evaluation of accounting and administrative controls every two years.

To ensure the integrity of the Lottery the following measures have been implemented:

- 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 are in stand-alone systems and are certified by an independent audit firm prior to installation.
- Lottery drawing balls are weighed and measured once a month to ensure standard compliance set by the Weights and Measures Division of the California Department of Agriculture.

### ***Employees***

The Lottery has 650 authorized employee positions at its headquarters located in Sacramento, and at nine district offices located in Sacramento, San Francisco, Hayward, Fresno, Van Nuys, Santa Fe Springs, Santa Ana, Riverside and San Diego.

### ***Debt Administration***

The Lottery's long-term liabilities include payments owed to lotto jackpot winners, Big Spin® winners and weekly grand winners. The payments due winners are funded by amounts invested in zero coupon U. S. Treasury bonds.

### ***Cash Management***

Cash due from approximately 18,000 retailers is collected on a weekly basis through an electronic funds transfer system and deposited into an account within the California State Treasury. Idle cash is invested in the Surplus Money Investment Fund, in which interest earnings are received semi-annually. The fund is administered by the Pooled Money Investment Board which is composed of the State Treasurer, the State Controller, and the Director of Finance.

### ***Risk Management***

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

## **Future projects**

### ***Roadmap to Lead to Future Growth***

The 2004-2005 fiscal year follows a record-breaking year in terms of the largest sales and the biggest gaming system conversion successfully completed by any lottery. Even with all of these accomplishments, the California Lottery is embarking on an aggressive plan of research and development so that future sales can grow even larger. A focus on future initiatives that will provide sales growth can now be undertaken.

With the savings from the new gaming contract in the administrative budget, the Lottery is able to support some higher prize payouts, as was the case with the strong launch of the \$5 game, “Red, Hot, & Blue 7’s”. Unfortunately, the Lottery cannot afford the higher prize money needed to fund 52 weeks of a game with an increased prize payout. This experience provides additional evidence that the California Lottery could provide public education significantly more dollars if legislative change was enacted to increase the percentage going to prizes. Communicating this important message will be a part of this fiscal year plan.

In addition, the Lottery must look at a variety of new directions for sales opportunities. Some of the ways may not require legislation, but will require testing, analysis and further development before any strong conclusions can be reached in terms of how likely they will yield significant sales gains with modest costs. Since there are many potential paths to pursue, it makes sense for the Lottery to explore many avenues to find the most effective strategies.

### ***Performance Target***

The California Lottery plans to generate profits of over \$1 billion to public schools for the fifth consecutive year. To achieve this goal, a sales target of \$2.85 billion has been established for the upcoming year.

The sales goal for Scratcher products is slightly higher than in the previous year and is thought to be attainable even with a drop in advertising for this product line. The introduction of three \$5 games, the launch of another popular extended play game like Crossword, the continued success of Bingo, the use of licensed properties for two games and five point-of-sale marketing campaigns at retail locations are expected to fuel sales during the year.

For SuperLOTTO Plus, a prudent sales goal has been established and assumes average jackpot rollovers. Advertising support will be shifted back from Scratchers to the SuperLOTTO Plus game, since this game relies on marketing messages to spur purchases. A new campaign created by the new advertising agency, BBDO West, will be launched in the first quarter. These new strategies along with 39 weeks of media presence are anticipated to be a boost for this game.

### ***Ensuring Future Success***

Many projects will be devoted to investigating and conducting research and development on new games, new retail distribution and new marketing techniques so that future Lottery sales significantly increase. In addition, programs to recruit, train and develop the staff who will still be working at the Lottery as the large numbers of people from the “baby boomer” generation begin retiring are critical for the continued success of the Lottery.

### ***Leverage Technology***

Similar to most companies in the 21st century, the Lottery needs to leverage technology to provide more effective yet efficient service to its external customers, such as retailers and players, as well as

to internal customers. Several technology projects are being undertaken to achieve this objective along with the streamlining of processes to take advantage of the new gaming and administrative systems.

### **GFOA Certificate of Achievement**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the California Lottery for its comprehensive annual financial report for the fiscal year ended June 30, 2003. 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 only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

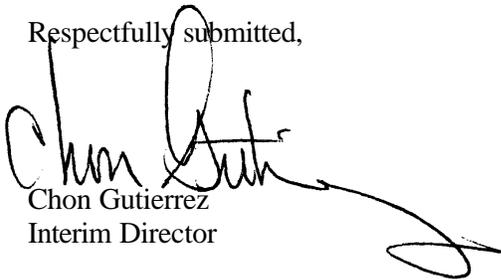
### **Independent Audit**

California statutes require an annual financial audit by an independent CPA. The independent auditors' report on the Lottery's financial statements is included in the financial section of this report.

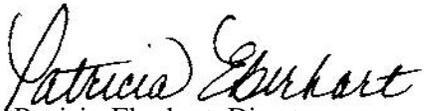
### **Acknowledgements**

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. Due credit should also be given to the Lottery Commissioners for their responsiveness and guidance in operating the California Lottery.

Respectfully submitted,



Chon Gutierrez  
Interim Director



Patricia Eberhart, Director  
Finance and Administrative Division

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## California Lottery

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2003

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



*Nancy L. Ziehl*

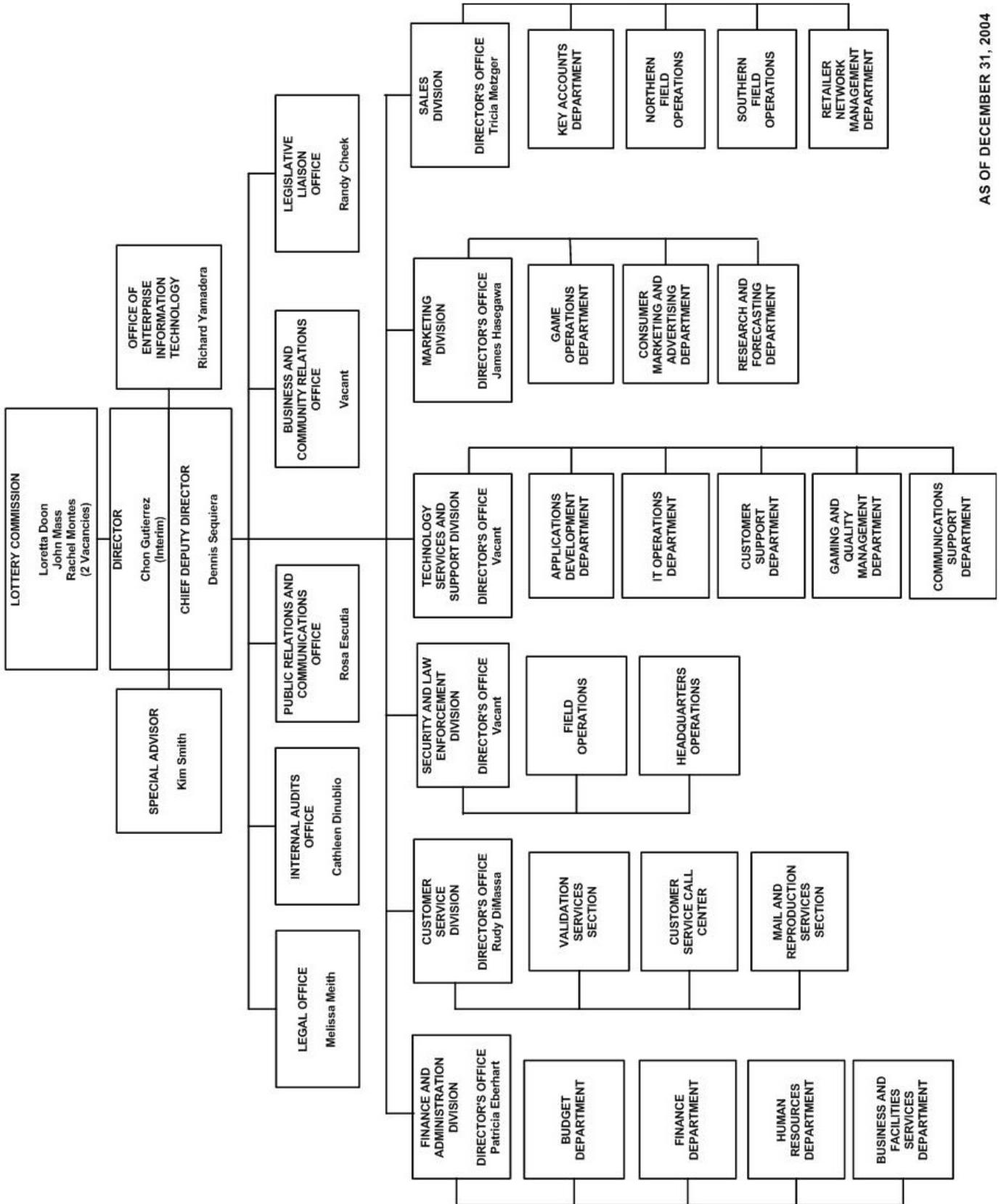
President

*Jeffrey R. Emery*

Executive Director

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ORGANIZATION CHART WITH PRINCIPAL OFFICIALS



AS OF DECEMBER 31, 2004

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*California Lottery*<sup>®</sup>  
Financial Section



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KPMG LLP  
Suite 800  
400 Capitol Mall  
Sacramento, CA 95814

## Independent Auditors' Report

The California State Lottery Commission  
Sacramento, California:

We have audited the accompanying financial statements of the California State Lottery Fund (the Lottery) as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the California State Lottery Fund and do not purport to, and do not, present fairly the financial position of the State of California, as of June 30, 2004, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the California State Lottery Fund as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 12 through 17 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the California State Lottery Fund's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

**KPMG LLP**

October 22, 2004



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following discussion and analysis of the California Lottery's financial performance provides an overview of financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the California Lottery Financial Statements that follow this section.

### **FINANCIAL HIGHLIGHTS**

The assets of the Lottery exceeded its liabilities at the close of the most recent fiscal year by \$257.8 million, which is attributable to unrealized gains on investments the Lottery holds to fund future payments due on annuitized lottery prizes.

- The California Lottery had a record-breaking year with sales approximating \$2.97 billion. This represents the highest sales since the Lottery's launch in 1985. With these unprecedented sales and \$50.2 million in unclaimed prizes, approximately \$1.09 billion will be allocated to public schools for this fiscal year.
- Operating revenues increased by 6.9% from the previous year because of larger SuperLOTTO Plus jackpots and the success of the new scratcher Bingo theme games and the \$5 scratcher game, Red, Hot and Blue 7's, that was introduced in May, 2004.
- During the past fiscal year, the Lottery completed one of the largest gaming system transitions. As a result, outdated gaming and telecommunication equipment was disposed of in the current fiscal year and on-line/off-line game costs were reduced by approximately \$19.9 million or 25.5% as a result of the lower pricing of the new gaming contract.
- Net assets decreased by approximately \$204.2 million or 44.2% which was caused by the decrease in market value of investments.

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

These required statements offer short- and long-term financial information about the California Lottery. The Statement of Net Assets provides information about the nature and amounts of investments in resources (assets) and obligations (liabilities) at the close of the fiscal year. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Lottery's operations over the past year. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Lottery's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and provides answers to such questions as where did cash come from, and what was cash used for. The financial statements are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The California Lottery is structured as a single enterprise fund with revenues recognized when earned, not when received.

## FINANCIAL ANALYSIS

### NET ASSETS

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

	<u>June 30, 2003</u>	<u>June 30, 2004</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and other assets	\$3,188,786,279	\$2,951,147,741	\$ (237,638,538)	(7.5%)
Capital assets	<u>43,863,510</u>	<u>38,071,794</u>	<u>(5,791,716)</u>	<u>(13.2%)</u>
Total assets	<u>3,232,649,789</u>	<u>2,989,219,535</u>	<u>(243,430,254)</u>	<u>(7.5%)</u>
Current liabilities	778,129,400	847,603,719	69,474,319	8.9%
Long-term prize liability	<u>1,992,519,300</u>	<u>1,883,850,751</u>	<u>(108,668,549)</u>	<u>(5.5%)</u>
Total liabilities	<u>2,770,648,700</u>	<u>2,731,454,470</u>	<u>(39,194,230)</u>	<u>(1.4%)</u>
Invested in capital assets	43,863,510	38,071,794	(5,791,716)	(13.2%)
Restricted for unrealized gains on Investments	462,001,089	257,765,065	(204,236,024)	(44.2%)
Unrestricted (deficit)	<u>(43,863,510)</u>	<u>(38,071,794)</u>	<u>5,791,716</u>	<u>(13.2%)</u>
Total net assets	<u>\$ 462,001,089</u>	<u>\$ 257,765,065</u>	<u>\$ (204,236,024)</u>	<u>(44.2%)</u>

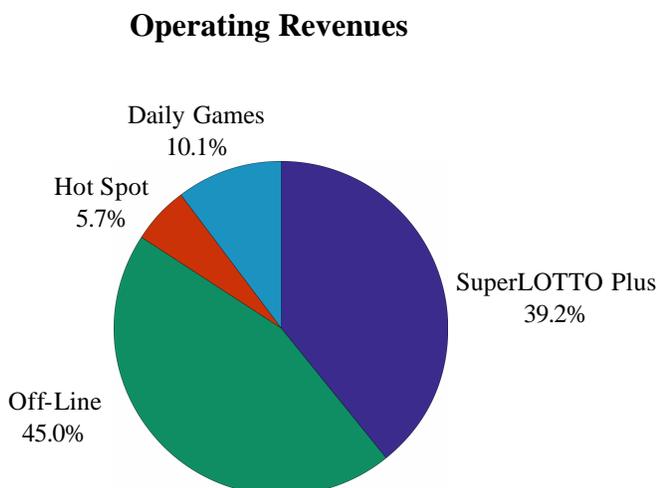
Net assets decreased by approximately \$204.2 million or 44.2% in fiscal year 2004 because of changes in market yields which reduced the unrealized gains on investments.

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

	<u>June 30, 2003</u>	<u>June 30, 2004</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating revenues - Lottery sales	\$2,781,569,856	\$2,973,975,717	\$ 192,405,861	6.9%
Prizes	<u>1,451,804,079</u>	<u>1,566,027,494</u>	<u>114,223,415</u>	<u>7.9%</u>
Sales after prizes	1,329,765,777	1,407,948,223	78,182,446	5.9%
Game costs	<u>268,046,825</u>	<u>264,055,216</u>	<u>(3,991,609)</u>	<u>(1.5%)</u>
Income before operating expenses	1,061,718,952	1,143,893,007	82,174,055	7.7%
Operating expenses	<u>94,295,448</u>	<u>106,766,130</u>	<u>12,470,682</u>	<u>13.2%</u>
Operating income	967,423,504	1,037,126,877	69,703,373	7.2%
Non-operating revenues	<u>154,460,099</u>	<u>(197,301,198)</u>	<u>(351,761,297)</u>	<u>(227.7%)</u>
Income before allocation to Education Fund	1,121,883,603	839,825,679	(282,057,924)	(25.2%)
Allocation to Education Fund	<u>(976,998,004)</u>	<u>(1,044,061,703)</u>	<u>(67,063,699)</u>	<u>6.9%</u>
Change in net assets	144,885,599	(204,236,024)	(349,121,623)	(241.0%)
Total net assets - beginning of year	<u>317,115,490</u>	<u>462,001,089</u>	<u>144,885,599</u>	<u>45.7%</u>
Total net assets - end of year	<u>\$ 462,001,089</u>	<u>\$ 257,765,065</u>	<u>\$ (204,236,024)</u>	<u>(44.2%)</u>

## REVENUES

The following chart shows the major sources and the percentages of operating revenues for the fiscal year ended June 30, 2004:



A summary of total revenues for the fiscal year ended June 30, 2004, and the amount and percentage of change in relation to prior year amounts is as follows:

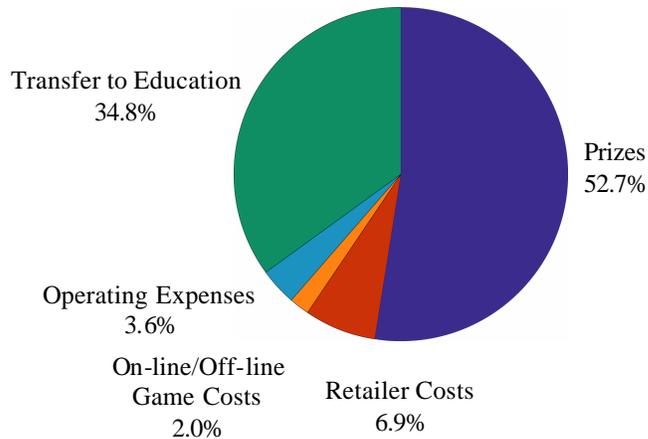
	<u>June 30, 2003</u>	<u>June 30, 2004</u>	<u>Dollar Change</u>	<u>Percent Change</u>
<b>Operating revenues:</b>				
SuperLOTTO Plus	\$1,110,682,365	\$1,166,953,613	\$ 56,271,248	5.1%
Off-line	1,211,719,532	1,338,975,654	127,256,122	10.5%
Hot Spot	180,160,160	167,989,890	(12,170,270)	(6.8%)
Daily games	<u>279,007,799</u>	<u>300,056,560</u>	<u>21,048,761</u>	<u>7.5%</u>
Total operating revenues	<u>2,781,569,856</u>	<u>2,973,975,717</u>	<u>192,405,861</u>	<u>6.9%</u>
<b>Non-operating revenues:</b>				
Unrealized gains (losses) on investments	144,885,599	(204,236,024)	(349,121,623)	(241.0%)
Interest on funds held by State				
Treasurer	9,365,650	6,688,602	(2,677,048)	(28.6%)
Other income	<u>208,850</u>	<u>246,224</u>	<u>37,374</u>	<u>17.9%</u>
Total non-operating revenues	<u>154,460,099</u>	<u>(197,301,198)</u>	<u>(351,761,297)</u>	<u>(227.7%)</u>
Total revenues	<u>\$2,936,029,955</u>	<u>\$2,776,674,519</u>	<u>\$ (159,355,436)</u>	<u>(5.4%)</u>

The \$192.4 million or 6.9% increase in operating revenues was caused primarily by an increase in both SuperLOTTO Plus and scratcher sales. SuperLOTTO Plus sales were up over last year due to larger jackpots. Scratcher sales increased because the Bingo game, launched in May 2003, was available for the full year and the \$5 game, Red, Hot and Blue 7's, had exceptionally strong sales. Unrealized losses are associated with the decrease in fair value of investments. These losses are not realized however, as investments are held to maturity. The decrease in interest on funds held by the State Treasurer was caused by a decline in yield rates.

## EXPENSES

The following chart shows prizes, game costs and operating expenses as a percentage of operating revenues for the fiscal year ended June 30, 2004.

**Prizes, Game Costs and Operating Expen  
As a Percent of Operating Revenues**



A summary of expenses for the fiscal year ended June 30, 2004, and the amount and percentage change in relation to prior year amounts is as follows:

	<u>June 30, 2003</u>	<u>June 30, 2004</u>	<u>Dollar Change</u>	<u>Percent Change</u>
<b>Prizes:</b>				
On-line prizes	\$ 773,552,591	\$ 793,824,249	\$ 20,271,658	2.6%
Off-line prizes	<u>678,251,488</u>	<u>772,203,245</u>	<u>93,951,757</u>	<u>13.9%</u>
Total prizes	<u>1,451,804,079</u>	<u>1,566,027,494</u>	<u>114,223,415</u>	<u>7.9%</u>
<b>Game costs:</b>				
Retailer costs	189,814,979	205,744,975	15,929,996	8.4%
On-line/off-line game costs	<u>78,231,846</u>	<u>58,310,241</u>	<u>(19,921,605)</u>	<u>(25.5%)</u>
Total game costs	<u>268,046,825</u>	<u>264,055,216</u>	<u>(3,991,609)</u>	<u>(1.5%)</u>
<b>Operating expenses:</b>				
Salaries, wages, and benefits	36,652,764	40,759,704	4,106,940	11.2%
Advertising	26,385,118	30,972,632	4,587,514	17.4%
Promotion, public relations, and point of sale	7,234,777	9,066,450	1,831,673	25.3%
Other professional services	6,771,068	7,568,645	797,577	11.8%
Depreciation and amortization	8,069,014	8,396,577	327,563	4.1%
Other general and administrative expenses	<u>9,182,707</u>	<u>10,002,122</u>	<u>819,415</u>	<u>8.9%</u>
Total operating expenses	<u>94,295,448</u>	<u>106,766,130</u>	<u>12,470,682</u>	<u>13.2%</u>
<b>Total expenses</b>	<u><u>\$1,814,146,352</u></u>	<u><u>\$1,936,848,840</u></u>	<u><u>\$122,702,488</u></u>	<u><u>6.8%</u></u>

Off-line prize expense increased by approximately \$94 million or 13.9% primarily as a result of an increase in sales and higher prize payouts. On-line/off-line game costs decreased as the new gaming contract with GTECH went into effect in October 2003 at a reduced percentage of sales rate. On-line/off-line game costs were also reduced as telecommunication costs are now covered under the gaming contract. Salaries, wages and benefits increased primarily because of an increase in required retirement contributions and a general salary increase due to the personal leave program that was implemented. Advertising increased because of production costs associated with the new advertising vendor and advertising for the \$5 scratcher game. Promotion, public relations and point of sale expenses increased primarily because costs were incurred for play centers, a new production set for the new game "Aces High" on the Big Spin Television Show, and various other one-time operational needs. Other professional services increased primarily due to operational needs related to the new gaming system transition and the redesigned Lottery website that went on-line to the public in March 2004.

## CAPITAL ASSETS

A summary of capital assets as of June 30, 2004, and the amount and percentage of change in relation to prior year amounts is as follows:

	<u>June 30, 2003</u>	<u>June 30, 2004</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Non-depreciable capital assets:				
Land	\$ 4,922,805	\$ 4,922,805	\$ -	-
Depreciable capital assets:				
Gaming terminals	31,275,712	947,870	(30,327,842)	(97.0%)
Common carrier public network	27,253,468	-	(27,253,468)	(100.0%)
Vending machines	34,466,109	34,461,991	(4,118)	-
Buildings	23,727,459	23,727,459	-	-
Data processing equipment	15,332,795	16,995,329	1,662,534	10.8%
Office furniture and equipment	7,888,680	8,348,037	459,357	5.8%
Leasehold improvements	582,912	564,077	(18,835)	(3.2%)
Other	<u>5,978,427</u>	<u>5,955,936</u>	<u>(22,491)</u>	<u>(0.4%)</u>
Subtotal	146,505,562	91,000,699	(55,504,863)	(37.9%)
Less accumulated depreciation	<u>(107,564,857)</u>	<u>(57,851,710)</u>	<u>49,713,147</u>	<u>(46.2%)</u>
Total depreciable capital assets	<u>38,940,705</u>	<u>33,148,989</u>	<u>(5,791,716)</u>	<u>(14.9%)</u>
Capital assets, net	<u>\$ 43,863,510</u>	<u>\$ 38,071,794</u>	<u>\$(5,791,716)</u>	<u>(13.2%)</u>

During the 2004 fiscal year, depreciable capital assets decreased by approximately \$55.5 million or 37.9%. As a result of the gaming system conversion, outdated gaming and telecommunication equipment associated with the old gaming system was disposed of. Most of this equipment was fully depreciated and therefore accounts for the change in accumulated depreciation as well. Additional detailed information on capital assets may be found in the accompanying notes to the financial statements.

## LONG - TERM DEBT

At June 30, 2004, the California Lottery had \$1.88 billion in outstanding long-term prize liability versus \$1.99 billion last year, a change of 5.5%. The majority of the change is attributable to on-line prize liability as most SuperLOTTO Plus jackpot winners now choose the cash option rather than annuitized payments and more annuities have matured this year than were purchased. Additional detailed information on long-term prize liability may be found in the accompanying notes to the financial statements.

## **CONTACTING THE LOTTERY'S FINANCIAL MANAGER**

This financial report is designed to provide a general overview of the California 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 Lottery, Finance Department, 600 N. 10th Street, Sacramento, CA 95814.

**CALIFORNIA STATE LOTTERY FUND**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2004**

**ASSETS**

Current assets:	
Cash and cash equivalents (Note 2)	\$ 267,390,895
Investments, current portion (Note 2)	357,472,532
Accounts receivable, net of allowances (Note 3)	151,109,827
Due from state funds (Note 4)	2,350,013
Ticket inventories	8,256,296
Other	<u>6,572,616</u>
Total current assets	793,152,179
Long-term assets:	
Investments, less current portion (Note 2)	2,130,041,376
Capital assets, net (Note 5)	38,071,794
Deferred charges, net	<u>27,954,186</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 2,989,219,535</u></b>

**LIABILITIES**

Current liabilities:	
Accounts payable	\$ 23,083,793
Current prize liability (Note 6)	576,812,028
Due to state funds (Note 7)	238,576,769
Accrued liabilities	7,022,029
Deferred revenue	2,105,500
Retailer deposits	<u>3,600</u>
Total current liabilities	847,603,719
Long-term liabilities:	
Prize liability, less current portion (Note 6)	<u>1,883,850,751</u>
Total liabilities	<u>2,731,454,470</u>

Commitments and contingencies (Notes 8 and 12)

**NET ASSETS**

Invested in capital assets	38,071,794
Restricted for unrealized gains on investments (Note 2)	257,765,065
Unrestricted (deficit)	<u>(38,071,794)</u>
Total net assets	<b><u>\$ 257,765,065</u></b>

See accompanying notes to the financial statements.

**CALIFORNIA STATE LOTTERY FUND**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**JUNE 30, 2004**

Operating revenues: Lottery sales	\$2,973,975,717
Prizes	<u>1,566,027,494</u>
Sales after prizes	<u>1,407,948,223</u>
Less game costs:	
Retailer costs	205,744,975
On-line game costs	37,369,964
Off-line game costs	<u>20,940,277</u>
Total game costs	<u>264,055,216</u>
Income before operating expenses	<u>1,143,893,007</u>
Operating expenses:	
Salaries, wages, and benefits	40,759,704
Advertising	30,972,632
Promotion, public relations, and point of sale	9,066,450
Other professional services	7,568,645
Depreciation and amortization	8,396,577
Other general and administrative expenses	<u>10,002,122</u>
Total operating expenses	<u>106,766,130</u>
Operating income	1,037,126,877
Non-operating revenues:	
Investment earnings (Note 9)	(197,547,422)
Other income	<u>246,224</u>
Total non-operating revenues	(197,301,198)
Income, before allocation to Education Fund	839,825,679
Allocation to Education Fund (Note 7)	<u>(1,044,061,703)</u>
Change in net assets	(204,236,024)
Total net assets - beginning of year	<u>462,001,089</u>
Total net assets - end of year	<u><u>\$ 257,765,065</u></u>

See accompanying notes to the financial statements.

**CALIFORNIA STATE LOTTERY FUND**  
**STATEMENT OF CASH FLOWS**  
**JUNE 30, 2004**

Cash flows from operating activities:	
Receipts from customers	\$2,957,162,609
Payments for prizes	(1,740,259,904)
Payments to retailers	(205,748,465)
Payments to suppliers for goods and services	(157,823,265)
Payments to employees	(38,321,116)
Internal activity-payments to state	(4,213,003)
Other receipts	<u>200,979</u>
Net cash flows provided by operating activities	<u>810,997,835</u>
Cash flows from non-capital financing activities:	
Distributions to Education Fund	<u>(1,065,601,884)</u>
Net cash flows used in non-capital financing activities	<u>(1,065,601,884)</u>
Cash flows from capital and related financing activities:	
Proceeds from disposal of capital assets	22,647
Payments for capital assets	<u>(2,564,225)</u>
Net cash flows used in capital and related financing activities	<u>(2,541,578)</u>
Cash flows from investing activities:	
Purchase of securities	(90,119,468)
Proceeds from matured securities	357,184,000
Surplus Money Investment Fund interest	<u>8,961,926</u>
Net cash flows provided by investing activities	<u>276,026,458</u>
Increase in cash and cash equivalents	<u>18,880,831</u>
Cash and cash equivalents at June 30, 2003	<u>248,510,064</u>
Cash and cash equivalents at June 30, 2004	<u><u>\$ 267,390,895</u></u>

See accompanying notes to the financial statements.

**CALIFORNIA STATE LOTTERY FUND**  
**STATEMENT OF CASH FLOWS**  
**JUNE 30, 2004**

Cash flows from operating activities:	
Operating income	\$1,037,126,877
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	8,396,577
Provision for doubtful accounts	(89,792)
Provision for returned tickets	951,653
Provision for free ticket redemptions	4,978,265
Net loss on retirement or disposal of capital assets	172,782
Other income	246,224
Changes in assets and liabilities:	
Increase in accounts receivable	(22,689,702)
Increase in due from state funds	(588,373)
Increase in ticket inventories	(3,355,038)
Increase in other assets	(6,080,504)
Increase in deferred charges	(27,920,089)
Decrease in accounts payable	(7,554,234)
Decrease in prize liability	(174,232,410)
Decrease in due to state funds	(10,000)
Increase in accrued liabilities	1,596,285
Increase in deferred revenues	59,114
Decrease in retailer deposits	(9,800)
	<u>(226,129,042)</u>
 Net cash flows provided by operating activities	 <u>\$ 810,997,835</u>

Supplemental disclosure of non-cash activities:

Interest accreted on annuitized prizes	<u>\$ 162,496,997</u>
Unclaimed prizes directly allocated to the Education Fund	<u>\$ 50,195,285</u>
Unrealized loss on investments	<u>\$ (204,236,024)</u>

See accompanying notes to the financial statements.

**CALIFORNIA STATE LOTTERY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2004

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

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

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

**Basis of Presentation**

The Lottery is accounted for as an enterprise fund. The financial statements are prepared on the accrual basis of accounting and the economic resources measurement focus in accordance with accounting principles generally accepted in the United States of America. Operating revenue and expenses are those that result from providing services and producing and delivering goods and/or services.

**Revenue Recognition - Off-Line Games**

Sales of lottery tickets are made to the public through contracted retailers. Revenue is recognized upon the sale of tickets to the retailers. An allowance is recognized for the retailers' right to return unsold tickets after each game end. An allowance is also recognized for free tickets which have not been redeemed. Operating revenue is reduced upon redemption of free tickets. Retailers receive a commission of six percent which is recognized when tickets are sold to the retailers.

**Revenue Recognition - On-Line Games**

Lottery sales are made to the public through gaming terminals at contracted retailers. Revenue is recognized upon the sale to the public. The public has the right to cancel a sale before pool closure. The applicable retailers' commission of four and one-half to six percent is recognized when sales are made to the public.

Recognition of the revenue from sales for future draws is deferred until those draws become current. The retailers' commission related to the deferred revenue is reflected as a prepaid expense until the related deferred revenue is recognized.

**Prizes - Off-Line Games**

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

**CALIFORNIA STATE LOTTERY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2004

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

**Prizes - Off-Line Games (continued)**

distributed to the Education Fund. Unclaimed prizes directly payable by the commission are allocated directly to the Education Fund. Prize expense relative to the Lottery's weekly off-line grand prize drawing is recorded based on the estimated prize structure for each game as revenue is recognized. Periodically, prize expense is adjusted to reflect amounts actually won.

Prizes of \$1 million or more are generally paid in twenty equal annual installments. The Weekly Grand, the Extravaganza 2000, the Twice as Grand, and the Weekly \$2,000 Payday top prizes are paid in weekly installments for twenty years. The Decade of Dollars top prizes are paid in annual installments for ten years. Prize expense for these prizes is based on the present value of the annuity using an interest rate equal to the interest yield on the zero coupon U.S. Treasury bonds which the Lottery acquires to fund the annuity payments. Interest earned is imputed on the annuity using the same interest rate.

**Prizes - On-Line Games**

SuperLOTTO Plus ® - Prize expense for the twice-weekly, on-line 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 is selected, all monies allocated for that prize are carried forward to the following drawing and added to the Five of Five plus MEGA number category (grand prize). All SuperLOTTO Plus prizes won but not claimed within the specified period are allocated directly to the Education Fund.

Grand prizes won prior to April 1, 1998 of \$1 million or more are paid in twenty equal annual installments. Effective April 1, 1998 grand prizes of \$1 million or more are paid in either twenty-six graduated annual payments or in a single payment equal to the cash value of the twenty-six-payment annuity, in accordance with the rules and regulations of the Lottery. Payments for all other prize categories are made in a single payment.

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

Daily 3 - Prize expense for the two-draws-per-day, on-line 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.

**CALIFORNIA STATE LOTTERY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2004

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

**Prizes - On-Line Games (continued)**

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

Hot Spot® - Prize expense for the multiple-draws-per-day, on-line 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 Hot Spot prize category is selected, all monies allocated for that prize category are carried forward to the following drawing and added to the 8 spot prize category, the 5 of 5 prize category, the 4 of 4 prize category, or the 3 of 3 prize category. All Hot Spot prizes won but not claimed within the specified period are allocated directly to the Education Fund.

**Cash Equivalents**

Cash equivalents represent cash deposited in the Surplus Money Investment Fund.

**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, which consist of zero coupon U.S. Treasury bonds, at fair value. The difference between the carrying value and the fair value of the investment is reported as a component of total net assets on the Statement of Net Assets.

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

The allowance for doubtful accounts is based on an analysis of collectibility of accounts receivable which considers the age of the accounts and current economic conditions. An allowance for ticket returns for off-line 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 off-line 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.

**CALIFORNIA STATE LOTTERY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2004

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

**Capital Assets**

The Lottery has adopted a policy of capitalizing assets with an acquisition cost or established value of \$1,000 or greater. Capital assets are carried at cost. Depreciation on property and equipment is computed using the straight-line method over estimated lives ranging from three to seven years. Depreciation on buildings, improvements, and land improvements is computed using the straight-line method over estimated lives of five to forty years. When assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations in the period of disposal. Amortization of leasehold improvements is computed using the straight-line method over the remaining lease terms.

**Deferred Charges**

The Lottery incurs costs in connection with certain contracts which extend beyond a one-year period. These costs are deferred and amortized over the life of the contracts. As more fully discussed in note 12, a prepayment of \$35 million was made on the new GTECH contract during the period ended June 30, 2004.

**Advertising**

Advertising costs are expensed when the related liability is incurred. Advertising expense totaled \$30,972,632 for the year ended June 30, 2004.

**Investment Earnings**

Investment earnings are composed of both unrealized gains or losses associated with the change in fair value of investments and interest income. Unrealized gains and losses are generally not realized as the investments are held to maturity; however, the investments must be stated at fair value thus creating investment earnings in the interim. Generally, all cash is held on deposit with the California State Treasurer and is invested by that office in the Surplus Money Investment Fund. Interest on funds held by the State Treasurer is distributed semi-annually.

**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.

**CALIFORNIA STATE LOTTERY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
 JUNE 30, 2004

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

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

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

**2. DEPOSITS AND INVESTMENTS**

Investments consist of zero coupon U.S. Treasury bonds with yields ranging from 1.01 percent to 10.54 percent as follows:

	<u>Face Amount</u>	<u>Cost</u>	<u>Fair Value</u>
Current portion:			
For off-line games	\$ 27,179,000	\$ 9,834,042	\$ 26,926,178
For on-line games	<u>333,483,000</u>	<u>144,373,143</u>	<u>330,546,354</u>
Total current portion	<u>360,662,000</u>	<u>154,207,185</u>	<u>357,472,532</u>
Long-term portion:			
For off-line games	127,294,000	52,742,983	99,215,327
For on-line games	<u>2,709,200,000</u>	<u>987,678,288</u>	<u>2,030,826,049</u>
Total long-term portion	<u>2,836,494,000</u>	<u>1,040,421,271</u>	<u>2,130,041,376</u>
Total investments	<u>\$3,197,156,000</u>	<u>\$1,194,628,456</u>	<u>\$2,487,513,908</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 a major investment firm. The following represents the changes in fair value of investments for the year ended June 30, 2004, in accordance with the requirements of GASB 31.

Changes in fair value of investments:

Unrealized investment gains at July 1, 2003	\$ 462,001,089
Unrealized investment loss, current period	<u>(204,236,024)</u>
Total unrealized investment gains	<u>\$ 257,765,065</u>

Unrealized investment gains represent the excess of fair value over the original purchase cost plus interest accreted on investments at June 30, 2004.

**CALIFORNIA STATE LOTTERY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
 JUNE 30, 2004

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

The prize investments are uninsured and unregistered investments held in book-entry form at the Federal Reserve Bank of New York. The U.S. Treasury bonds are backed by the full faith and credit of the United States government. All of the Lottery's investments are included in category "A", the lowest risk as defined by the Governmental Accounting Standards Board.

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, which are carried at fair value and are adjusted for the accretion of interest based on the purchased yield and maturity date. Deposits are held in insured depositories, or by the State Treasury, or in the Surplus Money Investment Fund.

As of June 30, 2004, deposits in financial institutions were covered by federal depository insurance or were collateralized by the financial institution through a pool of securities held to collateralize all public deposits the institution holds and are included in category "A", the lowest risk as defined by the Governmental Accounting Standards Board.

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, 2004, the carrying value of deposits in the Surplus Money Investment Fund approximated fair value.

State Treasury	\$ 7,133,277
Surplus Money Investment Fund	<u>260,246,000</u>
	<u>\$267,379,277</u>

**3. ACCOUNTS RECEIVABLE**

Accounts receivable consist of the following:

Amounts due, primarily from retailers	\$188,069,704
Less: Allowance for free ticket redemption	(27,125,851)
Allowance for doubtful accounts	(4,209,933)
Allowance for ticket returns	<u>(5,624,093)</u>
Accounts receivable, net	<u>\$151,109,827</u>

**4. DUE FROM STATE FUNDS**

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

**CALIFORNIA STATE LOTTERY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**5. CAPITAL ASSETS**

Capital assets consist of the following:

	<u>Beginning</u> <u>Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending</u> <u>Balance</u>
Non-depreciable capital assets:				
Land	\$ 4,922,805	-	-	\$ 4,922,805
Depreciable capital assets:				
Gaming terminals	31,275,712	-	(30,327,842)	947,870
Common carrier public network	27,253,468	-	(27,253,468)	-
Vending machines	34,466,109	-	(4,118)	34,461,991
Buildings	23,727,459	-	-	23,727,459
Data processing equipment	15,332,795	1,845,716	(183,182)	16,995,329
Office furniture and equipment	7,888,680	501,140	(41,783)	8,348,037
Leasehold improvements	582,912	49,878	(68,713)	564,077
Other	<u>5,978,426</u>	<u>167,491</u>	<u>(189,981)</u>	<u>5,955,936</u>
	151,428,366	2,564,225	(58,069,087)	95,923,504
Less accumulated depreciation and amortization:				
Gaming terminals	(30,015,616)	(1,046,173)	30,136,559	(925,230)
Common carrier public network	(27,175,647)	(75,335)	27,250,982	-
Vending machines	(19,809,967)	(3,265,836)	4,117	(23,071,686)
Buildings	(8,604,834)	(749,199)	-	(9,354,033)
Data processing equipment	(11,728,278)	(1,722,762)	183,181	(13,267,859)
Office furniture and equipment	(9,476,854)	(1,252,877)	230,104	(10,499,627)
Leasehold improvements	(479,763)	(20,311)	68,713	(431,361)
Other	<u>(273,897)</u>	<u>(28,017)</u>	<u>-</u>	<u>(301,914)</u>
	(107,564,856)	(8,160,510)	57,873,656	(57,851,710)
Capital assets, net	<u>\$ 43,863,510</u>	<u>\$ (5,596,285)</u>	<u>\$ (195,431)</u>	<u>\$ 38,071,794</u>

Depreciation and amortization charged to income on capital assets was \$8,160,510 for the year ended June 30, 2004.

**CALIFORNIA STATE LOTTERY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**6. PRIZE LIABILITY**

Prize liability consists of the following:

	<u>Off-Line</u>	<u>On-Line</u>	<u>Total</u>
Current:			
Annuitized prizes	\$ 31,135,914	\$ 391,218,192	\$ 422,354,106
Other prizes	<u>129,737,260</u>	<u>24,720,662</u>	<u>154,457,922</u>
Total current prize liability	<u>160,873,174</u>	<u>415,938,854</u>	<u>576,812,028</u>
Long-term annuitized prizes	129,994,000	2,709,200,000	2,839,194,000
Less imputed interest	<u>(38,855,029)</u>	<u>(916,488,220)</u>	<u>(955,343,249)</u>
Net present value of long-term prizes	<u>91,138,971</u>	<u>1,792,711,780</u>	<u>1,883,850,751</u>
Total prize liability	<u>\$252,012,145</u>	<u>\$2,208,650,634</u>	<u>\$2,460,662,779</u>

The amount of prizes due within one year is \$576,812,028.

Long-term prize liability as of June 30, 2004 for each of the next five years and for subsequent years is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
For the year ending June 30, 2006	\$ 143,146,389	\$ 175,226,668	\$ 318,373,057
2007	131,057,980	154,019,579	285,077,559
2008	117,609,094	126,451,505	244,060,599
2009	102,553,542	96,868,373	199,421,915
2010	88,675,954	73,409,289	162,085,243
2011-2015	290,262,064	177,801,765	468,063,829
2016-2020	95,051,744	25,465,139	120,516,883
2021-2025	57,031,569	10,886,786	67,918,355
2026-2030	<u>16,732,182</u>	<u>1,601,129</u>	<u>18,333,311</u>
Total long-term prize liability	<u>\$1,042,120,518</u>	<u>\$841,730,233</u>	<u>\$1,883,850,751</u>

Activity in the prize liability accounts consists of:

Balance, July 1, 2003	\$2,522,593,477
Prize expense	1,566,027,494
Prize payments	(1,740,259,904)
Interest imputed on annuities	162,496,997
Unclaimed prizes	<u>(50,195,285)</u>
Balance, June 30, 2004	<u>\$2,460,662,779</u>

**CALIFORNIA STATE LOTTERY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**7. DUE TO STATE FUNDS**

Due to state funds consists of the following:

Due to Education Fund	\$ 238,493,436
Due to other state funds	<u>83,333</u>
 Total due to state funds	 <u>\$ 238,576,769</u>

Activity in the Due to Education Fund account consists of:

Balance, July 1, 2003	\$ 209,838,332
Income, due to Education Fund, earned by the California State Lottery Fund	\$1,044,061,703
Unclaimed prizes directly allocated to the Education Fund	<u>50,195,285</u>
	1,094,256,988
 Distributions to the Education Fund	 <u>(1,065,601,884)</u>
 Balance, June 30, 2004	 <u>\$ 238,493,436</u>

**8. LEASES**

The Lottery leases office, warehouse, and parking lot facilities under operating leases. These leases expire in various years through October 31, 2010. Most operating leases have a provision for early termination. These leases could be terminated between June 2004 and October 2010.

The future minimum lease payments under operating leases as of June 30, 2004, are as follows:

	<u>Operating Leases</u>
For the year ending June 30, 2005	\$1,228,441
2006	706,104
2007	558,542
2008	573,735
2009	281,136
Thereafter	<u>360,972</u>
 Total minimum payments	 <u>\$ 3,708,930</u>

Rental expense for all operating leases totaled \$1,221,620 for the year ended June 30, 2004.

**CALIFORNIA STATE LOTTERY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
 JUNE 30, 2004

**9. INVESTMENT EARNINGS**

Investment earnings consist of:

Interest on funds held by State Treasurer	\$ 6,688,602
Unrealized loss on investments	(204,236,024)
Interest accreted on investments	<u>162,496,997</u>
	(35,050,425)
Less interest expense imputed on annuity liability	<u>(162,496,997)</u>
Investment earnings, net	<u><u>\$ (197,547,422)</u></u>

**10. RETIREMENT PLAN**

The Lottery contributes to the Public Employees' Retirement Fund administered by the Public Employees' Retirement System of the State of California (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement benefits to plan members and beneficiaries. In addition, post-retirement health care benefits are provided by the primary government. PERS acts as a common investment and administrative agent for participating public entities within the State of California 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 nonvested 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. PERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. The PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

Generally, full-time employees are eligible to participate as members of PERS and are eligible to retire at age 50 with at least five years of service or age 55 with at least ten years of service depending on the plan selected by the employee. Annual retirement benefits are determined based on age at retirement, the length of membership service, and the amount of earnings based on the highest or last 12 consecutive months' average.

Active plan members are required to contribute a percentage of their salary depending on their plan selection and employment classification. Employees' required contributions vary from 0.0% to 8.0%. The Lottery is required to contribute at an actuarially determined rate. The Lottery's contributions are based on a percentage of annual covered payroll depending on the plan selected and member status. For the year ended June 30, 2004, the Lottery's payroll for employees covered by PERS was approximately \$27.9 million and the total payroll for the period was approximately \$28.2 million. The contribution requirements of plan members and the Lottery are established and may be amended by PERS. Required employer contribution rates (expressed as a percentage of compensation) for the 2003/2004 fiscal year are as follows:

State Miscellaneous Member First Tier	14.843%
State Miscellaneous Member Second Tier	10.265%
Peace Officer	20.235%

**CALIFORNIA STATE LOTTERY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**10. RETIREMENT PLAN (continued)**

The Lottery's pension cost for the year ended June 30, 2004, for PERS was equal to the Lottery's required contributions which was determined as part of the most recent actuarial valuation of PERS dated June 30, 2002.

Three year trend information for the Lottery:

Fiscal Year <u>Ending</u>	Annual Pension <u>Cost (APC)</u>	Percentage Of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
6/30/02	\$1,099,727	100%	\$0
6/30/03	\$3,049,347	100%	\$0
6/30/04	\$4,038,746	100%	\$0

**11. STATUTORY COMPLIANCE**

Lottery prize payments and other operating expenses are shown below as a percentage of operating revenue for the year ended June 30, 2004. The Act mandates that, as nearly as practical, 50 percent of the total annual revenues from Lottery sales be returned to the public in the form of prizes and that at least 34 percent be allocated to benefit public education. No more than 16 percent of the total annual revenues from Lottery sales shall be allocated for payment of expenses of the Lottery. In addition, unclaimed prizes not directly payable by the commission, which amounted to \$12,292,782 for the year ending June 30, 2004, are recognized as a reduction of prize expense and included in the Lottery's net income that is distributed to the Education Fund.

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

**CALIFORNIA STATE LOTTERY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**11. STATUTORY COMPLIANCE (continued)**

Lottery sales	\$2,973,975,717	100.00%
Prizes	1,566,027,494	52.66%
Expenses of the Lottery		
Retailer costs	205,744,975	6.92%
Game costs	58,310,241	1.96%
Operating expenses	106,766,130	3.59%
Less bartered operating expenses	(45,245)	0.00%
Total expenses of the Lottery	\$ 370,776,101	12.47%
Revenues to Education		
Allocation of sales	\$1,037,172,122	34.87%
Unclaimed prizes directly allocated to the Education Fund	50,195,285	
Interest income	6,688,602	
Other income	246,224	
Less bartered income	(45,245)	
Total declared for allocation to Education Fund	\$1,094,256,988	

**12. COMMITMENTS AND CONTINGENCIES**

The Lottery entered into an agreement with GTECH Corporation to install and operate an on-line gaming system including 13,000 vendor-supplied terminals. The term of the contract was from October 14, 1993 through October 13, 2003, with an estimated cost of \$373 million. Approximately \$368 million was expended under the contract through its expiration date of October 13, 2003.

A new contract has been awarded to GTECH and includes both gaming and telecommunication systems and services. The Lottery pays a fee of 1.36 percent of sales during the contract term ending on October 13, 2009. Approximately \$31 million in fees have been incurred under the new contract as of June 30, 2004.

A prepayment of \$35 million was made to GTECH by the Lottery. GTECH will repay the full amount plus interest via weekly payments equal to 0.2% of sales. The weekly payments will be effected through the reduction of GTECH's weekly fee billings to the Lottery. The prepayment bears interest at a rate equal to the Surplus Money Investment Fund rate plus one-half of one percent. GTECH may repay the outstanding amount after one year of full system operations and any remaining balance must be paid in full at the end of the contract term. The balance outstanding at June 30, 2004 approximated \$33.7 million. Approximately \$5.8 million has been recorded as an other current asset as it is expected to be settled within one year.

The Lottery entered into an agreement with High Integrity Systems, Inc. (HISI) related to providing an Automated Ticket Gaming System. The Lottery paid to HISI a fee based on a percentage of sales occurring at HISI terminal locations during the contract term ending October 13, 2003. The expenses incurred under the contract for the current fiscal year, approximated \$9 million.

**CALIFORNIA STATE LOTTERY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2004

**12. COMMITMENTS AND CONTINGENCIES (continued)**

The Lottery has been named as a defendant in a number of lawsuits and claims totaling several million dollars. 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 operations of the Lottery.

**13. RISK MANAGEMENT**

Since its inception, the Lottery has been primarily self-insured for risks such as flood, business interruption, theft, employee errors and omissions, and other potential liabilities. Losses are recognized when conditions for accrual are met. Liabilities for workers' compensation costs are accrued based on estimates derived from the State Compensation Insurance Fund. This estimate is based on actuarial reviews of the employee workers' compensation program and includes indemnity payments, compensation benefits, and leave benefits.

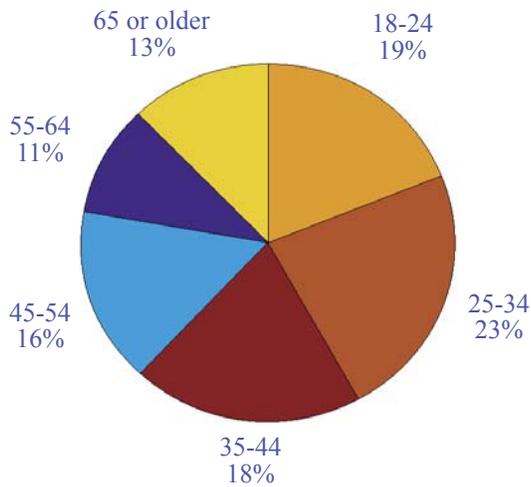
*California Lottery*<sup>®</sup>  
Statistical Section



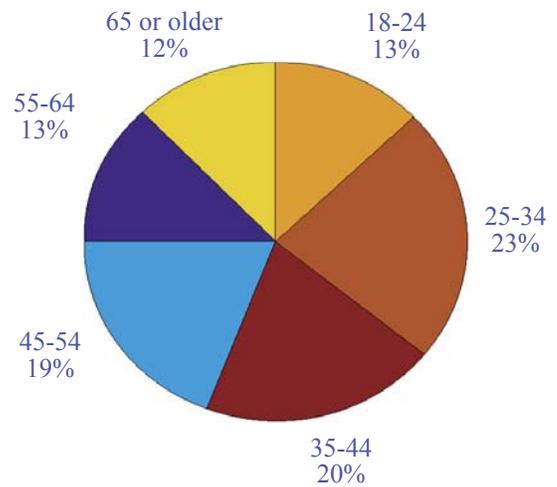
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# California Lottery Population and Players

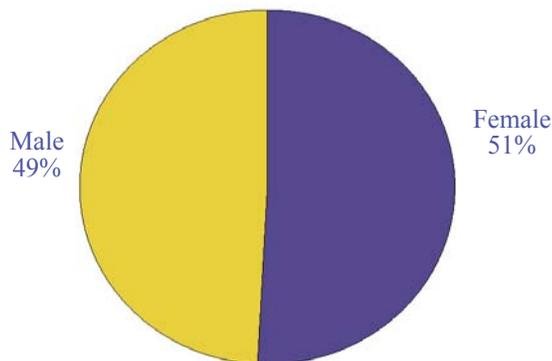
**Age of Adult Population**



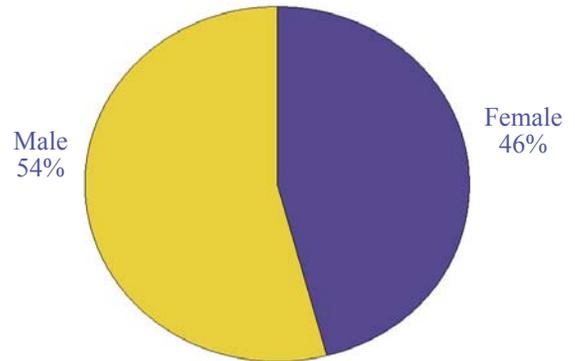
**Age of Lottery Players**



**Gender of Adult Population**



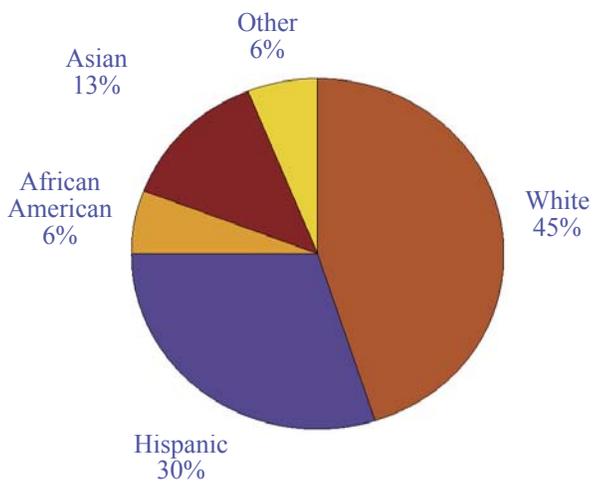
**Gender of Lottery Players**



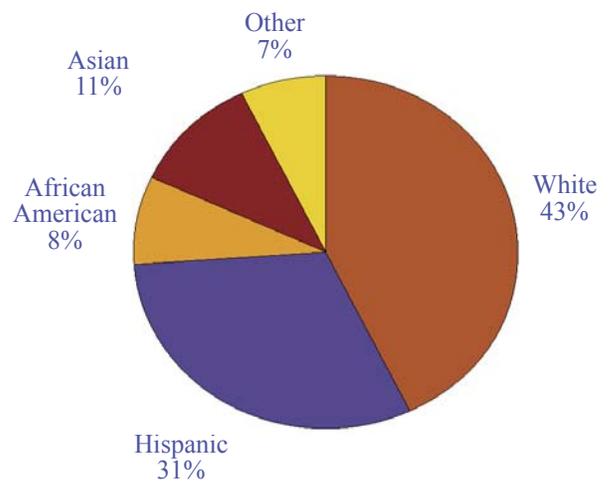
NOTE: All data are from Communications Effectiveness Tracking Study for fiscal year 2003-2004. Percentages based on only those responding.

# California Lottery Population and Players

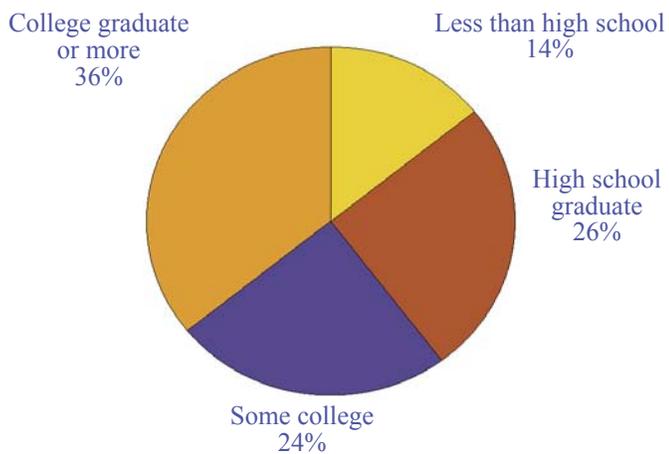
**Ethnicity of Adult Population**



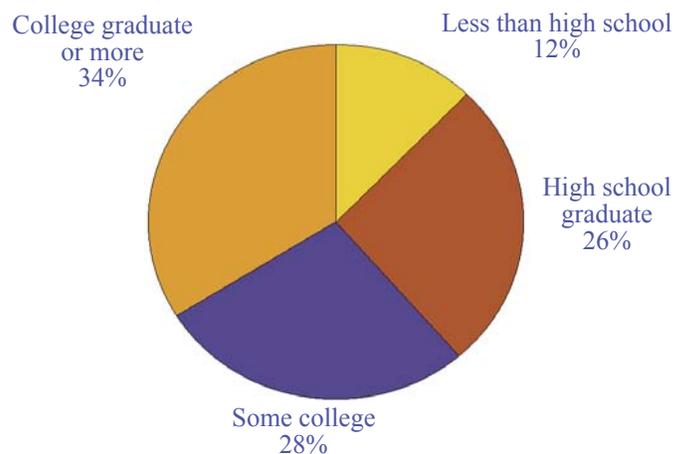
**Ethnicity of Lottery Players**



**Education of Adult Population**



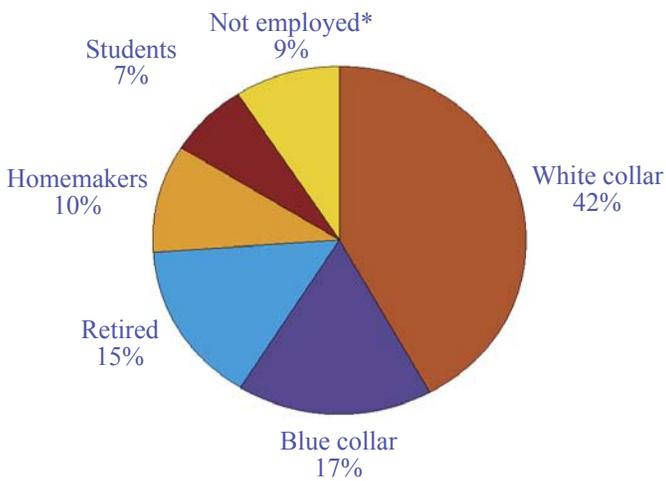
**Education of Lottery Players**



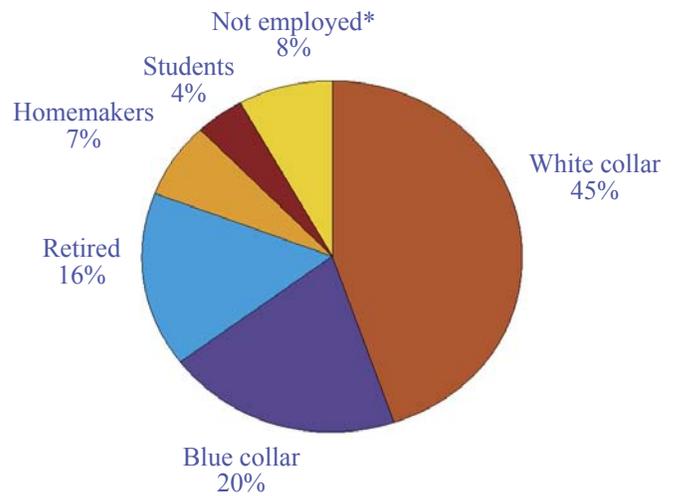
NOTE: All data are from Communications Effectiveness Tracking Study for fiscal year 2003-2004. Percentages based on only those responding.

# California Lottery Population and Players

**Employment Status of Adult Population**

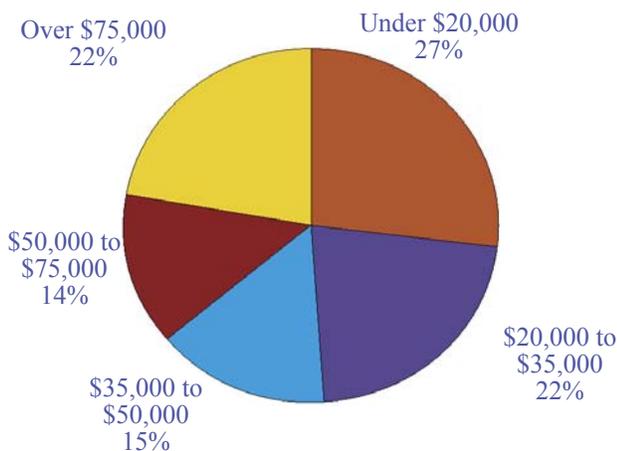


**Employment Status of Lottery Players**

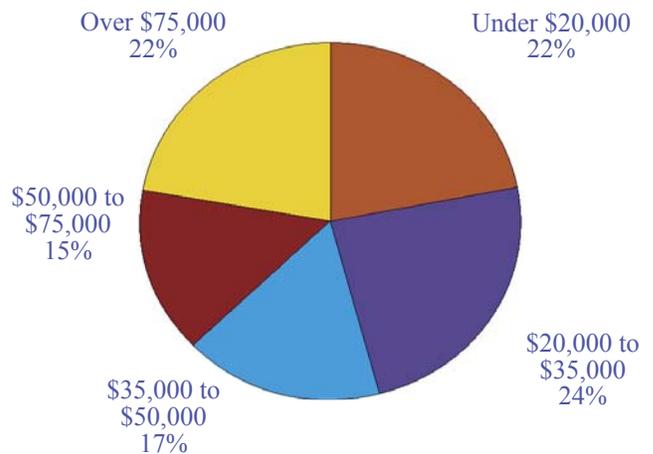


\* Includes looking for job, disabled, welfare, etc.

**Household Income of Adult Population**



**Household Income of Lottery Players**



NOTE: All data are from Communications Effectiveness Tracking Study for fiscal year 2003-2004. Percentages based on only those responding.

**California Lottery**  
**Sales by Product and Other Revenues**  
**Last Ten Fiscal Years**

	1995	1996	1997	1998
SuperLotto/SuperLOTTO Plus	974,264,904	1,115,681,369	1,095,940,218	1,090,360,363
Scratchers	566,420,564	596,141,763	527,322,087	677,102,459
HotSpot/Keno	421,154,649	378,351,552	200,196,221	277,779,288
Daily Games	204,281,262	202,150,249	239,676,165	249,181,712
<b>Total sales</b>	<b>2,166,121,379</b>	<b>2,292,324,933</b>	<b>2,063,134,691</b>	<b>2,294,423,822</b>
Interest income	15,007,015	16,343,917	15,499,837	17,565,606
Other income	189,630	407,903	224,933	147,143
<b>Total other revenues</b>	<b>15,196,645</b>	<b>16,751,820</b>	<b>15,724,770</b>	<b>17,712,749</b>
<b>Total revenues</b>	<b>2,181,318,024</b>	<b>2,309,076,753</b>	<b>2,078,859,461</b>	<b>2,312,136,571</b>

Note: Unrealized gains or losses on investments not included

**California Lottery**  
**Expenses by Type and Contributions**  
**Last Ten Fiscal Years**

	1995	1996	1997	1998
Prizes	1,075,188,767	1,128,453,142	1,030,535,482	1,182,038,207
Retailer costs	140,896,410	148,230,541	133,220,148	151,222,059
On-line game costs	50,179,710	52,660,216	50,759,012	54,619,242
Off-line game costs	13,614,733	23,233,603	16,902,290	19,257,314
Operating expenses	131,432,427	141,310,707	119,816,422	101,474,900
<b>Total expenses</b>	<b>1,411,312,047</b>	<b>1,493,888,209</b>	<b>1,351,233,354</b>	<b>1,508,611,722</b>

**Contributions**

	1995	1996	1997	1998
<b>Lottery Education Fund*</b>	<b>791,527,468</b>	<b>841,880,611</b>	<b>756,725,832</b>	<b>834,748,454</b>

\* Including unclaimed prizes transferred directly to Lottery Education Fund

1999	2000	2001	2002	2003	2004
1,036,908,074	955,716,932	1,272,355,983	1,275,714,605	1,110,682,365	1,166,953,613
955,178,058	1,188,192,294	1,188,927,861	1,184,119,073	1,211,719,532	1,338,975,654
255,995,569	204,405,640	184,903,440	184,432,561	180,160,160	167,989,890
250,216,787	250,064,125	248,654,239	252,106,294	279,007,799	300,056,560
<b>2,498,298,488</b>	<b>2,598,378,991</b>	<b>2,894,841,523</b>	<b>2,896,372,533</b>	<b>2,781,569,856</b>	<b>2,973,975,717</b>
18,127,677	21,390,129	26,209,722	16,221,680	9,365,650	6,688,602
176,431	152,875	177,104	455,493	208,850	246,224
<b>18,304,108</b>	<b>21,543,004</b>	<b>26,386,826</b>	<b>16,677,173</b>	<b>9,574,500</b>	<b>6,934,826</b>
<b>2,516,602,596</b>	<b>2,619,921,995</b>	<b>2,921,228,349</b>	<b>2,913,049,706</b>	<b>2,791,144,356</b>	<b>2,980,910,543</b>

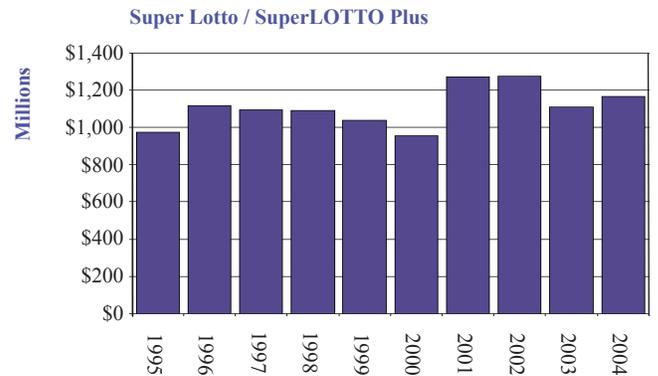
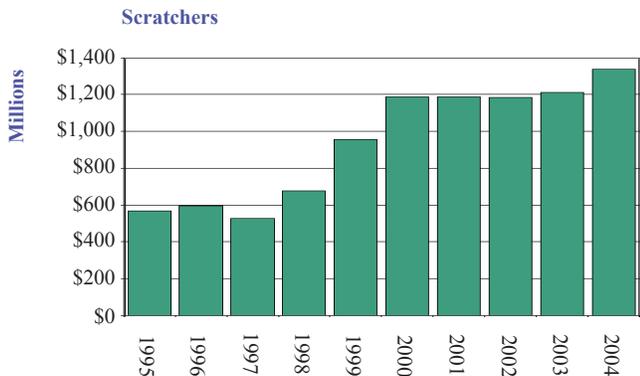
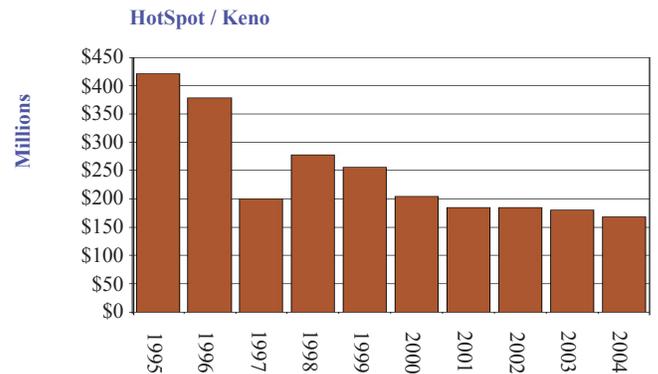
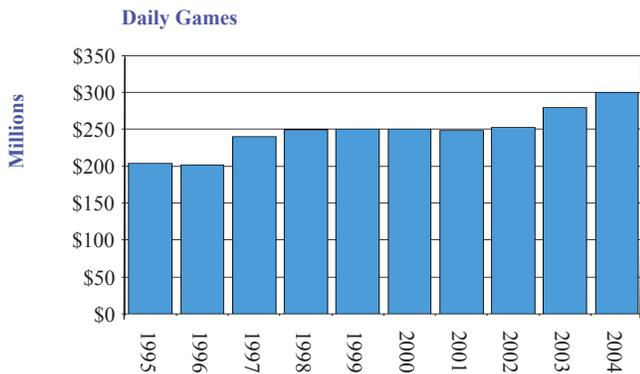
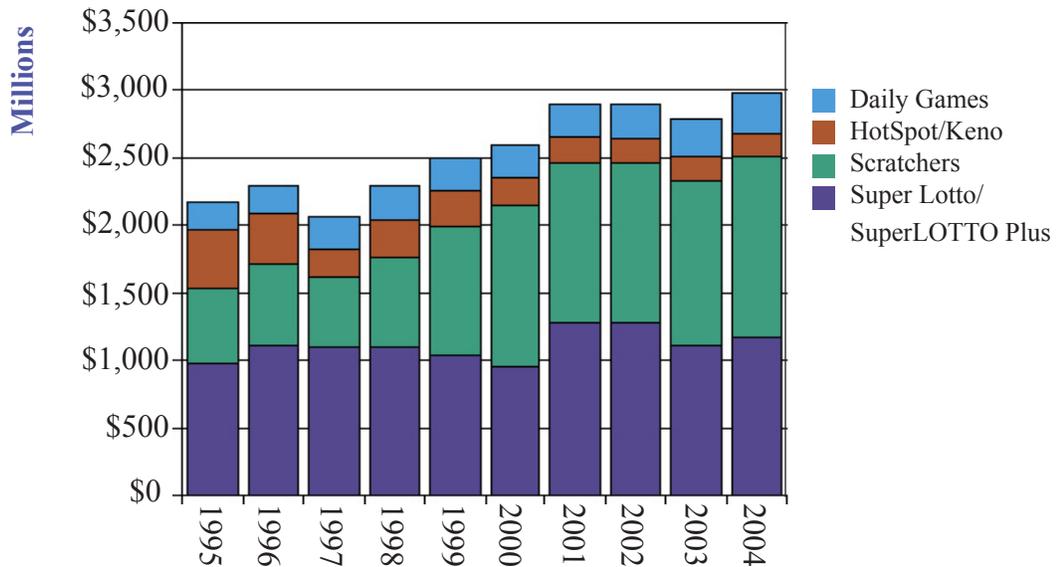
1999	2000	2001	2002	2003	2004
1,307,442,871	1,369,435,482	1,503,768,458	1,502,966,618	1,451,804,079	1,566,027,494
169,791,259	179,241,747	196,793,920	198,064,491	189,814,979	205,744,975
48,061,384	42,841,644	52,094,272	47,250,757	45,914,606	37,369,964
27,568,625	32,008,802	33,514,259	32,878,258	32,317,240	20,940,277
95,654,453	89,089,469	103,071,481	104,704,239	94,295,448	106,766,130
<b>1,648,518,592</b>	<b>1,712,617,144</b>	<b>1,889,242,390</b>	<b>1,885,864,363</b>	<b>1,814,146,352</b>	<b>1,936,848,840</b>

1999	2000	2001	2002	2003	2004
<b>899,349,947</b>	<b>948,036,660</b>	<b>1,111,635,107</b>	<b>1,064,064,146</b>	<b>1,019,816,972</b>	<b>1,094,256,988</b>

# California Lottery

## Sales by Product

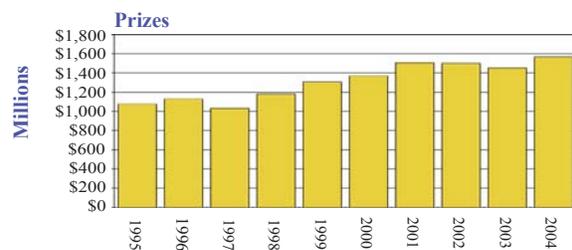
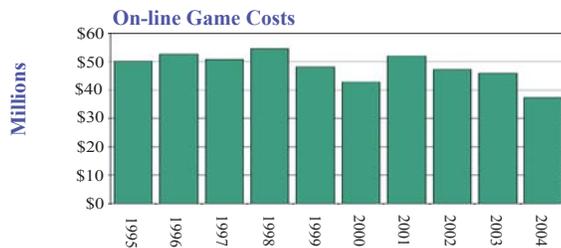
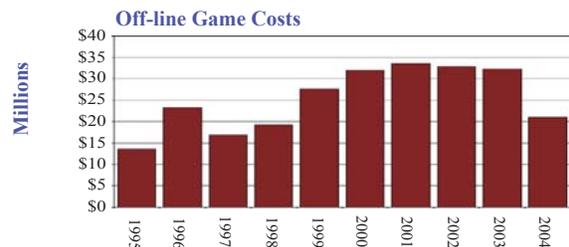
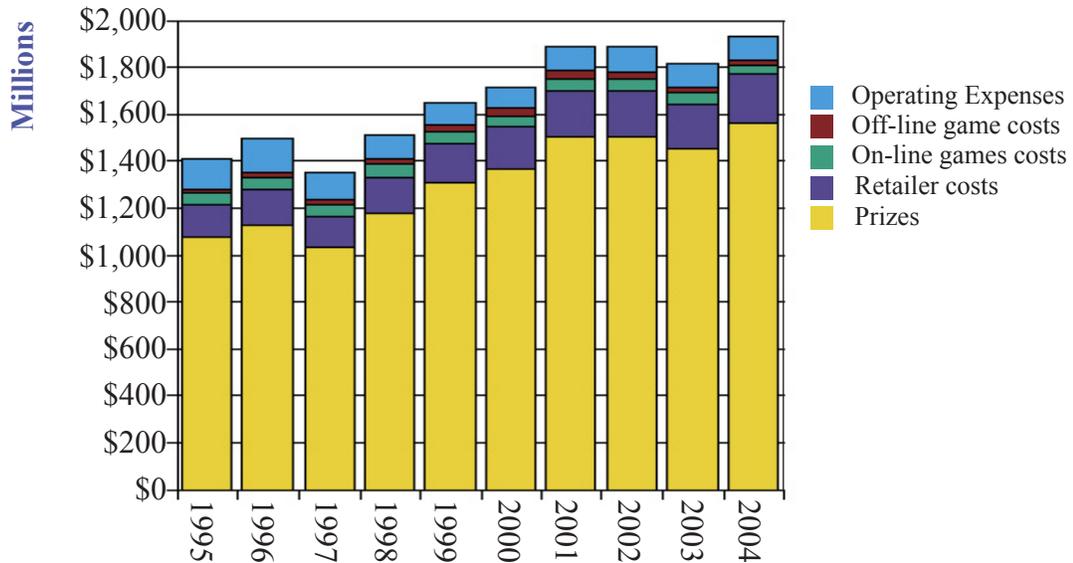
### Last Ten Fiscal Years



# California Lottery

## Expenses by Type

### Last Ten Fiscal Years



U.S. Lottery Data For Fiscal Years 2003 and 2004  
(in millions)

Lottery Jurisdiction	Population	FY '03	FY '03	FY '03
		Sales	Prizes	Commissions
Arizona	5.58	\$322.28	\$177.22	\$21.50
California++	35.48	\$2,781.57	\$1,451.80	\$189.81
Colorado	4.55	\$391.53	\$227.82	\$29.50
Connecticut	3.48	\$865.29	\$540.33	\$48.36
Delaware (1)	0.82	\$628.06	\$56.70	\$260.90
District of Columbia* (4)	0.56	\$237.63	\$123.50	\$14.60
Florida	17.02	\$2,867.98	\$1,555.82	\$158.77
Georgia	8.68	\$2,604.41	\$1,389.21	\$172.90
Idaho	1.37	\$97.97	\$56.39	\$5.74
Illinois	12.65	\$1,585.62	\$885.17	\$79.29
Indiana	6.2	\$664.42	\$383.12	\$45.40
Iowa (8)	2.94	\$187.83	\$104.20	\$11.71
Kansas	2.72	\$210.83	\$107.68	\$11.70
Kentucky	4.12	\$673.49	\$402.16	\$41.52
Louisiana	4.5	\$311.46	\$164.01	\$17.07
Maine	1.31	\$164.60	\$99.87	\$11.77
Maryland	5.51	\$1,322.60	\$743.43	\$87.10
Massachusetts (7)	6.43	\$4,197.75	\$3,008.40	\$238.72
Michigan* (3)	10.08	\$1,783.38	\$919.21	\$121.78
Minnesota	5.06	\$351.82	\$205.04	\$22.10
Missouri (8)	5.7	\$708.57	\$434.56	\$44.45
Montana	0.92	\$34.68	\$17.56	\$2.04
Nebraska	1.74	\$80.92	\$45.03	\$4.68
New Hampshire	1.29	\$221.23	\$129.99	\$11.94
New Jersey	8.64	\$2,074.07	\$1,171.46	\$113.70
New Mexico	1.87	\$137.33	\$62.35	\$9.42
New York*	19.19	\$5,395.96	\$3,061.74	\$325.00
North Dakota (6) (7)	0.63			
Ohio	11.44	\$2,078.20	\$1,208.20	\$137.00
Oregon (1)	3.56	\$853.16	\$233.60	\$190.81
Pennsylvania	12.37	\$2,132.98	\$1,143.30	\$110.70
Rhode Island (2)	1.08	\$1,290.50	\$144.15	\$17.35
South Carolina	4.15	\$724.31	\$415.32	\$51.14
South Dakota (2)	0.76	\$646.95	\$15.85	\$1.50
Tennessee (5)	5.84			
Texas*	22.12	\$3,130.69	\$1,845.19	\$160.13
Vermont	0.62	\$79.50	\$51.37	\$4.60
Virginia	7.39	\$1,135.72	\$638.18	\$63.00
Washington	6.13	\$460.32	\$298.00	\$28.90
West Virginia (1)	1.81	\$1,081.91	\$115.34	\$13.00
Wisconsin (7)	5.47	\$435.05	\$248.34	\$30.70

Notes to Table: Figures may be unaudited. Fiscal year 2003 is the latest data available. \*The fiscal year ends for most states on June 30. Exceptions are New York, March 31; Texas, August 31; Washington DC and Michigan, September 30.

(1) Includes net VLT sales (Cash in less cash out).

(2) Includes gross VLT sales (Cash in).

(3) Sales estimated through 09/30/04.

(4) Sales/Profits reported for July 1, 2003 to June 30, 2004.

(5) Sales began January 20, 2004.

(6) Sales began March 25, 2004.

(7) 2004 profit not yet released.

(8) Prizes include pull-tabs and promotional prizes.

++Audited figures.

Source: North American Association of State and Provincial Lotteries.

US Census Bureau estimated July 1, 2003 population.

	FY '03	FY '03 Annual	FY '04	FY '04	FY '04 Annual
	Profit	Sales/Capita	Sales	Profit	Sales/Capita
	\$96.29	57.76	\$366.58	\$107.76	\$65.70
	\$1,019.82	78.40	\$2,974.00	\$1,094.26	\$83.82
	\$105.00	86.05	\$401.25	\$104.07	\$88.19
	\$257.06	248.65	\$907.66	\$280.76	\$260.82
	\$213.00	765.93	\$640.92	\$222.00	\$781.61
	\$72.00	424.34	\$245.04	\$75.77	\$437.57
	\$1,035.18	168.51	\$3,070.96	\$1,050.00	\$180.43
	\$751.50	300.05	\$2,710.46	\$782.69	\$312.27
	\$20.50	71.51	\$109.32	\$23.00	\$79.80
	\$540.30	125.35	\$1,709.19	\$570.10	\$135.11
	\$175.60	107.16	\$734.87	\$199.44	\$118.53
	\$48.10	63.89	\$209.92	\$55.10	\$71.40
	\$64.30	77.51	\$224.20	\$73.00	\$82.43
	\$180.76	163.47	\$725.25	\$193.48	\$176.03
	\$111.05	69.21	\$340.09	\$121.20	\$75.58
	\$39.25	125.65	\$185.88	\$42.53	\$141.89
	\$444.89	240.04	\$1,395.41	\$458.37	\$253.25
	\$889.49	652.84	\$4,381.25		\$681.38
	\$586.04	176.92	\$1,967.80	\$645.00	\$195.22
	\$79.40	69.53	\$386.90	\$100.00	\$76.46
	\$193.90	124.31	\$791.52	\$230.32	\$138.86
	\$7.45	37.70	\$36.74	\$8.12	\$39.93
	\$19.97	46.51	\$92.64	\$19.72	\$53.24
	\$66.57	171.50	\$237.12	\$71.50	\$183.81
	\$764.21	240.05	\$2,188.50	\$793.00	\$253.30
	\$33.10	73.44	\$148.70	\$35.94	\$79.52
	\$1,780.36	281.19	\$5,847.50	\$1,907.40	\$304.72
			\$5.84		\$9.27
	\$641.40	181.66	\$2,154.71	\$648.10	\$188.35
	\$387.70	239.65	\$893.26	\$387.12	\$250.92
	\$787.70	172.43	\$2,352.07	\$818.67	\$190.14
	\$241.83	1194.91	\$1,480.63	\$281.03	\$1,370.95
	\$220.56	174.53	\$950.00	\$290.10	\$228.92
	\$112.03	851.25	\$664.42	\$114.77	\$874.24
			\$427.70	\$123.70	\$73.24
	\$955.20	141.53	\$2,904.86	\$839.26	\$131.32
	\$16.20	128.23	\$92.33	\$19.50	\$148.92
	\$375.20	153.68	\$1,262.36	\$408.10	\$170.82
	\$98.52	75.09	\$481.44	\$117.30	\$78.54
	\$411.00	597.74	\$1,303.49	\$512.14	\$720.16
	\$141.50	79.53	\$482.93		\$88.29





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