

CALIFORNIA STATE LOTTERY

Review Report

QUARTERLY TRANSFER OF FUNDS TO PUBLIC EDUCATION

For the Quarter Ended June 30, 2023



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

April 2025



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

April 25, 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 fourth quarter ended June 30, 2023. Our review found that the transfer amount of \$560,448,056 is supported by the Lottery's accounting records; and that the Lottery complied with 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 25, 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
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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 \$560,448,056 to the Lottery Education Fund for disbursement to the public education community for the fourth quarter ended June 30, 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 complied with 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 June 30, 2023, as Attachment A.

On August 23, 2024, the Lottery submitted a revision to its earlier transfer request. This report includes the revised transfer request for the quarter ended June 30, 2023, as Attachment B.

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 complied with the annual allocation requirements specified in the Lottery Act.

We performed this review for the fourth quarter ended June 30, 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 complied with the annual revenue allocation requirements specified in the Lottery Act.
- We reviewed a selection of accruals and determined whether they were adequately supported, accurately calculated, and correctly recorded.
- 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 \$560,448,056 for the fourth quarter ended June 30, 2023, is supported by the Lottery's accounting records. In addition, we determined that the Lottery complied with 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 September 18, 2023, the Lottery requested that the SCO transfer \$560,448,056 to the Lottery Education Fund for disbursement to the public education community. On September 29, 2023, the Local Government Programs and Services Division of the SCO transferred \$560,448,056 from the State Lottery Fund to the Lottery Education Fund; and as a result of the SCO apportionment process, the entire amount except \$75 was disbursed from the Lottery Education Fund to the public education community on the same date.

On August 23, 2024, the Lottery submitted a revision to its earlier transfer request (Attachment A). The revision (Attachment B) reported an increase in the Lottery's operating income for the fiscal year ended June 30, 2023, but did not change the requested transfer amount of \$560,448,056. Despite

the revision, the Lottery complied with annual revenue allocation requirements specified in the Lottery Act.

For the 12 months ended June 30, 2023, of the total revenues from ticket sales:

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

The Lottery returned 88.66 percent of total revenues from ticket sales in the form of prize payouts and disbursement of funds to education. The Lottery complied with 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 via email on February 21, 2025. 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 25, 2025

Schedule 1— Fiscal Year 2022-23 Lottery Revenue Allocations

Assembly Bill 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 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	Twelve Months Ended 6/30/2023	% of Sales
Sales	\$ 2,254,306,451	100.00%	\$ 4,661,534,818	100.00%	\$ 7,008,858,709	100.00%	\$ 9,239,353,311	100.00%
Prizes	1,466,984,553	65.07%	2,977,491,532	63.87%	4,517,290,678	64.45%	5,960,301,724	64.51%
Operating income to education	525,001,259	23.29%	1,148,496,936	24.64%	1,692,959,244	24.15%	2,231,053,935	24.15%
Revenues returned to public	1,991,985,812	88.36%	4,125,988,468	88.51%	6,210,249,922	88.61%	8,191,355,659	88.66%
Administrative expenses	262,320,639	11.64%	535,546,350	11.49%	798,608,787	11.39%	1,047,997,652	11.34%
Miscellaneous income	14,699,045		28,482,455		47,564,859		77,611,112	
Less: Withheld pending annual audit	-		-		-		35,140,944	
Release of prior amount withheld	-		-		-		27,448,056	
Allocation to Education Fund	\$539,700,304		\$1,176,979,391		\$1,740,524,103		\$2,300,972,159	

Schedule 2— Fiscal Year 2021-22 Lottery Revenue Allocations

Assembly Bill 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	\$568,126,991		\$1,055,785,499		\$1,583,925,844		\$2,064,206,645	

**Attachment A—
California State Lottery's
Transfer Request Dated September 18, 2023**



September 18, 2023

Natalie Sidarous, Chief
Local Government Programs and Services Division
State Controller's Office
3301 C Street, Suite 700
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 \$560,448,056. This figure represents:

Operating income for the year ended June 30, 2023	\$ 2,217,234,531
SMIF interest earned	25,776,709
Other income	6,897
Unclaimed prizes	<u>51,827,506</u>
	\$ 2,294,845,643
Less: Transfer for the nine months ended March 31, 2023	1,740,524,103
Amount withheld pending 2022-23 audit	<u>21,321,540</u>
	\$ 533,000,000
Add: Amount withheld pending 2021-22 audit	27,448,056
	<u>\$ 560,448,056</u>

We have attached a copy of the Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2023, prepared from books without audit, for your files.

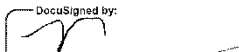
Please note, the amount above includes the addition of the amount withheld pending audit for the fiscal year ended June 30, 2022.

Also please note, as of the date of this letter, the State Controller's Office has not distributed the annual pension and other postemployment benefits reporting information needed to complete our fiscal year 2022-23 GAAP financial statements. Once we receive the information, we will need to accrue our liability, and there may be an

adjustment to our operating income. However, we anticipate that any adjustment will be funded by the amount withheld pending fiscal year 2022-23 audit, and that there will be no change to the requested transfer of \$533,000,000 for the fiscal year. If that is not the case, any adjustments to the funds transferred will be made in a future quarter.

We will send an updated letter for the quarter ended June 30, 2023, once the final pension and benefits information becomes available.

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 Twelve Months Ended June 30, 2023

Operating revenues: Lottery Sales	\$	9,239,353,311
Prizes	\$	<u>5,960,301,724</u>
Sales after prizes	\$	<u>3,279,051,587</u>
Less game costs:		
Retailer costs	\$	633,200,226
Gaming system costs	\$	109,720,587
Scratchers game costs	\$	<u>50,428,558</u>
Total game costs	\$	<u>793,349,371</u>
Income before operating expenses	\$	<u>2,485,702,216</u>
Operating expenses:		
Salaries, wages, and benefits	\$	114,691,401
Advertising	\$	89,181,811
Promotion, public relations, and point of sale	\$	11,095,793
Other professional services	\$	18,072,617
Depreciation and amortization	\$	14,961,644
Other general & administrative expenses	\$	<u>20,464,419</u>
Total operating expenses	\$	<u>268,467,685</u>
Operating Income	\$	<u>2,217,234,531</u>
Non-operating (expenses) revenues:		
Investment Earnings	\$	(15,049,106)
Other Income	\$	6,897
Allocation to Education Fund	\$	<u>(2,243,018,137)</u>
Total non-operating (expenses) revenues	\$	<u>(2,258,060,346)</u>
Changes in net position	\$	(40,825,815)
Total net position-beginning balance	\$	<u>(238,245,965)</u>
Total net position-ending balance	\$	<u><u>(279,071,780)</u></u>

**Attachment B—
California State Lottery's Revised Transfer Request
Dated August 23, 2024**



August 23, 2024

Natalie Sidarous, Chief
Local Government Programs and Services Division
State Controller's Office
3301 C Street, Suite 700
Sacramento, CA 95816

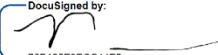
Dear Ms. Sidarous:

The California Lottery received pension and other postemployment benefits allocations, which impact the Lottery's operating income for the fiscal year ended June 30, 2023. Due to these and other adjustments, the Lottery is submitting this revision to the letter dated September 18, 2023, previously submitted.

<u>Revised</u> Operating income for the year ended	
June 30, 2023	\$ 2,231,053,935
SMIF interest earned	25,776,709
Other income	6,897
Unclaimed prizes	<u>51,827,506</u>
	\$ 2,308,665,047
Less: Transfer for the nine months ended	
March 31, 2023	1,740,524,103
<u>Revised</u> Amount withheld pending audit	<u>35,140,944</u>
	\$ 533,000,000
Add: Amount withheld pending 2021-22 audit	27,448,056
	<u>\$ 560,448,056</u>

We have attached a copy of the Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2023, for your files.

Sincerely,

DocuSigned by:

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Nicholas Buchen, Deputy Director
Finance Division

Attachment

cc: Harjinder K. Shergill, Director

California State Lottery
Statement of Revenues, Expenses, and Changes in Net Fund Position
For the Twelve Months Ended June 30, 2023

Operating revenues: Lottery Sales	\$	9,239,353,311
Prizes	\$	5,960,301,724
Sales after prizes	\$	3,279,051,587
Less game costs:		
Retailer costs	\$	633,200,226
Gaming system costs	\$	109,720,587
Scratchers game costs	\$	50,428,558
Total game costs	\$	793,349,371
Income before operating expenses	\$	2,485,702,216
Operating expenses:		
Salaries, wages, and benefits	\$	100,871,997
Advertising	\$	89,181,811
Promotion, public relations, and point of sale	\$	11,095,793
Other professional services	\$	18,072,617
Depreciation and amortization	\$	14,961,644
Other general & administrative expenses	\$	20,464,419
Total operating expenses	\$	254,648,281
Operating Income	\$	2,231,053,935
Non-operating (expenses) revenues:		
Investment Earnings	\$	(15,049,106)
Other Income	\$	6,897
Allocation to Education Fund	\$	(2,256,837,541)
Total non-operating (expenses) revenues	\$	(2,271,879,750)
Changes in net position	\$	(40,825,815)
Total net position-beginning balance	\$	(238,245,965)
Total net position-ending balance	\$	(279,071,780)

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

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