

OREGON STATE LOTTERY

An Enterprise Fund of the State of Oregon

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2008



It does good things[®]

Oregon State Lottery

An Enterprise Fund of the State of Oregon

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008



It does good things™

Dale Penn
Director

Kathy Ortega, CPA
Chief Financial Officer

Report Prepared by:

Finance and Accounting
Support Services Division, Oregon State Lottery

Jean Gabriel, CPA
Martha Wildfang

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For The Fiscal Year Ended June 30, 2008
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Introductory Section



It Does Good Things.

December 22, 2008

To the Honorable Governor Theodore R. Kulongoski and Citizens of the State of Oregon:

We are pleased to provide you with the Comprehensive Annual Financial Report of the Oregon State Lottery (Lottery) for fiscal year ended June 30, 2008. This report is published to meet the requirement in state law for an annual accounting of financial activities.

Lottery management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal controls established for this purpose. Because the cost of internal controls should not exceed anticipated benefits, the objective is to provide reasonable rather than absolute assurance that the financial statements are free of any material misstatements.

The Secretary of State Audits Division, the constitutional auditor of public accounts in Oregon, audited the Lottery's financial statements for the fiscal year ended June 30, 2008. The auditors used generally accepted auditing standards in conducting the engagement. Their unqualified opinion on the financial statements is the first component in the Financial Section of this report.

A narrative analysis of the Lottery's financial performance for the fiscal year can be found in the Management's Discussion and Analysis (MD&A) immediately following the independent auditor's report. This letter of transmittal complements the MD&A and should be read in conjunction with it.

Profile of Oregon State Lottery

The Oregon State Lottery was created through the initiative process in November 1984 when voters approved an amendment to the Oregon Constitution that required the establishment and operation of a State Lottery. Initially, Lottery profits were earmarked to create jobs and further economic development. In May 1995, voters approved a Constitutional amendment allowing Lottery profits to be used for the financing of public education. Similarly, voters added state parks and salmon restoration projects to the list of allowable uses of Lottery proceeds in November 1998. Oregonians have voted to use Lottery profits for things that make Oregon a great place to live.

The Lottery was established as a state agency to market and sell Lottery products to the public. Its statutory mandate requires it to operate the Lottery to produce the maximum amount of net revenues for the people of Oregon commensurate with the public good. Development of new products and game enhancements is a continual process in the effort to increase long-term revenues, while taking into consideration the potential impact of game decisions on problem gambling. The Lottery strives to promote responsible gambling by providing public information about problem gambling and the treatment available.

Through a network of approximately 3,800 retailers, the Lottery offers players a broad mix of traditional games as well as Video LotterySM. Traditional Lottery games include: Scratch-itsSM Instant Tickets, Keno, Powerball®, MegabucksSM, Win for LifeSM, Lucky LinesSM, and Pick 4SM. Video LotterySM is a product sold on stand-alone Video LotterySM terminals located in bar and tavern retail establishments. The Lottery has approximately 12,200 Video LotterySM terminals deployed throughout the state.

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The Lottery, which is accounted for as a single enterprise fund, is entirely self-financed through its sales. Its operations are designed to fulfill its duty to develop, produce, and market Lottery games; pay winners and operating expenses; and remit the remaining net profits to the State. These net profits are transferred to the Oregon Economic Development Fund and are then distributed by the State to finance the various uses allowed by law. Through its business units, the Lottery provides services that are necessary to operate successfully including security, marketing, retailer support, finance, management and information services. Additional information about the Lottery is available on its web site at: <http://www.oregon.gov/LOTTERY/>.

The Lottery is operated under the direction of a five-member commission, with the commissioners appointed by the Governor and confirmed by the Senate. The Commission directs the activities of the Lottery, including the adoption of rules for the security and integrity of operations. The Governor also appoints a Director, who serves as the chief administrator of the Lottery. The Director is responsible for operating the Lottery in accordance with state law and administrative rules and under the guidance of the Commission.

For budgeting purposes, the Commission adopts an annual Financial Plan based on activities identified in Lottery's annual Business Plan. The Financial Plan uses revenue forecasts prepared by the Oregon Department of Administrative Services, Office of Economic Analysis. Budgeted revenues and direct expenses (prizes, commissions, game vendor charges, and tickets) are revised quarterly for changes in revenue forecasts. Revisions to other expense items in the adopted budget must be approved by the Commission. The budget is prepared on the accrual basis of accounting. Actual expenses are monitored throughout the year for compliance with the approved budget and appropriate adjustments are approved if necessary. By law, expenses to operate the Lottery are limited to no more than 16 percent of total annual revenues.

Since the Lottery's first full year of operation in 1986, Lottery revenues have demonstrated strong and consistent growth.



¹Revenues based on gross receipts for traditional games and net receipts (after prizes) for video games.

Economic Condition and Outlook

According to the Oregon Office of Economic Analysis (OEA), Oregon's employment growth outpaced the national average during calendar year 2004 through 2007. Employment growth in Oregon is expected to be slower between 2008 and 2014 than it was in the mid-1990s. The OEA has forecasted Oregon employment for 2008 to be flat, with no increase or decrease from 2007. Employment is expected to decline by 1.5 percent in 2009, with job losses in many sectors of the economy. Job growth in 2010 is estimated to be 0.8 percent, as the economy begins to recover from an economic slowdown.

Oregon's personal income is projected to increase by 4.0 percent in 2008, which is less than the 6.1 percent increase in 2007. For 2009, OEA estimates that personal income will increase by 2.4 percent while wage and salary income will increase by 1.3 percent. Personal income is projected to increase by 3.9 percent in 2010, with wage and salary income expected to grow at 3.5 percent. Both of these projections are expected to be lower than the national average in 2008 and 2009.

To the extent that economic conditions impact disposable income, net revenues generated through Lottery sales may be affected. Factors currently facing Oregon are higher fuel costs, the housing market downturn, the national credit challenges, and a legislatively approved ban on smoking in bars and taverns where Lottery products are sold.

Long-term Financial Planning

Legislatively adopted smoking restrictions in all public places will go into effect January 1, 2009. In the September 2008 Economic and Revenue Forecast, the Office of Economic Analysis (OEA) incorporated a six percent decline in projected Video LotterySM sales from what would otherwise be forecasted during the first quarter of 2009, with lesser declines beginning in the second quarter as retailers adjust to the new restrictions. In the December 2008 Economic and Revenue Forecast, the OEA further lowered projected Video LotterySM sales for the 2007-2009 biennium to factor in the expected affects of an overall reduction in consumer spending.

The Lottery uses a five-year Strategic Plan in conjunction with an annual Business Plan and annual budget to plan and manage its operations. Lottery's main strategic objective is to generate optimal revenue for public purposes by offering a wide variety of market-responsive games that will appeal to diverse consumer markets and support the success of a broad retailer base. In support of this objective, the Lottery plans to continue updating its game offerings by introducing new traditional games and investing in new gaming software during fiscal year 2009. In addition, the Lottery will invest approximately \$44.0 million to replace older Video LotterySM terminals with new equipment. This combination of refreshed games and new terminals will help to maintain the vitality and continued success of Lottery products.

Relevant Financial Policies

In order to provide resources for current operations and future investment, the Lottery Commission established a contingency reserve fund. The available portion of this reserve fund is \$45.0 million, the maximum amount approved by the Commission. In fiscal year 2008, \$30.4 million of net profit was retained by the Lottery to maintain this reserve balance.

In light of the economic downturn in Oregon and to mitigate the potential negative impact of the statewide smoking ban, the Lottery has obtained Commission approval to purchase and deploy new Video LotterySM terminals. The Commission authorized the Lottery to set aside resources from fiscal year 2008 operating results to replace outdated terminals with the purchase of 2,500 Spielo ProdiGi Video LotterySM terminals. The Spielo ProdiGi features a unique dual LCD monitor and has a very wide appeal. This proactive investment will enable the Lottery to ultimately place retailers in the best position possible to offset the potential negative impact to sales as a result of the smoking ban. The cost of this investment is included in the budget for fiscal year 2009.

Major Initiatives

During fiscal year 2009, the Lottery will implement a new traditional gaming system. This system will replace the technological infrastructure that has been used to track and account for gaming activity for traditional games such as Scratch-ItsSM Instant Tickets, MegabucksSM, and Keno. Implementation of this new system is the culmination of extensive efforts over the past year to identify business requirements, test functionality, and provide training to retailers. The traditional gaming system will provide new tools to manage ticket inventory, new dynamic flat screen Keno monitors, and new point of sale equipment in retail establishments. This advanced technology will offer a variety of improved marketing and distribution opportunities to the Lottery.

The Lottery will also begin the process to replace its existing Video LotterySM gaming system with a new network gaming solution during the upcoming year. A network solution offers several benefits including: access to game libraries; the ability to change game content through automated downloads to the terminals; use of an open protocol; and robust back end systems that provide business intelligence regarding the Video LotterySM product to guide product management decisions. The initial steps in this multi-year project, which include selecting a vendor and entering into a contract, are planned for the upcoming fiscal year.

Additionally, the Lottery will be promoting its Video LotterySM and Keno games via broadcast and Internet media plus creating a traveling trailer where players can sample these products, hoping to attract new players to these games which will now be available in a smoke free environment. The Lottery also has an initiative to explore new types of social interactive gaming to attract new markets.

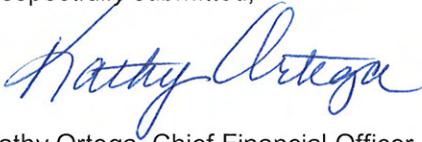
Another major initiative being pursued is laying the groundwork to replace an existing nine year old financial reporting system with an Enterprise Resource Planning (ERP) system. The goal of this project is to meet the Lottery's business needs for an integrated system that incorporates all of its major operating areas including accounting, financial reporting, human resources, inventory control, purchasing, etc. Included in the budget for fiscal year 2009 is \$950,000 to provide resources for a thorough evaluation and development of business, functional, and technical requirements for an ERP system. Lottery will also evaluate the long-term facility needs of the organization for future years.

These focused planning activities serve to guide the Lottery into the future within the competitive and evolving gaming industry.

Acknowledgements

The preparation of this report reflects the combined efforts of the Lottery's Finance and Accounting staff. We would like to express our gratitude to all Lottery staff for working cooperatively to ensure the integrity of Lottery's financial reporting. In addition, we appreciate the direction and support provided by the Lottery Commission.

Respectfully submitted,



Kathy Ortega, Chief Financial Officer
Oregon State Lottery

Principal Officials of Oregon State Lottery

Steven Ungar
Commission Chair

Bill Ihle
Commission Vice Chair

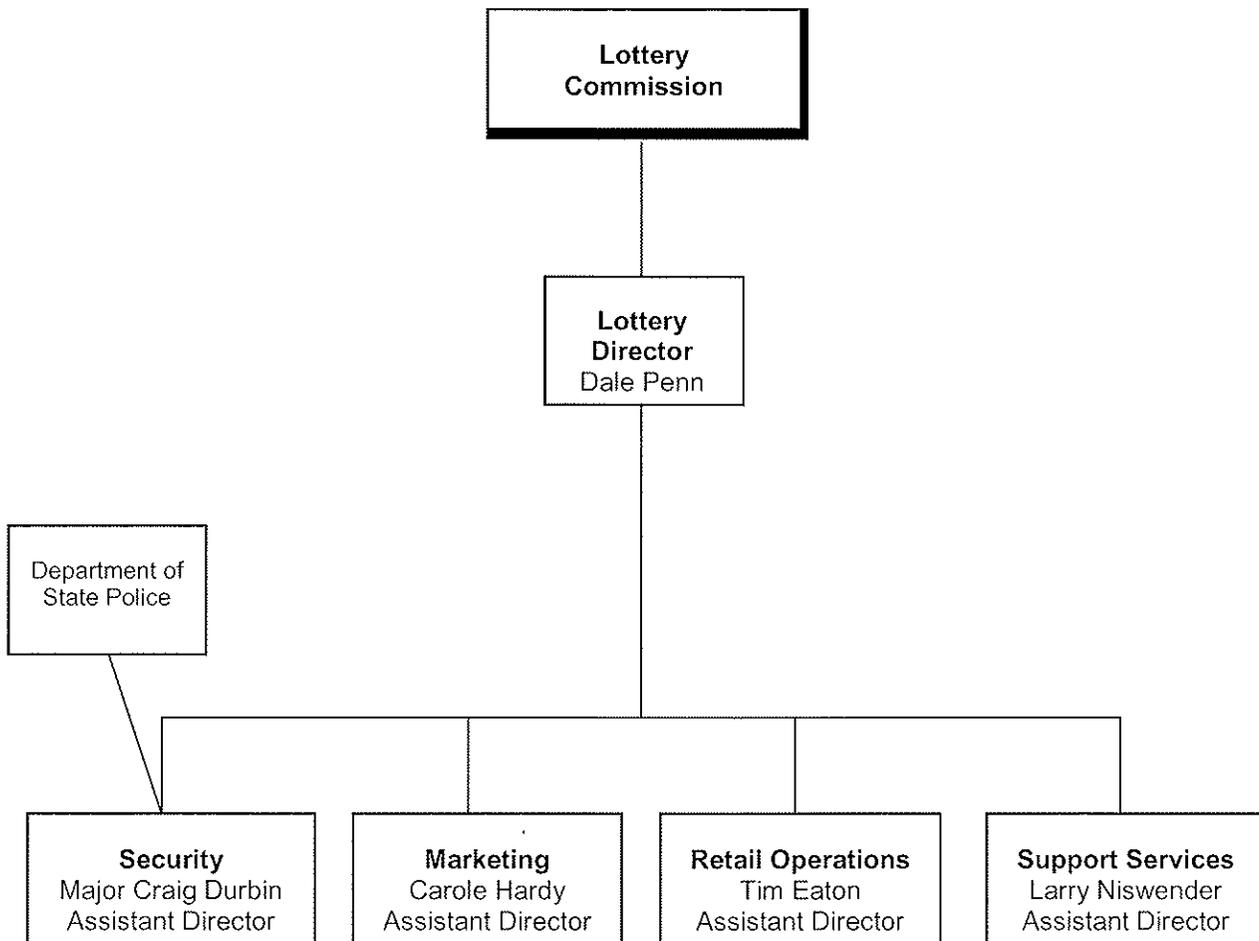
Pamela Fogg
Commissioner

Leron Howland
Commissioner

Amy Lowery
Commissioner

Dale Penn
Director

Organization Chart





Financial Section

Office of the Secretary of State

Bill Bradbury
Secretary of State

Barry Pack
Deputy Secretary of State



Audits Division

Charles A. Hibner, CPA
Director

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

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

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, 2008, 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 1, the financial statements of the 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, 2008, 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 Lottery as of June 30, 2008, 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 22, 2008, on our consideration of 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.

The management's discussion and analysis and the required supplementary information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Lottery's basic financial statements. The introductory and statistical sections, and Budgetary Basis Comparison Schedule, as listed in the table of contents, are presented for purposes of additional analysis and are 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



Bill Bradbury
Secretary of State

December 22, 2008

Oregon State Lottery

Management's Discussion and Analysis

This section of the Oregon State Lottery's (Lottery) Comprehensive Annual Financial Report presents our discussion and analysis of the Lottery's financial performance for the fiscal year ended June 30, 2008. This analysis is to be considered in conjunction with information in the transmittal letter of this report.

Financial Highlights

- Sales of all Lottery products were \$1.2 billion, an all-time high since the inception of the Lottery.
- Video LotterySM revenue increased by \$41.6 million and Powerball® revenue increased by \$7.3 million from fiscal year 2007.
- Net assets (equity) increased by \$30.4 million as a result of fiscal year operations.
- The Lottery transferred \$648.4 million to Oregon's Economic Development Fund, which is \$4.4 million more than the prior year and the highest amount transferred in the history of the Lottery.

Overview of the Financial Statements

In addition to this discussion and analysis, the Financial Section of this annual report contains the basic financial statements, which include the fund financial statements and notes to the financial statements; required supplementary information; and an optional budgetary comparison schedule, which is presented as other supplementary information.

The basic financial statements offer short-term and long-term financial information about the Oregon State Lottery, which is structured as a single enterprise fund. The required supplementary information contains a Schedule of Funding Progress and accompanying notes for two other postemployment benefit (OPEB) plans in which the Lottery participates: the Public Employees Benefit Board OPEB Plan and the Retiree Health Insurance Premium Account OPEB Plan. The budgetary comparison schedule presents budgeted and actual revenues and expenses for the fiscal year. In addition, a Statistical Section containing information regarding financial trends and revenue capacity as well as demographic, economic, and operating information is presented following the budgetary comparison schedule.

The Balance Sheet provides information about the nature and amounts of investments in resources (assets) and obligations (liabilities) at the end of the fiscal year, with the difference between assets and liabilities reported as net assets (equity).

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Fund Net Assets. This statement measures the results of the Lottery's operations over the past year.

The primary purpose of the Statement of Cash Flows is to provide information about the Lottery's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities.

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Thus, expenses are recorded when liabilities are incurred and revenues are recognized when earned, not when received.

Analysis of Financial Position and Operations

Total assets at June 30, 2008 were \$701.7 million, an increase of \$17.7 million from the prior year. The change in assets consists primarily of an increase in securities lending cash collateral, an increase in net capital assets, and a decrease in cash and cash equivalents. Securities lending activity fluctuates based on the extent this activity is used by the Office of the State Treasurer for cash management purposes. During the year, the Lottery replaced some of its older Video LotterySM terminals with new terminals, decreasing cash and increasing capital assets. Transfers of earnings to the Economic Development Fund are made quarterly, based on rates determined at the beginning of each fiscal year. These transfers were made at a higher rate during fiscal year 2008 than during the prior year, which resulted in a lower cash balance and a lower liability to the Economic Development Fund at year end.

Total liabilities decreased by \$12.7 million from the prior year. Although obligations under securities lending increased by \$33.4 million, this was more than offset by a decrease of \$8.9 million in prize liability and a decrease of \$37.5 million in the amount due to the Economic Development Fund. The amount owed at year end represents the fourth quarter earnings not yet transferred to the Economic Development Fund plus administrative savings. As previously noted, the amount due for the fourth quarter this year is less than the prior year because transfers were made at a higher rate during fiscal year 2008.

Lottery's net assets for the current and prior fiscal year are summarized in Table 1 below:

Table 1: Oregon State Lottery's Net Assets

	2008	2007	Change
Current assets	\$ 491,938,081	\$ 487,364,058	\$ 4,574,023
Capital assets	109,501,992	96,675,840	12,826,152
Other noncurrent assets	100,218,207	99,909,792	308,415
Total assets	701,658,280	683,949,690	17,708,590
Current liabilities	393,070,738	406,019,248	(12,948,510)
Noncurrent liabilities	98,517,742	98,224,520	293,222
Total liabilities	491,588,480	504,243,768	(12,655,288)
Net Assets:			
Invested in capital assets, net	109,501,992	96,675,840	12,826,152
Unrestricted	100,567,808	83,030,082	17,537,726
Total net assets	\$ 210,069,800	\$ 179,705,922	\$ 30,363,878

A large portion of the Lottery's net assets (52.1 percent) reflects its investment in capital assets, primarily gaming terminals and ticket vending machines. The Lottery has no outstanding debt associated with its capital assets.

Included in ending net assets is \$45.0 million in a contingency reserve fund. The Lottery Commission established a reserve fund so that resources would be available for current operations and future investment; in essence, working capital. In fiscal year 2008, \$30.4 million of profit was retained by the Lottery to maintain the available portion of this reserve fund at \$45.0 million, the maximum amount authorized by the Commission.

Of the \$100.6 million in unrestricted net assets, \$44.0 million is committed for the purchase of 3,800 new Video LotterySM terminals along with \$5.2 million for new games. An additional \$561,800 is committed for the purchase of other capital assets during fiscal year 2009.

Table 2 below presents a summary of changes in net assets for the current and prior fiscal year:

Table 2: Oregon State Lottery's Changes in Net Assets

	2008	2007	Change
Operating revenues:			
Video Lottery SM game sales, net	\$ 895,111,696	\$ 853,505,565	\$ 41,606,131
Scratch-its SM instant ticket sales	124,704,686	127,636,964	(2,932,278)
Keno sales	109,787,942	113,198,024	(3,410,082)
Powerball® sales	55,969,079	48,658,403	7,310,676
Megabucks SM sales	37,149,930	40,164,337	(3,014,407)
Sports Action SM sales	-	14,009,541	(14,009,541)
All other game sales	11,066,363	10,955,419	110,944
Provision for bad debts	(7,797)	(56,434)	48,637
Total operating revenues	1,233,781,899	1,208,071,819	25,710,080
Operating expenses:			
Retailer commissions	240,475,998	239,320,032	1,155,966
Prizes	231,364,323	240,076,739	(8,712,416)
Salaries and wages	34,322,749	30,319,265	4,003,484
Depreciation and amortization	30,843,314	19,797,789	11,045,525
Advertising and market research	9,885,584	10,752,331	(866,747)
Game vendor charges	9,371,513	10,009,601	(638,088)
Services and supplies	8,767,744	8,254,418	513,326
Public information	5,463,575	5,128,899	334,676
Tickets	4,232,601	4,165,283	67,318
Game equipment parts and maintenance	2,485,770	2,606,119	(120,349)
Sales support	1,569,079	1,320,416	248,663
Total operating expenses	578,782,250	571,750,892	7,031,358
Nonoperating revenues (expenses):			
Interest and investment income	28,068,310	24,392,398	3,675,912
Other income	751,113	1,101,278	(350,165)
Investment expenses - securities lending	(5,047,007)	(5,352,243)	305,236
Total nonoperating revenues (expenses)	23,772,416	20,141,433	3,630,983
Income before transfers	678,772,065	656,462,360	22,309,705
Transfers to the economic development fund	(648,408,187)	(644,030,352)	(4,377,835)
Change in net assets	30,363,878	12,432,008	17,931,870
Net assets - beginning	179,705,922	167,273,914	12,432,008
Net assets - ending	\$ 210,069,800	\$ 179,705,922	\$ 30,363,878

The Lottery's net assets increased by \$30.4 million as a result of fiscal year operations. This increase is primarily attributable to growth in sales of Video LotterySM products; net Video LotterySM revenue increased by \$41.6 million from the prior fiscal year. The Lottery discontinued Sports ActionSM during the prior fiscal year, representing a reduction of \$14.0 million in sales as compared to the current year. Powerball® sales grew by \$7.3 million, a 15.0 percent increase over last year; the Lottery focused its advertising efforts to promote sales of Powerball® during the year. Interest and investment income increased by 15.1 percent from the prior year as a result of an increase in the market value of investments held at year end.

Overall, net sales increased by \$25.7 million, or 2.1 percent. Retailer commissions were 0.5 percent higher than the prior year generally as a result of increased sales. Commission rates paid by retailers vary based on the games offered (traditional, video line games, or video poker only) and the retailers' sales volume. During

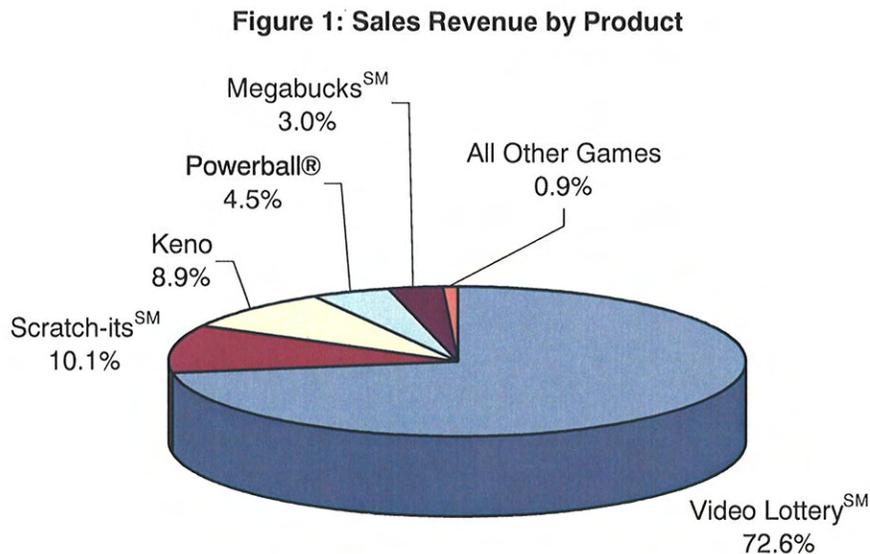
the fiscal year, the provisions of Oregon Administrative Rule 177-040-0029 were triggered when Video LotterySM net sales exceeded \$805.0 million, which reduced commissions paid to Video LotterySM retailers. Prize expenses were \$8.7 million less than the prior year; a contributing factor to this decline was the discontinuation of Sports ActionSM. Since revenues for Video LotterySM are reported net of prizes awarded, the prize expenses in Table 2 include only traditional game prizes. Game vendor charges were slightly lower, corresponding with decreased sales of traditional products.

Depreciation expense was \$11.0 million higher than last year. The Lottery made a business decision during the fiscal year to begin replacing many of its Video LotterySM terminals (VLTs) with new terminals. Advances in animation and gaming technology have shaped player expectations to see the latest graphics and a variety of games offered from a single VLT. Also, placing newer, more advanced terminals in retailer establishments was a proactive step to support sales, in light of the smoking restrictions which will go into effect in January 2009. As a result of this decision, the estimated useful life of VLTs was reduced from seven to five years. The impact of this change for fiscal year 2008 was an additional \$6.8 million of depreciation expense.

The economic conditions in Oregon, such as rising fuel and food costs and slower job growth, began to have an impact on sales of Lottery products during the year. Growth in sales revenue of Video LotterySM (4.9 percent) was modest as compared to growth in the prior year (16.5 percent) and revenues for some traditional games decreased. Although sales of Scratch-itsSM, Keno, and MegabucksSM declined, the Lottery transferred \$648.4 million to Oregon's Economic Development Fund during the fiscal year, which is the highest amount transferred in the history of the Lottery.

Sales Revenue

Figure 1 below shows the major sources and percentages of sales revenue for fiscal year 2008:



Video LotterySM remains the largest source of revenue and represents 72.6 percent of total sales revenue. In fiscal year 2008, \$34.5 million of new Video LotterySM terminals were purchased and placed in service. While Video LotterySM remains an excellent source of continuing revenue for the State, the Lottery recognizes its obligation to promote responsible gambling behavior. Consistent with its strategic objectives, the Lottery continued in these efforts by promoting a public awareness campaign targeted at responsible gambling.

Sales of Scratch-itsSM were the second largest source of revenue during fiscal year 2008. One of Lottery's marketing campaigns promoted Scratch-itsSM games to increase awareness of this product with both current and new players. In addition, the Lottery continued to select a variety of new games at various price points in its efforts to engage new players and maximize revenues for the State.

Capital Assets

The Lottery's investment in capital assets for the current and prior fiscal year is shown in Table 3 below. The majority of capital assets used in operations are equipment such as gaming terminals and ticket vending machines.

Table 3: Oregon State Lottery's Capital Assets, Net of Depreciation

	2008	2007	Change
Equipment	\$ 94,248,972	\$ 84,014,872	\$ 10,234,100
Buildings and improvements	8,013,446	8,235,017	(221,571)
Computer software	5,446,542	2,632,331	2,814,211
Vehicles	1,731,237	1,791,668	(60,431)
Construction in progress	60,355	-	60,355
Leasehold improvements	1,440	1,952	(512)
Total	\$ 109,501,992	\$ 96,675,840	\$ 12,826,152

During fiscal year 2008, net capital assets increased by \$12.8 million, a 13.3 percent increase. The net change is primarily attributed to the purchase of new gaming equipment and software as well as depreciation expense for the year. The Lottery plans to continue investing in new terminals next year and refresh games to stimulate player interest; \$44.0 million is committed for the purchase of 3,800 new Video LotterySM terminals along with \$5.2 million for new games. Additional information on Lottery's capital assets can be found in Note 6 of this report.

Factors Relevant to Next Year's Budget

Senate Bill 571, passed during the 2007 legislative session, prohibits smoking in public places and places of employment effective January 1, 2009. The ban includes bars and taverns where Lottery products are sold. On a quarterly basis, the Office of Economic Analysis (OEA) forecasts lottery earnings and distributions. In the September 2008 Economic and Revenue Forecast, the OEA estimated there will be a six percent reduction in Video LotterySM revenue during the first quarter of 2009, with lesser declines beginning in the second quarter as retailers adjust to the new smoking restrictions. In the December 2008 Economic and Revenue Forecast, the OEA further lowered projected Video LotterySM sales for the 2007-2009 biennium to factor in the expected affects of an overall reduction in consumer spending. Lottery's 2009 budget, as revised for the OEA December 2008 Economic and Revenue Forecast, takes this expected impact as well as a softening of Oregon's economy into consideration.

The Lottery's fiscal year 2009 budget is conservative due to the issues mentioned above, but does make investments to mitigate the potential negative effect of the smoking ban. Approximately \$49.2 million will be invested in new Video LotterySM terminals and games so that product offerings are fresh to keep players interested and attract new players that may enjoy a smoke free environment. In the fall of 2008, a new traditional gaming system will be implemented that will expand capacity to offer new types of games and provide new functionality and efficiencies. These proactive steps will place Lottery in the best position possible to maximize revenues for the State.



Basic Financial Statements

OREGON STATE LOTTERY

Balance Sheet

June 30, 2008

Assets

Current Assets:

Cash and Cash Equivalents	\$ 269,727,733
Investments for Prize Payments	13,696,624
Securities Lending Cash Collateral	177,620,802
Accounts Receivable - Net of Allowance for Doubtful Accounts of \$331,486	27,769,676
Ticket Inventory	2,214,815
Prepaid Expenses	908,431

Total Current Assets	491,938,081
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Noncurrent Assets:

Prize Reserves with Multi-State Lottery (MUSL)	2,693,745
Investments for Prize Payments	97,524,462

Capital Assets:

Equipment	145,486,419
Vehicles	3,653,571
Building and Improvements	11,592,483
Leasehold Improvements	73,164
Construction in Progress	60,355
Computer Software	12,037,900
Less Accumulated Depreciation and Amortization	(63,401,900)

Total Noncurrent Assets	209,720,199
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Total Assets	\$ 701,658,280
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Liabilities and Net Assets

Current Liabilities:

Accounts Payable	\$ 13,599,014
Compensated Absences	1,629,568
Deposit Liability	130,914
Prize Liability	30,697,524
Obligations Under Securities Lending	177,620,802
Due to Economic Development Fund	169,392,916

Total Current Liabilities	393,070,738
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Noncurrent Liabilities:

Deferred Prize Liability	97,524,462
Compensated Absences	802,623
Net Other Postemployment Benefits (OPEB) Obligation	190,657

Total Noncurrent Liabilities	98,517,742
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Total Liabilities	491,588,480
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Net Assets:

Invested in Capital Assets	109,501,992
Unrestricted Net Assets	100,567,808

Total Net Assets	210,069,800
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Total Liabilities and Net Assets	\$ 701,658,280
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The accompanying notes are an integral part of the financial statements.

OREGON STATE LOTTERY
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended June 30, 2008

Operating Revenues

Sales:

Video Lottery SM (Net Receipts)	\$ 895,111,696
Scratch-its SM Instant Tickets (Net of Returns)	124,704,686
On-Line - Keno	109,787,942
On-Line - Powerball® (MUSL)	55,969,079
On-Line - Megabucks SM	37,149,930
On-Line - Win For Life SM	6,675,988
On-Line - Lucky Lines SM	2,131,474
On-Line - Pick 4 SM	1,401,230
Breakopen Instant Tickets	857,671
Provision for Bad Debts	<u>(7,797)</u>
Total Operating Revenues	<u>1,233,781,899</u>

Operating Expenses

Retailer Commissions	240,475,998
Prizes	231,364,323
Salaries and Wages	34,322,749
Depreciation and Amortization	30,843,314
Advertising and Market Research	9,885,584
Game Vendor Charges	9,371,513
Services and Supplies	8,767,744
Public Information	5,463,575
Tickets	4,232,601
Game Equipment Parts and Maintenance	2,485,770
Sales Support	<u>1,569,079</u>
Total Operating Expenses	<u>578,782,250</u>
Operating Income	<u>654,999,649</u>

Nonoperating Revenues (Expenses)

Interest and Investment Income	28,068,310
Other Income	751,113
Investment Expenses - Securities Lending	<u>(5,047,007)</u>
Total Nonoperating Revenues (Expenses)	<u>23,772,416</u>
Income Before Transfers	678,772,065
Transfers to the Economic Development Fund	<u>(648,408,187)</u>
Change in Net Assets	30,363,878
Net Assets - Beginning	<u>179,705,922</u>
Net Assets - Ending	<u>\$ 210,069,800</u>

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

OREGON STATE LOTTERY
Statement of Cash Flows
For the Year Ended June 30, 2008

Cash Flows from Operating Activities:	
Receipts from Customers	\$ 1,230,026,827
Payments to Employees for Services	(33,851,054)
Payments to Suppliers	(282,278,664)
Payments to Prize Winners	(233,842,614)
Net Cash Provided (Used) by Operating Activities	<u>680,054,495</u>
Cash Flows from Noncapital Financing Activities:	
Transfers to the Economic Development Fund	(691,911,108)
Other Income	1,649,793
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(690,261,315)</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Capital Assets	(44,233,369)
Proceeds from Disposition of Capital Assets	246,698
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(43,986,671)</u>
Cash Flows from Investing Activities:	
Purchases of Investments	(2,574,232)
Proceeds from Sales and Maturities of Investments	14,332,900
Interest on Investments and Cash Balances	16,664,229
Securities Lending Expenses	(5,047,007)
Net Cash Provided (Used) by Investing Activities	<u>23,375,890</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(30,817,601)
Cash and Cash Equivalents - Beginning	300,545,334
Cash and Cash Equivalents - Ending	<u>\$ 269,727,733</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating Income	\$ 654,999,649
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation and Amortization	30,843,314
Net Changes in Assets and Liabilities:	
(Increase) / Decrease in Accounts Receivable	(3,755,071)
(Increase) / Decrease in Ticket Inventory	103,316
(Increase) / Decrease in Prepaid Expenses	60,450
Increase / (Decrease) in Accounts Payable	(179,469)
Increase / (Decrease) in Compensated Absences Liability	281,036
Increase / (Decrease) in Other Postemployment Benefits (OPEB) Obligation	190,657
Increase / (Decrease) in Deposit Liability	(11,098)
Increase / (Decrease) in Prize Liability	(2,478,289)
Total Adjustments	<u>25,054,846</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 680,054,495</u>
Noncash Investing, Capital, and Related Financing Activities:	
Net Change in Fair Value of Investments	\$ 11,404,080
Total Noncash Investing, Capital, and Related Financing Activities	<u>\$ 11,404,080</u>

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

OREGON STATE LOTTERY

Notes to the Financial Statements

June 30, 2008

1. 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 Oregon voters at the November 1984 general election. The Commission established the Oregon State Lottery (Lottery), which is an enterprise fund of the State of Oregon. The Lottery commenced operations to market and sell Lottery products to the public in January 1985. The net profits of the Lottery are transferred to the Oregon Economic Development Fund and are then distributed by the State of Oregon to finance the various public purposes allowed by law.

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

The accompanying financial statements of the Lottery have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB). FASB standards of accounting and financial reporting issued prior to December 1, 1989 are followed for the Lottery's financial statements to the extent that those standards do not conflict with or contradict GASB pronouncements. As allowed by GASB standards, the Lottery has elected not to follow subsequent FASB guidance.

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 funds account for activities that are financed and operated in a manner similar to private business enterprises.

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 nonoperating in the Statement of Revenues, Expenses and Changes in Fund Net Assets. Operating revenues and expenses are those that result from selling Lottery games to the public. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. Revenues and expenses that do not result from selling Lottery games, such as investment income and investment expenses, are reported as nonoperating revenues and expenses.

Assets and liabilities are classified on the Balance Sheet as current and noncurrent. Current assets are available, or will become available, within the next fiscal year to pay operating expenses and liabilities of the Lottery. Current liabilities are due in the next fiscal year. Noncurrent assets are not easily liquidated or are restricted for purposes other than payment of normal operations and liabilities. Noncurrent liability amounts are due in periods following the upcoming fiscal year.

Total net assets are segregated into two categories: invested in capital assets and unrestricted net assets. The Lottery has no outstanding debt associated with its capital assets. Article XV of the Oregon Constitution restricts the use of Lottery revenues for payment of prizes and administrative expenses, and remaining revenues are to be used for public purposes allowed in Article XV. Net proceeds not yet transferred are reflected in liabilities as the amount due to the Economic Development Fund. Net assets reported at year end will be used for Lottery operations.

C. Sales Revenue

Revenues for on-line games (MegabucksSM, Powerball[®], Keno, Win for LifeSM, 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 8 for more information on Video LotterySM revenue and prize expense). All revenues are reported net of free plays, discounts, and allowances.

D. Prize Expense

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 are 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 investment income and prize expense in the fiscal year it is earned.

Video LotterySM prize expense is recognized as game play completes and prizes are known. Detailed information is in Note 8.

The cost of Lottery products distributed through various promotional activities is included in ticket expense and any prizes (actual or estimated) are recorded in prize expense. The sales value of these products for the fiscal year ended June 30, 2008 was \$124,900.

E. Prize Liability

Prize liability is recorded when the prize expense is recognized (see Note 1.D.). 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 noncurrent 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.

F. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, test cash held by employees, and cash and investments held in the Oregon Short-Term Fund (OSTF). For purposes of the Statement of Cash Flows, all Lottery moneys held by the Office of the State Treasurer in the OSTF are considered to be cash equivalents. The OSTF is an investment pool that functions as a demand deposit account.

G. Investments

Investments are reported at fair value. The fair value of investments is determined using quoted market prices. Investments include securities held by the Office of the State Treasurer in the Lottery's name to fund long-term prize payments. Changes in the fair value of investments are recognized as investment income (loss) in the current year.

H. Securities Lending

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

I. Accounts Receivable

Accounts receivable is reported net of an allowance for uncollectible accounts. Receivables primarily consist of proceeds due from Lottery retailers. Most retailers selling 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.

J. Inventories

Inventories are valued at cost using the specific identification method. 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.

K. Prize Reserves

Prize reserves held by the Multi-State Lottery (MUSL) are amounts held to indemnify participating lotteries for prizes that may be won. Should the Lottery decide against participation in MUSL, these amounts would be returned.

L. Capital Assets

Capital assets, which mainly include gaming equipment and related software, are reported at historical cost. Assets with a cost of \$5,000 or more and a useful life of one year or more are capitalized. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	10 to 40
Video lottery terminals	5
Instant ticket vending machines	5
Other machinery and equipment	5
Leasehold improvements	5
Vehicles	3
Computer hardware and software	3

In the fiscal year ended June 30, 2008, the estimated useful life of Video LotterySM terminals was changed from seven years to five years due to a business decision to replace this revenue producing equipment in accordance with Lottery's Strategic Plan and industry practice.

M. Compensated Absences

Employees earn annual vacation leave of 10 to 19.34 hours per month, depending upon length of service. All Lottery employees may accumulate a maximum of 350 hours per employee. Accumulated vacation leave and accumulated compensatory time is recorded as an expense and a liability (compensated absences) as the benefits accrue to employees. The compensated absences liability is calculated based upon salary rates in effect at fiscal year end and includes taxes and retirement costs. No liability is reported for accumulated sick leave benefits since employees are not paid for unused sick leave benefits when leaving State service.

2. Stewardship and Legal Compliance

A. Budgetary Compliance

The Oregon State Lottery is exempt from State of Oregon Budget Laws. For budgeting purposes, the Commission adopts an annual Financial Plan based on activities identified in Lottery's annual Business Plan and revenue forecasts prepared by the Oregon Department of Administrative Services, Office of Economic Analysis. Quarterly, budgeted revenues and direct expenses (prizes, commissions, game vendor charges, and tickets) are revised for changes in revenue forecasts. Revisions to other expense items in the adopted budget must be approved by the Commission. The budget is prepared on the accrual basis of accounting. Actual expenses are monitored throughout the year for compliance with the approved budget and appropriate adjustments, if necessary, are presented to the Commission for approval. A comparison of revenues and expenses to the final revised and approved fiscal year 2008 Financial Plan is presented as supplementary information in this report.

B. Use of Revenues and Net Revenues

Article XV of the Oregon Constitution requires that all prizes and expenses of the Lottery be paid from Lottery revenues and any remaining proceeds 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 in the Constitution, that at least 50 percent of the total annual revenues be returned to the public in the form of prizes, and that no more than 16 percent may be allocated for the payment of administrative expenses.¹ The following table shows that for fiscal year 2008 the Lottery operated within the legal limits defined by ORS 461.500:

	Traditional Lottery	Video Lottery SM	Total	
Revenues				
Sales (Net of Provision for Bad Debt)	\$ 338,677,099	\$ 12,118,387,130	\$12,457,064,229	
Other Distributable Income	1,086,408	10,641,348	11,727,756	
Total Distributable Revenue	\$ 339,763,507	\$ 12,129,028,478	\$12,468,791,985	
Distribution of Revenues				
Revenues Returned to the Public:				
Prizes to the Public	\$ 214,791,229	\$ 11,222,416,625	\$11,437,207,854	91.73%
Unclaimed Prizes Paid/Due to Economic Development Fund	5,169,014	865,705	6,034,719	0.05%
Transfers Paid/Due to Economic Development Fund	64,529,277	583,878,910	648,408,187	5.20%
Total Revenues Returned to the Public	284,489,520	11,807,161,240	12,091,650,760	96.98%
Administrative Expenses	56,935,129	289,842,218	346,777,347	2.78%
Retained for Contingency Reserve	(1,661,142)	32,025,020	30,363,878	0.24%
Total Revenue Distribution	\$ 339,763,507	\$ 12,129,028,478	\$12,468,791,985	100.00%

¹ Attorney General Opinion No. 8220 advises that ORS 461.548 regarding Video LotterySM proceeds is unconstitutional and is not applicable. It is not included here.

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 2008, prizes in the amount of \$6,034,719 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 2008, \$30,363,878 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 at June 30, 2008:

Cash Available for Future Investment (Uncommitted Contingency Reserve)	\$ 45,000,000
Committed by Contract for Asset Purchases (See Note 12.A.)	17,614,004
Committed by Commission for Fiscal Year 2009 Capital Purchases	32,136,813
Inventory, Prepaid Expenses, Prize Reserves	5,816,991
Total Unrestricted Net Assets	\$ 100,567,808

E. Transfers to Economic Development Fund

The Transfers to the 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 \$30,363,878 retained by the Lottery. Actual cash transferred, including unclaimed prizes, during fiscal year 2008 was \$691,911,108. The remaining balance is included on the Balance Sheet in liabilities. The following schedule reconciles the amounts:

	<u>Balance Owed at June 30, 2007</u>	<u>Amounts Accrued</u>	<u>Cash Paid to Economic Development</u>	<u>Balance Remaining at June 30, 2008</u>
Income	\$ 205,329,681	\$ 648,408,187	\$ 686,005,756	\$ 167,732,112
Unclaimed Prizes	1,531,437	6,034,719	5,905,352	1,660,804
Total	<u>\$ 206,861,118</u>	<u>\$ 654,442,906</u>	<u>\$ 691,911,108</u>	<u>\$ 169,392,916</u>

3. Deposits

The Office of the State Treasurer maintains the Oregon Short-Term Fund (OSTF), a cash and investment pool available for use by state agencies and local governments. The Lottery uses the OSTF for all deposits.

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the State Treasurer will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Lottery does not have a policy regarding custodial credit risk for deposits; however, the insurance and collateral requirements for deposits in the OSTF are established by banking regulations and Oregon law. State Treasurer demand deposit accounts are insured or collateralized for at least 25 percent of the balance in excess of FDIC coverage, in accordance with State statute. Balances in excess of the FDIC insurance and collateralization requirements are considered exposed to custodial credit risk. Since the OSTF is a pool, it is difficult to estimate the amount of Lottery's deposits that are exposed to custodial credit risk, if any. Lottery's book balance of deposits with the

OSTF was \$269,714,401 at June 30, 2008, and the balance reported by OSTF was \$273,886,957. The difference was mainly checks written by the Lottery that had not yet cleared the bank.

4. Investments

The State Treasurer is the Investment Officer for the State of Oregon. Investment standards are established in ORS 293.726 and require funds to be managed as a prudent investor would do. The Lottery does not have an investment policy.

A. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the State Treasurer will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Lottery's investments with the Office of the State Treasurer are registered in street name and held with the State Treasurer's agent in the name of the State of Oregon and segregated in the Treasurer's records in Lottery's name.

B. Credit Risk and Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Lottery holds \$38,988,905 of investments in the Resolution Funding Corporation (RFC), a U.S. government agency. These investments are not explicitly guaranteed by the U.S. government. As of June 30, 2008, investments in RFC were rated AAA by Standard and Poor's. The Lottery also holds \$2,784,292 of investments in CATS and TIGRs (Certificates of Accrual on Treasury Securities/Treasury Income Growth Receipts) which are unrated. The underlying securities are U.S. Treasury securities that had AAA ratings at June 30, 2008.

Concentration of credit risk is the risk of loss attributed to the magnitude of investments in a single issuer. The \$38,988,905 of investments in the RFC represents 35.1 percent of the Lottery's investment holdings.

C. 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. Lottery's investments are purchased to closely match the liability stream for prize payouts and are intended to be held until maturity.

The following table shows the segmented time distribution of the fair value of all Lottery investments at June 30, 2008:

Investment Type	Investment Maturities in Years				Fair Value
	Less than 1 Year	1-5 Years	6-10 Years	More Than 10 Years	
U.S. Agency Strips	\$ 1,871,124	\$ 22,471,100	\$ 12,184,814	\$ 2,461,867	\$ 38,988,905
U.S. Treasury Strips	9,041,208	21,727,807	17,115,561	21,563,313	69,447,889
U.S. Treasury Receipts	2,784,292	-	-	-	2,784,292
Total Investments	\$ 13,696,624	\$ 44,198,907	\$ 29,300,375	\$ 24,025,180	\$ 111,221,086

5. Securities Lending

In accordance with State of Oregon (State) investment policies, state agencies may participate in securities lending. The Office of the State Treasurer has authorized its custodian to act as its agent in the lending of the State's securities pursuant to a form of loan agreement. There were no significant violations of the provisions of securities lending agreements during the fiscal year.

During fiscal year 2008, the State's securities lending agent lent short-term and fixed income securities from the OSTF and U.S. Government securities segregated to the Lottery and received as collateral 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 securities lending agent made on its behalf. The State did not have the ability to pledge or sell collateral securities absent a borrower default; however, the Lottery and the State, through the State Treasurer's Securities Lending Agreements, are 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 generally did not match the maturities of the securities loans. On June 30, 2008, the State and the Lottery had no credit risk exposure to borrowers related to securities on loan.

As of June 30, 2008, the total fair value of securities on loan from the OSTF was \$4,746,661,246, the cash collateral received was \$4,841,867,061 and the fair value of invested collateral was \$4,812,941,586. 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, 2008, is presented in the following schedule:

Securities Lending Balances			
	Fair Value of Securities on Loan	Cash Collateral Received	Fair Value of Invested Collateral
Lottery Share OSTF	\$ 133,587,513	\$ 136,261,868	\$ 135,452,871
Lottery Investments	40,810,815	41,358,934	41,113,383
Total	<u>\$ 174,398,328</u>	<u>\$ 177,620,802</u>	<u>\$ 176,566,254</u>

6. Capital Assets

Capital asset activity for the year ended June 30, 2008, is shown in the schedule below:

	Beginning Balance	Additions	Disposals	Ending Balance
Depreciable Capital Assets				
Equipment	\$ 127,932,896	\$ 37,299,150	\$ (19,745,627)	\$ 145,486,419
Vehicles	3,634,252	477,030	(457,711)	3,653,571
Building and Improvements	11,489,404	271,017	(167,938)	11,592,483
Leasehold Improvements	71,436	1,728	-	73,164
Computer Software	7,483,605	6,124,089	(1,569,794)	12,037,900
Total Assets Being Depreciated	150,611,593	44,173,014	(21,941,070)	172,843,537
Accumulated Depreciation				
Equipment	43,918,024	26,771,844	(19,452,421)	51,237,447
Vehicles	1,842,584	431,977	(352,227)	1,922,334
Building and Improvements	3,254,387	368,509	(43,859)	3,579,037
Leasehold Improvements	69,484	2,240	-	71,724
Computer Software	4,851,274	3,268,744	(1,528,660)	6,591,358
Total Accumulated Depreciation	53,935,753	30,843,314	(21,377,167)	63,401,900
Capital Assets Not Being Depreciated				
Construction in Progress	-	60,355	-	60,355
Capital Assets, Net	\$ 96,675,840	\$ 13,390,055	\$ (563,903)	\$ 109,501,992

7. Long-term Liabilities

As of June 30, 2008, there were 74 Oregon Lottery game winners with long-term annual payments and five Multi-State Lottery game winners with long-term annual payments. The estimated number of years remaining for payments ranges from one to 33 years. Current prize liability shown on the Balance Sheet includes \$17,000,901 in estimated and actual prizes won that have not yet been claimed.

The following schedule presents changes in long-term liabilities as well as the amounts due in the next fiscal year:

	Long-term Liabilities				
	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Prizes	\$137,102,194	\$ 235,258,626	\$ (244,138,834)	\$128,221,986	\$ 30,697,524
Compensated Absences	2,151,155	481,157	(200,121)	2,432,191	1,629,568
Net OPEB Obligation	-	190,657	-	190,657	-
Total	\$139,253,349	\$ 235,930,440	\$ (244,338,955)	\$130,844,834	\$ 32,327,092

8. Video LotterySM Net Revenue

Video LotterySM revenue is reported net of prize expense in the Statement of Revenues, Expenses, and Changes in Fund Net Assets. The following schedule reconciles cash received with actual wagering and prize activity:

<u>Revenue</u>		<u>Prize Expense</u>	
Cash Received	\$ 2,773,480,740	Cash Paid Out	\$ 1,878,369,044
Dollars Won and Played	<u>9,344,913,286</u>	Dollars Won and Played	<u>9,344,913,286</u>
Total Revenue	<u>\$ 12,118,394,026</u>	Total Prizes	<u>\$ 11,223,282,330</u>
Net Revenue = \$ 895,111,696			

9. Discounts and Allowances

Revenues are reported net of discounts, free plays and allowances in the Statement of Revenues, Expenses and Changes in Fund Net Assets. For the fiscal year ended June 30, 2008, sales revenue is reported net of \$1,022,673 in discounts and free plays and net of \$7,797 in allowances.

10. Joint Venture

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. The Oregon Lottery has been a participating member since the inception of MUSL. 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. The Oregon Lottery's share of MUSL's operating expenses for the fiscal year ended June 30, 2008, was \$20,000.

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

The following schedule presents the summarized financial activity of MUSL as of June 30, 2008 and June 30, 2007 (in thousands):

	<u>2008</u>	<u>2007</u>
Assets	\$ 899,702	\$ 972,392
Total Assets	<u>\$ 899,702</u>	<u>\$ 972,392</u>
Liabilities	\$ 899,427	\$ 972,195
Net Assets - Unrestricted	<u>275</u>	<u>197</u>
Liabilities and Net Assets	<u>\$ 899,702</u>	<u>\$ 972,392</u>
Unrestricted Revenues	\$ 11,168	\$ 14,335
Unrestricted Expenses	<u>11,090</u>	<u>14,349</u>
Change in Unrestricted Net Assets	<u>\$ 78</u>	<u>\$ (14)</u>

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

11. Operating Lease Commitments

Operating leases are agreements for the use of property, plant or equipment. As of June 30, 2008, there were two lease agreements in effect that had a noncancelable lease term in excess of one year. The agreements cover video system equipment and equipment for the traditional (instant and on-line) sales processing system.

The original video agreement began in fiscal year 1996, and the most recent contract amendment extended the agreement through October 4, 2010. The agreement includes all necessary equipment for a central and backup video host system and has flat monthly rates of \$147,603.

The traditional system agreement was signed on October 3, 2007 and remains in effect for seven years from the date of conversion, which is anticipated to occur in November 2008. The Lottery is allowed, through one or more amendments, to extend the contract up to ten years from the conversion date. The Lottery has agreed to lease 430 self-service kiosks for \$186.75 per month, per kiosk; and 3,100 monitors for \$7.50 per monitor, per month. Equipment leasing fees will begin being charged on the date of conversion.

Future minimum lease payments for these two lease agreements as of June 30, 2008 are shown in the schedule below:

Future Minimum Lease Payments	
<u>Year Ending June 30,</u>	<u>Operating Leases</u>
2009	\$ 2,599,656
2010	3,013,866
2011	1,833,042
2012	1,242,630
2013	1,242,630
2014-2016	2,899,470
Total Future Minimum Lease Payments	\$ 12,831,294

Lease expense for fiscal year 2008 for the video system equipment was \$1,771,236.

12. Other Significant Commitments and Contingencies

A. Commitments

At June 30, 2008, the Lottery had commitments of \$17,614,004 for the purchase of gaming equipment and software. The purchases are expected to occur in the upcoming fiscal year.

In addition, the Lottery contracts for services and the use of software associated with processing transactions for its traditional products. The contractor is paid a commission based on a percentage of net sales. Commission rates effective through June 21, 2008, were 3.5 percent of net on-line sales and 3.0 percent of net instant sales more than \$125,000,000. The commission rate effective as of June 22, 2008 is 1.6999 percent of net sales for all traditional products. In fiscal year 2008, the Lottery had expenses of \$7,406,309 for on-line commissions and \$40,522 for instant sales commissions. The amounts are included in Game Vendor Charges on the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

During the year the Lottery entered into a contract for the development, installation, and operation of a traditional transaction processing system that will replace the existing system. Billing under the new contract will begin when the new system is implemented in November of 2008. The commission rate is 1.6999 percent of net traditional sales. The new contract will be in effect for seven years from the system implementation date.

B. Unemployment Benefits

State employees who qualify are entitled to benefit payments during periods of unemployment. Each state agency is required to reimburse the Employment Department for benefit payments made to 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 fiscal year end. Consequently, this potential obligation is not reported in the accompanying financial statements. Total reimbursements for unemployment benefits for the fiscal year ended June 30, 2008 were \$19,753.

13. Employee Retirement Plans

The Oregon Public Employees Retirement System (PERS) administers retirement plans for eligible Lottery employees. PERS is administered by the Public Employees Retirement Board (Board), as required by Chapters 238 and 238A of the Oregon Revised Statutes. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERS Fiscal Services Division, 11410 SW 68th Parkway, Tigard, Oregon 97223.

A. Public Employees Retirement System Pension (Chapter 238)

Lottery employees who were plan members before August 29, 2003, participate in the Public Employees Retirement System (PERS) Pension, a cost-sharing multiple-employer defined benefit plan. The PERS retirement allowance is payable monthly for life and may be selected from several retirement benefit options. These options include survivorship benefits and lump sum payments. PERS also provides death and disability benefits. The Legislature has authority to establish and amend PERS pension benefits.

The Board establishes employer contributions based on actuarially determined rates. The funding policies provide for monthly employer contributions. The Lottery is required by statute to contribute actuarially computed amounts. The employer rates for a covered employee's salary for fiscal year 2008 were 4.98 percent from July 1, 2007 through December 31, 2007 and 6.07 percent from January 1, 2008 through June 30, 2008. Lottery contributions for the fiscal year ended June 30, 2008, were approximately \$1,036,000. Contributions for fiscal year 2007 were approximately \$1,330,000 and \$1,260,000 for fiscal year 2006. These contributions were equal to the required contributions for each year. Plan member contributions are established by statute. The employee rate for fiscal year 2008 was 6.0 percent of covered salary.

B. Oregon Public Service Retirement Plan (Chapter 238A)

The 2003 Oregon Legislature created the Oregon Public Service Retirement Plan (OPSRP), also a cost-sharing multiple-employer plan. OPSRP is a hybrid pension plan with two components: the Pension Program (defined benefit) and the Individual Account Program (defined contribution). Lottery employees hired after August 28, 2003 participate in OPSRP after completing six months of service. The OPSRP Pension Program provides a monthly pension payable for life as well as death and disability benefits. The Legislature has authority to establish and amend OPSRP pension benefits.

The Board establishes employer contributions based on actuarially determined rates. The funding policies provide for monthly employer contributions. The Lottery is required by statute to contribute actuarially computed amounts. The employer rate for a covered employee's salary for fiscal year 2008 was 7.74 percent. Lottery contributions for the fiscal year ended June 30, 2008, were approximately \$261,000. Contributions for fiscal year 2007 were approximately \$151,000 and

\$97,000 for fiscal year 2006. These contributions were equal to the required contributions for each year.

Beginning January 1, 2004, PERS members became members of the Individual Account Program (IAP) portion of OPSRP. PERS members retain their existing PERS accounts, but member contributions are now deposited in the IAP account rather than into the member's PERS account. All covered employees are required by state statute to contribute 6.0 percent of their salary to the IAP. Current law permits employers to pay the employee contribution, which the Lottery has elected to do. The amount contributed by Lottery on behalf of employees for the fiscal years ended June 30, 2008, 2007, and 2006 were approximately \$1,304,000, \$1,170,000, and \$1,038,000, respectively. These contributions were equal to the required contributions for each year.

14. Other Postemployment Benefit Plans

The Public Employees Retirement Board contracts for healthcare insurance coverage on behalf of members of the Public Employees Retirement System (PERS). Retirees who are eligible for PERS healthcare coverage pay their own age-adjusted premiums. PERS administers two separate defined benefit other postemployment benefit (OPEB) plans. The Public Employees Benefit Board (PEBB) also administers an OPEB plan. Lottery retirees may be eligible to participate in any of these three OPEB plans.

A. Retirement Health Insurance Account

Plan Description. The Retirement Health Insurance Account (RHIA) is a cost-sharing multiple-employer defined benefit OPEB plan administered by PERS. As authorized by ORS 238.420, the RHIA plan provides a subsidy payment of up to \$60 toward the monthly cost of PERS-sponsored health insurance for eligible PERS members. The Legislature has authority to establish and amend benefit provisions. PERS issues a publicly available report that includes financial statements and required supplementary information. That report may be obtained by writing to PERS Fiscal Services Division, 11410 SW 68th Parkway, Tigard, Oregon 97223.

Funding Policy. ORS 238.420 provides that contribution requirements of the participating employers be established and may be amended by the Public Employees Retirement Board (Board). The Board establishes the employer contribution rate based on the annual required contribution (ARC) of the employers, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For the fiscal year ended June 30, 2008, the Lottery was required by statute to contribute 0.37 percent of PERS covered payroll and 0.26 percent of OPSRP covered payroll to fund the RHIA. Actual employer contributions made by Lottery for the current year were approximately \$77,000. Contributions for fiscal year 2007 and 2006 were approximately \$99,000 and \$102,000 respectively. Contributions were equal to the required contributions for each year. Plan members do not contribute to the RHIA plan.

B. Retiree Health Insurance Premium Account

Plan Description. The Retiree Health Insurance Premium Account (RHIPA) is a single-employer defined benefit OPEB plan administered by PERS. As authorized by ORS 238.415, the RHIPA plan provides for payment of the average difference between the health insurance premiums paid by retired state employees, under contracts entered into by the Public Employees Retirement Board, and health insurance premiums paid by state employees who are not retired. The Legislature has authority to establish and amend benefit provisions. PERS issues a publicly available report that includes financial statements and required supplementary information. That report may be obtained by writing to PERS Fiscal Services Division, 11410 SW 68th Parkway, Tigard, Oregon 97223.

Funding Policy. ORS 238.415 provides that employer contributions be established and may be amended by the Public Employees Retirement Board (Board). The Board establishes the employer contribution rate based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC

represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For the fiscal year ended June 30, 2008, the Lottery was required by statute to contribute 0.1 percent of PERS covered payroll and 0.03 percent of OPSRP covered payroll to fund the RHIPA. Plan members do not contribute to the RHIPA plan.

Annual OPEB Cost. For the fiscal year ended June 30, 2008, the Lottery's annual OPEB cost (expense) was approximately \$19,000 for the RHIPA which was equal to the ARC. Fiscal year 2007 and 2006 OPEB costs were approximately \$22,000 and \$26,000 respectively, and were equal to the ARC for each year. At transition, the RHIPA plan had a zero net OPEB obligation. Since 100 percent of the annual OPEB cost was contributed during the year, the net OPEB obligation was also zero at the end of the fiscal year. The State of Oregon's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2008 and the two preceding years were as follows:

RHIPA OPEB Plan - Annual OPEB Cost			
Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2006	\$ 2,200,000	100%	\$ -
6/30/2007	2,400,000	100%	-
6/30/2008	1,800,000	100%	-

Funded Status and Funding Progress. The funded status of the RHIPA plan as of December 31, 2007, the most recent actuarial valuation, was as follows (dollars in millions):

RHIPA OPEB Plan - Funded Status	
Actuarial Accrued Liability (AAL)	\$ 23.3
Actuarial Value of Plan Assets	7.8
Unfunded Actuarial Accrued Liability (UAAL)	\$ 15.5
Funded Ratio (Actuarial Value of Plan Assets/AAL)	33.6%
Covered Payroll	\$ 2,080.2
UAAL as a Percentage of Covered Payroll	0.7%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2007 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial value of plan assets is equal to the fair market value of assets on the valuation date. The actuarial assumptions include: an 8.0 percent investment rate of return; projected payroll

growth of 3.75 percent; a 2.0 percent cost of living adjustment; an inflation assumption of 2.75 percent; and an annual healthcare cost trend rate graded from 8.0 percent in 2008 to 5.0 percent in 2013. The unfunded actuarial accrued liability for the RHIPA plan is being amortized as a level percentage of payroll using a remaining closed amortization period of 20 years.

C. Public Employees Benefit Board Plan

Plan Description. The Public Employees Benefit Board (PEBB) plan is an agent multiple-employer defined benefit OPEB plan administered by PEBB that offers medical, dental and vision benefits to eligible retired employees. ORS Chapter 243 assigns PEBB the authority to establish and amend the benefit provisions of the PEBB Plan. The PEBB does not issue a separate financial report.

Funding Policy. State agency employer contributions and the contribution requirements of active employee plan members who are not represented by labor unions are established and amended through a directive issued by authorized individuals for the executive branch of state government. The PEBB establishes annual premiums to be charged for various levels of healthcare coverage. The PEBB Plan funding policy provides for employer contributions at amounts sufficient to fund benefits on a pay-as-you-go basis. Active employees do not make contributions. Participating retirees pay their own monthly premiums based on a blended premium rate since retirees are pooled together with active employees for insurance rating purposes.

Annual OPEB Cost and Net OPEB Obligation. The amount of contributions in relation to the ARC made by Lottery on a pay-as-you-go basis for the fiscal year ended June 30, 2008 was \$135,854 and the OPEB cost was \$326,511. The schedule below presents the components of the annual OPEB cost and the increase in the net OPEB obligation for the State of Oregon for the transition year ended June 30, 2008. The portion of the ending Net OPEB obligation allocated to Lottery was \$190,657, which represents 0.9 percent of the State's liability.

PEBB OPEB Plan	
Annual Required Contribution (ARC)	\$ 34,818,000
Interest on Net OPEB Obligation	-
Adjustment to ARC	-
Annual OPEB Cost	34,818,000
Contributions Made	(14,487,000)
Increase in Net OPEB Obligation	20,331,000
Beginning Net OPEB Obligation	-
Ending Net OPEB Obligation	<u>\$ 20,331,000</u>
Percent of Annual OPEB Cost Contributed	41.6%

Funded Status and Funding Progress. The funded status of the PEBB plan as of July 1, 2007, the most recent actuarial valuation, was as follows (dollars in millions):

PEBB OPEB Plan - Funded Status	
Actuarial Accrued Liability (AAL)	\$ 323.4
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 323.4</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0.0%
Covered Payroll	\$ 2,187.2
UAAL as a Percentage of Covered Payroll	14.8%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2007 actuarial valuation, the entry age normal actuarial cost method was used. Significant actuarial assumptions include: a 4.5 percent rate of return on the investment of present and future assets; a medical healthcare cost inflation rate graded from 5.8 percent in 2007 to 5.0 percent in 2024; and a dental healthcare cost inflation rate graded from 2.9 percent in 2007 to 4.0 percent for 2017 and beyond. The unfunded actuarial accrued liability for the PEBB plan is being amortized using the level dollar amortization method and an open amortization period of 30 years.

15. Risk Financing

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; workers' compensation; employee dishonesty; and faithful performance coverage for certain 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 payments is covered by charging an assessment to each state agency 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 equity in the Insurance Fund from the prior biennium. Lottery's fiscal year 2008 share of the 2007-2009 biennial assessment was \$430,119. For the Lottery, the amount of claim settlements did not exceed insurance coverage for each of the past three fiscal years.

16. Insurance Recoveries

Insurance recoveries not associated with capital asset impairments during fiscal year 2008 totaled \$25,570 and are reported in Other Income in the Statement of Revenues, Expenses and Changes in Fund Net Assets. This amount includes recoveries from the Insurance Fund and other sources.

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Required Supplementary Information

**Required Supplementary Information
Schedules of Funding Progress
Other Postemployment Benefit Plans**

(Dollars in Millions)

Public Employees Benefit Board (PEBB) Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2007	\$ 0	\$ 323.4	\$ 323.4	0%	\$ 2,187.2	14.8%

Retiree Health Insurance Premium Account (RHIPA) Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/2002	\$ 2.9	\$ 30.1	\$ 27.2	9.6%	\$ 1,741.9	1.6%
12/31/2003	4.0	25.0	21.0	16.0%	1,711.9	1.2%
12/31/2004 ¹	5.2	28.2	23.0	18.4%	1,851.4 ²	1.2%
12/31/2005	6.1	27.0	20.9	22.7%	1,827.0	1.1%
12/31/2006	7.0	23.4	16.4	30.0%	1,946.8	0.8%
12/31/2007	7.8	23.3	15.5	33.6%	2,080.2	0.7%

Notes to the Required Supplementary Information – Schedules of Funding Progress

¹ Effective with the 2004 valuation, the cost method was changed from Entry Age Normal to Projected Unit Credit, and the actuarial value of assets was changed from a four-year smoothed value to market value.

² Effective with the 2004 valuation, the Oregon Public Service Retirement Plan (OPSRP) payroll was included in the amortization of the UAAL.

The Public Employees Retirement System (PERS) issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERS Fiscal Services Division, 11410 SW 68th Parkway, Tigard, Oregon 97223.

The Public Employees Benefit Board (PEBB) does not issue a financial report.



Supplementary Information

Oregon State Lottery
An Enterprise Fund of the State of Oregon
Budgetary Basis Comparison Schedule
For the Fiscal Year Ended June 30, 2008
(See Note 2. A., Budgetary Compliance)
(Unaudited)

	<u>Actual</u>	<u>Budget¹</u>	<u>Variance Favorable/ (Unfavorable)</u>
<u>Revenue</u>			
Video Lottery SM (Gross Receipts)	\$ 12,118,394,026	\$ 12,139,722,000	\$ (21,327,974)
Scratch-its SM Instant Tickets	124,704,686	126,006,000	(1,301,314)
Keno	109,787,942	109,962,000	(174,058)
Powerball®	55,969,079	56,954,000	(984,921)
Megabucks SM	37,149,930	37,595,000	(445,070)
Win For Life SM	6,675,988	6,538,000	137,988
Lucky Lines SM	2,131,474	2,202,000	(70,526)
Pick 4 SM	1,401,229	1,410,000	(8,771)
Breakopen Instant Tickets	857,671	907,000	(49,329)
Total Revenue	<u>12,457,072,025</u>	<u>12,481,296,000</u>	<u>(24,223,975)</u>
Prize Expense	11,443,242,572	11,467,460,000	24,217,428
Net Revenue	<u>1,013,829,453</u>	<u>1,013,836,000</u>	<u>(6,547)</u>
<u>Direct Expenses</u>			
Retailer Commissions	240,475,998	246,384,000	5,908,002
Game Vendor Charges	9,371,513	9,847,644	476,131
Tickets	4,232,601	4,993,000	760,399
Advertising	9,181,040	9,999,500	818,460
Sales Support	1,569,079	2,079,095	510,016
Game Equipment/Parts & Maintenance	2,485,770	5,767,744	3,281,974
Research	704,544	727,062	22,518
Depreciation	28,358,768	24,691,301	(3,667,467)
Total Direct Expenses	<u>296,379,313</u>	<u>304,489,346</u>	<u>8,110,033</u>
Gross Profit	<u>717,450,140</u>	<u>709,346,654</u>	<u>8,103,486</u>
<u>Indirect Revenue</u>			
Other Income	11,719,960	9,733,151	1,986,809
<u>Indirect Expenses</u>			
Public Information	5,463,575	6,160,105	696,530
Personal Services	34,322,749	37,774,865	3,452,116
Services and Supplies	8,127,165	11,232,034	3,104,869
Depreciation	2,484,546	2,904,292	419,746
Total Indirect Expenses	<u>50,398,035</u>	<u>58,071,296</u>	<u>7,673,261</u>
Net Profit	<u>\$ 678,772,065</u>	<u>\$ 661,008,509</u>	<u>\$ 17,763,556</u>

¹Budget adopted by the Lottery Commission and adjusted by the Department of Administrative Services, Economic and Revenue Forecasts, published throughout the year.



Statistical Section

Statistical Section Index

This part of the Oregon State Lottery's comprehensive annual financial report presents detailed information to provide context for understanding what the information in the financial statements and note disclosures say about the Lottery's overall financial health.

Financial Trends

These schedules contain trend information to help the reader understand how the Lottery's financial performance has changed over time.

- Net Assets by Component
- Changes in Net Assets

Revenue Capacity

These schedules contain information to help the reader assess the Lottery's most significant revenue source, Lottery game sales income. The sales amounts reported for the top ten retailers and sales by county are based on Lottery's business year, which is slightly different than its fiscal year of July 1 through June 30. The business year begins on the Sunday following the last Saturday in June and ends on the last Saturday in the following June.

- Sales by Product
- Product Percent of Total Sales
- Top Ten Retailers
- Number of Lottery Retailers and Sales by County

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Lottery's financial activities take place.

- Demographic and Economic Data – State of Oregon
- Employment by Industry – State of Oregon
- Demographic Profile of Oregon Lottery Players

Operating Information

These schedules contain data to help the reader understand how the information in the Lottery's financial report relates to the products it provides and the activities it performs. There are many factors that impact the level of demand for Lottery products. Game themes, play-styles, price points, and prize payouts typically impact the sales of instant ticket games. For Video LotterySM, the level of demand is generally impacted by variety of game choices, entertaining and sophisticated graphics, and convenience of available retailer locations.

- Number of Employees
- Operating Indicators and Capital Asset Information

Note: The Lottery does not issue long-term debt; thus, information on debt capacity is not relevant.

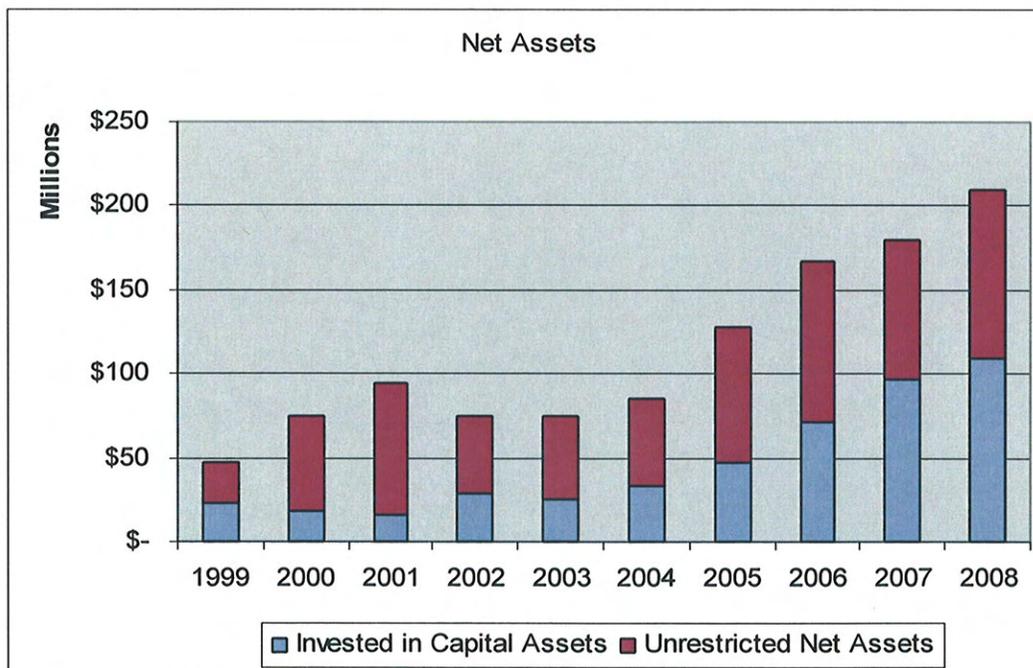
Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial report or the audited financial statements for the applicable year.

Oregon State Lottery

Net Assets by Component

Last Ten Fiscal Years

Fiscal Year	Invested in Capital Assets	Unrestricted Net Assets	Total Net Assets ¹
1999	\$ 23,287,443	\$ 24,175,062	\$ 47,462,505
2000	18,946,079	56,128,228	75,074,307
2001	15,944,190	78,985,396	94,929,586
2002	28,678,250	45,892,295	74,570,545
2003	25,748,947	49,251,053	75,000,000
2004	33,194,920	51,805,080	85,000,000
2005	47,552,216	80,097,104	127,649,320
2006	71,376,190	95,897,724	167,273,914
2007	96,675,840	83,030,082	179,705,922
2008	109,501,992	100,567,808	210,069,800



¹In fiscal year 2004, net assets of \$75,000,000 at June 30, 2003 were restated to \$74,170,254 with a prior period adjustment.

Note: The Lottery does not have any outstanding debt associated with its capital assets; thus, the caption Invested in Capital Assets, Net of Related Debt is not used.

Oregon State Lottery
Changes in Net Assets
Last Ten Fiscal Years

	1999	2000	2001	2002
Operating Revenues				
Sales:				
Video Lottery SM (Net Receipts)	\$ 402,581,509	\$ 436,531,650	\$ 462,398,035	\$ 480,201,739
Scratch-its SM Instant Tickets	132,742,079	132,888,825	129,345,971	130,697,042
On-Line - Keno	92,247,605	105,161,034	104,752,247	106,673,563
On-Line - Powerball® (MUSL)	43,315,885	35,685,779	38,104,163	44,308,637
On-Line - Megabucks SM	41,658,503	34,216,269	30,880,654	33,194,216
On-Line - Sports Action SM	9,692,178	9,528,148	9,777,530	9,455,680
On-Line - Win For Life SM	-	-	3,770,174	6,489,818
On-Line - Lucky Lines SM	-	-	-	-
On-Line - Pick 4 SM	-	778,315	2,406,063	2,248,679
Breakopen Instant Tickets	4,513,229	4,536,362	4,229,395	3,758,870
On-Line - Cash Quest	1,757,048	908,053	(525)	(8)
On-Line - Scoreboard SM	-	-	-	-
Provision for Bad Debts	(151,831)	(120,198)	(200,067)	(86,908)
Total Operating Revenues	728,356,205	760,114,237	785,463,640	816,941,328
Operating Expenses				
Retailer Commissions	154,331,189	168,972,877	175,711,399	183,271,609
Prizes	208,180,640	215,023,603	220,472,928	231,498,980
Salaries and Wages	19,442,950	20,987,551	23,014,660	25,383,940
Depreciation and Amortization	7,607,206	6,981,975	5,495,390	4,566,058
Advertising and Market Research	5,876,688	5,260,578	6,629,885	6,052,783
Game Vendor Charges	17,224,552	17,728,955	17,284,108	14,887,737
Services and Supplies	9,179,637	11,333,743	15,422,658	15,528,284
Public Information	2,140,319	2,455,535	2,413,137	2,621,854
Tickets	3,953,853	3,857,827	4,444,691	3,981,867
Game Equipment Parts and Maintenance	-	-	-	-
Sales Support	1,747,034	3,131,129	1,704,981	1,273,782
Total Operating Expenses	429,684,068	455,733,773	472,593,837	489,066,894
Operating Income	298,672,137	304,380,464	312,869,803	327,874,434
Nonoperating Revenues (Expenses)				
Interest and Investment Income (Loss)	6,950,400	11,052,175	17,467,649	12,612,329
Other Income	1,078,362	275,112	1,633,418	548,103
Investment Expenses - Securities Lending	(454,895)	(1,121,646)	(1,206,037)	(403,595)
Total Nonoperating Revenues (Expenses)	7,573,867	10,205,641	17,895,030	12,756,837
Income Before Transfers	306,246,004	314,586,105	330,764,833	340,631,271
Transfers to Economic Development Fund	(290,443,074)	(286,974,303)	(310,909,554)	(360,990,312)
Change in Net Assets¹	\$ 15,802,930	\$ 27,611,802	\$ 19,855,279	\$ (20,359,041)

¹Prior to the implementation of GASB Statement No. 34 in fiscal year 2002, Change in Net Assets was reported as Net Income (Loss).

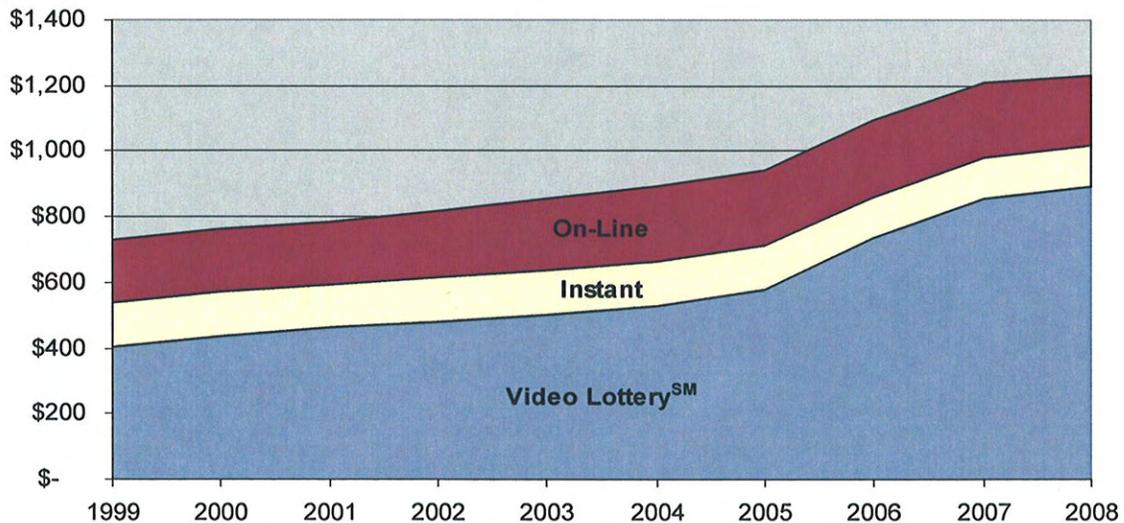
2003	2004	2005	2006	2007	2008
\$ 498,712,314	\$ 530,966,187	\$ 579,650,266	\$ 732,888,437	\$ 853,505,565	\$ 895,111,696
133,102,008	132,731,374	133,241,896	127,244,323	127,636,964	124,704,686
111,341,872	116,478,125	122,196,298	116,240,045	113,198,024	109,787,942
45,107,076	45,974,759	35,004,855	59,070,621	48,658,403	55,969,079
44,516,150	46,473,330	48,283,356	37,771,877	40,164,337	37,149,930
9,862,974	10,063,790	11,292,930	12,105,674	14,009,541	-
5,990,520	5,475,972	5,559,882	5,914,469	5,566,158	6,675,988
-	-	-	1,018,520	2,298,480	2,131,474
1,591,390	1,381,483	1,386,714	1,405,501	1,404,990	1,401,230
3,290,487	2,630,176	2,185,157	1,671,571	1,173,585	857,671
-	-	-	-	-	-
-	1,087,911	1,022,163	643,913	512,206	-
(154,345)	(133,563)	(294,516)	(29,002)	(56,434)	(7,797)
853,360,446	893,129,544	939,529,001	1,095,945,949	1,208,071,819	1,233,781,899
190,807,938	200,968,893	195,994,718	218,013,134	239,320,032	240,475,998
248,666,215	232,122,621	245,125,049	236,638,134	240,076,739	231,364,323
25,607,562	24,700,179	25,009,434	26,995,520	30,319,265	34,322,749
5,123,916	4,419,544	6,918,109	11,019,875	19,797,789	30,843,314
6,294,027	6,917,506	7,262,887	7,007,884	10,752,331	9,885,584
14,140,775	11,816,144	10,908,009	10,227,113	10,009,601	9,371,513
11,673,527	11,400,672	10,143,892	10,902,866	8,254,418	8,767,744
2,743,140	3,124,828	3,106,149	3,858,646	5,128,899	5,463,575
4,372,431	4,459,738	4,318,728	4,461,315	4,165,283	4,232,601
-	-	-	-	2,606,119	2,485,770
1,397,075	1,332,869	1,215,887	1,772,169	1,320,416	1,569,079
510,826,606	501,262,994	510,002,862	530,896,656	571,750,892	578,782,250
342,533,840	391,866,550	429,526,139	565,049,293	636,320,927	654,999,649
16,817,879	(34,460)	15,862,977	8,357,783	24,392,398	28,068,310
452,000	414,687	366,477	248,177	1,101,278	751,113
(483,488)	(837,276)	(1,525,023)	(2,998,549)	(5,352,243)	(5,047,007)
16,786,391	(457,049)	14,704,431	5,607,411	20,141,433	23,772,416
359,320,231	391,409,501	444,230,570	570,656,704	656,462,360	678,772,065
(358,890,776)	(380,579,755)	(401,581,250)	(531,032,111)	(644,030,352)	(648,408,187)
\$ 429,455	\$ 10,829,746	\$ 42,649,320	\$ 39,624,593	\$ 12,432,008	\$ 30,363,878

**Oregon State Lottery
Sales by Product
Last Ten Fiscal Years**

On-line Games

Fiscal Year	Video Lottery SM	Instant Products	Keno	Powerball®	Megabucks SM	All Other Games	Total
1999	\$402,581,509	\$137,255,308	\$92,247,605	\$43,315,885	\$ 41,658,503	\$11,449,226	\$ 728,508,036
2000	436,531,650	137,425,187	105,161,034	35,685,779	34,216,269	11,214,516	760,234,435
2001	462,398,035	133,575,366	104,752,247	38,104,163	30,880,654	15,953,242	785,663,707
2002	480,201,739	134,455,912	106,673,563	44,308,637	33,194,216	18,194,169	817,028,236
2003	498,712,314	136,392,495	111,341,872	45,107,076	44,516,150	17,444,884	853,514,791
2004	530,966,187	135,361,550	116,478,125	45,974,759	46,473,330	18,009,156	893,263,107
2005	579,650,266	135,427,053	122,196,298	35,004,855	48,283,356	19,261,689	939,823,517
2006	732,888,437	128,915,894	116,240,045	59,070,621	37,771,877	21,088,077	1,095,974,951
2007	853,505,565	128,810,549	113,198,024	48,658,403	40,164,337	23,791,375	1,208,128,253
2008	895,111,696	125,562,357	109,787,942	55,969,079	37,149,930	10,208,692	1,233,789,696

**Sales by Product Type
(In Millions)**

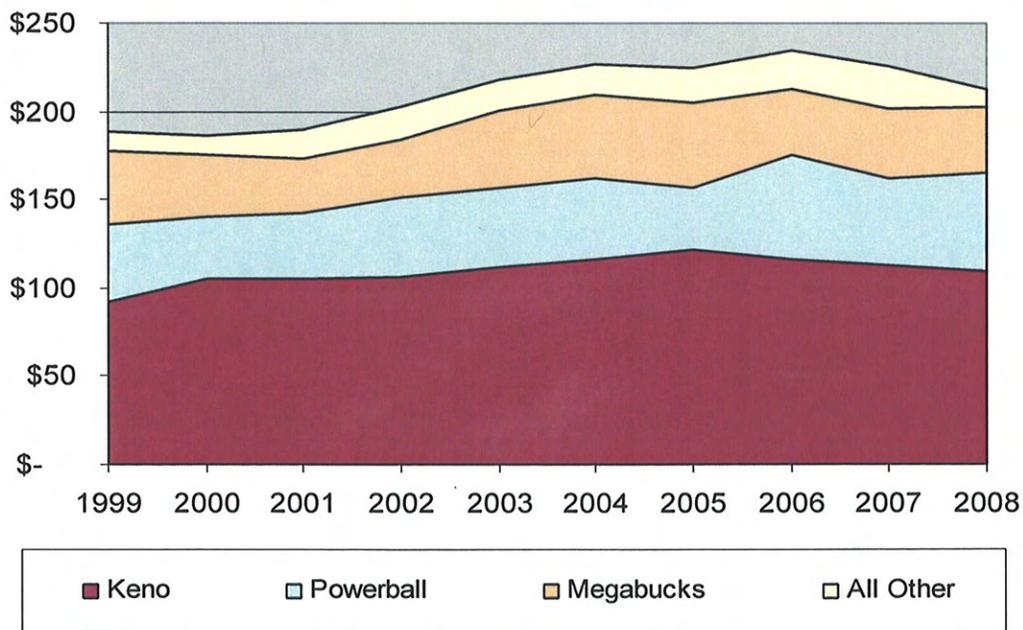


Oregon State Lottery
Product Percent of Total Sales
Last Ten Fiscal Years

On-line Games

Fiscal Year	Video Lottery SM	Instant Products	Keno	Powerball®	Megabucks SM	All Other Games
1999	55.3%	18.8%	12.7%	5.9%	5.7%	1.6%
2000	57.4%	18.1%	13.8%	4.7%	4.5%	1.5%
2001	58.9%	17.0%	13.3%	4.9%	3.9%	2.0%
2002	58.8%	16.5%	13.1%	5.4%	4.0%	2.2%
2003	58.4%	16.0%	13.1%	5.3%	5.2%	2.0%
2004	59.4%	15.2%	13.1%	5.1%	5.2%	2.0%
2005	61.7%	14.4%	13.0%	3.7%	5.2%	2.0%
2006	66.9%	11.8%	10.6%	5.4%	3.4%	1.9%
2007	70.6%	10.7%	9.4%	4.0%	3.3%	2.0%
2008	72.5%	10.2%	8.9%	4.6%	3.0%	0.8%

On-line Sales by Product
(In Millions)



Oregon State Lottery
Top Ten Retailers
Current Year and Nine Years Prior

				2008			
<u>Rank</u>	<u>Retailer</u>	<u>Sales</u>	<u>Percent of</u>	<u>Total Sales</u>	<u>County</u>		
1	Dotty's Portland, Jantzen Beach	\$ 2,242,825	0.18%		Multnomah		
2	Deli Store	2,134,891	0.17%		Columbia		
3	Original Joe's	2,047,716	0.17%		Multnomah		
4	Bradley's Bar & Grill	1,942,332	0.16%		Multnomah		
5	Dotty's Aloha, NW 185th	1,934,496	0.16%		Washington		
6	Smokehouse Café #4	1,846,751	0.15%		Linn		
7	Dotty's Portland, NW Cornell	1,832,862	0.15%		Multnomah		
8	Dotty's Portland, 163rd & Division	1,805,185	0.15%		Multnomah		
9	Maddy's	1,797,086	0.15%		Clackamas		
10	Dotty's Beaverton, Allen Boulevard	1,773,821	0.14%		Washington		
	Totals	<u>\$ 19,357,965</u>	<u>1.58%</u>				

Total Lottery Sales \$ 1,233,789,696

				1999			
<u>Rank</u>	<u>Retailer</u>	<u>Sales</u>	<u>Percent of</u>	<u>Total Sales</u>	<u>County</u>		
1	Bradley's	\$ 1,949,655	0.27%		Multnomah		
2	Farmhouse Restaurant	1,618,196	0.22%		Multnomah		
3	Glass House Tavern	1,482,480	0.20%		Multnomah		
4	Dotty's #7	1,388,458	0.19%		Multnomah		
5	Maverick Restaurant & Lounge	1,388,454	0.19%		Multnomah		
6	Lydia's	1,365,695	0.19%		Multnomah		
7	Purple Parrot #6	1,269,462	0.17%		Jackson		
8	Ponderosa Lounge	1,263,558	0.17%		Multnomah		
9	Overlook Restaurant	1,254,749	0.17%		Multnomah		
10	Richard's Deli and Pub, Aloha	1,248,781	0.17%		Washington		
	Totals	<u>\$ 14,229,488</u>	<u>1.94%</u>				

Total Lottery Sales \$ 728,508,036

Source: Oregon State Lottery Research Department

Oregon State Lottery
Number of Lottery Retailers and Sales by County
For Business Year 2008

County	Sales		Retailers	
	Business Year Sales	Percent of Total Sales	Number of Lottery Retailers	Percent of Total Retailers
Multnomah	\$ 352,045,864	28.64%	937	24.76%
Washington	144,928,354	11.79%	341	9.01%
Clackamas	123,185,256	10.02%	334	8.82%
Lane	97,913,125	7.96%	330	8.72%
Marion	96,255,840	7.83%	301	7.95%
Jackson	56,243,491	4.58%	184	4.87%
Deschutes	43,551,713	3.54%	133	3.51%
Linn	40,805,191	3.32%	130	3.43%
Douglas	28,277,900	2.30%	132	3.49%
Josephine	25,001,472	2.03%	93	2.46%
Columbia	21,748,782	1.77%	54	1.43%
Yamhill	20,046,324	1.63%	68	1.80%
Clatsop	19,278,507	1.57%	66	1.74%
Umatilla	18,670,460	1.52%	74	1.96%
Klamath	16,834,480	1.37%	66	1.74%
Lincoln	16,644,406	1.35%	76	2.01%
Coos	12,652,621	1.03%	61	1.61%
Malheur	11,867,311	0.97%	31	0.82%
Tillamook	10,992,132	0.89%	40	1.06%
Polk	10,988,722	0.89%	46	1.22%
Wasco	9,154,545	0.75%	30	0.79%
Benton	8,778,321	0.71%	49	1.29%
Hood River	7,231,781	0.59%	24	0.63%
Union	6,501,123	0.53%	29	0.77%
Crook	5,876,588	0.48%	25	0.66%
Jefferson	5,427,552	0.44%	21	0.55%
Baker	5,016,634	0.41%	22	0.58%
Curry	4,592,000	0.37%	27	0.71%
Grant	1,771,885	0.14%	13	0.34%
Morrow	1,705,280	0.14%	13	0.34%
Lake	1,586,001	0.13%	8	0.21%
Sherman	1,456,713	0.12%	6	0.16%
Wallowa	1,063,530	0.09%	10	0.26%
Harney	789,249	0.06%	6	0.16%
Gilliam	421,205	0.03%	4	0.11%
Wheeler	91,502	0.01%	1	0.03%
Total	\$ 1,229,395,860	100.00%	3,785	100.00%

Source: Oregon State Lottery Research Department

Oregon State Lottery
Demographic and Economic Data - State of Oregon
 Last Ten Calendar Years

Calendar Year	Population ¹	Personal Income ¹ (in thousands)	Per Capita Personal Income	Annual Unemployment Rate ²
1998	3,352,449	\$ 85,628,707	\$ 25,542	5.7%
1999	3,393,941	89,873,232	26,480	5.5%
2000	3,431,096	96,401,727	28,096	5.1%
2001	3,472,224	99,020,013	28,518	6.4%
2002	3,521,520	101,881,884	28,931	7.6%
2003	3,556,956	105,160,987	29,565	8.1%
2004	3,583,027	109,717,646	30,621	7.3%
2005	3,629,959	114,703,242	31,599	6.2%
2006	3,691,084	122,909,475	33,299	5.4%
2007	3,747,455	130,353,173	34,784	5.2%

¹Source: U.S. Department of Commerce, Bureau of Economic Analysis

²Source: Oregon Employment Department

Oregon State Lottery
Employment by Industry - State of Oregon
 Calendar Year 2007 and Nine Years Prior

	2007		1998	
	Number of Employees	Percent of Total	Number of Employees	Percent of Total
Retail trade	255,366	11.00%	242,438	11.90%
Health care and social assistance	242,242	10.44%	177,288	8.70%
Manufacturing	217,272	9.36%	238,991	11.73%
Accommodation and food services	161,521	6.96%	133,500	6.55%
Construction	150,455	6.48%	122,963	6.04%
Professional and technical services	128,425	5.53%	110,836	5.44%
Administrative and waste services	125,931	5.43%	101,551	4.99%
Other services	125,330	5.40%	102,921	5.05%
Real estate, rental, and leasing	89,938	3.88%	76,416	3.75%
Wholesale trade	89,499	3.86%	81,646	4.01%
Finance and insurance	85,608	3.69%	81,572	4.00%
Transportation and warehousing	68,676	2.96%	61,412	3.01%
Farm employment	67,802	2.92%	65,828	3.23%
Arts, entertainment, and recreation	51,175	2.21%	37,506	1.84%
Educational services	51,145	2.20%	29,332	1.44%
Information	42,728	1.84%	40,421	1.99%
Forestry, fishing, and related activities	35,773	1.54%	35,869	1.76%
Management of companies	31,914	1.38%	24,353	1.20%
Utilities	4,967	0.21%	5,719	0.28%
Mining	3,684	0.16%	3,438	0.17%
Local government	180,886	7.80%	161,613	7.94%
State government	68,676	2.96%	58,620	2.88%
Federal government, civilian	29,126	1.26%	29,927	1.47%
Military	12,378	0.53%	12,736	0.63%
Total employment	2,320,517	100.00%	2,036,896	100.00%

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Note: Due to confidentiality issues, the names of the ten principal employers are not available. The categories presented are intended to provide alternative information regarding the concentration of employment in various business sectors.

Oregon State Lottery
Demographic Profile of Oregon Lottery Players
For 2004 Through 2007

	2004	2005	2006	2007	
Number Surveyed	1,000	1,000	1,004	1,001	
Player Percentage	50.9%	52.6%	49.0%	43.4%	
	Players	Players	Players	Players	2007 State Population
<u>Gender</u>					
Male	40%	51%	51%	52%	49.6%
Female	60%	49%	49%	48%	50.4%
<u>Age</u>					
18 - 24	14%	11%	14%	9%	11.6%
25 - 34	18%	18%	20%	19%	18.1%
35 - 44	17%	21%	19%	23%	17.9%
45 - 54	24%	18%	22%	22%	19.5%
55 - 64	14%	13%	13%	15%	16.0%
65 +	14%	18%	13%	11%	16.9%
<u>Education</u>					
Some High School	3%	2%	6%	7%	8.7%
High School Graduate	32%	25%	33%	29%	29.7%
College/Tech School	34%	39%	37%	38%	34.5%
College Graduate	21%	25%	17%	16%	17.6%
Graduate School/Degree	9%	9%	7%	10%	9.5%
<u>Marital Status</u>					
Single	23%	21%	22%	21%	28.3%
Married	65%	55%	54%	57%	51.6%
Co-habiting	3%	7%	7%	5%	n/a
Divorced or Separated	6%	11%	13%	12%	14.4%
Widowed	3%	6%	4%	5%	5.7%
<u>Income</u>					
Less than \$15,000	10%	7%	8%	8%	30.0%
\$15,000 - \$49,999	50%	49%	44%	44%	47.2%
\$50,000 - \$74,999	16%	16%	20%	17%	13.2%
\$75,000 - \$99,999	6%	9%	10%	12%	4.8%
\$100,000 +	7%	7%	6%	10%	4.8%
Refused/Don't Know	11%	12%	12%	9%	n/a

Sources:

Player information from Oregon State Lottery's Tracking Study conducted by Infotek Research Group
State information from U.S. Census Bureau, 2007 American Community Survey

Oregon State Lottery
Number of Employees
 Last Ten Fiscal Years

	Employees as of June 30 ¹									
	1999	2000	2001	2002	2003	2004 ²	2005 ²	2006 ²	2007 ³	2008 ⁴
Retail Operations	n/a	n/a	n/a	211	215	209	202	211	214	222
Support Services	n/a	n/a	n/a	152	137	126	121	124	135	148
Marketing	n/a	n/a	n/a	28	25	30	26	26	29	29
Director's Office	n/a	n/a	n/a	31	31	25	29	29	30	31
Security ⁵	n/a	n/a	n/a	11	8	9	11	11	12	17
Total	408	403	421	433	416	399	389	401	420	447

Sources: Oregon State Lottery Business Plans for fiscal year 1999 through 2001 and Oregon State Payroll System for fiscal year 2002 through 2008

¹Detail by business unit is not available for fiscal year 1999 through 2001.

²During fiscal year 2004 through 2006, some vacant positions were eliminated to reduce operating expenses.

³Positions were added in fiscal year 2007 to address the growth of the Lottery, to restore some vacant positions previously eliminated, and to build the infrastructure needed to support future growth.

⁴In fiscal year 2008, positions were added to support the Lottery's business that is driven by technology, expand into web-based products, and respond to system growth.

⁵Number of employees for Security excludes employees of the Oregon State Police.

Oregon State Lottery
Operating Indicators and Capital Asset Information
 Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Number of Lottery Retailers¹</u>	<u>Number of Video LotterySM Terminals Deployed¹</u>	<u>Per Capita Sales²</u>
1999	3,188	8,892	\$ 217.31
2000	3,176	8,776	224.00
2001	3,198	8,903	228.98
2002	3,300	9,259	235.30
2003	3,368	9,434	242.37
2004	3,421	10,194	251.13
2005	3,484	10,438	262.30
2006	3,579	11,125	301.92
2007	3,691	11,831	327.31
2008	3,785	12,205	329.23

¹Source: Oregon State Lottery Research Department

²Source: Calculated based on population data from U.S. Department of Commerce, Bureau of Economic Analysis



Other Reports

Office of the Secretary of State

Bill Bradbury
Secretary of State

Barry Pack
Deputy Secretary of State



Audits Division

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Governor of Oregon
160 State Capitol
Salem, Oregon 97310-4047

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

**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, 2008, and have issued our report thereon dated December 22, 2008. 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 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 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 22, 2008