



**CALIFORNIA STATE LOTTERY FUND**

Financial Statements

June 30, 2020

(With Independent Auditors' Report Thereon)



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

## Independent Auditors' Report

The Commissioners  
California State Lottery Fund, State of California:

We have audited the accompanying financial statements of the business-type activities of the California State Lottery Fund (the Lottery), a proprietary fund of the State of California which comprise the statement of net position (deficit) as of June 30, 2020, the related statements of revenues, expenses, and changes in net position (deficit) and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the California State Lottery Fund, as of June 30, 2020, and the changes in its financial position and cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

### Emphasis of Matter

As discussed in Note 1, the financial statements of the Lottery are intended to present the financial position, the changes in financial position and cash flows of only that portion of the State of California that is attributable to



the transactions of the Lottery. They do not purport to, and do not, present fairly the financial position of the State of California as of June 30, 2020, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*

U.S. generally accepted accounting principles require that the Management’s Discussion and Analysis on pages 3 – 11 and required supplementary information on pages 41 – 46 (collectively referred to as RSI) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*KPMG LLP*

Sacramento, California  
June 1, 2021

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

The following discussion and analysis of the California State Lottery's (Lottery) financial performance provides an overview of financial activities for the fiscal year ended June 30, 2020. Please read it in conjunction with the Lottery financial statements that follow this section.

### **FINANCIAL HIGHLIGHTS**

- In fiscal year 2019-20, the Lottery allocated approximately \$1.5 billion to California public schools. This marked the 20th consecutive year the Lottery has transferred more than \$1 billion to its beneficiary, and a total contribution of nearly \$37.6 billion in the 35 years since the Lottery's inception.
- The Lottery achieved sales of more than \$6.6 billion in fiscal year 2019-20, with more than \$5 billion coming from sales of Scratchers<sup>®</sup> tickets.
- Overall sales were down in 2019-20 due to impacts of the COVID-19 pandemic and related stay-at-home orders, but all games within the daily games category - Fantasy 5, Daily 4, Daily 3, and Daily Derby<sup>®</sup> - showed increased sales over the prior fiscal year. Daily Derby led the pack with a sales increase of \$9 million or 28 percent.
- The Lottery paid out more than \$4.8 billion in the form of prizes and retailer compensation. Of this, the Lottery paid approximately \$4.4 billion in prizes to players, and more than \$460 million in commissions, cashing bonuses, and other applicable compensation to retailers.

### **IMPACT OF COVID-19**

On March 19, 2020, Governor Newsom announced a stay-at-home order in response to the COVID-19 pandemic. Initially, approximately 4 percent of Lottery retailers closed their stores and sales were down approximately 25 to 30 percent across all products due to decreased foot traffic in retail locations that remained open. By June 2020, more than half of the closed stores had reopened. To assist retailers during the pandemic, the Lottery extended the settlement period for Scratchers tickets, allowing more time for retailers to sell tickets before being invoiced for them.

Scratchers games showed a large decline in sales, first because of decreased demand, and then because of supply chain issues as the Lottery's distribution centers and sales force dealt with social distancing protocols. Monthly new Scratchers game launches were suspended during this period. Hot Spot<sup>®</sup>, which is popular in social trade-style retailers where customers gather, also showed declines in sales after years of steady increases. The multi-state lotto games, Powerball<sup>®</sup> and Mega Millions<sup>®</sup>, had already been experiencing decreased sales pre-pandemic, as there were fewer large jackpots which attract higher sales. As a result of the pandemic, both games changed their rules to offer lower starting jackpots and smaller required increases between draws, which resulted in continuing sales declines for these games.

The Lottery implemented cost saving measures to keep administrative costs within the mandated percentage, and to maximize funding to California's public schools during this period of reduced ticket sales. The Lottery also cancelled or postponed advertising campaigns and jackpot alerts to be sensitive to stay-at-home orders causing consumers to shop less frequently and focus on purchasing essential items. Overall Lottery sales declined 10.4 percent in fiscal year 2019-20, due largely to the impact of COVID-19.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(Unaudited)**

**OVERVIEW OF THE FINANCIAL STATEMENTS**

These required statements offer short-term and long-term financial information about the Lottery. The statement of net position (deficit) provides information about the nature and amounts of investments in resources (assets and deferred outflows of resources) and obligations (liabilities and deferred inflows of resources) at the close of the fiscal year. All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position (deficit). 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 from where did cash come and for what was cash used. The financial statements are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The Lottery is structured as a single enterprise fund with revenues recognized when earned, not when received.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(Unaudited)**

**FINANCIAL ANALYSIS**

**NET POSITION (DEFICIT)**

A summary of the California State Lottery's net position (deficit) is presented below:

	<u>June 30, 2019</u>	<u>June 30, 2020</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and other assets	\$ 2,247,957,906	\$ 1,839,486,472	\$ (408,471,434)	(18.2)%
Capital assets	208,971,820	214,519,651	5,547,831	2.7 %
Total assets	<u>\$ 2,456,929,726</u>	<u>\$ 2,054,006,123</u>	<u>\$ (402,923,603)</u>	<u>(16.4)%</u>
Deferred outflows of resources	\$ 73,060,199	\$ 76,874,767	\$ 3,814,568	5.2 %
Total assets and deferred outflows	<u>\$ 2,529,989,925</u>	<u>\$ 2,130,880,890</u>	<u>\$ (399,109,035)</u>	<u>(15.8)%</u>
Current liabilities	\$ 1,576,680,854	\$ 1,063,992,779	\$ (512,688,075)	(32.5)%
Non-current liabilities	1,053,802,947	1,098,160,803	44,357,856	4.2 %
Total liabilities	<u>\$ 2,630,483,801</u>	<u>\$ 2,162,153,582</u>	<u>\$ (468,330,219)</u>	<u>(17.8)%</u>
Deferred inflows of resources	\$ 51,221,930	\$ 50,184,661	\$ (1,037,269)	(2.0)%
Total liabilities and deferred inflows	<u>\$ 2,681,705,731</u>	<u>\$ 2,212,338,243</u>	<u>\$ (469,367,488)</u>	<u>(17.5)%</u>
Net investment in capital assets	\$ 208,971,820	\$ 214,519,651	\$ 5,547,831	2.7 %
Restricted by legislation	93,646,606	163,905,059	70,258,453	75.0 %
Unrestricted deficit	(454,334,232)	(459,882,063)	(5,547,831)	1.2 %
Total net position	<u>\$ (151,715,806)</u>	<u>\$ (81,457,353)</u>	<u>\$ 70,258,453</u>	<u>(46.3)%</u>

During fiscal year 2019-20, the Lottery's net position increased \$70.3 million to a net deficit of \$81.5 million. Net position restricted by legislation increased \$70.3 million due to an increase in the fair value of investments held to pay annuitized prizes. The net deficit also includes a \$214.5 million net investment in capital assets, specifically land, buildings and various equipment used to run the Lottery. The cost of these assets of approximately \$345.8 million is offset by the accumulated depreciation of \$131.3 million. More information on the Lottery's investments and capital assets can be found in Notes 2 and 5, respectively.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(Unaudited)**

**CHANGE IN NET POSITION (DEFICIT)**

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

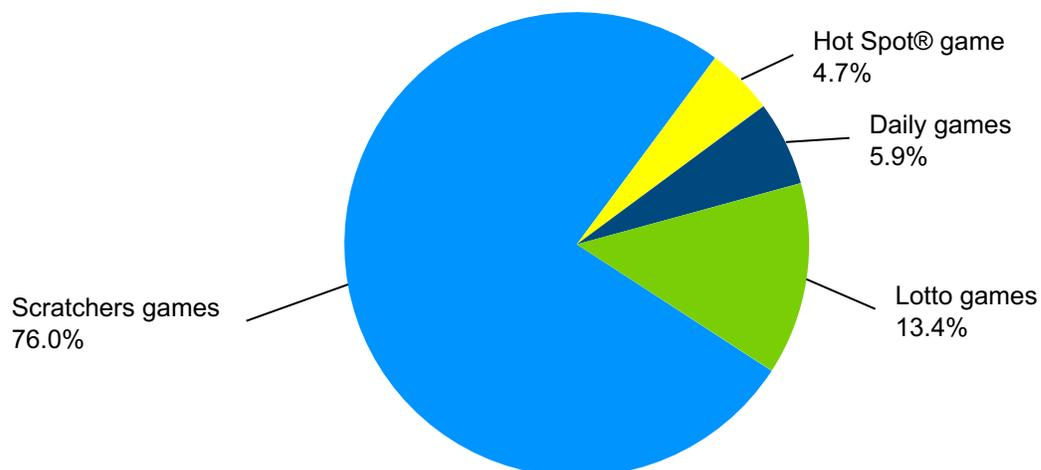
	<u>June 30, 2019</u>	<u>June 30, 2020</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating revenues - Lottery sales	\$ 7,388,050,316	\$ 6,622,003,405	\$ (766,046,911)	(10.4)%
Prizes	<u>4,715,592,673</u>	<u>4,403,715,159</u>	<u>(311,877,514)</u>	<u>(6.6)%</u>
Sales after prizes	\$ 2,672,457,643	\$ 2,218,288,246	\$ (454,169,397)	(17.0)%
Game costs	<u>637,199,582</u>	<u>579,966,826</u>	<u>(57,232,756)</u>	<u>(9.0)%</u>
Income before operating expenses	\$ 2,035,258,061	\$ 1,638,321,420	\$ (396,936,641)	(19.5)%
Operating expenses	<u>225,536,670</u>	<u>213,166,565</u>	<u>(12,370,105)</u>	<u>(5.5)%</u>
Operating income	\$ 1,809,721,391	\$ 1,425,154,855	\$ (384,566,536)	(21.3)%
Non-operating expenses	<u>\$ (1,772,024,419)</u>	<u>\$ (1,354,896,402)</u>	<u>\$ 417,128,017</u>	<u>(23.5)%</u>
Change in net position	\$ 37,696,972	\$ 70,258,453	\$ 32,561,481	86.4 %
Total net position - beginning of year	<u>(189,412,778)</u>	<u>(151,715,806)</u>	<u>37,696,972</u>	<u>(19.9)%</u>
Total net position - end of year	<u><u>\$ (151,715,806)</u></u>	<u><u>\$ (81,457,353)</u></u>	<u><u>\$ 70,258,453</u></u>	<u><u>(46.3)%</u></u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

**REVENUES**

The following chart shows the major sources and the percentages of operating revenues for the fiscal year ended June 30, 2020:

**Operating Revenues**



A summary of total revenues for the fiscal years ended June 30, 2019 and 2020, and the amount and percentage of change in relation to prior year amounts is as follows:

	June 30, 2019	June 30, 2020	Dollar Change	Percent Change
<b>Operating revenues:</b>				
Lotto games	\$ 1,526,370,543	\$ 888,372,887	\$ (637,997,656)	(41.8)%
Scratchers games	5,170,791,532	5,029,765,509	(141,026,023)	(2.7)%
Hot Spot game	313,779,077	311,848,814	(1,930,263)	(0.6)%
Daily games	377,109,164	392,016,195	14,907,031	4.0 %
Total operating revenues	<u>\$ 7,388,050,316</u>	<u>\$ 6,622,003,405</u>	<u>\$ (766,046,911)</u>	<u>(10.4)%</u>
<b>Non-operating revenues:</b>				
Unrealized gains (losses) on investments	\$ 39,163,769	\$ 72,256,522	\$ 33,092,753	84.5 %
Interest accreted/earned on investments	30,735,603	29,031,594	(1,704,009)	(5.5)%
Interest on funds held by State Treasurer	15,480,673	11,833,269	(3,647,404)	(23.6)%
Other income	22,036	195,722	173,686	788.2 %
Total non-operating revenues	<u>\$ 85,402,081</u>	<u>\$ 113,317,107</u>	<u>\$ 27,915,026</u>	<u>32.7 %</u>
<b>Total revenues</b>	<u><u>\$ 7,473,452,397</u></u>	<u><u>\$ 6,735,320,512</u></u>	<u><u>\$ (738,131,885)</u></u>	<u><u>(9.9)%</u></u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(Unaudited)**

**REVENUES (continued)**

Lottery operating revenue decreased \$766 million or 10.4 percent from the previous fiscal year. Lotto games showed the biggest decline in sales, with a decrease of \$638 million or 41.8 percent. The decrease in sales is primarily due to Mega Millions and Powerball reaching much lower than typical jackpot levels. Additionally, stay-at-home orders due to the COVID-19 pandemic contributed to lower sales. The category of Daily Games showed an increase of \$14.9 million or 4 percent. Non-operating revenue increased \$27.9 million from the previous year due primarily to unrealized gains on investments.

**EXPENSES**

The Lottery Act requires that the Lottery return not less than 87 percent of annual revenues to the public in the form of prizes and contributions to education, and spend no more than 13 percent of annual revenues on operating expenses. Lottery prize payments, contributions to education, and operating expenses are shown below as a percentage of operating revenue for the year ended June 30, 2020.

Lottery Sales	\$ 6,622,003,405	100.0 %
Revenue returned to the public		
Prizes	\$ 4,403,715,159	66.5 %
Allocation of sales to education	1,425,349,845	21.5 %
Total revenue returned to the public	\$ 5,829,065,004	88.0 %
Expenses of the Lottery		
Retailer costs	\$ 460,706,639	7.0 %
Game costs	119,260,187	1.8 %
Operating expenses	213,166,565	3.2 %
Less bartered operating expenses	(194,990)	0.0 %
Total expenses of the Lottery	\$ 792,938,401	12.0 %

A summary of the total funds transferred by the Lottery to the education community for the fiscal year ended June 30, 2020, is shown below.

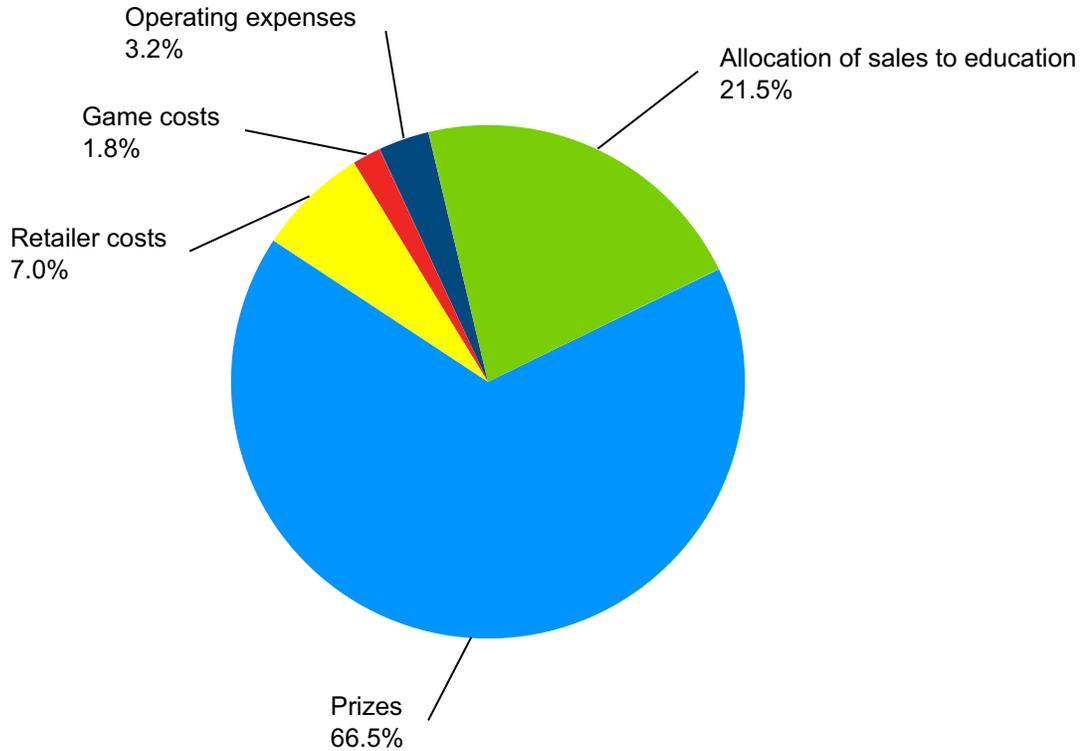
Revenues to Education	
Allocation of sales	\$ 1,425,349,845
Unclaimed prizes directly allocated to the Education Fund	75,396,516
Interest income	11,833,269
Other income	195,722
Less bartered income	(194,990)
Total declared for allocation to the Education Fund	\$ 1,512,580,362

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

**EXPENSES (continued)**

The following chart shows prizes, retailer costs, game costs, operating expenses, and allocation to education as a percentage of operating revenues for the fiscal year ended June 30, 2020:

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



**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(Unaudited)**

**EXPENSES (continued)**

A summary of expenses for the fiscal years ended June 30, 2019 and 2020, and the amount and percentage change in relation to prior year amounts is as follows:

	<u>June 30, 2019</u>	<u>June 30, 2020</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Prizes:				
Draw game prizes	\$ 1,128,113,257	\$ 876,398,762	\$ (251,714,495)	(22.3)%
Scratchers game prizes	3,587,479,416	3,527,316,397	(60,163,019)	(1.7)%
Total prizes	<u>\$4,715,592,673</u>	<u>\$4,403,715,159</u>	<u>\$ (311,877,514)</u>	<u>(6.6)%</u>
Game costs:				
Retailer costs	\$ 505,903,081	\$ 460,706,639	\$ (45,196,442)	(8.9)%
Draw/Scratchers game costs	131,296,501	119,260,187	(12,036,314)	(9.2)%
Total game costs	<u>\$ 637,199,582</u>	<u>\$ 579,966,826</u>	<u>\$ (57,232,756)</u>	<u>(9.0)%</u>
Operating expenses:				
Salaries, wages, and benefits	\$ 99,664,223	\$ 111,146,383	\$ 11,482,160	11.5 %
Advertising	66,773,171	40,856,926	(25,916,245)	(38.8)%
Promotion, public relations, and point of sale	9,305,841	9,385,619	79,778	0.9 %
Other professional services	16,898,286	16,225,755	(672,531)	(4.0)%
Depreciation and amortization	18,814,684	18,428,535	(386,149)	(2.1)%
Other general and administrative expenses	14,080,465	17,123,347	3,042,882	21.6 %
Total operating expenses	<u>\$ 225,536,670</u>	<u>\$ 213,166,565</u>	<u>\$ (12,370,105)</u>	<u>(5.5)%</u>
Non-operating expenses:				
Allocation to Education Fund	\$ 1,825,224,100	\$ 1,437,183,846	\$ (388,040,254)	(21.3)%
Interest imputed on annuitized prize liability	32,202,400	31,029,663	(1,172,737)	(3.6)%
Total non-operating expenses	<u>\$ 1,857,426,500</u>	<u>\$ 1,468,213,509</u>	<u>\$ (389,212,991)</u>	<u>(21.0)%</u>
Total expenses	<u>\$7,435,755,425</u>	<u>\$6,665,062,059</u>	<u>\$ (770,693,366)</u>	<u>(10.4)%</u>

Scratchers and draw game prize expense, retailer costs, and game costs all decreased as sales decreased. Salaries, wages, and benefits increased due to an increase in budgeted positions, and to increases in retirement and workers compensation expenses. Advertising expense decreased because the Lottery cancelled or postponed advertising campaigns in response to the pandemic. Other general and administrative expenses increased primarily because of an increase in shared expenses of the State and because a financial assessment from a vendor reduced our expenses in this category last fiscal year. The allocation to the Education Fund decreased primarily due to decreased sales.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(Unaudited)**

**CAPITAL ASSETS**

A summary of capital assets as of June 30, 2019 and 2020, and the amount and percentage of change in relation to prior year amounts is as follows:

	<u>June 30, 2019</u>	<u>June 30, 2020</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Non-depreciable capital assets:				
Land	\$ 18,798,281	\$ 18,798,281	\$ —	0.0 %
Depreciable capital assets:				
Gaming equipment	\$ 60,368,715	\$ 60,368,715	\$ —	0.0 %
Vending machines	80,870,482	65,047,692	(15,822,790)	(19.6)%
Buildings	141,315,605	159,247,935	17,932,330	12.7 %
Data processing equipment	17,189,486	19,236,127	2,046,641	11.9 %
Office furniture and equipment	8,812,228	8,756,911	(55,317)	(0.6)%
Leasehold improvements	620,651	168,500	(452,151)	(72.9)%
Vehicles	10,558,811	12,809,661	2,250,850	21.3 %
Other	1,431,735	1,434,371	2,636	0.2 %
Subtotal	<u>\$ 321,167,713</u>	<u>\$ 327,069,912</u>	<u>\$ 5,902,199</u>	<u>1.8 %</u>
Less accumulated depreciation	<u>(130,994,174)</u>	<u>(131,348,542)</u>	<u>(354,368)</u>	<u>0.3 %</u>
Total depreciable capital assets	<u>\$ 190,173,539</u>	<u>\$ 195,721,370</u>	<u>\$ 5,547,831</u>	<u>2.9 %</u>
Capital assets, net	<u>\$ 208,971,820</u>	<u>\$ 214,519,651</u>	<u>\$ 5,547,831</u>	<u>2.7 %</u>

Capital assets increased 2.7 percent over the previous fiscal year. The increase in buildings and decrease in leasehold improvements are due to the ongoing implementation of the Lottery's Facilities Master Plan to purchase buildings as replacements for leased facilities. The increase in data processing equipment is due to upgrades to the Lottery's accounting and gaming systems. The decrease in vending machines is due to the disposal of outdated machines in preparation for the gaming system upgrade. The increase in vehicles is due to the planned replacement of fleet vehicles. More information on the Lottery's capital assets can be found in Note 5.

**NON-CURRENT LIABILITIES**

At June 30, 2020, the California State Lottery had approximately \$1.1 billion in non-current liabilities, an increase of approximately \$44.4 million or 4.2 percent from the previous year. This includes an increase in the net other postemployment benefits (OPEB) liability of \$7.9 million, or 3.4 percent, to \$239.5 million. The increase in net OPEB liability was primarily due to changes in assumptions offset by changes in the allocation method and proportion of the Lottery's share of the State's net OPEB liability. The Lottery's net pension liability increased \$12.6 million, or 10 percent, to \$138.6 million. The increase in the net pension liability was primarily due to interest on total pension liability and the actual investment returns on plan assets exceeding projected returns, offset by contributions and net investment income. In addition, pursuant to Senate Bill 84, the Lottery has recognized a \$10.6 million inter-fund loan payable as part of the Lottery's obligation to pay back a loan used to supplement the state's employer contributions to pensions. The reserve for unpaid prizes increased \$26.3 million due to the purchase of annuities to pay prizes. Additional detailed information on long-term prize liability may be found in Note 6 and additional information on other postemployment benefits and pension liability may be found in Note 10.

**CONTACTING THE LOTTERY'S FINANCIAL MANAGER**

This financial report is designed to provide a general overview of the Lottery's finances and to demonstrate the accountability for the money the Lottery earns. If you have questions about this report or need additional financial information, contact the California State Lottery, Finance Division, 700 N. 10th Street, Sacramento, CA 95811.

**CALIFORNIA STATE LOTTERY FUND  
STATEMENT OF NET POSITION (DEFICIT)  
JUNE 30, 2020**

**Assets**

Cash and cash equivalents (Note 2)	\$ 408,923,154
Investments, current portion (Note 2)	60,507,955
Accounts receivable, net of allowances (Note 3)	504,270,588
Due from state funds (Note 4)	2,089,970
Ticket inventories	12,882,851
Other	3,609,199
Total current assets	<u>\$ 992,283,717</u>
Investments, less current portion (Note 2)	\$ 846,778,985
Capital assets, net (Note 5)	214,519,651
Long-term prepaid charges, net	423,770
Total non-current assets	<u>\$ 1,061,722,406</u>
Total assets	<u>\$ 2,054,006,123</u>

<b>Deferred Outflows of Resources (Note 10)</b>	<u>\$ 76,874,767</u>
---	----------------------

<b>Total Assets and Deferred Outflows of Resources</b>	<u><u>\$ 2,130,880,890</u></u>
--	--------------------------------

**Liabilities**

Accounts payable	\$ 39,698,227
Current prize liability (Note 6)	653,331,336
Due to state funds (Note 7)	351,992,976
Accrued liabilities	16,668,163
Unearned revenue	2,302,077
Total current liabilities	<u>\$ 1,063,992,779</u>
Prize liability, less current portion (Note 6)	\$ 709,189,923
Net other postemployment benefits liability (Note 10)	239,754,000
Net pension liability (Note 10)	138,618,920
Inter-fund loan payable	10,597,960
Total non-current liabilities	<u>\$ 1,098,160,803</u>
Total liabilities	<u>\$ 2,162,153,582</u>

<b>Deferred Inflows of Resources (Note 10)</b>	<u>\$ 50,184,661</u>
--	----------------------

<b>Total Liabilities and Deferred Inflows of Resources</b>	<u><u>\$ 2,212,338,243</u></u>
--	--------------------------------

**Net Position**

Net investment in capital assets (Note 5)	\$ 214,519,651
Restricted by legislation for prizes (Note 2)	163,905,059
Unrestricted deficit	(459,882,063)

<b>Total Net Deficit</b>	<u><u>\$ (81,457,353)</u></u>
--------------------------	-------------------------------

See accompanying notes to the financial statements.

**CALIFORNIA STATE LOTTERY FUND**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (DEFICIT)**  
**YEAR ENDED JUNE 30, 2020**

Operating revenues: Lottery sales	\$ 6,622,003,405
Prizes	<u>4,403,715,159</u>
Sales after prizes	<u>\$ 2,218,288,246</u>
Less game costs:	
Retailer costs	\$ 460,706,639
Gaming system costs	82,692,866
Scratchers <sup>®</sup> game costs	<u>36,567,321</u>
Total game costs	<u>\$ 579,966,826</u>
Income before operating expenses	<u>\$ 1,638,321,420</u>
Operating expenses:	
Salaries, wages, and benefits	\$ 111,146,383
Advertising	40,856,926
Promotion, public relations, and point of sale	9,385,619
Other professional services	16,225,755
Depreciation and amortization (Note 5)	18,428,535
Other general and administrative expenses	<u>17,123,347</u>
Total operating expenses	<u>\$ 213,166,565</u>
Operating income	<u>\$ 1,425,154,855</u>
Non-operating (expenses) revenues:	
Investment earnings (Note 9)	\$ 113,121,385
Interest expense imputed on annuitized prize liability	(31,029,663)
Other income	195,722
Allocation to Education Fund (Note 7)	<u>(1,437,183,846)</u>
Total non-operating expenses	<u>\$(1,354,896,402)</u>
Change in net deficit	\$ 70,258,453
Total net deficit - beginning balance	<u>(151,715,806)</u>
Total net deficit - ending balance	<u><u>\$ (81,457,353)</u></u>

See accompanying notes to the financial statements.

**CALIFORNIA STATE LOTTERY FUND  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2020**

Cash flows from operating activities:	
Receipts from customers	\$ 6,708,300,996
Payments for prizes	(4,837,269,281)
Payments to retailers	(460,701,742)
Payments to suppliers for goods and services	(236,010,915)
Payments to employees	(90,444,444)
Internal activity - payments to state funds	(10,182,374)
Receipts from other states	93,721,049
Other receipts	<u>125,509</u>
Net cash flows provided by operating activities	<u>\$ 1,167,538,798</u>
Cash flows from non-capital financing activities:	
Distributions to Education Fund	<u>\$(1,604,812,645)</u>
Net cash flows used in non-capital financing activities	<u>\$(1,604,812,645)</u>
Cash flows from capital and related financing activities:	
Proceeds from disposal of property and equipment	\$ 36,447
Payments for capital assets	<u>(24,032,293)</u>
Net cash flows used in capital and related financing activities	<u>\$ (23,995,846)</u>
Cash flows from investing activities:	
Purchase of securities	\$ (47,992,178)
Proceeds from matured securities	64,290,000
Investment portfolio and SMIF interest received	<u>24,423,087</u>
Net cash flows provided by investing activities	<u>\$ 40,720,909</u>
Decrease in cash and cash equivalents	\$ (420,548,784)
Cash and cash equivalents at July 1, 2019	<u>\$ 829,471,938</u>
Cash and cash equivalents at June 30, 2020	<u><u>\$ 408,923,154</u></u>

See accompanying notes to the financial statements.

(Continued)

**CALIFORNIA STATE LOTTERY FUND  
STATEMENT OF CASH FLOWS (CONTINUED)  
YEAR ENDED JUNE 30, 2020**

Cash flows from operating activities:	
Operating income	\$ 1,425,154,855
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	\$ 18,428,535
Provision for doubtful accounts	597,500
Provision for returned tickets	(36,515,739)
Provision for free ticket redemptions	(9,366,810)
Net loss on retirement or disposal of capital assets	19,480
Other income	195,722
Changes in assets and liabilities:	
Decrease in accounts receivable	110,084,566
Decrease in due from other funds net of SMIF	1,190,170
Increase in ticket inventories	(5,753,310)
Decrease in other assets	88,234
Increase in long-term prepaid charges	(1,486)
Decrease in accounts payable	(16,598,436)
Decrease in prize liability	(339,833,072)
Decrease in due to state funds	(2,206,525)
Increase in accrued liabilities	5,075,820
Decrease in unearned revenues	(80,519)
Increase in OPEB and net pension liability	17,059,813
	<u>17,059,813</u>
Net cash flows provided by operating activities	<u>\$ 1,167,538,798</u>

Supplemental disclosure of non-cash activities:

Interest accreted on annuitized prizes	<u>\$ 31,029,663</u>
Unclaimed prized directly allocated to the Education Fund	<u>\$ 75,396,516</u>
Unrealized gain on investments	<u>\$ 72,256,522</u>
Interest accreted on zero coupon bonds	<u>\$ 19,304,328</u>

See accompanying notes to the financial statements.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Organization**

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

Effective April 8, 2010, Chapter 13, Statutes of 2010 (AB 142) amended the Act to allow the California State Lottery (Lottery) to offer its players a higher prize payout percentage. Research has shown that higher prize payouts result in increased sales revenues and thus will afford increased allocations to education. Under AB 142 beginning with the 2010-11 fiscal year, the Lottery is required to return not less than 87 percent of revenues to the public in the form of prizes and contributions to education, and to spend no more than 13 percent of revenues on operating expenses of the Lottery.

### **Basis of Presentation**

The Fund is accounted for as an enterprise fund. The financial statements are prepared on the accrual basis of accounting and the economic resources measurement focus in accordance with accounting principles generally accepted in the United States of America. Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. The principal operating revenues of the Fund come from the sale of lottery tickets. The principal operating expenses of the Fund are prizes, retailer commissions, game costs, salaries and benefits, advertising and promotion, professional services, depreciation of assets, and general and administrative costs.

### **Revenue Recognition – Scratchers Games**

Sales of Scratchers tickets are made to the public through contracted retailers. Revenue is recognized upon the sale of tickets to the retailers for active games. An allowance is recognized for the retailers' right to return unsold tickets. Operating revenue is reduced for free tickets and for unsold tickets remaining in vending machines. Retailers receive a commission of up to six percent which is recognized when tickets are sold to the retailers.

### **Revenue Recognition - Draw Games**

Lottery sales for draw games are made to the public through gaming terminals at contracted retailers. Revenue is recognized upon the sale to the public. With the exception of Powerball<sup>®</sup> and Mega Millions<sup>®</sup>, the public has the right to cancel a sale on the same day before pool closure. All Powerball and Mega Millions sales are final. The applicable retailers' commission of four and one-half to six percent is recognized when sales are made to the public. Recognition of the revenue from sales for future draws is considered unearned until those draws become current. The retailers' commission related to the unearned revenue is reflected as a prepaid expense until the revenue is recognized.

### **Prizes – Scratchers Games**

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

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

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

**Prizes – Scratchers Games (continued)**

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

**Prizes - Draw Games**

Powerball and Mega Millions - Prize expense for each of the twice-weekly multi-state draw games is recognized on the basis of the predetermined prize structure when the revenue is recognized. Nine distinct prize categories for each game are established which are dependent upon the amount of money wagered and the quantity of numbers to be matched. In the event that no winning share for a specific prize category of Powerball or Mega Millions is selected, all monies allocated for that prize are carried forward to the following drawing and remain in the pool for that same prize category.

The total Grand/Jackpot Prize liability for each multi-state Powerball or Mega Millions drawing is shared by each participating state lottery (Party Lottery) as follows: each Party Lottery is responsible for an amount equal to a percentage of that Party Lottery's Powerball or Mega Millions sales, said percentage being the proportion of the total Grand/Jackpot Prize liability to the total Powerball or Mega Millions sales. The California Lottery is prohibited by state law from paying fixed prizes and participating in the liability calculation for prize levels two through nine. The California Lottery is therefore solely responsible for its own prize liability for levels two through nine for the multi-state games.

Powerball and Mega Millions Grand/Jackpot Prizes won in California are paid in 30 graduated, annual installments. For each game, winners have up to 60 days after the date the Lottery validates the winning ticket and authorizes payment to irrevocably elect to receive the cash value of the prize instead of annual payments. Payments for all other prize categories are made in a single payment.

In the event that a Powerball or Mega Millions Grand/Jackpot Prize won in California is unclaimed, the prize monies will be returned to the Party Lotteries in the same ratio that each Party Lottery contributed to the prize plus interest, and the amount contributed by the California State Lottery will be allocated directly to the Education Fund. The unclaimed prize monies for all other Powerball or Mega Millions prize categories won in California but not claimed within the specified period are allocated directly to the Education Fund.

SuperLotto Plus<sup>®</sup> - Prize expense for the twice-weekly draw game is recognized on the basis of the predetermined prize structure when the revenue is recognized. Nine distinct prize categories are established which are dependent upon the amount of money wagered and the quantity of numbers to be matched. In the event that no winning share for a specific prize category in SuperLotto Plus is chosen, all monies allocated for that prize are carried forward to the following drawing and added to the 5 of 5 plus Mega number category (Grand Prize).

SuperLotto Plus Grand/Jackpot Prizes of \$1 million or more won between April 1, 1998, and May 10, 2013, are paid either in 26 graduated, annual payments or in a single payment equal to the cash value of the 26-payment annuity, in accordance with the rules and regulations of the Lottery. Starting May 11, 2013, Grand Prizes are paid in 30 graduated, annual payments or in a single payment equal to the estimated cost to fully fund the annuity prize as advertised prior to the draw. Such estimated cost is determined by market pricing for U.S. Treasury bonds. Claimants have up to 60 days after the Lottery validates the winning ticket and authorizes payment to irrevocably elect to receive the cash payment instead of the annuitized payments. Payments for all other prize categories are made in a single payment. All SuperLotto Plus prizes won but not claimed within the specified period are allocated directly to the Education Fund.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

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

**Prizes - Draw Games (continued)**

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

Daily 3 - Prize expense for the two-draws-per-day game is recognized on the basis of the predetermined prize structure when the revenue is recognized. Distinct prize categories are established which are dependent upon the amount of money wagered, the quantity of numbers to be matched, and the order of numbers chosen. All Daily 3 prizes won but not claimed within the specified period are allocated directly to the Education Fund.

Daily 4 - Prize expense for the seven-draws-per-week game is recognized on the basis of the predetermined prize structure when the revenue is recognized. Distinct prize categories are established which are dependent upon the amount of money wagered, the quantity of numbers to be matched, and the order of numbers chosen. All Daily 4 prizes won but not claimed within the specified period are allocated directly to the Education Fund.

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

Hot Spot<sup>®</sup> - Prize expense for the multiple-draws-per-day game is recognized on the basis of the predetermined prize structure when the revenue is recognized. The game includes Typical Prize Pools for the 8 Spot Match 8 of 8, the 9 Spot Match 9 of 9, and the 10 Spot Match 10 of 10 categories, and Typical Prize Amounts for all other spots. The Hot Spot Wagered Prize Fund (fund) balance is adjusted daily based upon daily sales contributions and prizes won. In the event the balance in the fund is not sufficient to pay the allocations and amounts of a particular draw, prizes will be systematically reduced until the fund is sufficient to pay the reduced amounts. The Director will authorize promotions to ensure that the fund balance at the end of any given fiscal year is liquidated. All Hot Spot prizes won but not claimed within the specified period are allocated directly to the Education Fund.

Raffle - The Lottery may periodically conduct raffle games. The \$1 million top prizes for the two raffle games held to date were each paid in single payments. There were no raffle games conducted during fiscal year 2019-20,

**Cash Equivalents**

Cash equivalents represent cash deposited in the Surplus Money Investment Fund (SMIF) of the State of California.

**Investments**

The Lottery applies Statement No. 31 of the Governmental Accounting Standards Board (GASB), *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement establishes accounting and financial reporting standards for all investments held by governmental external investment pools and establishes fair value standards for other governmental entities. In accordance with GASB 31, the Lottery has stated investments at fair value. The difference between the carrying value and the fair value of investments is reported as a component of total net position restricted by legislation for prizes on the statement of net position (deficit).

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

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

**Investments (continued)**

The Lottery applies GASB 40, *Deposit and Investment Risk Disclosures – An Amendment of GASB Statement No. 3*. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement also are required to be disclosed. More information can be found in Note 2.

The Lottery applies GASB 72, *Fair Value Measurement and Application*, which supersedes some paragraphs of GASB 31 and requires additional disclosures related to fair value measurements, the level of fair value hierarchy, and valuation techniques. More information can be found in Note 2.

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

The allowance for doubtful accounts is based on an analysis of collectability of accounts receivable which considers the age of the accounts and historical collection results. An allowance for ticket returns for Scratchers games is estimated using sales revenue and historical return data for the games in progress at the end of the reporting period. An allowance for free ticket redemptions for Scratchers games is estimated using sales revenue and free ticket redemption data for games in progress at the end of the reporting period.

**Ticket Inventories**

Inventories are carried at cost and consist of tickets for games in progress not yet sold to retailers and tickets for future games. The cost of tickets is charged to operations when the tickets are sold to retailers. The cost of unissued and returned tickets is written off at the end of each game.

**Capital Assets**

The Lottery has adopted a policy of capitalizing assets with an acquisition cost or established value of \$5,000 or greater. Additionally, the Lottery capitalizes all gaming equipment as well as the purchase of like-kind assets totaling \$5 million or more in a single purchase. Capital assets are carried at cost. Depreciation on property and equipment is computed using the straight-line method over estimated useful lives ranging from one to ten years. Depreciation on buildings, improvements, and land improvements is computed using the straight-line method over estimated useful lives of five to 40 years. When assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations in the period of disposal. Amortization of leasehold improvements is computed using the straight-line method over the remaining lease terms.

**Long-term Prepaid Charges**

The Lottery incurs costs in connection with certain contracts which extend beyond a one-year period. These costs are prepaid and amortized over the life of the contracts.

**Pensions**

The Lottery has adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement requires recognition of a liability equal to the net pension liability, which is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits. This Statement requires that most changes in the net pension liability be included in pension expense in the period of the change.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

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

**Pensions (continued)**

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California Lottery Fund and additions to or deductions from the California Lottery Fund's fiduciary net position have been determined on the same basis as they are reported by the California Public Employees' Retirement System (CalPERS) Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Other Postemployment Benefits**

The Lottery has adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Other postemployment benefits (OPEB) include retiree health and dental benefits. This Statement requires recognition of a liability equal to the net OPEB liability, which is measured as the total OPEB liability, less the amount of the OPEB plan's fiduciary net position. The total OPEB liability is required to be determined through an actuarial valuation. Projections of benefit payments are required to be based on claims costs, or age-adjusted premiums approximating claims costs, and the benefit terms and legal agreements existing at the measurement date.

For purposes of measuring the net OPEB liability, deferred outflows and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the California Lottery Fund and additions to or deductions from the California Lottery Fund's fiduciary net position have been determined on the same basis as they are reported by the State. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Deferred Outflows of Resources and Deferred Inflows of Resources**

Changes in net pension liability not included in pension expense are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension liability are reported as deferred outflows of resources. The unamortized net difference between projected and actual earnings on investments are recorded as deferred inflows of resources.

Changes in net OPEB liability not included in OPEB expense are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net OPEB liability are reported as deferred outflows of resources. The unamortized net difference between projected and actual earnings on investments are recorded as deferred inflows of resources.

**Advertising**

Advertising costs are expensed when the related liability is incurred. Advertising expense totaled \$40,856,926 for the year ended June 30, 2020.

**Investment Earnings**

Investment earnings are composed of unrealized gains or losses associated with the change in fair value of investments and interest income including interest accreted on investments. Unrealized gains and losses are generally not realized as the investments are held to maturity at which time they are used to satisfy annuitized prizes. As investments must be stated at fair value, investment earnings or losses are created as a result of the adjustment from carrying value to fair value. Generally, all cash is held on deposit with the California State Treasurer and is invested by that office in the SMIF. Interest on funds held by the State Treasurer is distributed quarterly.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

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

**Restricted Assets**

All of the Lottery's investments are restricted in that they are held to maturity in order to pay annuitized prizes. In addition, a portion of the Lottery's cash and cash equivalents and accounts receivable are also restricted to satisfy outstanding prize liability. At June 30, 2020, restricted cash and cash equivalents is approximately \$100.8 million and restricted accounts receivable is approximately \$502.1 million.

**Compensated Absences Payable**

Vested vacation balances are included in accrued liabilities and adjusted quarterly.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**2. DEPOSITS AND INVESTMENTS**

The Lottery presents its deposits and investments in accordance with GASB 40, *Deposit and Investment Risk Disclosures – An Amendment of GASB Statement No. 3*. This statement requires the disclosure of the following risks to the extent that they exist at the date of the statement of net position (deficit):

**Interest Rate Risk**

Interest rate risk is the risk that the value of fixed income securities will decline due to changing interest rates. The prices of fixed income securities with longer time to maturity tend to be more sensitive to changes in interest rates than those with shorter durations.

**Credit Risk**

Credit risk is the risk that a debt issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline.

**Custodial Credit Risk**

Custodial credit risk is the risk that, in the event a financial institution or counterparty fails, the investor will not be able to recover the value of its deposits, investments, or collateral.

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of an investor's holdings in a single issuer.

**Investments**

The deposit and investment policies of the Lottery are determined by the Lottery Commission and state statute. Prize investments consist of zero coupon U.S. Treasury bonds, zero coupon agency bonds, and municipal bonds. Zero coupon U.S. Treasury bonds and zero coupon agency bonds are carried at fair value and are adjusted for the accretion of interest based on the purchase yield and maturity date. Municipal bonds are carried at fair value, and interest is accrued based on the coupon rate.

The Lottery holds investments that are measured at fair value on a recurring basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Because investing is not a core part of the Lottery's mission, the Lottery determined that the disclosure related to these investments need only be disaggregated by major type.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

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

**Investments (continued)**

The Lottery categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles, based on the valuation inputs used to measure the fair value of the asset. The Lottery uses Level 1 inputs, which are quoted prices in active markets for identical assets. The Lottery applies the market approach to value its investments, which uses prices and other relevant information generated by market transactions involving identical or similar assets. The Lottery uses a third party brokerage firm to obtain quoted market prices of its debt securities.

As of June 30, 2020, the Lottery's investments consist of the following:

	<u>Face Amount</u>	<u>Cost</u>	<u>Fair Value</u>
Current portion:			
U.S. Treasury Bonds	\$ 25,562,000	\$ 21,093,573	\$ 25,544,452
U.S. Agency Bonds	17,949,000	10,213,253	17,889,648
U.S. Municipal Bonds	16,500,000	16,494,931	17,073,855
Total current portion	<u>\$ 60,011,000</u>	<u>\$ 47,801,757</u>	<u>\$ 60,507,955</u>
Long-term portion:			
U.S. Treasury Bonds	\$ 607,119,000	\$ 356,737,734	\$ 533,900,354
U.S. Agency Bonds	134,076,000	63,104,859	128,736,758
U.S. Municipal Bonds	157,595,000	157,815,932	184,141,873
Total long-term portion	<u>\$ 898,790,000</u>	<u>\$ 577,658,525</u>	<u>\$ 846,778,985</u>
Total investments	<u>\$ 958,801,000</u>	<u>\$ 625,460,282</u>	<u>\$ 907,286,940</u>

Yields on the Lottery's investments range from 0.01 percent to 5.89 percent for Treasury bonds, from 4.68 percent to 5.51 percent for agency bonds, and from 4.37 percent to 6.04 percent for municipal bonds.

The following represents the changes in fair value of investments for the year ended June 30, 2020:

Changes in fair value of investments:

Unrealized investment gains at July 1, 2019	\$ 82,872,145
Unrealized investment gain, current period	72,256,522
Total unrealized investment gain	<u>\$ 155,128,667</u>

The fair value of the investments is equal to the original cost plus accreted interest plus the unrealized investment gains. As a result of investment restructuring transactions completed in 2010, the interest imputed on prize liability does not equal the interest earned on the restructured investment portfolio. The difference is reported in the statement of revenues, expenses, and changes in net position (deficit) and results in an adjustment to net position restricted by legislation. As the realized and unrealized investment gain and loss activity relates to investments that must be held to satisfy prize liabilities, they are deemed statutorily restricted and therefore reported as restricted by legislation.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

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

**Interest Rate Risk – Investments**

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

U.S. Treasury Bonds	10.96 years
U.S. Agency Bonds	3.28 years
U.S. Municipal Bonds	4.91 years
Surplus Money Investment Fund	0.52 years

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

The Lottery has adopted a specific policy to manage credit risk in the Lottery's investment portfolio. The zero coupon U.S. Treasury bonds and U.S. Treasury bills are backed by the full faith and credit of the United States government. Therefore, the U.S. Treasury obligation investments are not considered to have credit risk or a concentration of credit risk, as defined by the Governmental Accounting Standards Board. The Lottery's policy to manage credit risk requires municipal bonds to have a minimum double A credit rating by Fitch, Moody's, or Standard and Poor's to be eligible for purchase as part of the Lottery's investment portfolio. Agency bonds have a triple A credit rating and the Surplus Money Investment Fund is not rated at June 30, 2020. Credit risk is further mitigated by a \$2.7 million par value agency bond reserve. The bond reserve has a fair value of \$2,584,383 as of June 30, 2020.

As of June 30, 2020, the fair value of the Lottery's investment portfolio expressed as a percentage of Moody's credit rating categories was as follows:

Moody's Credit Rating	Fair Value	Percent of Total Portfolio
Aaa	\$ 722,546,812	79.64 %
Aa1	121,428,265	13.38 %
Aa3	15,601,075	1.72 %
A1	29,382,300	3.24 %
Baa3	15,028,369	1.66 %
Ba1	3,300,119	0.36 %
Totals	<u>\$ 907,286,940</u>	<u>100.00 %</u>

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

Issuer	Cost	Fair Value	Percent of Total Portfolio	Moody's Credit Rating
Commonwealth of Massachusetts	\$ 62,546,830	\$ 75,436,320	8.32%	Aa1

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

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

**Custodial Credit Risk – Investments**

The Lottery does not have a formal investment policy for custodial credit risk for investments. As of June 30, 2020, all the prize investments are uninsured, registered investments held in book-entry form by the State Treasurer's Office in a master custody account with Citibank, N.A.

**Deposits**

The following deposits, included in cash and cash equivalents, are in pools managed by other State of California government units and are not evidenced by securities. Interest income earned on outstanding cash balances is allocated among pool participants based on average daily cash balances. As of June 30, 2020, the carrying value of deposits in the Surplus Money Investment Fund approximated fair value.

State Treasury	\$ 7,505,891
Surplus Money Investment Fund (SMIF)	<u>401,330,000</u>
	<u><u>\$ 408,835,891</u></u>

At June 30, 2020, the total cash and cash equivalents of \$408,923,154 includes \$87,263 cash on hand. This is made up primarily of retailer payments delivered to the Lottery but not deposited into Lottery accounts by period end.

The SMIF consists of available cash of all special funds of the State of California which do not have investment authority of their own. Cash balances in excess of needs in any of these participating funds are invested by the State Treasurer. The Pooled Money Investment Board (PMIB) provides regulatory oversight over the State Treasurer's pooled investment program and is responsible for determining whether any cash balances of the participating funds are in excess of current needs and available for investment, or whether it is necessary to liquidate previous investments to meet current requirements. The PMIB is composed of the State Treasurer, as chairman; the State Controller; and the Director of Finance for the State of California.

All of the resources of the SMIF are invested through the Pooled Money Investment Account (PMIA). By law, PMIA monies can be invested only in the following categories: U.S. Government securities; securities of federally-sponsored agencies; debentures; domestic corporate bonds; interest-bearing time deposits in California banks, savings and loan associations, and credit unions; prime-rated commercial paper; repurchase and reverse repurchase agreements; security loans; banker's acceptances; negotiable certificates of deposit; and loans to various bond funds.

At June 30, 2020, the allocation of the deposits held by the Lottery in the SMIF was estimated as follows:

	<u>Lottery's Share of SMIF</u>
U.S. Treasury Securities	\$ 210,237,406
Federal Agency Debt	80,210,235
Supranational Debentures	3,238,406
Bank Notes	397,440
Certificates of Deposit	52,464,672
Commercial Paper	30,678,748
Time Deposits	21,815,444
AB 55 and General Fund Loans	<u>2,287,649</u>
Total	<u><u>\$ 401,330,000</u></u>

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

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

**Deposits (continued)**

The value of the deposits in the State Treasurer's pooled investment program, including the SMIF, is equal to the dollars deposited in the program. The fair value of the position in the program may be greater or less than the value of the deposits, with the difference representing the unrealized gain or loss. As of June 30, 2020, this difference was immaterial to the valuation of the deposits held by the Lottery in the SMIF.

The Lottery's share in the interest earnings of the PMIA is based on its ratio of dollar-day contributions to the total dollar-day investments of the PMIA. The overall return on investment for the PMIA was 1.9 percent for the year ended June 30, 2020.

**3. ACCOUNTS RECEIVABLE**

Accounts receivable consist of the following at June 30, 2020:

Amounts due, primarily from retailers	\$ 562,397,302
Less: Allowance for free ticket redemption	(37,576,451)
Allowance for doubtful accounts	(5,679,664)
Allowance for ticket returns	(14,870,599)
Accounts receivable, net	<u>\$ 504,270,588</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, 2020**

**5. CAPITAL ASSETS**

Capital assets consist of the following at June 30, 2020:

	Beginning Balance	Increase	Decrease	Ending Balance
Non-depreciable capital assets:				
Land	\$ 18,798,281	\$ —	\$ —	\$ 18,798,281
Depreciable capital assets:				
Gaming equipment	60,368,715	—	—	60,368,715
Vending machines	80,870,482	—	(15,822,790)	65,047,692
Buildings	141,315,605	17,932,330	—	159,247,935
Data processing equipment	17,189,486	3,392,365	(1,345,724)	19,236,127
Office furniture and equipment	8,812,228	29,578	(84,895)	8,756,911
Leasehold improvements	620,651	—	(452,151)	168,500
Vehicles	10,558,811	2,658,315	(407,465)	12,809,661
Other	1,431,735	19,705	(17,069)	1,434,371
	<u>\$ 339,965,994</u>	<u>\$ 24,032,293</u>	<u>\$ (18,130,094)</u>	<u>\$ 345,868,193</u>
Less accumulated depreciation and amortization:				
Gaming equipment	\$ (39,021,292)	\$ (6,527,005)	\$ —	\$ (45,548,297)
Vending machines	(44,426,889)	(6,080,049)	15,786,347	(34,720,591)
Buildings	(16,962,239)	(3,566,066)	—	(20,528,305)
Data processing equipment	(13,541,913)	(613,850)	1,345,724	(12,810,039)
Office furniture and equipment	(8,086,850)	(219,238)	84,895	(8,221,193)
Leasehold improvements	(620,651)	—	452,151	(168,500)
Vehicles	(7,185,824)	(1,345,313)	387,981	(8,143,156)
Other	(1,148,516)	(77,014)	17,069	(1,208,461)
	<u>\$ (130,994,174)</u>	<u>\$ (18,428,535)</u>	<u>\$ 18,074,167</u>	<u>\$ (131,348,542)</u>
Capital assets, net	<u>\$ 208,971,820</u>	<u>\$ 5,603,758</u>	<u>\$ (55,927)</u>	<u>\$ 214,519,651</u>

Depreciation and amortization charged to income on capital assets was \$18,428,535 for the year ended June 30, 2020.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**6. PRIZE LIABILITY**

Prize liability consists of the following at June 30, 2020:

	Scratchers Games	Draw Games	Total
Current:			
Annuitized prizes	\$ 22,952,349	\$ 85,637,303	\$ 108,589,652
Other prizes	510,326,363	34,415,321	544,741,684
Total current prize liability	<u>\$ 533,278,712</u>	<u>\$ 120,052,624</u>	<u>\$ 653,331,336</u>
Long-term annuitized prizes	\$ 233,608,000	\$ 731,252,000	\$ 964,860,000
Less imputed interest	<u>(52,435,179)</u>	<u>(203,234,898)</u>	<u>(255,670,077)</u>
Net present value of long-term prizes	<u>\$ 181,172,821</u>	<u>\$ 528,017,102</u>	<u>\$ 709,189,923</u>
Total prize liability	<u><u>\$ 714,451,533</u></u>	<u><u>\$ 648,069,726</u></u>	<u><u>\$ 1,362,521,259</u></u>

The amount of prizes due within one year is \$653,331,336.

Long-term prize liability as of June 30, 2020, for each of the next five years and for subsequent years is as follows:

	Principal	Interest	Total
For the year ending June 30, 2022	\$ 39,808,950	\$ 34,429,635	\$ 74,238,585
2023	38,635,778	33,217,871	71,853,649
2024	36,503,055	29,465,175	65,968,230
2025	34,068,627	25,142,770	59,211,397
2026	32,171,837	21,772,201	53,944,038
2027-2031	122,931,570	52,704,544	175,636,114
2032-2036	74,675,360	12,104,845	86,780,205
2037-2041	64,157,861	8,238,693	72,396,554
2042-2046	37,897,096	4,107,608	42,004,704
2047-2049	7,041,900	114,547	7,156,447
Total long-term prize liability	<u><u>\$ 487,892,034</u></u>	<u><u>\$ 221,297,889</u></u>	<u><u>\$ 709,189,923</u></u>

Activity in the prize liability accounts consists of:

Balance, July 1, 2019	\$ 1,746,721,185
Prize expense	4,403,715,159
Prize payments	(4,837,269,281)
Grand/Jackpot Prize contributions from Other Party Lotteries	93,721,049
Interest imputed on annuities	31,029,663
Unclaimed prizes	<u>(75,396,516)</u>
Balance, June 30, 2020	<u><u>\$ 1,362,521,259</u></u>

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**7. DUE TO STATE FUNDS**

Due to state funds consists of the following at June 30, 2020:

Due to Education Fund	\$ 349,050,766
Due to other state funds	<u>2,942,210</u>
Total due to state funds	<u><u>\$ 351,992,976</u></u>

Activity in the Due to Education Fund account consists of:

Balance, July 1, 2019		\$ 441,283,049
Allocation to Education Fund, earned by the California State Lottery Fund	\$ 1,437,183,846	
Unclaimed prizes directly allocated to the Education Fund	<u>75,396,516</u>	
		\$ 1,512,580,362
Distribution to the Education Fund		<u>(1,604,812,645)</u>
Balance, June 30, 2020		<u><u>\$ 349,050,766</u></u>

**8. LEASES**

The Lottery has leased office, warehouse, and parking lot facilities under operating leases. As the Lottery has transitioned to owning its own facilities, it terminated two of the three remaining leases during fiscal year 2019-20. The final lease was scheduled to terminate on April 30, 2020, but a three-month extension was granted to extend the lease to July 31, 2020. The future minimum lease payment as of June 30, 2020, is \$14,940.

Rental expense for all operating leases totaled \$221,865 for the year ended June 30, 2020.

**9. INVESTMENT EARNINGS**

Investment earnings consist of:

Interest on funds held by State Treasurer	\$ 11,833,269
Change in fair value of investments	72,256,522
Interest accreted/earned on investments	<u>29,031,594</u>
Total investment gain	<u><u>\$ 113,121,385</u></u>

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**10. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS**

**Pension Plan Description, Benefits Provided, and Employees Covered**

The Lottery contributes to agent multiple-employer public employee defined benefit pension plans in the Public Employees' Retirement Fund (PERF) administered by CalPERS. The plans operate as cost-sharing defined benefit plans for the Lottery. The State of California (State) is considered the employer and the Lottery is a department of the State. The Lottery has employees who are enrolled in either the State Miscellaneous Plan (First Tier and Second Tier) or the State Peace Officers/Firefighters Plan. CalPERS provides retirement benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State and uses the accrual basis of accounting. Benefit provisions and all other requirements are established by state statute. All state agencies are considered collectively to be a single employer, and the net pension liability attributable to the Lottery's employees is determined as the Lottery's percentage of the State as a single employer. Similarly, the assets available for benefits of Lottery employees is determined as the Lottery's percentage of the State. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. CalPERS' annual financial report may be obtained by visiting the CalPERS website at [www.CalPERS.ca.gov](http://www.CalPERS.ca.gov).

Generally, full-time employees are eligible to participate as members of CalPERS and are eligible to retire at age 50 with at least five years of service (or age 55 with at least ten years of service for second tier members). Employees hired after January 1, 2013, must be at least age 52 to retire. Annual retirement benefits are determined based on age at retirement, the length of membership service, and the amount of earnings based on the highest or last 12 or 36 consecutive months' average. Health care and dental benefits may be provided to members depending on the date hired and the years of credited service of a member. If members are not fully vested, the health care and dental contributions are prorated based on the years of service.

For this current year report, the following timeframes are used:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Measurement Period (MP)	July 1, 2018 to June 30, 2019

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

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

**Pension Plan Contributions**

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the MP ended June 30, 2019, the average active employee contribution rate for the Miscellaneous Plan is 6.901 percent of annual pay, and the employer's contribution rate is 29.370 percent of annual payroll; for the Peace Officers/Firefighters Plan, the average active employee contribution rate is 11.456 percent of annual pay, and the employer's contribution rate is 45.371 percent of annual payroll. These rates reflect PERL Section 20683.2, which mandates that certain employees contribute more as of July 1, 2013. Furthermore, any reduction in employer contributions due to the increase in the employee contributions must be paid by the employer towards the unfunded liability. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any employer-paid member contributions or situations where members are paying a portion of the employer contribution.

**Pension Plan Discount Rate**

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Pension Liabilities, Pension Expense, and Deferred Outflows and Deferred Inflows of Resources Related to Pensions**

At June 30, 2020, the Lottery reported a liability of \$138.6 million for its proportionate share of the State's net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The SCO determined the Lottery's proportionate share based on the Lottery's share of pensionable compensation to the State's total pensionable compensation amounts for each plan in which the Lottery participates, to provide the Lottery's net pension liability and related GASB 68 accounting elements. At June 30, 2019, the Lottery's proportion was 0.381 percent for the State Miscellaneous Plan and 0.07 percent for the State Peace Officers/Firefighters Plan. These proportions represent an increase of 0.012 percentage points for the State Miscellaneous Plan and a decrease of .002 percentage points for the State Peace Officers/Firefighters Plan from the proportions measured as of June 30, 2018.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

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

**Pension Liabilities, Pension Expense, and Deferred Outflows and Deferred Inflows of Resources Related to Pensions (continued)**

After adjusting for the difference in proportionate share, the Lottery's net pension liability for the Miscellaneous Plan increased \$8.5 million during the MP to \$128.3 million, and the Lottery's net pension liability for the Peace Officers/Firefighters Plan increased \$0.6 million during the MP to \$10.3 million. As of June 30, 2020, the Lottery recognized a total net pension liability of \$138.6 million.

For the MP ended June 30, 2019, the Lottery recognized pension expense of \$25.3 million. As of the measurement date of June 30, 2019, the Lottery had deferred outflows and deferred inflows of resources related to pensions as follows:

Deferred outflows of resources:	Miscellaneous Plan	Peace Officers/ Firefighters Plan	Total
	_____	_____	_____
Pension contributions made subsequent to the measurement date	\$ 16,133,656	\$ 1,517,356	\$ 17,651,012
Change in proportionate share	5,418,874	—	5,418,874
Change of Assumption	5,406,389	769,235	6,175,624
Difference between expected and actual experience	6,734,834	525,423	7,260,257
Total	<u>\$ 33,693,753</u>	<u>\$ 2,812,014</u>	<u>\$ 36,505,767</u>
Deferred inflows of resources:	Miscellaneous Plan	Peace Officers/ Firefighters Plan	Total
	_____	_____	_____
Change in proportionate share	\$ (1,207,967)	\$ —	\$ (1,207,967)
Change of Assumption	(2,692,252)	(10,498)	(2,702,750)
Difference between expected and actual experience	(369,205)	(84,488)	(453,693)
Net Difference between projected and actual earnings on pension plan investments	(955,736)	(77,515)	(1,033,251)
Total	<u>\$ (5,225,160)</u>	<u>\$ (172,501)</u>	<u>\$ (5,397,661)</u>

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

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

**Pension Liabilities, Pension Expense, and Deferred Outflows and Deferred Inflows of Resources Related to Pensions (continued)**

Exclusive of deferred outflows related to payments after the measurement date, which will be recognized as a reduction of the net pension liability in the measurement period ended June 30, 2020, the net amount of deferred outflows (inflows) of resources related to pensions that will be recognized in pension expense during the next five years and thereafter is as follows:

Measurement Period Ended June 30	Miscellaneous Plan	Peace Officers/ Firefighters Plan	Total
2020	\$ 8,426,598	\$ 547,949	\$ 8,974,547
2021	947,135	278,162	1,225,297
2022	2,392,426	176,096	2,568,522
2023	568,778	119,950	688,728
2024	—	—	—
Total	<u>\$ 12,334,937</u>	<u>\$ 1,122,157</u>	<u>\$ 13,457,094</u>

Since the Lottery has a June 30 fiscal year-end, the fiscal year will be one year later than the measurement period. For example, the amount listed for the 2020 measurement period presented above will be expensed in fiscal year 2020-21.

**Actuarial Methods and Assumptions Used to Determine Total Pension Liability**

For the MP ended June 30, 2019, the total pension liability was determined by rolling forward the June 30, 2018, total pension liability, based on the following actuarial methods and assumptions:

Actuarial Cost Method:	Entry Age Normal in accordance with the requirements of GASB Statement No. 68.
Discount Rate:	7.15%
Inflation:	2.5%
Salary Increases:	Varies by entry age and service.
Mortality Rate Table:	Derived using CalPERS' membership data for all funds.
Post Retirement Benefit Increase:	The lesser of contract cost of living adjustment or 2.5% until purchasing power protection allowance floor on purchasing power applies, 2.5% thereafter.

The mortality table used was developed based on CalPERS-specific data. The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and post-retirement mortality rates include 15 years of mortality improvements using 90 percent of Scale MP-2016 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from December 2017 that can be found on the CalPERS website.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

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

**Long-term Expected Rate of Return**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS' staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The table below reflects the expected real rate of return by asset class. An expected inflation rate of 2 percent was used for real return years 1-10. For real return years 11+, an inflation rate of 2.92 percent was used.

Asset Class	Assumed Asset Allocation	Real Return Years 1-10	Real Return Years 11+
Global equity	50.00 %	4.80 %	5.98 %
Fixed income	28.00 %	1.00 %	2.62 %
Inflation assets	—	0.77 %	1.81 %
Private equity	8.00 %	6.30 %	7.23 %
Real assets	13.00 %	3.75 %	4.93 %
Liquidity	1.00 %	—	(0.92)%
Total	100.00 %		

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of the California Lottery Fund as of the MP ended June 30, 2019, calculated using the discount rate of 7.15 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

	Discount Rate -1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)
Miscellaneous Plan	\$ 182,872,217	\$ 128,341,272	\$ 82,661,961
Peace Officers/Firefighters Plan	\$ 15,133,309	\$ 10,277,648	\$ 6,296,404
Total	<u>\$ 198,005,526</u>	<u>\$ 138,618,920</u>	<u>\$ 88,958,365</u>

**Pension Plan Fiduciary Net Position**

Each plan's fiduciary net position disclosed in the accounting valuation report provided by CalPERS may differ from the plan's assets reported in the funding actuarial valuation report due to several reasons; the accounting valuation report must keep items such as deficiency reserves and fiduciary self-insurance included as assets. These amounts are excluded for rate setting purposes in the funding actuarial valuation report.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

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

**OPEB Plan Description, Benefits Provided and Employees Covered**

Other postemployment benefits are provided to Lottery employees through the State's agent multiple-employer defined benefit plan, which operates as a cost-sharing defined benefit plan for the Lottery. The State participates in the CalPERS Health Program governed by the Public Employees' Medical & Hospital Care Act and the State Employees' Dental Care Act. The program covers state employees by law. Plan assets are held in the California Employees Retiree Benefit Trust (CERBT) and the State has adopted an investment strategy expected to return approximately 6.75 percent per year over the long term.

Retiree healthcare benefits include medical, prescription drug, and dental benefits. The state pays a portion of retired Lottery employee health benefits based on the employee's bargaining unit (BU), date hired, and years of service. As of the measurement date of June 30, 2019, the Lottery had 757 active employees in 9 different bargaining units, 528 inactive (retired) employees receiving benefits, and no inactive employees entitled to but not yet receiving benefits. On average, approximately 95 percent of all eligible retirees elect healthcare coverage under the plan.

Valuation Date / Measurement Date	June 30, 2019
Measurement Period	July 1, 2018 to June 30, 2019

**OPEB Contributions**

The State and employees in all bargaining units have agreed to pre-fund retiree healthcare benefits. The State and all active members make contributions into separate accounts for each respective bargaining unit. Contributions are based on a percentage of pensionable compensation with the ultimate goal of contributing 100 percent of the actuarially determined normal cost shared equally between the State and employees. Pre-funding contributions and investment income are not available to pay plan benefits until 2046 or the year that actuarial accrued liabilities are fully funded, whichever comes first. Pre-funding agreements are subject to collective bargaining and legislative approval.

The State also makes pay-as-you-go contributions for benefits paid to current retirees and the portion of benefits paid to future retirees that are not pre-funded. Employer contributions for health premiums during the 2019-20 fiscal year maintained the 100/90 percent contribution formula established by Government Code. Under this formula, the State uses 100 percent of the weighted average premiums of the four largest health benefit plans in order to calculate the maximum amount the State will contribute toward the retiree's health benefits. The State also contributes 90 percent of this average for the health benefits of each retiree's dependents. The retiree is responsible for paying all health benefit plan costs that exceed the average of the four largest benefit plans. The 2019 maximum monthly state contributions are \$734 for a single enrollee, \$1,398 for an enrollee with one dependent, and \$1,788 for an enrollee with two or more dependents. Dental care premiums vary by plan and number of dependents. The contribution formulas are subject to approval and amendment by the State Legislature. Employees in most bargaining units have agreed to changes in benefits for employees hired after certain effective dates. If members are not fully vested, the healthcare and dental contributions are prorated based on the years of service.

For the fiscal year ended June 30, 2020, the Lottery paid approximately \$6.1 million for retiree health and dental benefits, as allocated to the Lottery as part of the State's prorata cost recovery program. The Lottery also paid a pre-funding contribution of \$1.3 million.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

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

**OPEB Discount Rate**

The State Controller's Office (SCO) commissioned the Actuarial Valuation Report of the State of California Retiree Health Benefits Program as of June 30, 2019. For purposes of developing the full-funding normal cost, actuarial liability and actuarially-determined contribution, a discount rate of 6.75 percent was used. The discount rate used to develop Total OPEB Liability and Service Cost was based on a blended rate for each respective actuarial valuation group comprised of 3.13 percent if pre-funding assets are not available to pay benefits and 6.75 percent if pre-funding assets are available to pay benefits.

The long-term expected rate of return on OPEB plan investments was determined by using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. Expected compound (geometric) returns were calculated over a closed period. Based on separate expected nominal returns for the short-term (first 10 years) and the long-term (11+ years), a single expected return rate of 6.75 percent was calculated for the short-term and long-term periods. If applied to expected cash flows during that period, the resulting present value of benefits is expected to be consistent with the present value of benefits that would be determined by applying the short and long-term expected rates to the same cash flows.

The table below reflects long-term expected real rate of return by asset class. An expected inflation rate of 1.75 percent was used for real return years 1-10. For real return years 11+, an inflation rate of 2.67 percent was used.

Asset Class	Target Asset Allocation	Real Return Years 1-10	Real Return Years 11+
Global equity	59.00 %	4.80 %	5.98 %
Fixed income	25.00 %	1.10 %	2.62 %
Treasury inflation-protected securities	5.00 %	0.25 %	1.46 %
Real estate investment trusts	8.00 %	3.50 %	5.00 %
Commodities	3.00 %	1.50 %	2.87 %
Total	<u>100.00 %</u>		

**OPEB Liabilities, OPEB Expense, and Deferred Outflows and Deferred Inflows of Resources Related to OPEB**

The SCO calculated the Lottery's proportionate share of the State's net OPEB liability and other GASB 75 accounting elements for the measurement period July 1, 2018, through June 30, 2019. As in the prior fiscal year, the calculation was based on the Lottery's total combined OPEB pre-funding and pay-as-you-go contribution amounts during the measurement period as a ratio of the State's total combined OPEB pre-funding and pay-as-you-go contribution amounts during the same period, for each bargaining unit in which the Lottery has employees. Effective as of July 1, 2018, the actuarial costs for members in the Service Employee International Union bargaining units are based on one combined actuarial valuation group.

At the start of the measurement period, July 1, 2018, the Lottery's net OPEB liability was \$231.9 million. The change in allocation basis and proportionate share from prior year resulted in a decrease of \$6.7 million. During the measurement period, the Lottery's net OPEB liability increased \$14.6 million, resulting in a net OPEB liability of \$239.8 million as of June 30, 2019.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

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

**OPEB Liabilities, OPEB Expense, and Deferred Outflows and Deferred Inflows of Resources Related to OPEB (continued)**

The Lottery's net OPEB liability as a percentage of the State's net OPEB liability was 0.26 percent for the MP ending June 30, 2019 and 0.27 percent for the MP ending June 30, 2018.

For the measurement period ended June 30, 2019, the Lottery had an OPEB expense of \$9.3 million.

As of June 30, 2019, the Lottery had deferred outflows and deferred inflows of resources related to OPEB as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions made subsequent to the measurement date	\$ 8,207,000	\$ —
Change in proportionate share	23,605,000	(6,723,000)
Difference between expected and actual experience	754,000	(17,900,000)
Change of assumptions	7,803,000	(20,145,000)
Net difference between projected and actual earnings on investments	—	(19,000)
Total	\$ 40,369,000	\$ (44,787,000)

Exclusive of deferred outflows related to payments after the measurement date, the net amount of deferred outflows (inflows) of resources related to OPEB will be recognized in OPEB expense as follows:

Measurement Period Ended June 30	
2020	\$ (3,531,000)
2021	(3,900,000)
2022	(3,792,000)
2023	(2,631,000)
2024	368,000
2025	927,000
2026	(66,000)
Total	\$ (12,625,000)

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

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

**Actuarial Methods and Assumptions Used to Determine Total OPEB Liability**

For the measurement period ended June 30, 2019, the total OPEB liability was based on the following actuarial methods and assumptions:

Actuarial Cost Method:	Entry Age Normal in accordance with the requirements of GASB Statement No. 75.
Inflation:	2.25%
Salary Increases:	Varies by entry age and service.
Investment Rate of Return:	6.75%, net of OPEB plan investment expenses but without reduction for OPEB plan administrative expenses.
Healthcare Cost Trend Rates:	Pre-Medicare: Actual rates for 2020, increasing to 7.50% in 2021, then decreasing 0.50% per year to an ultimate rate of 4.50% for 2027 through 2036, then to 4.25% for 2037 and later years. Post-Medicare: Actual rates for 2020, increasing to 7.50% in 2021, then decreasing 0.50% per year to an ultimate rate of 4.50% for 2027 through 2036, then to 4.25% for 2037 and later years. Dental: 0.01% in 2020 and 4.50% for 2021 through 2036, then 4.25% thereafter.
Discount Rate:	Blended rate for each valuation group, consisting of 6.75% when assets are available to pay benefits, otherwise the 20-year Municipal G.O. Bond AA Index rate of 3.13%.
Participation Rate:	On average, approximately 95% of all eligible retirees elect healthcare coverage.
Mortality Rate Table	Derived using CalPERS' membership data for all members.

The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using 90 percent of Scale MP 2016 published by the Society of Actuaries. For more details on this table, refer to the 2017 CalPERS Experience Study for the period from 1997 to 2015. Other demographic assumptions used in the June 30, 2019, valuation were also based on the results of the Experience Study, including updates to termination, disability, and retirement rates. The Experience Study report is available at [www.CalPERS.ca.gov](http://www.CalPERS.ca.gov).

Healthcare related assumptions such as plan participation, aging factors, adjustments for disabled members, and adjustments for children of current retirees and survivors, are based on the 2018 GRS Experience Review for the period from 2014 to 2018, commissioned by the SCO. Other healthcare assumptions such as member healthcare plan selection, coverage and continuance, select and ultimate healthcare cost trend rates, and per capita claim costs and expenses, are based on the most current information available. The GRS 2018 Experience Review, is available at [sco.ca.gov](http://sco.ca.gov).

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

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

**Sensitivity of the Net OPEB Liability to Changes in the Discount Rate**

The following presents the net OPEB liability of the California Lottery Fund as of the measurement period ended June 30, 2019, calculated using the blended discount rates for each bargaining unit, as well as what the net OPEB liability would be if it were calculated using a rate the is one percentage point lower and one percentage point higher than the current rate.

	Blended Discount Rate -1%	Current Blended Discount Rate	Blended Discount Rate +1%
Net OPEB Liability	\$ 282,529,000	\$ 239,754,000	\$ 205,626,000

**Sensitivity of the Net OPEB Liability to Changes in the Healthcare Trend Rate**

One of the key assumptions influencing OPEB costs is the assumed growth or trend in healthcare costs. The healthcare trend assumption for OPEB actuarial valuations spans over the lifetime of a covered retiree. Actuaries generally compare the growth in general inflation, wages, healthcare costs and other goods and services when setting the healthcare trend assumption.

The following presents the net OPEB liability of the California Lottery Fund as of the measurement period ended June 30, 2019, calculated using the ultimate healthcare trend rate of 4.25 percent, as well as what the net OPEB liability would be if it were calculated using a rate the is one percentage point lower (3.25 percent) and one percentage point higher (5.25 percent) higher than the ultimate rate.

	Trend Rate -1% (3.25%)	Ultimate Trend Rate (4.25%)	Trend Rate +1% (5.25%)
Net OPEB Liability	\$ 203,220,000	\$ 239,754,000	\$ 286,595,000

**OPEB Plan Fiduciary Net Position**

The fiduciary net position is the market value of the assets of the trust dedicated to the defined benefit provisions. As of the valuation report dated June 30, 2019, the net fiduciary position of the State's OPEB plans is approximately \$1.58 billion. The Lottery's proportionate fiduciary net position for the bargaining units in which it has employees is approximately \$1.7 million.

The actuarial valuation report for OPEB may be obtained by writing to the Office of State Controller Betty T. Yee, P.O. Box 942850, Sacramento, CA 94250, or by visiting the State Controller's web site at [sco.ca.gov](http://sco.ca.gov).

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**11. COMMITMENTS AND CONTINGENCIES**

On September 28, 2017, the California State Lottery Commission approved a contract amendment to the existing contract with IGT Global Solutions Corporation (IGT) to provide both gaming and telecommunications systems and services. The amendment extends the contract seven years to October 31, 2026, and increases the maximum expenditure amount by \$800 million to \$2.25 billion. The amended contract, which became effective November 1, 2017, includes adjusted contract pricing, a gaming system upgrade, additional equipment, and other services and support. Under the amended contract, the Lottery pays a percentage of sales compensation of 1.0735 percent of annual sales, up to and including \$7 billion, and 1 percent of sales for the portion of annual sales exceeding \$7 billion.

As of June 30, 2020, approximately \$1.27 billion in cumulative expenses have been incurred. Additionally, \$0.31 million of prepaid equipment costs will be amortized and expensed over the period ending October 31, 2026, and approximately \$118 million of capitalized gaming equipment and vending machines has been purchased. Of this, approximately \$72.5 million has been recorded as depreciation expense.

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

**12. RISK MANAGEMENT**

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

The Lottery has purchased property insurance for its owned facilities, including its headquarters building and central utility plant, its Northern and Southern Distribution Centers, and various district offices throughout the state. Thereby, the Lottery has transferred the risk of loss due to a catastrophic event from the Lottery to the insurance carrier. The Lottery has purchased automobile insurance for its fleet of vehicles through the California Department of General Services, Office of Risk & Insurance Management.

Liabilities for workers' compensation costs are accrued based on estimates derived from the State Compensation Insurance Fund. This estimate is based on actuarial reviews of the employee workers' compensation program and includes indemnity payments, compensation benefits, and leave benefits. The liability for workers' compensation claims is not material to the financial statements taken as a whole.

**CALIFORNIA STATE LOTTERY FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**13. SUBSEQUENT EVENTS**

The Lottery has evaluated subsequent events from the statement of net position (deficit) date through June 1, 2021, the date at which financial statements were available to be issued, and except as noted below, has determined that there are no other items to disclose.

As of June 1, 2021, Lottery sales have largely returned to pre-pandemic levels. The Lottery continues implementation of its telework program and social distancing protocols to ensure the safety of Lottery staff, retailers, and players, while conducting business operations in support of its mandate to earn supplemental funds for public education. Supply chain issues with Scratchers games have been resolved, and sales across all products have increased as stay-at-home orders have eased and consumers have returned to retail locations.

**CALIFORNIA STATE LOTTERY FUND  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2020  
(Unaudited)**

**SCHEDULE 1**

Schedule of Lottery's Proportionate Share of the Net Pension Liability and Related Ratios as of June 30, 2020.

Last ten fiscal years<sup>1</sup>

<b>Miscellaneous Plan</b>	<b>2019<sup>2</sup></b>	<b>2018</b>
Lottery's proportion of the net pension liability	0.38157 %	0.36915 %
Lottery's proportionate share of the net pension liability	\$128,341,272	\$115,967,778
Lottery's proportionate share of covered payroll	\$49,272,524	\$45,237,758
Lottery's proportionate share of the net pension liability as a percentage of covered payroll	260.47 %	256.35 %
Plan fiduciary net position as a percentage of the total pension liability	71.34 %	71.83 %
<b>Peace Officers/Firefighters Plan</b>	<b>2019<sup>2</sup></b>	<b>2018</b>
Lottery's proportion of the net pension liability	0.06970 %	0.07244 %
Lottery's proportionate share of the net pension liability	\$10,277,648	\$10,074,188
Lottery's proportionate share of covered payroll	\$2,562,611	\$2,576,685
Lottery's proportionate share of the net pension liability as a percentage	401.06 %	390.97 %
Plan fiduciary net position as a percentage of the total pension liability	70.56 %	70.53 %

<sup>1</sup>The Lottery implemented GASB 68 in the fiscal year ended June 30, 2015, therefore no information is available for the measurement periods prior to June 30, 2014.

<sup>2</sup>The date in the column heading is the measurement date of the collective net pension liability, which is one year prior to the reporting period.

See accompanying independent auditors' report.

**CALIFORNIA STATE LOTTERY FUND  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2020  
(Unaudited)**

<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
0.35196 %	0.36851 %	0.33587 %	0.30341 %
\$128,590,173	\$122,027,896	\$94,857,230	\$72,238,786
\$40,797,632	\$41,236,048	\$35,739,920	\$30,401,343
315.19 %	295.93 %	265.41 %	237.62 %
66.42 %	66.81 %	70.68 %	74.17 %
<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
0.07500 %	0.07989 %	0.08278 %	0.08345 %
\$11,448,242	\$10,934,505	\$9,661,744	\$8,477,066
\$2,562,521	\$2,590,072	\$2,578,862	\$2,528,966
446.76 %	422.17 %	374.65 %	335.20 %
65.89 %	66.10 %	69.61 %	72.19 %

See accompanying independent auditors' report.

**CALIFORNIA STATE LOTTERY FUND  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2020  
(Unaudited)**

**SCHEDULE 2**

Schedule of Employer Contributions Related to Pensions as of June 30, 2020.

Last ten fiscal years<sup>1</sup>

<b>Miscellaneous Plan</b>	<b>2020</b>	<b>2019</b>
Actuarially determined contribution	\$15,446,268	\$13,857,459
Contributions in relation to the actuarially determined contributions	(16,133,656)	(14,462,081)
Contribution Excess	<u>\$(687,388)</u>	<u>\$(604,622)</u>
Lottery's covered payroll	\$52,351,260	\$49,272,524
Contributions as a percentage of covered payroll	30.82 %	29.35 %
<b>Peace Officers/Firefighters Plan</b>	<b>2020</b>	<b>2019</b>
Actuarially determined contribution	\$1,438,740	\$1,101,924
Contributions in relation to the actuarially determined contributions	(1,517,356)	(1,162,437)
Contribution Excess	<u>\$(78,616)</u>	<u>\$(60,513)</u>
Lottery's covered payroll	\$3,204,972	\$2,562,611
Contributions as a percentage of covered payroll	47.34 %	45.36 %

**Notes to Schedule of Employer Contributions**

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2019-20 were derived from the June 30, 2018, Funding Valuation Report.

Actuarial Cost Method	Entry Age Normal.
Amortization Method/Period	For details, see June 30, 2018, Funding Valuation Report.
Asset Valuation Method	Market value of assets; for details, see June 30, 2018, Funding Valuation Report.
Inflation	2.50%
Salary Increase	Varies by entry age and service.
Payroll Growth	2.75%
Investment Rate of Return	7.00% Net of pension plan investment and administrative expenses; includes inflation.
Retirement Age	The probabilities of retirement are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015.
Mortality	The probabilities of mortality are based on 15 years of mortality improvements using the Society of Actuaries Scale 90% of scale MP 2016. For more details, please refer to the 2017 CalPERS Experience Study for the period from 1997 to 2015.

<sup>1</sup>The Lottery implemented GASB 68 in the fiscal year ended June 30, 2015, therefore no information is available for the measurement periods prior to June 30, 2014.

See accompanying independent auditors' report

**CALIFORNIA STATE LOTTERY FUND  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2020  
(Unaudited)**

<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
\$12,542,790	\$10,834,123	\$10,019,407	\$8,132,027
(12,854,881)	(10,905,791)	(10,371,960)	(8,676,959)
<u>\$(312,091)</u>	<u>\$(71,668)</u>	<u>\$(352,553)</u>	<u>\$(544,932)</u>
\$45,237,758	\$40,797,632	\$41,236,048	\$35,739,920
28.42 %	26.73 %	25.15 %	24.28 %
<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
\$1,059,524	\$1,007,403	\$956,456	\$899,085
(1,140,046)	(1,074,285)	(1,009,612)	(950,819)
<u>\$(80,522)</u>	<u>\$(66,882)</u>	<u>\$(53,156)</u>	<u>\$(51,734)</u>
\$2,576,685	\$2,562,521	\$2,590,072	\$2,578,862
44.24 %	41.92 %	38.98 %	36.87 %

See accompanying independent auditors' report.

**CALIFORNIA STATE LOTTERY FUND  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2020  
(Unaudited)**

**SCHEDULE 3**

Schedule of Lottery's Proportionate Share of the Net Other Postemployment Benefits Liability and Related Ratios as of June 30, 2020.

(In thousands)

Last ten fiscal years<sup>1</sup>

	<b>2019<sup>2</sup></b>	<b>2018</b>	<b>2017</b>
Lottery's proportion of the net other postemployment benefits liability	0.26080 %	0.27087 %	0.23962 %
Lottery's proportionate share of the net other postemployment benefits liability	\$239,754	\$231,853	\$218,073
Lottery's covered payroll	\$51,835	\$47,814	\$43,360
Lottery's proportionate share of the net other postemployment benefits liability as a percentage of covered payroll	462.53 %	484.91 %	502.94 %
Plan fiduciary net position as a percentage of the total other postemployment benefits liability	1.693 %	1.011 %	0.546 %

<sup>1</sup>The Lottery implemented GASB 75 in the fiscal year ended June 30, 2018, therefore no information is available for the measurement periods prior to June 30, 2017.

<sup>2</sup>The date in the column heading is the measurement date of the net other postemployment liability, which is one year prior to the reporting period.

See accompanying independent auditors' report.

**CALIFORNIA STATE LOTTERY FUND  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2020  
(Unaudited)**

**SCHEDULE 4**

Schedule of Employer Contributions Related to Other Postemployment Benefits Year Ended June 30, 2020.

(In thousands)

Last ten fiscal years<sup>1</sup>

	2020	2019	2018
Actuarially determined contributions	\$7,082	\$6,066	\$5,533
Contributions in relation to the actuarially determined contributions	\$7,082	\$6,066	\$5,533
Contribution deficiency	—	—	—
Lottery's covered payroll	\$55,556	\$51,835	\$47,814
Contributions as a percentage of covered payroll	12.75 %	11.70 %	11.57 %

**Notes to Schedule of Employer Contributions**

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2019-20 were derived from the June 30, 2018, Funding Valuation Report.

Actuarial Cost Method	Entry Age Normal and the blended discount rates as required by GASB Statement No. 75. The Normal Cost and Actuarial Accrued Liability for the purpose of calculating the Actuarially Determined Contribution were developed using the Entry Age Normal Actuarial Cost Method and a full-funding discount rate of 7 percent.
Inflation	2.50%
Payroll Growth	2.75%
Retirement Age	The probabilities of retirement are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015.
Mortality	The mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board. For purposes of the mortality rates, the revised rates include 15 years of projected ongoing mortality improvement using 90 percent of Scale MP 2016 published by the Society of Actuaries.

<sup>1</sup>The Lottery implemented GASB 75 in the fiscal year ended June 30, 2018, therefore no information is available for the measurement periods prior to June 30, 2017.

See accompanying independent auditors' report.