

# CALIFORNIA STATE LOTTERY

Review Report

## QUARTERLY TRANSFER OF FUNDS TO PUBLIC EDUCATION

*For the Quarter Ended June 30, 2022*



MALIA M. COHEN  
CALIFORNIA STATE CONTROLLER

December 2024



MALIA M. COHEN  
CALIFORNIA STATE CONTROLLER

December 23, 2024

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 Lottery Education Fund for disbursement to the public education community for the quarter ended June 30, 2022. Our review found that the transfer amount of \$480,280,801 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, 2022.

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/ac

Ms. Harjinder K. Shergill-Chima

December 23, 2024

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Copy: Florence Bernal, Chief Deputy Director  
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California State Lottery  
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California State Lottery Commission  
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California State Lottery Commission  
Alexandre Rasouli, M.D., Commissioner  
California State Lottery Commission

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**Attachment A—California State Lottery’s Transfer Request Dated September 7, 2022**

**Attachment B—California State Lottery’s Revised Transfer Request Dated  
August 11, 2023**

# Review Report

## Summary

The California State Lottery (Lottery) requested that the State Controller's Office (SCO) transfer \$480,280,801 to the Lottery Education Fund for disbursement to the public education community for the quarter ended June 30, 2022. 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, 2022.

## Background

In 1984, California voters passed Proposition 37, authorizing the creation of a state-operated lottery. Proposition 37 created the Lottery Act, codified in the 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% 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% be allocated for administrative expenses. Furthermore, the Lottery Act requires that not less than 50% 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, 2022, as Attachment A.

## 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, 2022. 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%.
- 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 met 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 \$480,280,801 for the fourth quarter ended June 30, 2022, 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, 2022.

In a letter dated September 7, 2022, the Lottery requested that the SCO transfer \$480,280,801 to the Lottery Education Fund for disbursement to the public education community. On September 27, 2022, the SCO's Local Government Programs and Services Division transferred \$480,280,801 from the State Lottery Fund to the Lottery Education Fund, and as a result of the SCO's apportionment process, the entire amount was disbursed to the public education community.

On August 11, 2023, 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, 2022, but did not change the requested transfer amount of \$480,280,801. Despite the revisions, the Lottery complied with annual revenue allocation requirements specified in the Lottery Act.

For the 12 months ended June 30, 2022, of the total revenues from ticket sales:

- 65.80% was returned to the public in the form of prize payouts;

- 22.76% was transferred to the public education community; and
- 11.44% was used for administrative expenses.

The Lottery returned 88.56% 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 the Schedule for a summary of Lottery revenue allocations and allocation percentages.

### **Views of Responsible Officials**

We discussed our results with Lottery representatives. As there were no findings, the Lottery waived the exit conference and draft report. We agreed that the report could be issued as final.

### **Restricted Use**

This report is intended 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](http://www.sco.ca.gov).

*Original signed by*

Kimberly A. Tarvin, CPA  
Chief, Division of Audits

December 23, 2024

## Schedule— Fiscal Year 2021-22 and Fiscal Year 2020-21 Year-to-Date Lottery Revenue Allocations

Fiscal Year 2021-22	Three Months Ended 9/30/2021	% of Sales <sup>1</sup>	Six Months Ended 12/31/2021	% of Sales <sup>1</sup>	Nine Months Ended 3/31/2022	% of Sales <sup>1</sup>	Twelve Months Ended 6/30/2022	% of Sales <sup>1</sup>
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	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 <sup>2</sup>	25,670,503		37,498,282		48,255,185		62,324,583	
Adjustment	-		-		-		(13,167,255) <sup>4</sup>	
<b>Allocation to Education Fund<sup>3</sup></b>	<b>\$ 568,126,991</b>		<b>\$ 1,055,785,499</b>		<b>\$ 1,583,925,844</b>		<b>\$ 2,064,206,645</b>	

Fiscal Year 2020-21	Three Months Ended 9/30/2020	% of Sales <sup>1</sup>	Six Months Ended 12/31/2020	% of Sales <sup>1</sup>	Nine Months Ended 3/31/2021	% of Sales <sup>1</sup>	Twelve Months Ended 6/30/2021	% of Sales <sup>1</sup>
Sales	\$ 2,025,442,485	100.00%	\$ 3,890,623,608	100.00%	\$ 6,228,285,642	100.00%	\$ 8,417,943,817	100.00%
Prizes	1,374,317,474	67.85%	2,619,737,310	67.33%	4,139,431,337	66.46%	5,610,605,541	66.65%
Operating income	424,642,033	20.97%	832,487,855	21.40%	1,388,741,332	22.30%	1,857,730,878	22.07%
Revenues returned to public	1,798,959,507	88.82%	3,452,225,165	88.73%	5,528,172,669	88.76%	7,468,336,419	88.72%
Administrative expenses	226,482,978	11.18%	438,398,443	11.27%	700,112,973	11.24%	949,607,397 <sup>6</sup>	11.28%
Miscellaneous income <sup>2</sup>	10,151,995		14,534,351		18,532,272		24,823,527	
Adjustment	-		-		19,050,946 <sup>5</sup>		(14,280,801) <sup>7</sup>	
<b>Allocation to Education Fund<sup>3</sup></b>	<b>\$ 434,794,028</b>		<b>\$ 847,022,206</b>		<b>\$ 1,426,324,550</b>		<b>\$ 1,868,273,605</b>	

### Annual Statutory Revenue Allocation Percentage Requirements

Prize payouts – Not less than 50% of sales

Administrative expenses – Not more than 13% of sales

Prize payouts and disbursement of funds to education – Not less than 87% of sales

Other income – 100% to education

<sup>1</sup> 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 complying with annual statutory requirements.

<sup>2</sup> Miscellaneous income includes Surplus Money Investment Fund interest earned, unclaimed prizes, and other income.

<sup>3</sup> The Education Fund allocation amount is sales, plus miscellaneous income, plus the adjustment amount, less prizes, and less administrative expenses.

<sup>4</sup> This amount is the net total of two adjustments: a \$14,280,801 increase (see footnote 7) and a \$27,448,056 reduction. The \$27,448,056 was withheld from the fiscal year (FY) 2021-22 fourth-quarter transfer and will be adjusted in a subsequent quarter transfer after completion of the financial statement audit and resolution of accounting issues.

<sup>5</sup> This amount was withheld from the FY 2019-20 fourth-quarter transfer and was adjusted in the FY 2020-21 third-quarter transfer after completion of the financial statement audit and resolution of accounting issues.

<sup>6</sup> Minor calculation difference is due to rounding.

<sup>7</sup> This amount was withheld from the FY 2020-21 fourth-quarter transfer and adjusted in FY 2021-22 fourth-quarter transfer after completion of the financial statement audit and resolution of accounting issues.



**Attachment A—  
California State Lottery's  
Transfer Request Dated September 7, 2022**

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September 7, 2022

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 \$480,280,801. This figure represents:

Operating income for the year ended June 30, 2022	\$ 2,009,191,453
SMIF interest earned	4,021,399
Other income	48,932
Unclaimed prizes	<u>57,691,492</u>
	\$ 2,070,953,276
Less: Transfer for the nine months ended March 31, 2022	1,583,925,844
Amount withheld pending 2021-22 audit	<u>21,027,432</u>
	\$ 466,000,000
Add: Amount withheld pending 2020-21 audit	14,280,801
	<u>\$ 480,280,801</u>

We have attached a copy of the Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2022, prepared from books without audit, for your files.

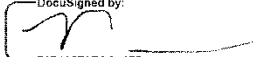
Please note, the amount above includes the amount withheld pending audit for the fiscal year ended June 30, 2021.

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 2021-22 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 2021-22 audit, and that there will be no change to the requested transfer of \$466,000,000 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, 2022, 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, 2022**

Operating revenues: Lottery Sales	\$ 8,865,750,167.73
Prizes	<u>\$ 5,834,035,931.89</u>
Sales after prizes	<u>\$ 3,031,714,235.84</u>
Less game costs:	
Retailer costs	\$ 615,460,750.02
Gaming system costs	\$ 102,320,421.12
Scratchers game costs	<u>\$ 41,836,792.22</u>
Total game costs	<u>\$ 759,617,963.36</u>
Income before operating expenses	<u>\$ 2,272,096,272.48</u>
Operating expenses:	
Salaries, wages, and benefits	\$ 108,428,424.06
Advertising	\$ 92,849,858.77
Promotion, public relations, and point of sale	\$ 8,529,661.84
Other professional services	\$ 18,129,419.08
Depreciation and amortization	\$ 15,982,731.81
Other general & administrative expenses	<u>\$ 18,984,724.30</u>
Total operating expenses	<u>\$ 262,904,819.86</u>
Operating Income	<u>\$ 2,009,191,452.62</u>
Non-operating (expenses) revenues:	
Investment Earnings	\$ (95,791,722.61)
Other Income	\$ 48,932.60
Allocation to Education Fund	<u>\$ (2,013,261,783.80)</u>
Total non-operating (expenses) revenues	<u>\$ (2,109,004,573.81)</u>
Changes in net position	\$ (99,813,121.19)
Total net position-beginning balance	\$ (138,432,843.53)
Total net position-ending balance	<u><u>\$ (238,245,964.72)</u></u>

See accompanying notes on the financial statements

**Attachment B—  
California State Lottery's  
Revised Transfer Request Dated August 11, 2023**

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August 11, 2023

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

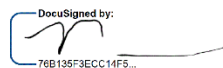
Dear Ms. Sidarous:

The California Lottery received pension and other postemployment benefits allocations, which impact the Lottery's operating income for the fiscal year ended June 30, 2022. Due to these and other adjustments, the Lottery is submitting this revision to the letter dated September 7, 2022, previously submitted.

<u>Revised</u> Operating income for the year ended June 30, 2022	\$ 2,015,049,317
SMIF interest earned	4,021,399
<u>Revised</u> Other income	611,692
Unclaimed prizes	<u>57,691,492</u>
	\$ 2,077,373,900
Less: Transfer for the nine months ended March 31, 2022	1,583,925,844
<u>Revised</u> Amount withheld pending audit	<u>27,448,056</u>
	\$ 466,000,000
Add: Amount withheld pending 2020-21 audit	14,280,801
	<u>\$ 480,280,801</u>

We have attached a revised copy of the Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2022, for your files.

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, 2022**

Operating revenues: Lottery Sales	\$	8,853,250,168
Prizes	\$	5,825,673,018
		<hr/>
Sales after prizes	\$	3,027,577,150
		<hr/>
Less game costs:		
Retailer costs	\$	614,710,750
Gaming system costs	\$	102,320,421
Scratchers game costs	\$	41,836,793
		<hr/>
Total game costs	\$	758,867,964
		<hr/>
Income before operating expenses	\$	2,268,709,186
		<hr/>
Operating expenses:		
Salaries, wages, and benefits	\$	101,243,980
Advertising	\$	92,849,859
Promotion, public relations, and point of sale	\$	8,529,662
Other professional services	\$	18,129,419
Depreciation and amortization	\$	15,982,732
Other general & administrative expenses	\$	16,924,217
		<hr/>
Total operating expenses	\$	253,659,869
		<hr/>
Operating Income	\$	2,015,049,317
		<hr/>
Non-operating (expenses) revenues:		
Investment Earnings	\$	(95,791,723)
Other Income	\$	611,692
Allocation to Education Fund	\$	(2,019,682,408)
		<hr/>
Total non-operating (expenses) revenues	\$	(2,114,862,439)
		<hr/>
Changes in net position	\$	(99,813,121)
Total net position-beginning balance	\$	(138,432,844)
Total net position-ending balance	\$	(238,245,965)
		<hr/> <hr/>

See accompanying notes on the financial statements

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

[www.sco.ca.gov](http://www.sco.ca.gov)