

Report No. 2008-01

January 4, 2008



Charles A. Hibner, Director, Audits Division

Bill Bradbury, Secretary of State

Secretary of State Audit Report

Enterprise Fund of the
State of Oregon

Oregon State Lottery

For the Fiscal Year Ended June 30, 2007

Office of the Secretary of State

Bill Bradbury
Secretary of State

Jean Straight
Deputy Secretary of State



Audits Division

Charles A. Hibner, CPA
Director

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The Honorable Ted Kulongoski
Governor of Oregon
254 State Capitol
Salem, Oregon 97310-4047

Steven Ungar, Chair
Oregon State Lottery Commission
500 Airport Road SE
Salem, OR 97301

This report presents the results of our annual audit of the Oregon State Lottery.

As required by auditing standards, we performed the audit to obtain reasonable assurance about whether the financial statements and accompanying notes have been presented fairly by management. Our Independent Auditor's Report and the financial statements for the year ended June 30, 2007, are included in the Financial Section of this report. We concluded that the financial statements are fairly presented in accordance with accounting principles generally accepted in the United States of America.

Auditing standards also require us to review the Oregon State Lottery's internal control and compliance with applicable laws, regulations, contracts, grant agreements, and other matters. Our report on the results of those reviews is included in the Other Reports section of this report. We did not note any instances of noncompliance that are required to be reported under *Government Auditing Standards*. Our consideration of internal control was limited to the scope necessary to achieve our audit objectives and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined by generally accepted auditing standards. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined by the standards.

We appreciated the cooperation and assistance of the Oregon State Lottery management and staff during the course of our audit.

Sincerely,
OREGON AUDITS DIVISION

A handwritten signature in blue ink, appearing to read "C.A. Hibner", written over a horizontal line.

Charles A. Hibner, CPA
Director

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Oregon State Lottery (Lottery), as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Lottery's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note I, the financial statements of the Oregon State Lottery are intended to present the financial position, and the changes in financial position and cash flows that are attributable to the transactions of the Lottery. They do not purport to, and do not, present fairly the financial position of the State of Oregon as of June 30, 2007, the changes in its financial position or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Oregon State Lottery as of June 30, 2007, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2007, on our consideration of Oregon State Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. That report is presented separately in the Other Reports section as listed in the table of contents.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Oregon State Lottery's basic financial statements. The Budgetary Basis Income Statement, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

OREGON AUDITS DIVISION

A handwritten signature in black ink, appearing to read "Bill Bradbury". The signature is written in a cursive style with a long, sweeping tail on the final letter.

Bill Bradbury
Secretary of State

December 21, 2007

STATE OF OREGON
OREGON STATE LOTTERY
BALANCE SHEET
JUNE 30, 2007

Assets

Current Assets:

Cash and Cash Equivalents	\$300,545,334
Investments for Prize Payments at Fair Value	14,061,034
Securities Lending Cash Collateral	144,208,806
Accounts Receivable – Net of Allowance for Doubtful Accounts of \$361,735	24,894,674
Ticket Inventory	2,318,131
Prepaid Expenses	1,336,079
Total Current Assets	487,364,058

Non-Current Assets:

Cash and Cash Equivalents – Restricted by Multi-State Lottery	2,395,153
Investments for Prize Payments at Fair Value	97,514,639
Capital Assets:	
Equipment	127,932,896
Vehicles	3,634,252
Building and Improvements	11,489,404
Leasehold Improvements	71,436
Computer Software	7,483,605
Less Accumulated Depreciation and Amortization	(53,935,753)
Total Non-Current Assets	196,585,632

Total Assets	\$683,949,690
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Liabilities and Net Assets

Current Liabilities:

Accounts Payable	\$ 13,778,484
Compensated Absences	1,441,274
Deposit Liability	142,011
Prize Liability	39,587,555
Obligations Under Securities Lending	144,208,806
Due to Economic Development Fund	206,861,118
Total Current Liabilities	406,019,248

Non-Current Liabilities:

Compensated Absences	709,881
Deferred Prize Liability	97,514,639
Total Non-Current Liabilities	98,224,520
Total Liabilities	\$504,243,768

Net Assets:

Invested in Capital Assets	\$ 96,675,840
Unrestricted Net Assets	83,030,082
Total Net Assets	179,705,922
Total Liabilities and Net Assets	\$683,949,690

The accompanying notes are an integral part of the financial statements.

STATE OF OREGON
OREGON STATE LOTTERY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Operating Revenues	
Scratch-Its SM Instant Tickets (Net of Returns)	\$ 127,636,964
Breakopen Instant Tickets	1,173,585
On-Line – Megabucks SM	40,164,337
On-Line – Powerball [®] (MUSL)	48,658,403
On-Line – Sports Action SM	14,009,541
On-Line – Keno	113,198,024
On-Line – Pick 4 SM	1,404,990
On-Line – Win For Life SM	5,566,158
On-Line – Scoreboard SM	512,206
On-Line – Lucky Lines SM	2,298,480
Video Lottery SM (Net Receipts)	853,505,565
Provision for Bad Debts	(56,434)
Total Operating Revenues	\$1,208,071,819
Operating Expenses	
Prizes	240,076,739
Retailer Commissions	239,320,032
Game Vendor Charges	10,009,601
Tickets	4,165,283
Advertising	10,146,584
Public Information	5,128,899
Sales Support	1,320,416
Salaries and Wages	30,319,265
Research	605,747
Services and Supplies	10,860,537
Depreciation and Impairment	19,797,789
Total Operating Expenses	571,750,892
Operating Income	\$ 636,320,927
Nonoperating Revenues (Expenses)	
Interest	\$ 12,525,529
Investment Income/(Loss)	11,866,869
Other Income	1,101,278
Investment Expenses – Securities Lending	(5,352,243)
Total Nonoperating Revenues (Expenses)	\$ 20,141,433
Income Before Transfers	\$ 656,462,360
Transfers To the Economic Development Fund	644,030,352
Change in Net Assets	12,432,008
Net Assets – July 1, 2006	167,273,914
Net Assets – June 30, 2007	\$ 179,705,922

The accompanying notes are an integral part of the financial statements.

STATE OF OREGON
OREGON STATE LOTTERY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Cash Flows from Operating Activities:	
Receipts from Customers	\$1,201,934,925
Payments to Employees for Services	(29,995,759)
Payments to Suppliers	(275,204,865)
Payments to Prize Winners	(226,324,503)
Net Cash Provided (Used) in Operating Activities	<u>670,409,798</u>
Cash Flows from Noncapital Financing Activities:	
Transfers to Economic Development Fund	(604,036,155)
Other Income	(38,955)
Net Cash Provided (Used) in Noncapital Financing Activities	<u>(604,075,110)</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Capital Assets	(46,244,064)
Proceeds from Disposition of Capital Assets	629,062
Net Cash Provided (Used) in Capital and Related Financing Activities	<u>(45,615,002)</u>
Cash Flows from Investing Activities:	
Purchases of Investments	(3,657,699)
Proceeds from Sales and Maturities of Investments	14,076,375
Interest on Investments and Cash Balances	17,877,772
Interest Expense from Securities Lending	(5,352,243)
Net Cash Provided (Used) in Investing Activities	<u>22,944,205</u>
Net Increase (Decrease) in Cash and Cash Equivalents	43,663,891
Cash and Cash Equivalents – Beginning	259,276,596
Cash and Cash Equivalents – Ending	<u>\$ 302,940,487</u>
Reconciliation of Operating Income To Net Cash Provided (Used) By Operating Activities:	
Operating Income (Loss)	\$ 636,320,927
Adjustments To Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities	
Depreciation and Impairment	\$ 19,797,789
Net Changes in Assets and Liabilities:	
(Increase) / Decrease in Accounts Receivable	(6,136,894)
(Increase) / Decrease in Ticket Inventory	345,057
(Increase) / Decrease in Prepaid Expenses	(41,872)
Increase / (Decrease) in Accounts Payable	6,450,469
Increase / (Decrease) in Compensated Absences Liability	323,506
Increase / (Decrease) in Deposit Liability	(63,155)
Increase / (Decrease) in Prize Liability	13,413,971
Total Adjustments	<u>34,088,871</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 670,409,798</u>
Noncash Investing, Capital and Related Financing Activities	
Net Change in Fair Value of Investments	\$ 6,514,626
Total Noncash Investing and Capital and Related Financing Activities	<u>\$ 6,514,626</u>

The accompanying notes are an integral part of the financial statements.

STATE OF OREGON
OREGON STATE LOTTERY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

The accompanying financial statements of the Oregon State Lottery have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB), and the American Institute of Certified Public Accountants (AICPA).

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Oregon State Lottery Commission (Commission) was created as an agency of the State of Oregon by enactment of Article XV, Section 4 (3), of the Oregon Constitution, an initiative measure approved by the voters of the State of Oregon at the November 1984 general election. The Commission established the Oregon State Lottery (Lottery). The Lottery commenced operations in January 1985. The Lottery is part of the State of Oregon reporting entity.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Lottery uses an enterprise fund, the Oregon State Lottery Fund, with a self-balancing set of accounts to record its assets, liabilities, net assets, revenues, and expenses. Enterprise fund operations are accounted for in a manner similar to private business enterprises where the costs of providing goods and services to the general public, on a continuing basis, are intended to be financed or recovered primarily through user charges.

In accordance with GASB Statement No. 20, the Oregon State Lottery does not apply FASB pronouncements issued after November 30, 1989, unless GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

Lottery financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenues and expenses are categorized as operating, or non-operating. Operating revenues and expenses are those that are the result of selling Lottery games to the public.

Oregon State Lottery
Notes to the Financial Statements (continued)
June 30, 2007

1. Sales Revenue Recognition

Revenues for on-line games (MegabucksSM, Powerball[®], Keno, Win for LifeSM, Sports ActionSM, ScoreboardSM, Pick 4SM, and Lucky LinesSM) are recognized when shares are sold to the public.

Revenues for Breakopen instant tickets are recognized when tickets are delivered to retailers.

Revenues for instant scratch ticket games are recognized when retailers activate ticket packs for sale to the public.

Revenues for Video LotterySM games are recognized when sales to the public occur, and are reported net of prizes awarded. Refer to Note III(F) for more information on revenue and prize expense.

All revenues are reported net of free plays and discounts. Discounts and free plays totaled \$1,035,814 in fiscal year 2007. Not included in this amount are Lottery products distributed through various promotional activities. The sales value of these products is \$132,050. The cost is included in Ticket Expense and any prizes (actual or estimated) are recorded in Prize Expense.

2. Prize Expense Recognition

Instant ticket prize expense is recognized when ticket packs are activated and is based on the design of the game. Game designs include certain guaranteed prizes in each pack of tickets and prizes placed randomly throughout the population of tickets. When validations for the game have ended, differences between estimated and actual prizes awarded for the randomly placed tickets will be reflected in prize expense and prize liability. Guaranteed prizes not claimed by winners are paid to the Economic Development Fund.

Prize expense for on-line games is recognized as drawings are held, based on the shares sold and the estimated or known cost of the prize payments. Prize expense is adjusted as prizes are claimed and the actual cost of the prize is known. Expense for prizes with long-term payments is recognized at the purchase cost of investments needed to fund the future prize payments. Any increase in the fair value of the investments is recognized as revenue and prize expense in the fiscal year it is earned.

Video prize expense is recognized as game play completes and prizes are known. Detailed information is in Note III(F).

3. Assets

Assets and liabilities are classified on the Balance Sheet as current and non-current. Current assets are available, or will become available, within the next

Oregon State Lottery
Notes to the Financial Statements (continued)
June 30, 2007

fiscal year to pay operating expenses and liabilities of the Lottery. Current liabilities are due in the next fiscal year. Non-current assets are not easily liquidated or are restricted for purposes other than payment of normal operations and liabilities. Non-current liability amounts are due in periods following the upcoming fiscal year.

a. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, test cash held by employees, cash and investments held by the State Treasurer in the Oregon Short-Term Fund and cash held by the Lottery's Fiscal Agent. Deposits are carried at cost.

b. Investments

Investments at year-end include investments held by the State Treasurer to fund long-term prize payments. Investments are reported at market or fair value.

c. Securities Lending

Securities lending amounts are reported at the fair value of the cash collateral received. The security lending liability is reported at the cash amount received as collateral.

d. Accounts Receivable

Most retailers who sell Lottery products are required to remit weekly proceeds (Sunday through Saturday), less commissions, on the following Wednesday. Corporate accounts, those with multiple establishments, are required to remit proceeds on the second Wednesday following the end of the business week.

Accounts Receivable is reported net of an allowance for those accounts estimated not to be collectible. The allowance amount reported is approximately equal to the amount of receivables over 90 days old.

e. Inventories

Ticket inventory consists primarily of Scratch-ItsSM instant tickets stored in the Lottery warehouse. A small amount of inventory is stored at retail establishments. Ticket inventory held in the warehouse is destroyed and recorded as an expense when distributions to retailers are no longer allowed. Tickets not sold at retail establishments are recorded as an expense when activations are no longer allowed. Inventories are valued at cost using the specific identification method.

Oregon State Lottery
Notes to the Financial Statements (continued)
June 30, 2007

f. Restricted Assets

Cash held by the Multi-State Lottery (MUSL) is reported as restricted. This cash is available for prize payments and operations of MUSL, and is not available for use in general Lottery operations or for payments of Lottery liabilities.

g. Capital Assets

Property and equipment are recorded at historical cost. Capitalization occurs for all items with a minimum useful life of more than one year and a cost in excess of \$5,000. The straight-line method of depreciation is used. The estimated life, of the major classes of property and equipment currently being depreciated, ranges from three to forty years.

In the fiscal year ending June 30, 2007, the estimated useful life of certain revenue producing equipment was shortened due to business decisions to replace the equipment earlier than is typical for the equipment type. The life was shortened from seven years to approximately five years.

4. Liabilities

a. Prize Liability

Prize liability is recorded when the prize expense is recognized (see Note I(B)2). Prize payments due within one year of the financial statement date are recorded as a current liability and payments due later than the upcoming year are classified as a long-term liability. Unclaimed prizes (winning shares known to be sold and not presented for payment within one year from the draw date or official end of a game) are reclassified from Prize Liability to Due to Economic Development Fund.

b. Compensated Absences

Vacation pay is vested when earned and is recorded as an expense when incurred. Employees earn annual leave of 10 to 17.34 hours per month, depending upon length of service. All Lottery employees may accumulate a maximum of 350 hours per employee.

Sick leave is earned at the rate of 8 hours per month, with no maximum limit. Sick leave may be taken only in the event of illness and is not convertible to pay upon termination. No liability is reported for accumulated sick leave.

Oregon State Lottery
Notes to the Financial Statements (continued)
June 30, 2007

Only vacation leave and some compensatory time meet the criteria to qualify for compensated absences accrual. The criteria are:

1. The employee's right to receive compensation is based on services already rendered;
2. Rights are vested and accumulate;
3. Payment of the compensation is probable; and
4. The amount can be reasonably estimated.

The compensated absences liability is calculated based upon salary rates in effect at June 30, 2007, and includes taxes and retirement costs. The total liability for the Lottery as of June 30, 2007 was \$2,151,155. It is estimated that 33 percent of this liability will be paid in years subsequent to fiscal year 2008.

5. Net Assets

All Lottery net assets are restricted to uses allowed in Article XV of the Constitution of the State of Oregon. (See Note II(B)).

II. Stewardship and Legal Compliance

A. Budgetary Compliance

The Oregon State Lottery is exempt from State of Oregon Budget Laws. Accordingly, the Commission adopts an annual financial plan based on forecasts prepared by Oregon's Department of Administrative Services, Office of Economic Analysis in conjunction with Lottery staff. This plan is adjusted quarterly as new forecasts become available. The supplementary section contains a comparison of revenues and expenses to the amended fiscal year 2007 Business Plan.

B. Use of Revenues and Net Revenues

Article XV of the Constitution of the State of Oregon requires that all Lottery revenues shall be used to pay prizes and expenses of the Lottery. Any remaining proceeds shall be used to benefit the public purposes of economic development, public education, or restoring and protecting parks, beaches, watersheds and critical fish and wildlife habitats. ORS 461.500 requires that at least 84 percent of the total annual revenues be returned to the public in the form of prizes and net revenues benefiting the public purposes of the Constitution, that at least 50 percent of the total annual revenues be returned to the public in the form of prizes, and that

Oregon State Lottery
Notes to the Financial Statements (continued)
June 30, 2007

no more than 16 percent may be allocated for the payment of administrative expense.¹ The following table shows that for fiscal year 2007 the Lottery operated within legal constraints.

	Traditional Lottery	Video LotterySM	Total	
Revenues				
Sales (Net of Provision for Bad Debt)	\$ 354,621,080	\$ 12,093,413,486	\$ 12,448,034,566	
Other Distributable Income	1,311,642	12,557,063	13,868,705	
Total Distributable Revenue	\$ 355,932,722	\$ 12,105,970,549	\$ 12,461,903,271	
Distribution of Revenues				
Revenues Returned to the Public				
Prizes to the Public	\$ 226,771,905	\$ 11,239,244,957	\$ 11,466,016,862	92.01%
Unclaimed Prizes Paid/Due to Economic Development Department	6,790,208	717,790	7,507,998	0.06%
Transfers Paid/Due to Economic Development Department	64,320,945	579,709,407	644,030,352	5.17%
Total Revenues Returned to the Public	\$ 297,883,058	\$ 11,819,672,154	\$ 12,117,555,212	97.24%
Administrative Expenses	60,111,732	271,804,319	331,916,051	2.66%
Retained for Contingency Reserve	(2,062,068)	14,494,076	12,432,008	0.10%
Total Revenue Distribution	\$ 355,932,722	\$ 12,105,970,549	\$ 12,461,903,271	100.00%

C. Unclaimed Prizes

ORS 461.500 requires all unclaimed prizes to be allocated to the benefit of public purpose. Lottery administrative rules declare a prize as unclaimed when it is known that winning shares have been sold and they have not been redeemed within one year of the end of the game, one year from the draw date, or one year from the date of issue. In fiscal year 2007, prizes in the amount of \$7,507,998 were determined to be unclaimed and were either transferred or accrued for transfer to the Economic Development Fund.

D. Contingency Reserve

ORS 461.510 (4) and Administrative Rule 177-10-045 allows for the creation of a contingency reserve. In June 2005, the Lottery Commission approved a contingency reserve amount such that the cash available for future investment does not exceed \$45,000,000. In fiscal year 2007, \$12,432,008 of profit was retained by the Lottery for that purpose. The following table shows the liquidity detail of Unrestricted Net Assets shown on the Balance Sheet:

¹ Attorney General Opinion #8220 advises that ORS 461.548 regarding Video Lottery SM proceeds is unconstitutional and is not applicable. It is not included here.

Oregon State Lottery
Notes to the Financial Statements (continued)
June 30, 2007

Inventory, Prepaid Expenses, Non-current Cash Equivalents	\$ 6,049,363
Committed by Contract for Asset Purchases (See discussion in Note VI)	25,645,000
Committed by Commission for Fiscal Year 2008 Capital Purchases	6,335,719
Cash Available for Future Investment (Uncommitted Contingency Reserve)	45,000,000
Total Unrestricted Net Assets	\$ 83,030,082

E. Transfers to Economic Development Fund

The Transfers to Economic Development Fund amount shown on the Statement of Revenues, Expenses, and Changes in Fund Net Assets is equal to Income Before Transfers less the \$12,432,008 retained by the Lottery. Actual cash transferred, including unclaimed prizes, during fiscal year 2007 is \$604,036,155. The remaining balance is included on the Balance Sheet in liabilities. The following schedule reconciles the amounts:

	Balance Owing at June 30, 2006	Amounts Accrued	Cash Paid to Economic Development	Balance Remaining at June 30, 2007
Income	\$ 157,917,278	\$ 644,030,352	\$ 596,617,949	\$ 205,329,681
Unclaimed Prizes	1,441,645	7,507,998	7,418,206	1,531,437
Total	\$ 159,358,923	\$ 651,538,350	\$ 604,036,155	\$ 206,861,118

III. Detailed Notes

A. Cash and Cash Equivalents

The State Treasurer maintains the Oregon Short-Term Fund (OSTF), a cash and investment pool available for use by state agencies and local governments. Lottery uses the OSTF for all deposits. The book balance of cash on deposit with the State Treasurer as of June 30, 2007, was \$300,530,152 and the OSTF reported balance was \$304,047,660. The difference between the balances consists of deposits in transit and outstanding checks. State Treasurer demand deposit accounts are insured or collateralized for at least 25 percent of the balance in excess of FDIC coverage, as is required by state statute. Balances in excess of the FDIC insurance and collateral are considered exposed to custodial risk. Custodial risk for deposits is defined as the risk that, in the event of failure of the bank the OSTF will be unable to recover the total amount of deposits. Since the OSTF is a pool, Lottery's share of the risk is difficult to estimate. More information on the custodial risk of deposits with the OSTF can be obtained from the OSTF financial statements available from the "Current OSTF Financial Statement" link at their website: <http://www.ost.state.or.us/about/boards/OSTF/About.htm>.

Oregon State Lottery
Notes to the Financial Statements (continued)
June 30, 2007

Cash held by MUSL is to pay Oregon's proportionate share of MUSL's prize reserve pools and annual operating expenses. Further information can be obtained in MUSL's financial report for the fiscal year ended June 30, 2007. To obtain a copy, refer to Note IV.

As of June 30, 2007, the MUSL balance and the amount reported on the Balance Sheet is \$2,395,153.

B. Investments

The Oregon Investment Council (OIC), established by Oregon Revised Statute (ORS) 293.706 is charged with formulating investment policies for the State and the State Treasurer is the Investment Officer. Investment standards are set in ORS 293.726 and require funds to be managed as a prudent investor would do. The Lottery does not have an investment policy. The investments are purchased to closely match the liability stream for prize payouts and are intended to be held until maturity.

Occasionally, there are differences between the security maturity values and the actual liability, because securities must be purchased in \$1,000 increments and certain annual installments are not an even multiple of \$1,000. Interest earnings between the maturity and prize payment date are expected to fund any difference.

Investments with the State Treasurer are held with the State Treasurer's agent in the name of the State of Oregon. Investments in the name of the State of Oregon are segregated in the Treasurer's records in Lottery's name.

Investments for prize payments are reported on the balance sheet at fair value. Investments are in U.S. Government securities that had a fair value of \$111,575,673 as of June 30, 2007. As of June 30, 2007, the fair value of all investments that will mature in the upcoming year is \$14,061,034 and the long-term portion was \$97,514,639.

The increase in fair value for all investments for the fiscal year ended June 30, 2007, was \$6,514,626.

1. Credit and Concentration of Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. All Lottery investments are in U.S. Government obligations. The Lottery holds \$39,475,695 of investments in the Resolution Funding Corporation (RFC), a Federal Agency. These investments are not explicitly guaranteed by the U.S. Government. The current credit rating for the RFC is AAA.

Oregon State Lottery
Notes to the Financial Statements (continued)
June 30, 2007

Concentration of credit risk is defined as the risk of loss attributed to investments in one single issuer. The \$39,475,695 of investments in the RFC represent 35.4 percent of the Lottery's investment holdings.

2. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The length of time until maturity affects the exposure of the investment to fair value fluctuations. The Lottery reports investments at market value. However, interest rate risk is minimal since the Lottery's intent to hold annuity investments until maturity. The following table shows the segmented time distribution of the fair value of all Lottery investments.

	<u>Investment Maturity in Years</u>				<u>Total Fair Value</u>
	<u>Less than 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>More Than 10 Years</u>	
US Federal Agency Strips	\$ 4,406,808	\$ 17,789,543	\$ 14,303,320	\$ 2,976,024	\$ 39,475,695
US Treasury Obligations - Strips	9,654,226	26,634,033	15,340,808	20,470,911	72,099,978
Total Investments	\$ 14,061,034	\$ 44,423,576	\$ 29,644,128	\$ 23,446,935	\$ 111,575,673

C. Securities Lending

In accordance with State of Oregon investment policies, state agencies may participate in securities lending and the State Treasurer has, through Securities Lending Authorization Agreements, authorized its custodians to act as agents in the lending of the State's securities pursuant to a form of a loan agreement. There were no significant violations of the provisions of securities lending agreements.

During fiscal year 2007, the State's custodians lent short-term and fixed income securities from the OSTF and U.S. Government securities segregated to the Lottery. Collateral received is U.S. dollar-denominated cash. Borrowers were required to deliver cash collateral for each loan equal to not less than 102 percent of the market value of the loaned securities. The State did not impose any restrictions during the fiscal year on the amount of the loans the custodians made on its behalf. The Lottery and the State, through the State Treasurer's Securities Lending Agreements with the custodial bank, is fully indemnified against losses due to borrower default. There were no losses during the year from the failure of borrowers to return loaned securities.

During the year, the State and borrowers maintained the right to terminate all securities lending transactions on demand. As a consequence, the maturities of investments made with cash collateral during the year generally did not match the

Oregon State Lottery
Notes to the Financial Statements (continued)
June 30, 2007

maturities of their securities loans. On June 30, 2007 the State and the Lottery had no credit risk exposure to borrowers related to securities on loan.

The total fair value of securities on loan from the OSTF is \$3,816,318,958, collateral received is \$3,894,934,039 and the fair value of invested collateral is \$3,894,124,661. Collateral received for OSTF and Lottery investments is invested in a securities lending collateral pool and is not exposed to custodial credit risk.

The Lottery's allocated portion of the OSTF securities on loan and Lottery owned investments on loan at June 30, 2007, is presented in the following schedule:

<u>Securities Lending Balances</u>			
	Securities on Loan at Fair Value	Cash Collateral Received	Fair Value of Invested Collateral
Lottery Share OSTF	\$ 109,608,697	\$ 111,748,893	\$ 111,843,358
Lottery Investments	32,078,156	32,459,913	32,487,352
Total Security Loans	\$ 141,686,853	\$ 144,208,806	\$ 144,330,710

D. Capital Assets

Capital asset activity for the year ended June 30, 2007, is shown in the following schedule:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
<u>Depreciable Capital Assets</u>				
Equipment	\$ 96,048,101	\$ 44,404,869	\$ (12,520,074)	\$ 127,932,896
Vehicles	3,920,439	718,167	(1,004,354)	3,634,252
Building and Improvements	11,120,757	374,596	(5,949)	11,489,404
Leasehold Improvements	71,436	-	-	71,436
Computer Software	7,626,639	746,432	(889,466)	7,483,605
Total Assets Being Depreciated	\$ 118,787,372	\$ 46,244,064	\$ (14,419,843)	\$ 150,611,593
<u>Accumulated Depreciation</u>				
Equipment	\$ 39,439,604	\$ 16,572,840	\$ (12,094,420)	\$ 43,918,024
Vehicles	2,180,423	377,986	(715,825)	1,842,584
Building and Improvements	2,918,667	330,268	5,452	3,254,387
Leasehold Improvements	61,814	7,670	-	69,484
Computer Software	2,810,674	2,495,273	(454,673)	4,851,274
Total Accumulated Depreciation	\$ 47,411,182	\$ 19,784,037	\$ (13,259,466)	\$ 53,935,753
Net Value of Depreciable Assets	\$ 71,376,190	\$ 26,460,027	\$ (1,160,377)	\$ 96,675,840

Oregon State Lottery
Notes to the Financial Statements (continued)
June 30, 2007

1. Asset Impairments

During fiscal year ending June 30, 2007, management determined that certain key components of the gaming systems would be disposed prior to their original estimated useful life due to obsolescence of the equipment. As a result of this decision, an impairment loss of \$972,369 was recognized and included in Depreciation and Impairment on the Statement of Revenues, Expenses, and Changes in Net Assets.

Also, during fiscal year ending June 30, 2007, certain Video LotterySM terminals were destroyed by fire, flood, or vandalism. Total value of destroyed terminals is \$142,350. Insurance recoveries of \$128,598 were received resulting in a net impairment loss of \$13,752. This loss is included in Depreciation and Impairment on the Statement of Revenues, Expenses, and Changes in Net Assets.

E. Non-Current Liabilities

As of June 30, 2007, there were 66 Oregon Lottery game winners with long-term annual payments and seven Multi-State Lottery game winners with long-term annual payments. Investments are owned to provide income and cash flow to meet the payment requirements [see Note III(B)]. Prize payment liabilities are recognized at the purchase price of investments needed to fund the annual payments and increase as the value of the corresponding investment grows (see Note I(B)2).

The estimated number of years remaining for payments ranges from one to 29 years. The following schedule reflects the activity in the non-current liabilities as well as the amounts due in the next year. Current prize liability shown on the Balance Sheet includes \$25,526,521 in estimated and actual prizes won that have not yet been claimed.

	Liabilities with Non-current Portion				Due Within One Year
	Beginning Balance July 1, 2006	Increases	Decreases	Ending Balance June 30, 2007	
Compensated Absences	\$ 1,827,649	\$ 422,259	\$ 98,753	\$ 2,151,155	\$ 1,441,274
Prizes	131,196,220	362,183,722	356,277,748	137,102,194	39,587,555
Total	\$133,023,869	\$362,605,981	\$356,376,501	\$139,253,349	\$41,028,829

F. Video Net Revenue

Video LotterySM revenue is reported net of prize expense and reported in the Statement of Revenues, Expenses, and Changes in Fund Net Assets. The

Oregon State Lottery
Notes to the Financial Statements (continued)
June 30, 2007

following schedule reconciles cash received with actual wagering and prize activity:

	<u>Revenue</u>		<u>Prize Expense</u>
Cash Received	\$ 2,546,416,359	Cash Paid Out	\$ 1,692,910,794
Dollars Won and Played	9,547,051,953	Dollars Won and Played	9,547,051,953
Total Revenue	\$ 12,093,468,312	Total Prizes	\$ 11,239,962,747
Net Revenue =		\$ 853,505,565	

IV. Joint Ventures

The Multi-State Lottery Association (MUSL) was established September 16, 1987, to coordinate lottery games with larger prizes than the individual states could offer by themselves. Each participating state sells its choice of MUSL products and keeps all profits earned. Participating states contribute amounts necessary to fund the estimated and actual prizes won, reserve prize pools and the operating expenses of MUSL. Upon termination of the MUSL's existence, if such termination should occur, the member lottery would receive any proceeds determined available for distribution by the Board. The current MUSL members are: Arizona Lottery, Colorado Lottery, Connecticut Lottery Corporation, D.C. Lottery and Charitable Games Control Board, Delaware State Lottery, Iowa Lottery, Idaho Lottery, Hoosier Lottery, Kansas Lottery, Kentucky Lottery Corporation, Louisiana Lottery Corporation, Maine Lottery, Minnesota State Lottery, Missouri Lottery, Montana Lottery, North Carolina Education Lottery, North Dakota Lottery, Nebraska Lottery, New Hampshire Sweepstakes Commission, New Mexico Lottery Authority, Oklahoma Lottery, Oregon Lottery, Pennsylvania Lottery, Rhode Island Lottery, South Carolina Education Lottery, South Dakota Lottery, Tennessee Education Lottery, U.S. Virgin Islands Lottery, Vermont Lottery, Wisconsin Lottery, and the West Virginia Lottery.

MUSL is governed by a board on which each member lottery is represented. Each member lottery has one vote. The Board's responsibilities to administer multi-state lottery games are performed through product groups, advisory committees, or panels staffed by officers and independent contractors as appointed by the Board. These officers and consultants serve at the pleasure of the Board and the Board prescribes their powers, duties, and qualifications. The Executive Committee carries out the budgeting and financing of MUSL and the Board contracts annually with an independent auditor.

The fiscal year end for MUSL is June 30, 2007. Long-term liabilities of MUSL are limited to prize annuities due, which are fully funded through investments in U.S. Government Securities.

The Oregon Lottery's share of MUSL's operating expenses for the fiscal year ended June 30, 2007, was \$20,000.

Oregon State Lottery
Notes to the Financial Statements (continued)
June 30, 2007

The following schedule presents the summarized financial activity of MUSL as of June 30, 2007 and 2006.

	<i>(In Thousands)</i>	
	<u>2007</u>	<u>2006</u>
Assets	\$ 972,392	\$ 1,054,180
Total Assets	<u>\$ 972,392</u>	<u>\$ 1,054,180</u>
Liabilities	\$ 972,195	\$ 1,053,968
Net Assets - Unrestricted	<u>197</u>	<u>212</u>
Liabilities and Net Assets	<u>\$ 972,392</u>	<u>\$ 1,054,180</u>
Unrestricted Revenues	\$ 14,335	\$ 2,694
Unrestricted Expenses	<u>14,349</u>	<u>2,708</u>
Change in Unrestricted Net Assets	<u>\$ (14)</u>	<u>\$ (14)</u>

Complete separate financial statements for MUSL may be obtained from the Multi-State Lottery Association, Attention: Chuck Strutt, 4400 NW Urbandale Drive, Urbandale, Iowa, 50322.

V. Lease Commitments

Operating leases are agreements for the use of property, plant or equipment.

A. Long-term Operating Leases

As of June 30, 2007, there were four lease agreements in effect that have or had a non-cancelable lease term in excess of one year. The agreements cover land for the Salem headquarters, the video gaming computer system, the on-line gaming computer system, and a storage facility used as an area depot. The agreement terms end in fiscal year 2015, 2011, 2008, and 2008, respectively. The land for the Salem headquarters is leased from the State of Oregon, Department of Administrative Services. The gaming computer systems and the storage facility are leased through private companies. The future minimum lease payments are reported in the following schedule:

Oregon State Lottery
Notes to the Financial Statements (continued)
June 30, 2007

Future Minimum Lease Payments		
<u>Fiscal Year</u>		<u>Operating Leases</u>
2008	\$	9,068,252
2009		1,831,022
2010		1,831,022
2011		650,201
2012		59,786
2013-2015		179,358
Total Minimum Lease Payments	\$	13,619,641

B. Short-term Operating Leases

The Lottery also had signed agreements for video storage facility rentals throughout the state, billboard rentals throughout the state, office equipment, and other equipment. The longest agreement term is one year.

C. Fiscal Year 2007 Operating Lease Expense

The following schedule shows lease expense for the fiscal year ending June 30, 2007:

	<u>Lease/Rent Expense</u>
Gaming Computer Systems	\$ 9,940,960
Land for Salem Headquarters	59,786
Storage Facilities	150,704
Advertising Equipment	1,370,039
Office Machines	64,695
Other Equipment	40,619
Total Lease/Rent Expense	\$ 11,626,803

VI. Other Significant Commitments and Contingencies

In April 2007 the Lottery committed to purchase 2,300 Video LotterySM terminals during fiscal year 2008 from Bally Gaming, Inc., a subsidiary of Bally Technologies, Inc. The Lottery is not required to pay for the terminals until specified quality assurance testing is completed and the terminals perform in accordance with specifications. The total cost of this terminal purchase is \$25,645,000.

Oregon State Lottery
Notes to the Financial Statements (continued)
June 30, 2007

VII. Unemployment Benefits

State agencies are subject to the Department of Employment Act. State employees who qualify are entitled to benefit payments during periods of unemployment. Each state agency is required to reimburse the Department of Employment for benefit payments made to their former employees. There appears to be no practical method of estimating the amount of future benefit payments that may be made to former employees for wage credits earned prior to June 30, 2007. Consequently, this potential obligation is not included in the accompanying financial statements. Total reimbursements for the fiscal year 2007 were \$18,710.

VIII. Employee Retirement Plan

Lottery employees hired after August 28, 2003, participate in the Oregon Public Service Retirement Plan (OPSRP) which is a part of the Public Employees Retirement System (PERS). Employees hired on, or before, this date are PERS members. All Lottery employees who work over 600 hours per year are eligible to participate in the plans after completing six months of employment with a PERS/OPSRP covered employer. Both plans require an actuarially determined contribution from the employer and an employee contribution of 6 percent of covered salary. The Lottery pays the employee's contribution as allowed by law. Both plans are administered by the Public Employees Retirement Board under the guidelines of *Oregon Revised Statutes*, Chapter 238 and 238A. Both plans provide retirement benefits and cost-of-living adjustments, as well as disability, post-employment healthcare, and death benefits to plan members and beneficiaries. A copy of the Oregon Public Employees Retirement System annual financial report may be obtained by writing to the Oregon Public Employee Retirement System, PO Box 23700, Tigard, Oregon 97281-3700.

Lottery contributions for fiscal year 2007 equaled what was required.

A. Defined Benefit Plans

Oregon Public Service Retirement Plan (OPSRP)

The Pension Program of OPSRP is a cost-sharing multiple-employer defined benefit pension plan. The Lottery is required by statute to contribute actuarially computed amounts as determined by the PERS Board. Rates are subject to change as a result of actuarial valuations. The rate for a covered employee's salary for fiscal year 2007 was 4.43 percent. Lottery contributions for the year ending June 30, 2007, were approximately \$151,000. Contributions for fiscal year 2006 were approximately \$97,000 and \$44,000 for fiscal year 2005.

Public Employees Retirement System (PERS)

PERS plan members also participate in a cost-sharing multiple-employer defined benefit pension plan. The Lottery is required by statute to contribute actuarially computed amounts as determined by the PERS Board. The rates are subject to

Oregon State Lottery
Notes to the Financial Statements (continued)
June 30, 2007

change as a result of subsequent actuarial valuations. During fiscal year 2007, the Lottery contributed 8.69 percent of covered salary, approximately \$1,451,000. The Lottery contributed approximately \$1,388,000 for the fiscal year 2006, and \$799,000 in fiscal year 2005.

B. Defined Contribution

Individual Account Program (IAP)

The Individual Account Program (IAP) is the defined contribution portion of OPSRP. The IAP is administered by the PERS Board. It is applicable to non-PERS members as of August 29, 2003, and applicable to active PERS members as of January 1, 2004. Contributions made prior to establishment of the IAP remain in the members' PERS accounts. Lottery contributions for employee shares for the year ending June 30, 2007, were approximately \$1,170,000. For fiscal year 2006, contributions were approximately \$1,038,000; and for fiscal year 2005, contributions were approximately \$977,000.

C. Other Charges

The Lottery is also required to pay a share of the debt service requirements for a \$2 billion bond issued to reduce the unfunded liability of PERS. PERS began collection of the amounts in May 2004. Lottery contributions for debt service requirements for the year ending June 30, 2007, were approximately \$1,195,000. For fiscal year 2006, contributions were approximately \$1,122,000; and for fiscal year 2005, contributions were approximately \$1,149,000.

IX. Insurance

The State of Oregon administers property and casualty insurance programs covering state government through its Central Services Fund (Insurance Fund). The Insurance Fund services claims for direct physical loss or damage to state property; tort liability claims brought against the State, its officers, employees, or agents; worker's compensation; employee dishonesty; and faithful performance coverage for certain key positions required by law to be covered, and other key positions.

As a state agency, the Lottery participates in the Insurance Fund. The cost of servicing insurance claims and payment is covered by charging an assessment to each state entity based on its share of services provided in a prior period. The total statewide assessment for each coverage type is based on independent biennial actuarial forecasts and administrative costs, less any available fund balance in the Insurance Fund from the prior biennium. Lottery's fiscal year 2007 share of the 2005-2007 biennial assessment was \$521,958.

Oregon State Lottery
Notes to the Financial Statements (continued)
June 30, 2007

Insurance recoveries from other than capital asset impairments during fiscal year 2007 totaled \$16,655 and are included in "Other Income" shown on the financial statements. This amount includes recoveries from the Insurance Fund and other sources.

SUPPLEMENTARY INFORMATION

STATE OF OREGON
OREGON STATE LOTTERY
Budgetary Basis Income Statement
For the Fiscal Year Ended June 30, 2007
(See Note II(A) – Legal Compliance)
(Unaudited)

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u> <u>Favorable/</u> <u>(Unfavorable)</u>
Revenue			
Scratch-its SM	\$ 127,636,964	\$ 128,391,000	\$ (754,036)
Breakopen	1,173,585	1,210,000	(36,415)
Megabucks SM	40,164,337	36,282,000	3,882,337
Powerball [®]	48,658,403	49,926,000	(1,267,597)
Sports Action SM	14,009,541	14,010,000	(459)
Scoreboard SM	512,206	512,000	206
Keno	113,198,024	112,465,000	733,024
Pick 4 SM	1,404,990	1,409,000	(4,010)
Win For Life SM	5,566,158	5,544,000	22,158
Lucky Lines SM	2,298,480	2,320,000	(21,520)
Video Lottery SM (Gross Receipts)	<u>12,093,468,312</u>	<u>12,843,543,000</u>	<u>(750,074,688)</u>
Total Revenue	<u>\$12,448,091,000</u>	<u>\$13,195,612,000</u>	<u>\$(747,521,000)</u>
Prize Expense	<u>11,473,524,860</u>	<u>12,222,140,000</u>	<u>748,615,140</u>
Net Revenue	<u>\$ 974,566,140</u>	<u>\$ 973,472,000</u>	<u>\$ 1,094,140</u>
Direct Expenses			
Retailer Commissions	\$ 239,320,032	\$ 239,041,000	\$ (279,032)
Game Vendor Charges	10,009,601	9,789,236	(220,365)
Tickets	4,165,283	4,700,000	534,717
Advertising	10,146,584	10,919,530	772,946
Sales Support	1,320,416	1,998,057	677,641
Game Equipment/Parts & Maintenance	2,606,119	3,211,200	605,081
Research	605,747	670,790	65,043
Depreciation	<u>16,498,972</u>	<u>17,246,488</u>	<u>747,516</u>
Total Direct Expense	<u>\$ 284,672,754</u>	<u>\$ 287,576,301</u>	<u>\$ 2,903,547</u>
Gross Profit	<u>\$ 689,893,386</u>	<u>\$ 685,895,699</u>	<u>\$ 3,997,687</u>
Indirect Revenue			
Other Income	<u>\$ 13,812,271</u>	<u>\$ 6,526,800</u>	<u>\$ 7,285,471</u>
Indirect Expenses			
Public Information	\$ 5,128,899	\$ 5,459,765	\$ 330,866
Personal Services	30,319,265	34,153,411	3,834,146
Services & Supplies	9,482,437	10,233,274	750,837
Depreciation	<u>2,312,696</u>	<u>2,297,999</u>	<u>(14,697)</u>
Total Indirect Expenses	<u>\$ 47,243,297</u>	<u>\$ 52,144,449</u>	<u>\$ 4,901,152</u>
Net Profit	<u>\$ 656,462,360</u>	<u>\$ 640,278,050</u>	<u>\$ 16,184,310</u>

*Budget adopted by Commission and adjusted by Department of Administrative Services, Economic Forecasts, published throughout the year.

OTHER REPORTS

Office of the Secretary of State

Bill Bradbury
Secretary of State

Jean Straight
Deputy Secretary of State



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the Oregon State Lottery (Lottery), as of and for the year ended June 30, 2007, and have issued our report thereon dated December 21, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lottery's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Lottery's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lottery's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lottery's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Oregon State Lottery Commission, the Oregon State Lottery's management, others within the entity, the governor of the State of Oregon, and the Oregon Legislative Assembly and is not intended to be and should not be used by anyone other than these specified parties.

OREGON AUDITS DIVISION



Bill Bradbury
Secretary of State

December 21, 2007

ABOUT THE SECRETARY OF STATE AUDITS DIVISION

The Oregon Constitution provides that the Secretary of State shall be, by virtue of his office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

Directory of Key Officials

Director	Charles A. Hibner, CPA
Deputy Director	William K. Garber, MPA, CGFM
Deputy Director	Mary E. Wenger, CPA

Audit Team

V. Dale Bond, CPA, CFE, CISA, Audit Manager
Raul Valdivia, CPA, CFE
Byron Williams

This report, a public record, is intended to promote the best possible management of public resources. Copies may be obtained through:

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phone: 503-986-2255

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The courtesies and cooperation extended by officials and employees of the Oregon State Lottery during the course of this audit were commendable and sincerely appreciated.

Auditing to Protect the Public Interest and Improve Oregon Government

