

CALIFORNIA STATE LOTTERY

Review Report

QUARTERLY TRANSFER OF FUNDS TO PUBLIC EDUCATION

For the Quarter Ended March 31, 2023



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

April 2025



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

April 21, 2025

Ms. Harjinder K. Shergill-Chima, Director
California State Lottery
700 North Tenth Street
Sacramento, CA 95811

Dear Director Shergill-Chima:

The State Controller's Office reviewed the financial documentation supporting the California State Lottery's (Lottery) transfer of funds to the public education community for the third quarter ended March 31, 2023. Our review found that the transfer amount of \$563,544,712 is supported by the Lottery's accounting records; and that the Lottery was on target to meet annual revenue allocation requirements for prize payouts, disbursement of funds to education, and administrative expenses, as specified in the Lottery Act, for the fiscal year ended June 30, 2023.

If you have any questions regarding this report, please contact Roochel Espilla, Chief, State Agency Audits Bureau, by telephone at 916-323-5744. Thank you.

Sincerely,

Original signed by

Kimberly A. Tarvin, CPA
Chief, Division of Audits

KAT/rs

Ms. Harjinder K. Shergill-Chima

April 21, 2025

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Copy: Florence Bernal, Chief Deputy Director
California State Lottery
Nicholas Buchen, Deputy Director, Finance Division
California State Lottery
Sara Sheikholislam, Deputy Director, Internal Audits
California State Lottery
Emily Nguyen, Audit Manager, Internal Audits
California State Lottery
Mimi Alemu, External Audits Liaison, Internal Audits
California State Lottery
Anthony Garrison-Engbrecht, Ph.D., Chair
California State Lottery Commission
Keetha Mills, Vice Chair
California State Lottery Commission
Gregory Ahern, Commissioner
California State Lottery Commission
Tiffani Alvidrez, Commissioner
California State Lottery Commission
Alexandre Rasouli, M.D., Commissioner
California State Lottery Commission

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Review Report

Summary

The California State Lottery (Lottery) requested that the State Controller's Office (SCO) transfer \$563,544,712 to the Lottery Education Fund for disbursement to the public education community for the third quarter ended March 31, 2023. Based on the work performed, we determined that the requested transfer amount is supported by the Lottery's accounting records. In addition, we determined that the Lottery was on target to meet annual revenue allocation requirements for prize payouts, disbursement of funds to education, and administrative expenses, as specified in the Lottery Act, for the fiscal year ended June 30, 2023.

Background

In 1984, California voters passed Proposition 37, authorizing a state-operated lottery. Proposition 37 created the Lottery Act, codified in Government Code section 8880 et seq. The Lottery Act requires the quarterly transfer of a portion of revenues to the public education community and establishes the allocation percentages for lottery revenues.

The Lottery Act requires revenues from the Lottery to be allocated to maximize the amount of funding allocated to the public education community. As amended by Assembly Bill 142 (Chapter 13, Statutes of 2010), the Lottery Act requires that not less than 87 percent of the total annual revenues from Lottery ticket sales be returned to the public in the form of prize payouts and disbursement of funds to education and not more than 13 percent be allocated for administrative expenses. Furthermore, the Lottery Act requires that not less than 50 percent of the total annual Lottery revenues, in an amount to be determined by the California State Lottery Commission (Commission), be returned to the public in the form of prize payouts. In addition, the Commission must establish the percentages to be allocated to the benefit of public education.

Each quarter, the Lottery requests that the SCO transfer funds to the Lottery Education Fund. The Lottery's request usually occurs eight to 10 weeks after the close of each quarter. This report includes the transfer request for the quarter ended March 31, 2023, as an attachment.

Review Authority

We conducted this review in accordance with Government Code section 8880.46.6, which authorizes the SCO to conduct quarterly and annual audits of all accounts and transactions of the Commission and other special audits as necessary. The SCO has the authority to examine any and all records of the Commission, its distributing agencies, Lottery contractors, and Lottery retailers.

Objectives, Scope, and Methodology

The objectives of our review were to determine whether:

- The requested transfer amount is supported by accounting records; and
- The Lottery was on target to meet the annual allocation requirements specified in the Lottery Act.

We performed this review for the third quarter ended March 31, 2023. To achieve our objectives, we performed the following procedures:

- We compared current fiscal year audited income statement balances with prior fiscal year audited income statement balances and performed analytical procedures for variances over 15 percent.
- We traced amounts reported in the income statement to the Lottery's accounting records.
- We judgmentally selected sales and expense items, based on dollar amount and type, and traced them to supporting documentation. Results were not projected to the intended (total) population.
- We determined whether the Lottery was on target to meet the annual revenue allocation requirements specified in the Lottery Act.
- We verified that the requested amount had been transferred to the Lottery Education Fund.
- We verified that the funds had been transferred from the Lottery Education Fund to the public education community.

Results

Based on the work performed, we determined that the requested transfer amount of \$563,544,712 for the third quarter ended March 31, 2023 is supported by the Lottery's accounting records. In addition, we determined that the Lottery was on target to meet annual revenue allocation requirements for prize payouts, disbursement of funds to education, and administrative expenses, as specified in the Lottery Act, for the fiscal year ended June 30, 2023.

In a letter dated June 1, 2023, the Lottery requested that the SCO transfer \$563,544,712 to the Lottery Education Fund for disbursement to the public education community. On June 28, 2023, the Local Government Programs and Services Division of the SCO transferred \$563,544,712 from the State Lottery Fund to the Lottery Education Fund; and as a result of the SCO apportionment process, the entire amount and a \$5 remainder from the prior quarter were disbursed from the Lottery Education Fund to the public education community on the same date.

For the nine months ended March 31, 2023, of the total revenues from ticket sales:

- 64.45 percent was returned to the public in the form of prize payouts;
- 24.15 percent was transferred to the public education community; and
- 11.39 percent was used for administrative expenses.

The Lottery returned 88.61 percent of total revenues from ticket sales in the form of prize payouts and disbursement of funds to education. The Lottery was on target to meet annual allocation requirements specified in the Lottery Act. See Schedules 1 and 2 for a summary of Lottery revenue allocations and allocation percentages.

**Views of
Responsible
Officials**

We discussed our review results with a Lottery representative. The Lottery representative agreed with the review results.

Restricted Use

This report is solely for the information and use of the Lottery, the Commission, and the SCO; it is not intended to be, and should not be, used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record and is available on the SCO website at www.sco.ca.gov.

Original signed by

Kimberly A. Tarvin, CPA
Chief, Division of Audits

April 21, 2025

Schedule 1— Fiscal Year 2022-23 Year-to-Date Lottery Revenue Allocations

AB 142 (Chapter 13, Statutes of 2010) requires revenues from the Lottery to be allocated to maximize the amount of funding allocated to the public education community. The statute requires the following annual revenue allocation percentages:

- Prizes – Not less than 50 percent of sales
- Administrative expenses – Not more than 13 percent of sales
- Prizes and disbursement of funds to education – Not less than 87 percent of sales
- Other income – 100 percent to education

Statutory compliance is determined on an annual basis at fiscal year-end. The percentages displayed in the first three quarters are presented to show the Lottery's year-to-date progress toward meeting annual statutory requirements.

Miscellaneous income includes Surplus Money Investment Fund interest earned, unclaimed prizes, and other income.

The Education Fund allocation amount is sales plus miscellaneous income, less prizes, less administrative expenses, less amount withheld pending audit, plus amount released after completion of audit.

Fiscal Year 2022-23	Three Months Ended 9/30/2022	% of Sales	Six Months Ended 12/31/2022	% of Sales	Nine Months Ended 3/31/2023	% of Sales
Sales	\$ 2,254,306,451	100.00%	\$ 4,661,534,818	100.00%	\$ 7,008,858,709	100.00%
Prizes	1,466,984,553	65.07%	2,977,491,532	63.87%	4,517,290,678	64.45%
Operating income to education	525,001,259	23.29%	1,148,496,936	24.64%	1,692,959,244	24.15%
Revenues returned to public	1,991,985,812	88.36%	4,125,988,468	88.51%	6,210,249,922	88.61%
Administrative expenses	262,320,639	11.64%	535,546,350	11.49%	798,608,787	11.39%
Miscellaneous income	14,699,045		28,482,455		47,564,859	
Less: Withheld pending annual audit	-		-		-	
Release of prior amount withheld	-		-		-	
Allocation to Education Fund	\$ 539,700,304		\$1,176,979,391		\$1,740,524,103	

Schedule 2— Fiscal Year 2021-22 Lottery Revenue Allocations

AB 142 (Chapter 13, Statutes of 2010) requires revenues from the Lottery to be allocated to maximize the amount of funding allocated to the public education community. The statute requires the following annual revenue allocation percentages:

- Prizes – Not less than 50 percent of sales
- Administrative expenses – Not more than 13 percent of sales
- Prizes and disbursement of funds to education – Not less than 87 percent of sales
- Other income – 100 percent to education

Statutory compliance is determined on an annual basis at fiscal year-end. The percentages displayed in the first three quarters are presented to show the Lottery's progress toward meeting annual statutory requirements.

Miscellaneous income includes Surplus Money Investment Fund interest earned, unclaimed prizes, and other income.

The Education Fund allocation amount is sales plus miscellaneous income, less prizes, less administrative expenses, less amount withheld pending audit, plus amount released after completion of audit.

Fiscal Year 2021-22	Three Months Ended 9/30/2021	% of Sales	Six Months Ended 12/31/2021	% of Sales	Nine Months Ended 3/31/2022	% of Sales	Twelve Months Ended 6/30/2022	% of Sales
Sales	\$ 2,395,937,360	100.00%	\$ 4,533,125,189	100.00%	\$ 6,806,198,841	100.00%	\$ 8,853,250,168	100.00%
Prizes	1,577,728,684	65.85%	2,986,801,701	65.89%	4,490,930,996	65.98%	5,825,673,018	65.80%
Operating income to education	542,456,488	22.64%	1,018,287,217	22.46%	1,535,670,659	22.56%	2,015,049,317	22.76%
Revenues returned to public	2,120,185,172	88.49%	4,005,088,918	88.35%	6,026,601,655	88.55%	7,840,722,335	88.56%
Administrative expenses	275,752,188	11.51%	528,036,271	11.65%	779,597,186	11.45%	1,012,527,833	11.44%
Miscellaneous income	25,670,503		37,498,282		48,255,185		62,324,583	
Less: Withheld pending annual audit	-		-		-		27,448,056	
Release of prior amount withheld	-		-		-		14,280,801	
Allocation to Education Fund	<u>\$568,126,991</u>		<u>\$1,055,785,499</u>		<u>\$1,583,925,844</u>		<u>\$2,064,206,645</u>	

**Attachment—
California State Lottery's
Transfer Request Dated June 1, 2023**



June 1, 2023

Natalie Sidarous, Chief
Local Government Programs and Services Division
State Controller's Office
3301 C Street, Suite 740
Sacramento, CA 95816

Dear Ms. Sidarous:

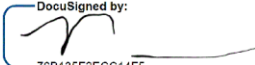
The California State Lottery requests that you transfer to the Lottery Education Fund for disbursement to the education community \$563,544,712. This figure represents:

Operating income for the nine months ended	
March 31, 2023	\$ 1,692,959,244
SMIF interest earned	18,868,155
Other income	6,896
Unclaimed prizes	<u>28,689,808</u>
	\$ 1,740,524,103
Less: Transfer for the six months ended	
December 30, 2022	<u>1,176,979,391</u>
	<u>\$ 563,544,712</u>

We have attached a copy of the Statement of Revenues, Expenses, and Changes in Net Position for the nine months ended March 31, 2023, prepared from books without audit, for your files.

Please note, the amount withheld from the 2021-22 transfer pending audit will be included in a subsequent transfer after the June 2022 audit is complete.

Sincerely,

DocuSigned by:

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Nicholas Buchen, Deputy Director
Finance Division

Attachment
cc: Alva V. Johnson, Director

California State Lottery
Statement of Revenues, Expenses, and Changes in Net Fund Position
For the Nine Months Ended March 31, 2023

Operating revenues: Lottery Sales	\$	7,008,858,709
Prizes	\$	<u>4,517,290,678</u>
Sales after prizes	\$	<u>2,491,568,031</u>
Less game costs:		
Retailer costs	\$	479,830,161
Gaming system costs	\$	83,252,083
Scratchers game costs	\$	<u>41,180,773</u>
Total game costs	\$	<u>604,263,017</u>
Income before operating expenses	\$	<u>1,887,305,014</u>
Operating expenses:		
Salaries, wages, and benefits	\$	84,449,389
Advertising	\$	64,713,335
Promotion, public relations, and point of sale	\$	5,861,575
Other professional services	\$	13,699,251
Depreciation and amortization	\$	11,291,966
Other general & administrative expenses	\$	<u>14,330,254</u>
Total operating expenses	\$	<u>194,345,770</u>
Operating Income	\$	<u>1,692,959,244</u>
Non-operating (expenses) revenues:		
Investment Earnings	\$	(7,484,876)
Other Income	\$	6,896
Allocation to Education Fund	\$	<u>(1,711,834,295)</u>
Total non-operating (expenses) revenues	\$	<u>(1,719,312,275)</u>
Changes in net position	\$	(26,353,031)
Total net position-beginning balance	\$	<u>(238,245,965)</u>
Total net position-ending balance	\$	<u><u>(264,598,996)</u></u>

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250**

www.sco.ca.gov