OREGON STATE LOTTERY

An Enterprise Fund of the State of Oregon

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2013

OREGON LOTTERY®

ItDoesGoodThings.org

Oregon State Lottery

An Enterprise Fund of the State of Oregon

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2013

It does good things™

Larry Niswender
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, 2013

TABLE OF CONTENTS

Page

Introductory Section

Letter of Transmittal 2
Certificate of Achievement for Excellence in Financial Reporting 6
Organization Chart with Principal Officials 7

Financial Section

Independent Auditor's Report 10
Management's Discussion and Analysis 13
Basic Financial Statements:
- Statement of Net Position 20
- Statement of Revenues, Expenses and Changes in Fund Net Position 21
- Statement of Cash Flows 22
- Notes to the Financial Statements 23

Required Supplementary Information:
- Schedules of Funding Progress – Other Postemployment Benefit Plans 40

Supplementary Information:
- Budgetary Comparison Schedule 42

Statistical Section

Index 44
Net Position by Component 45
Changes in Net Position 46
Sales by Product 48
Product Percent of Total Sales 49
Top Ten Retailers 50
Number of Lottery Retailers and Sales by County 51
Demographic and Economic Data – State of Oregon 52
Employment by Industry – State of Oregon 53
Demographic Profile of Oregon Lottery Players 54
Number of Employees 56
Operating Indicators and Capital Asset Information 57

Other Reports

Report on Internal Control Over Financial Reporting and Compliance 60

Introductory Section

November 29, 2013

To the Honorable Governor John A. Kitzhaber 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, 2013. 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, 2013. The auditors used generally accepted auditing standards in conducting the engagement. Their unmodified 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. As directed in statute, it operates to produce an optimal 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 sustain long-term revenues, while taking into consideration the potential impact of game decisions on problem gambling. The Lottery strives to maintain a healthy player base through a commitment to promote responsible gambling behavior.

Through a network of 3,848 retailers, the Lottery offers players a broad mix of traditional games as well as Video Lottery℠. Traditional Lottery games include: Scratch-its℠ Instant Tickets, Keno, Powerball®, Megabucks℠, Raffle℠, Win for Life℠, Mega Millions®, Lucky Lines℠, and Pick 4℠. Video Lottery℠ is a product sold on stand-alone Video Lottery℠ terminals located in bar and tavern retail establishments. The Lottery has approximately 12,037 Video Lottery℠ terminals deployed throughout the state.

500 Airport Road SE Salem, Oregon 97301 PO Box 12649 Salem, OR 97309-0649
P 503 540-1000 F 503 540-1001 www.oregonlottery.org

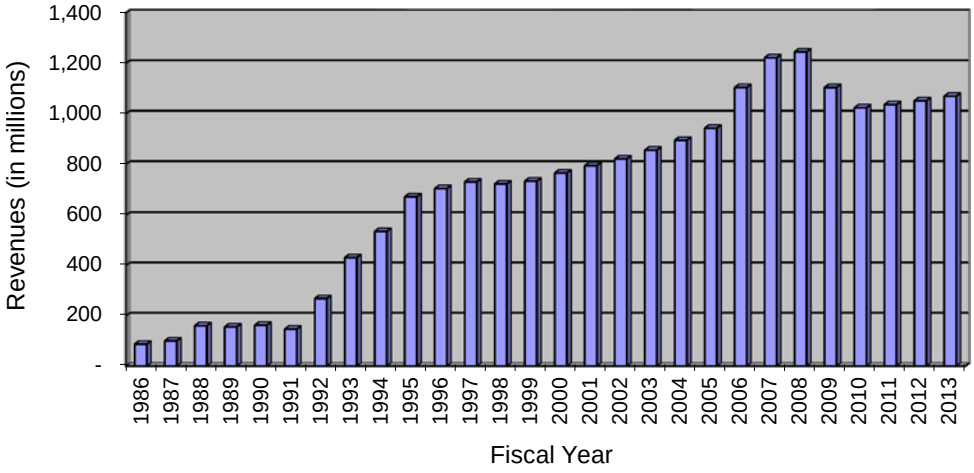
The Lottery, which is accounted for as a single enterprise fund, is entirely self-financed through its sales. Its operations are designed to fulfill its duty to develop, produce, and market Lottery games; pay winners and operating expenses; and remit the remaining net profits to the State. These net 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.oregonlottery.org.

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 through fiscal year 2008, Lottery revenues demonstrated strong and consistent growth. Lottery revenues declined in fiscal year 2009 and 2010 due to the impacts of Oregon's economic recession and the implementation of a statewide smoking ban in bars and taverns where Lottery products are sold. Revenues stabilized in 2011 with a slight improvement, followed by modest but steady growth in 2012 and again in 2013.

Total Oregon Lottery Revenues[1] by Fiscal Year (1986 - 2013)



[1]Revenues 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 declined in calendar year 2008 by 0.7 percent, slightly more than the national decline of 0.6 percent. As the economic recession deepened, further job losses resulted in declines of 6.2 percent in 2009 and 0.7 percent in 2010. This trend reversed with job growth in Oregon of 1.1 percent in 2011 and 1.2 percent in 2012, slightly below employment growth for the nation in both years. For 2013, Oregon's employment growth is expected to continue to be relatively slow, at 1.9 percent, with job gains coming from hiring in the private sector in the near term and also from the public sector in the longer term.

Oregon's personal income is projected to increase from calendar year 2012 to 2013 by 2.0 percent. For 2014, OEA estimates that personal income will increase by 5.0 percent while wage and salary income will increase by 4.2 percent. Personal income is projected to increase by 5.1 percent in 2015, which is slightly higher than the projected 4.9 percent increase for the nation. Wage and salary income in Oregon is expected to grow at a faster rate than the nation in 2015, with a projected increase of 5.0 percent as compared to 4.8 percent. Several factors currently facing the Oregon economy are potential impacts of the federal sequestration on the national economy, the strength and durability of the housing market recovery, European debt concerns and financial market instability, commodity price inflation, and the effects of various global economic issues.

Long-term Financial Planning

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 use by offering a wide variety of market-responsive games that will appeal to diverse consumer markets and successfully manage a broad distribution network. Among other efforts in support of this objective, the Lottery has initiated a multi-year plan to support the next generation of Video Lottery℠ products. This plan includes implementation of a new Video Lottery℠ central gaming system, replacement of approximately 12,000 Video Lottery℠ terminals statewide, and implementation of a new gaming communications network. Together, these enhancements are expected to address technology obsolescence issues and provide a foundation to operate using industry-standard game-to-system (G2S) protocols for its Video Lottery℠ games. The implementation and deployment efforts are expected to occur over the next several years.

The replacement of existing Video Lottery℠ terminals is expected to cost approximately $215.0 million over four years, of which Lottery will self-fund $84.6 million. The remaining $130.4 million will be deducted from Lottery earnings prior to being transferred to the Economic Development Fund. The biennial impact of the replacement plan is $71.2 million in 2013-2015, which is estimated to be less than 7 percent of available revenue to be transferred, and $59.2 million in 2015-2017, or an estimated 5 percent of available revenue.

In the September 2013 Economic and Revenue Forecast, projections of earnings transfers for the current biennium and the 2015-2017 biennium factor in the impacts of the Lottery's capital replacement plan. The Office of Economic Analysis (OEA) projected an increase in Lottery earnings for the 2013-2015 biennium from the prior forecast in May of 2013. The $2.8 million increase to the forecast is the result of stronger than expected sales in traditional games, particularly jackpot games. The OEA expects Video Lottery℠ sales to increase in future years as Oregon's economic expansion continues and strenghtens.

Relevant Financial Policies

In order to provide resources for current operations and future investment, the Lottery Commission established a contingency reserve fund. The available cash portion of this reserve fund is $85.0 million, as authorized by the Commission. At fiscal year end, the balance of $70.0 million of this contingency reserve was uncommitted. During fiscal year 2013, the Lottery set aside $46.8 million for the purchase of 3,000 new Video Lottery℠ terminals. The Lottery intends to use part of its contingency reserve to fund the remaining portion of the capital replacement plan that will be self-funded.

Major Initiatives

During fiscal year 2014, the Lottery will begin implementing its plans to modernize the technology that supports its Video Lottery℠ products. Initial activities for implementation of the new Video Lottery℠ gaming system include software development, infrastructure deployment, and testing. Infrastructure enhancements will be deployed in conjunction with this to upgrade the supporting network transport technology from frame relay to newer ethernet technology. In addition, the first 3,000 new Video Lottery℠ terminals will be purchased, tested, and deployed in retailer establishments. Concurrently, Lottery will refresh its game offerings on the IGT TrimLine, Spielo prodiGiVu™, and Bally CineVision™ terminals in an effort to maintain stable revenue from existing technology. The placement of terminals at retailer locations will be actively managed to remove the oldest, lower-performing terminals and replace them with existing terminals that are still appealing to consumers.

Another initiative is the first phase of a multi-year project to implement software solutions to manage customer information and provide customer service to Lottery retailers. During fiscal year 2014, the Lottery will focus on planning and identifying functional requirements by analyzing business processes and information needs related to customer service and retailer management. These requirements will ultimately be used to seek solutions to replace existing applications that are nearing end of life.

Lottery is planning several initiatives to reach out to existing and new players. It will focus marketing efforts to promote jackpot awareness with signage, real-time media, and on-site events such as jackpot blitzes and consumer promotions. Marketing communications for Scratch-it℠ tickets will be seasonally focused and include high-touch Holiday Surprise and Delight in-store promotions as well as digital and broadcast media. Two Raffle℠ games will be offered in fiscal year 2014 in connection with Halloween and St. Patrick's Day. The raffles will be promoted with a combination of real-time media, public relations, and event marketing. In addition, the Lottery will continue to work with the responsible gambling community in Oregon and other jurisdictions to support continuous improvements in responsible gambling programming.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Oregon State Lottery for its comprehensive annual financial report for the fiscal year ended June 30, 2012. This was the fifth consecutive year that the Lottery has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

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

Kathy Ortega, Chief Financial Officer
Oregon State Lottery

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Oregon State Lottery

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

Principal Officials of Oregon State Lottery

Elisa Dozono
Commission Chair

Vacant
Commission Vice Chair

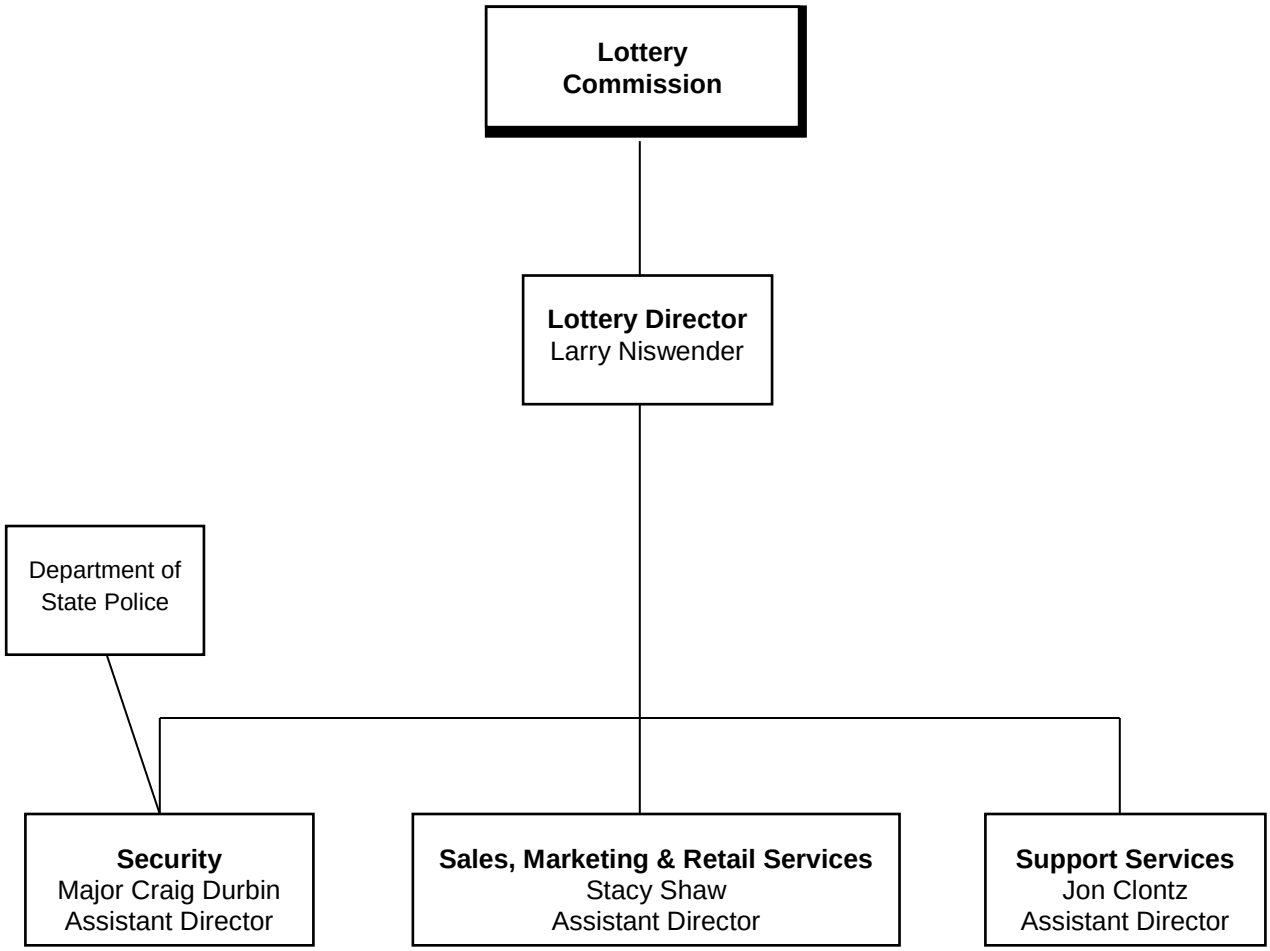
Raul Valdivia
Commissioner

Mary Wheat
Commissioner

Chris Telfer
Commissioner

Larry Niswender
Director

Organization Chart



This page intentionally left blank.

Financial Section

Office of the Secretary of State

Kate Brown
Secretary of State

Audits Division

Gary Blackmer
Director

255 Capitol St. NE, Suite 500
Salem, OR 97310

(503) 986-2255
fax (503) 378-6767

Independent Auditor's Report

The Honorable John Kitzhaber
Governor of Oregon

Elisa Dozono, Chair
Oregon State Lottery Commission

Report on the Financial Statements

We have audited the accompanying financial statements of the Oregon State Lottery, an enterprise fund of the State of Oregon, as of and for the year ended June 30, 2013, and the related notes to the financial statements, as listed in the table of contents, which collectively comprise the Oregon State Lottery's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Oregon State Lottery, an enterprise fund of the State of Oregon, as of June 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Oregon State Lottery are intended to present the financial position, the changes in financial position and cash flows that are attributable to the transactions of the Oregon State Lottery. They do not purport to, and do not, present fairly the financial position of the State of Oregon as of June 30, 2013, 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. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Oregon State Lottery's basic financial statements. The budgetary comparison schedule, introductory and statistical sections, 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.

The budgetary comparison schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other

records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2013, on our consideration of the Oregon State Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Oregon State Lottery's internal control over financial reporting and compliance.

OREGON AUDITS DIVISION

Kate Brown
Secretary of State

November 29, 2013

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, 2013. 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 $1.1 billion, an increase of 1.7 percent from fiscal year 2012.
- Video Lottery^{SM} revenue increased by $10.2 million from the prior fiscal year, and revenue from traditional games increased by $7.3 million.
- Net position (equity) increased by $21.4 million as a result of fiscal year operations.
- The Lottery transferred $546.9 million to Oregon's Economic Development Fund, which is $23.3 million more than the prior year.

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 Statement of Net Position provides information about the nature and amounts of: resources with present service capacity that the Lottery controls (assets); consumptions of net assets that are applicable to a future fiscal year (deferred outflows of resources), if any; obligations at the end of the fiscal year to use resources that the Lottery has little or no discretion to avoid (liabilities); and acquisitions of net assets that are applicable to a future fiscal year (deferred inflows of resources), if any. The residual (net) of these four elements is reported as net position.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Fund Net Position. 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, 2013 were $575.8 million, an increase of $35.2 million from the prior year. The change in assets consists primarily of an increase in cash, a decrease in securities lending cash collateral, and a decrease in net capital assets. The Lottery is planning to replace up to 3,000 of its older Video Lottery℠ terminals next year and has set aside $46.8 million of cash to fund this purchase, which contributed to a larger balance of cash reported at year end. Securities lending activity fluctuates based on the extent this activity is used by the Office of the State Treasurer for cash management purposes. The effect of accumulated depreciation during the year contributed to the net decrease in capital assets.

Total liabilities increased by $18.9 million from the prior year. An increase of $18.8 million in the amount due to the Economic Development Fund (EDF) and a decrease of $18.0 million in obligations under securities lending contributed to the net change. The amount owed to the EDF at the end of fiscal year 2013, which represents fourth quarter earnings not yet transferred, was higher than the prior year as a result of several factors. Revenues from traditional products were higher in the fourth quarter than the prior year due to a near record Powerball® jackpot in May that significantly increased Powerball® sales, which in turn increased the earnings accrued for transfer to the EDF. Prizes for traditional products were lower than the fourth quarter of the prior year, which also increased the amount of earnings not yet transferred at year end.

Contracts payable increased $6.4 million primarily due to recording a pension related liability in connection with a prior period adjustment; additional information on this liability can be found in Note 7 and Note 16 of this report. An increase of $5.7 million in accounts payable also contributed to the net increase in liabilities. In June 2013, gaming software upgrades for Video Lottery℠ terminals were received but not yet paid for by year end, which contributed to the increase in accounts payable from the prior year.

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

Table 1: Oregon State Lottery's Net Position

	2013	2012	Change
Current assets	$ 373,203,619	$ 377,528,565	$ (4,324,946)
Capital assets	36,047,854	43,161,242	(7,113,388)
Other noncurrent assets	166,530,388	119,864,999	46,665,389
Total assets and deferred outflows of resources	575,781,861	540,554,806	35,227,055
Current liabilities	284,619,205	274,365,810	10,253,395
Noncurrent liabilities	135,265,234	126,594,466	8,670,768
Total liabilities and deferred inflows of resources	419,884,439	400,960,276	18,924,163
Net position:			
Net investment in capital assets	36,047,854	43,161,242	(7,113,388)
Unrestricted	119,849,568	96,433,288	23,416,280
Total net position	$ 155,897,422	$ 139,594,530	$ 16,302,892

A portion of the Lottery's net position (23.1 percent) reflects its investment in capital assets, primarily Video Lottery℠ gaming terminals and ticket vending machines. The Lottery has no outstanding debt associated with its capital assets.

Of the $119.8 million in unrestricted net position at year end, $46.8 million was committed for the purchase of Video Lottery℠ terminals to replace terminals that are becoming obsolete in the marketplace and $2.1 million was committed for the deployment of new Video Lottery℠ games into the market. An additional $815,523 was committed for the purchase of other capital assets that will be used to support operations.

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

Table 2: Oregon State Lottery's Changes in Net Position			
Operating revenues:	**2013**	**2012**	**Change**
Video Lottery℠ game sales, net	$ 737,370,280	$ 727,124,878	$ 10,245,402
Scratch-its℠ instant ticket sales	117,079,308	117,521,750	(442,442)
Keno sales	91,636,954	93,456,813	(1,819,859)
Powerball® sales	58,322,876	38,777,424	19,545,452
Megabucks℠ sales	38,084,764	37,539,720	545,044
All other game sales	25,335,848	35,865,121	(10,529,273)
Provision for uncollectibles	(44,280)	(71,327)	27,047
Other income	1,410,594	209,110	1,201,484
Total operating revenues	1,069,196,344	1,050,423,489	18,772,855
Operating expenses:			
Prizes	206,836,815	238,278,854	(31,442,039)
Retailer commissions	204,921,077	201,626,030	3,295,047
Salaries and wages	36,504,315	36,317,480	186,835
Depreciation and amortization	12,982,414	26,794,091	(13,811,677)
Services and supplies	10,787,865	10,159,107	628,758
Game vendor charges	8,777,088	8,620,924	156,164
Advertising and market research	5,483,097	6,444,771	(961,674)
Public information	2,718,648	3,882,869	(1,164,221)
Tickets	3,363,077	4,640,444	(1,277,367)
Game equipment parts and maintenance	1,496,442	1,925,220	(428,778)
Sales support	1,067,653	1,113,400	(45,747)
Total operating expenses	494,938,491	539,803,190	(44,864,699)
Nonoperating revenues (expenses):			
Interest and investment income (loss)	(2,982,432)	17,744,105	(20,726,537)
Insurance recoveries	11,263	30,676	(19,413)
Gain (loss) on disposition of assets	(969,699)	(147,802)	(821,897)
Investment expenses - securities lending	(143,462)	(138,855)	(4,607)
Interest expense	(330,386)	-	(330,386)
Total nonoperating revenues (expenses)	(4,414,716)	17,488,124	(21,902,840)
Income before transfers	569,843,137	528,108,423	41,734,714
Transfers to the economic development fund	(546,923,919)	(523,652,688)	(23,271,231)
Transfers to the general obligation bond fund	(1,506,648)	(1,459,501)	(47,147)
Change in net position	21,412,570	2,996,234	18,416,336
Net position - beginning	139,594,530	136,598,296	2,996,234
Prior period adjustment	(5,109,678)	-	(5,109,678)
Net position - beginning - as restated	134,484,852	136,598,296	(2,113,444)
Net position - ending	$ 155,897,422	$ 139,594,530	$ 16,302,892

The Lottery's net position increased by $21.4 million as a result of fiscal year operations. Overall, net product sales were $17.6 million, or 1.7 percent, higher than the prior year. This is primarily attributable to an increase of $10.2 million in Video Lottery℠ revenue. During the year, new game sets were deployed on select Video Lottery℠ terminals to offer a wide variety of game choices that appeal to a diverse audience. This is the third consecutive year of slight gains in Video Lottery℠ revenue, as economic conditions have slowly improved.

Sales for traditional games were up $7.3 million, or 2.3 percent, from the prior year. The highest growth was $19.5 million in Powerball® sales, which were impacted by two jackpots that exceeded $500 million during the year. As jackpots grow, sales tend to increase until the jackpot is won. Marketing efforts were focused on increasing awareness of jackpot amounts during the year. In addition, players who purchased a Powerball® ticket when the jackpot was reset to $40 million received a free Mega Millions® ticket, a promotion that had a positive impact on sales.

Sales from Mega Millions® were $10.4 million lower in fiscal year 2013, primarily because of the effect that a world record $656.0 million jackpot in the prior year had on sales. This contributed to the overall decrease in all other game sales, which was offset by an increase in Lucky Lines℠.

Retailer commissions were 1.6 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 or video) and the retailers' sales volume. Traditional prize expenses were $31.4 million lower than the prior year due to a combination of several factors. The fair value of investments being held to fund prizes with long-term payments decreased this year, compared to an increase in the prior year, which resulted in a $21.0 million decrease in prize expenses. In addition, a significant Win For Life℠ jackpot prize was won in the prior year, resulting in a higher prize expense for that game last year in comparison with this year. These decreases were partially offset by an increase in prize expenses for Powerball®, which is attributable to the increased sales mentioned previously. Since revenues for Video Lottery℠ are reported net of prizes awarded, the prize expenses in Table 2 include only traditional game prizes.

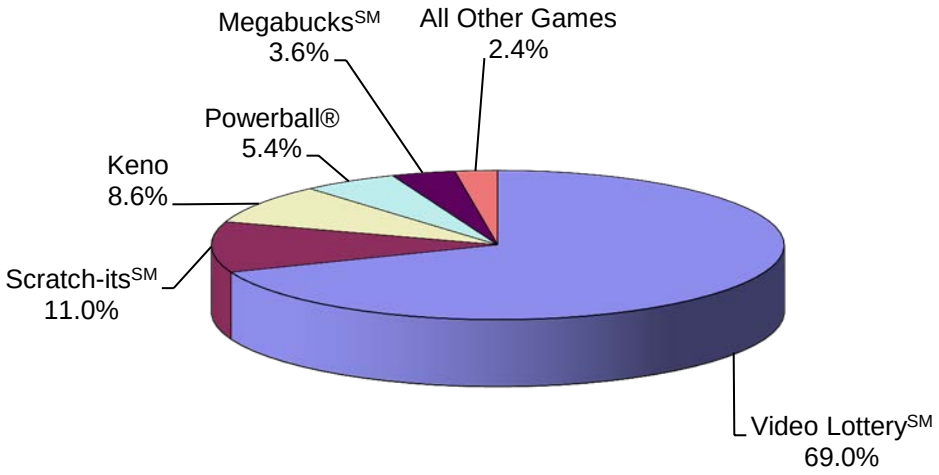
Depreciation expense was $13.8 million lower than last year mainly due to changing the useful life of Video Lottery℠ terminals from five to seven years in May 2012. This resulted in less depreciation expense each month during the year, but only impacted two months of the prior year. Public information expenses were $1.2 million less than last year as a result of decisions made to cancel some planned spending on problem gambling outreach based on legal advice that clarified how Lottery funds can be used. Expenses for Scratch-it℠ tickets were $1.3 million less than the prior year from using lower cost materials and introducing fewer new games in an effort to sell through existing ticket inventory. Interest and investment income (loss) decreased by $20.7 million from a decline in the fair value of investments due to market conditions.

The increase in net sales and cummulative expense reductions previously mentioned enabled the Lottery to transfer $546.9 million to the Economic Development Fund, which was $23.3 million more than the prior year.

Sales Revenue

Figure 1 below shows the major sources and percentages of sales revenue for fiscal year 2013:

Figure 1: Sales Revenue by Product



Video Lottery℠ remains the largest source of revenue and represents 69.0 percent of total sales revenue. In fiscal year 2013, the Lottery completed the deployment of several new games on select Vidoe Lottery℠ terminals, including games that offer prizes up to $10,000. While Video Lottery℠ remains an excellent source of continuing revenue for the State, the Lottery actively seeks to promote responsible gambling behavior.

Sales of Scratch-its℠ were the second largest source of revenue (11.0 percent) during fiscal year 2013. One of Lottery's promotions involved on-site visits to stores where sales representatives "surprised and delighted" shoppers with the gift of Scratch-its℠ tickets, which contributed to successful holiday ticket sales. In addition, the Lottery introduced several new scratch ticket games at various price points to offer players a wide variety of entertaining and interesting games. Keno represented 8.6 percent of total sales revenue for the fiscal year.

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 Video Lottery℠ gaming terminals and ticket vending machines.

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

	2013	2012	Change
Equipment	$ 16,428,778	$ 24,801,137	$ (8,372,359)
Computer software	11,601,475	9,727,885	1,873,590
Buildings and improvements	6,317,863	6,742,981	(425,118)
Vehicles	1,687,595	1,870,967	(183,372)
Leasehold improvements	12,143	18,272	(6,129)
Total	$ 36,047,854	$ 43,161,242	$ (7,113,388)

During fiscal year 2013, net capital assets decreased by $7.1 million, a 16.5 percent decline. The net change is primarily attributed to depreciation expense for the year. Also contributing to the decrease were dispositions of Video Lottery℠ terminals. The overall reduction was offset by an increase in computer software, as new Video Lottery℠ game sets were deployed to replace outdated games. As previously mentioned, the Lottery had committed $49.7 million for capital expenses at June 30, 2013. Additional information on Lottery's capital assets can be found in Note 6 of this report.

Factors Relevant to Future Operations

The slow economic recovery underway in Oregon is expected to continue having an impact on sales of Lottery products. Oregon's unemployment rate for July 2013 was 8.0 percent, slightly higher than the previous three months. Job growth for the second quarter of 2013 was 1.7 percent, which was slightly lower than the first quarter. To the extent that future economic conditions continue to impact discretionary consumer spending, net revenues generated through Lottery sales will likely be affected.

This page intentionally left blank.

Basic Financial Statements

OREGON STATE LOTTERY
Statement of Net Position
June 30, 2013

Assets and Deferred Outflows of Resources		
Current Assets:		
Cash and Cash Equivalents	$	245,586,345
Securities Lending Cash Collateral		89,839,435
Investments for Prize Payments		12,706,293
Accounts Receivable (Net)		22,982,896
Ticket Inventory		1,498,180
Prepaid Expenses		590,470
Total Current Assets		373,203,619
Noncurrent Assets:		
Cash and Cash Equivalents		48,898,650
Investments for Prize Payments		114,603,223
Prize Reserves with Multi-State Lottery (MUSL)		3,028,515
Capital Assets:		
Equipment		142,767,812
Computer Software		25,072,830
Building and Improvements		11,934,351
Vehicles		3,975,922
Leasehold Improvements		169,587
Less Accumulated Depreciation and Amortization		(147,872,648)
Total Noncurrent Assets		202,578,242
Total Assets and Deferred Outflows of Resources		575,781,861
Liabilities and Deferred Inflows of Resources		
Current Liabilities:		
Due to Economic Development Fund		144,883,467
Obligations Under Securities Lending		89,839,435
Prize Liability		32,498,038
Accounts Payable		14,511,798
Compensated Absences		1,941,844
Unearned Revenue		419,945
Deposit Liability		94,719
Contracts Payable		429,959
Total Current Liabilities		284,619,205
Noncurrent Liabilities:		
Prize Liability		127,559,657
Compensated Absences		1,045,608
Net Other Postemployment Benefits (OPEB) Obligation		688,636
Contracts Payable		5,971,333
Total Noncurrent Liabilities		135,265,234
Total Liabilities and Deferred Inflows of Resources		419,884,439
Net Position:		
Net Investment in Capital Assets		36,047,854
Unrestricted		119,849,568
Total Net Position	**$**	**155,897,422**

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

OREGON STATE LOTTERY
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Year Ended June 30, 2013

Operating Revenues		
Sales:		
Video Lottery℠ (Net Receipts)	$	737,370,280
Scratch-its℠ Instant Tickets (Net of Returns)		117,079,308
Keno		91,636,954
Powerball®		58,322,876
Megabucks℠		38,084,764
Mega Millions®		11,823,070
Raffle℠		4,998,300
Win For Life℠		4,845,906
Lucky Lines℠		2,317,312
Pick 4℠		1,351,260
Provision for Uncollectibles		(44,280)
Other Income		1,410,594
Total Operating Revenues		1,069,196,344
Operating Expenses		
Prizes		206,836,815
Retailer Commissions		204,921,077
Salaries and Wages		36,504,315
Depreciation and Amortization		12,982,414
Services and Supplies		10,787,865
Game Vendor Charges		8,777,088
Advertising and Market Research		5,483,097
Public Information		2,718,648
Tickets		3,363,077
Game Equipment Parts and Maintenance		1,496,442
Sales Support		1,067,653
Total Operating Expenses		494,938,491
Operating Income		574,257,853
Nonoperating Revenues (Expenses)		
Interest and Investment Income (Loss)		(2,982,432)
Insurance Recoveries		11,263
Gain (Loss) on Disposition of Assets		(969,699)
Investment Expenses - Securities Lending		(143,462)
Interest Expense		(330,386)
Total Nonoperating Revenues (Expenses)		(4,414,716)
Income Before Transfers		569,843,137
Transfers to the Economic Development Fund		(546,923,919)
Transfers to the General Obligation Bond Fund		(1,506,648)
Change in Net Position		21,412,570
Net Position - Beginning		139,594,530
Prior Period Adjustment		(5,109,678)
Net Position - Beginning - As Restated		134,484,852
Net Position - Ending	**$**	**155,897,422**

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

OREGON STATE LOTTERY
Statement of Cash Flows
For the Year Ended June 30, 2013

Cash Flows from Operating Activities:		
Receipts from Customers	$	1,066,745,085
Payments to Employees for Services		(37,738,853)
Payments to Suppliers		(230,787,298)
Payments to Prize Winners		(198,643,201)
Other Income		238,672
Net Cash Provided (Used) by Operating Activities		599,814,405
Cash Flows from Noncapital Financing Activities:		
Payments on Contracts		(441,842)
Transfers to the Economic Development Fund		(530,591,983)
Transfers to the General Obligation Bond Fund		(1,494,696)
Net Cash Provided (Used) by Noncapital Financing Activities		(532,528,521)
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Capital Assets		(5,497,812)
Proceeds from Disposition of Capital Assets		175,773
Payments on Contracts		(125,521)
Insurance Recoveries for Capital Assets		11,263
Net Cash Provided (Used) by Capital and Related Financing Activities		(5,436,297)
Cash Flows from Investing Activities:		
Purchases of Investments		(15,495,176)
Proceeds from Sales and Maturities of Investments		13,061,000
Interest on Investments and Cash Balances		1,608,446
Securities Lending Expenses		(143,462)
Net Cash Provided (Used) by Investing Activities		(969,192)
Net Increase (Decrease) in Cash and Cash Equivalents		60,880,395
Cash and Cash Equivalents - Beginning		233,604,600
Cash and Cash Equivalents - Ending	$	294,484,995
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating Income	$	574,257,853
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization		12,982,414
Net Changes in Assets and Liabilities:		
(Increase) / Decrease in Accounts Receivable		(2,314,359)
(Increase) / Decrease in Ticket Inventory		767,690
(Increase) / Decrease in Prepaid Expenses		(114,125)
(Increase) / Decrease in Prize Reserves with MUSL		68,580
Increase / (Decrease) in Accounts Payable		5,653,118
Increase / (Decrease) in Compensated Absences Liability		193,760
Increase / (Decrease) in Other Postemployment Benefits Obligation		85,011
Increase / (Decrease) in Deposit Liability		7,657
Increase / (Decrease) in Unearned Revenue		101,772
Increase / (Decrease) in Prize Liability		8,125,034
Total Adjustments		25,556,552
Net Cash Provided (Used) by Operating Activities	$	599,814,405
Noncash Investing, Capital, and Related Financing Activities:		
Net Change in Fair Value of Investments	$	(4,590,878)
Intangible Assets Acquired Through Contract		1,516,684
Total Noncash Investing, Capital, and Related Financing Activities	$	(3,074,194)

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

OREGON STATE LOTTERY
Notes to the Financial Statements
June 30, 2013

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).

The Lottery uses an enterprise fund, the Oregon State Lottery Fund, with a self-balancing set of accounts to record its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, 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 Position. Operating revenues and expenses are those that result from selling Lottery games to the public. Operating revenues include the sale of Lottery products and incidental revenues associated with operating the Lottery. 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 Statement of Net Position as current and noncurrent. Current assets are resources expected to be realized in cash or consumed within a year from the financial statement date. Current liabilities are obligations generally expected to be paid using resources that are classified as current assets and obligations due within one year from the date of the financial statements. Noncurrent assets are capital assets, resources that are restricted as to use for other than current operations, resources designated to be used to acquire noncurrent assets, or resources that are not expected to be collected within one year. Noncurrent liabilities are obligations generally expected to be paid using resources that are classified as noncurrent assets and obligations due beyond one year from the date of the financial statements.

Total net position is segregated into two categories: net investment in capital assets and unrestricted net position. 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 position reported at year end will be used for Lottery operations.

C. Sales Revenue

Revenues for Megabucks℠, Powerball®, Mega Millions®, Keno, Win for Life℠, Raffle℠, Pick 4℠, and Lucky Lines℠ (draw games) are recognized when the draws occur. Revenues for instant scratch ticket games are recognized when retailers activate ticket packs for sale to the public. Revenues for Video Lottery℠ 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 Lottery℠ revenue and prize expense). All revenues are reported net of free plays, discounts, and allowances.

D. Unearned Revenue

All draw games can be purchased in advance of the drawings. When shares are sold in advance of the draw date, sales revenue is not yet earned. Unearned revenue includes revenue associated with shares that have been sold for draw dates after the June 30 fiscal year end.

E. Prize Expense

Instant ticket prize expense is estimated and 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 by the gaming vendor. When validations for the game have ended, differences between estimated and actual prizes awarded for the randomly placed tickets are adjusted to prize expense and prize liability. Guaranteed prizes not claimed by winners are transferred to the Economic Development Fund.

Prize expense for draw 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 when the prize liability is recorded at the discounted present value of estimated future cash payments. Video Lottery℠ prize expense is recognized as game play completes and prizes are known. More detailed information for Video Lottery℠ 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, 2013 was $94,226.

F. Prize Liability

Prize liability is recorded when the prize expense is recognized (see Note 1.E.) and is reported at the discounted present value of estimated future cash payments. Estimated and known 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.

G. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, test cash held by employees, cash in demand deposit accounts 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.

H. Investments

Investments are reported at fair value. The fair value of investments is determined using quoted market prices. Changes in the fair value of investments are recognized as investment income (loss) in the current year.

I. 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.

J. 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 with multiple establishments may remit proceeds on the second Wednesday following the end of the business week.

K. Inventories

Inventories are valued at cost using the specific identification method. Ticket inventory consists of Scratch-its℠ instant tickets primarily 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.

L. 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.

M. Capital Assets

Capital assets, which mainly include gaming equipment and related software, are reported at historical cost. Physical and intangible assets with a cost of $5,000 or more and a useful life of more than one year are capitalized. Beginning July 1, 2009, the Lottery elected to retroactively report internally generated intangible assets. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	10 to 40
Video lottery terminals	7
Instant ticket vending machines	5
Other machinery and equipment	3 to 25
Leasehold improvements	5
Vehicles	5
Computer hardware and software	3
Licensing agreements	Term of contract

N. 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 to the 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 2013 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 of total annual revenues may be allocated for the payment of administrative expenses.[1] The following table shows that for fiscal year 2013 the Lottery operated within the legal limits defined by ORS 461.500:

Revenues		
Sales (Net of Provision for Uncollectibles)	$ 10,245,371,714	
Other Distributable Income	2,941,714	
Total Distributable Revenue	$ 10,248,313,428	
Distribution of Revenues		
Revenues Returned to the Public:		
Prizes to the Public	$ 9,386,585,278	91.59%
Unclaimed Prizes Paid/Due to Economic Development Fund	2,428,379	0.02%
Transfers Paid/Due to Economic Development Fund	546,923,919	5.34%
Total Revenues Returned to the Public	9,935,937,576	96.95%
Administrative Expenses	290,963,282	2.84%
Retained for Contingency Reserve	21,412,570	0.21%
Total Revenue Distribution	$ 10,248,313,428	100.00%

C. Unclaimed Prizes

ORS 461.500 requires all unclaimed prizes to be allocated to the benefit of public purpose. Lottery administrative rules declare a prize as unclaimed when it is known that winning shares have been sold and have not been redeemed within one year of the end of the game, one year from the draw

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

date, or one year from the date of issue. In fiscal year 2013, prizes in the amount of $2,428,379 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 177-010-0045 allows for the creation of a contingency reserve. In May 2012, the Lottery Commission approved a contingency reserve amount such that the cash available for future investment does not exceed $85,000,000. The following table shows the liquidity detail of Unrestricted Net Position shown on the Statement of Net Position at June 30, 2013:

Cash Available for Future Investment (Uncommitted Contingency Reserve)	$ 65,018,231
Committed by Contract for Asset Purchases (See Note 12.A.)	2,450,474
Committed by Commission for Capital Purchases	47,263,698
Inventory, Prepaid Expenses, Prize Reserves	5,117,165
Total Unrestricted Net Position	$ 119,849,568

E. Transfers to Economic Development Fund

All income remaining after Transfers to the General Obligation Bond Fund less the $21,412,570 retained by the Lottery was accrued for Transfer to the Economic Development Fund. Actual cash transferred, including unclaimed prizes, during fiscal year 2013 was $530,591,983. The remaining balance is included on the Statement of Net Position in liabilities. The following schedule reconciles the amounts:

	Balance Owed at June 30, 2012	Amounts Accrued	Cash Paid to Economic Development	Balance Remaining at June 30, 2013
Income	$ 124,667,141	$ 546,923,919	$ 527,134,141	$ 144,456,919
Unclaimed Prizes	1,456,012	2,428,378	3,457,842	426,548
Total	$ 126,123,153	$ 549,352,297	$ 530,591,983	$ 144,883,467

3. Deposits

The Lottery uses a financial institution and the Oregon Short-Term Fund (OSTF) for deposits. The Office of the State Treasurer maintains the OSTF, an investment pool available for use by state agencies and local governments. A separate financial report for the OSTF may be obtained from the Office of the State Treasurer, 350 Winter Street NE, Suite 100, Salem, OR 97301-3896 or from the Treasurer's website at http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-(OSTF).aspx#stat.

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Lottery or 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 state deposits are established by banking regulations and Oregon law. Where balances exceed the Federal Deposit Insurance amount of $250,000, the balances are covered by collateral held in a multiple financial institution collateral pool administered by the Office of the State Treasurer. Except as provided in Oregon Revised Statute (ORS) 295.018, a bank depository that holds uninsured public funds deposits is required to pledge collateral with a value at least equal to its minimum collateral requirement and as otherwise prescribed in ORS 295.001 to 295.108.

For a well capitalized bank depository that has not been required to increase its collateral pursuant to ORS 295.018, the minimum collateral requirement is 10 percent of the greater of: all uninsured public funds held by the bank depository as shown on the most recent treasurer report; the average of the balances of uninsured public funds held by the bank depository as shown on the last two immediately preceding treasurer reports; or an amount otherwise prescribed in ORS 295.001 to 295.108. For a well capitalized bank depository that has been required to increase its collateral pursuant to ORS 295.018, the minimum collateral requirement is the percentage required by the State Treasurer pursuant to ORS 295.018 multiplied by the greater of: all uninsured public funds held by the bank depository as shown on the most recent treasurer report; the average of the balances of uninsured public funds held by the bank depository as shown on the last two immediately preceding treasurer reports; or an amount otherwise prescribed in ORS 295.001 to 295.108. The minimum collateral requirement for an adequately capitalized bank depository or an undercapitalized bank depository is 110 percent of the greater of: all uninsured public funds held by the bank depository; or the average of the balances of uninsured public funds held by the bank depository as shown on the last two immediately preceding treasurer reports.

Consequently, Lottery deposits in financial institutions and the OSTF are insured or collateralized.

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 $19,277,556 of investments in the Resolution Funding Corporation (RFC), a U.S. government agency. These investments are not explicitly guaranteed by the U.S. government. However, interest payments are backed by the U.S. government, and the principal is protected by the purchase of zero-coupon bonds with an equivalent face value. The credit quality of investments in the Resolution Funding Corporation is unrated.

Concentration of credit risk is the risk of loss attributed to the magnitude of investments in a single issuer. RFC investments represent 15.1 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, 2013:

	Investment Maturities in Years				
Investment Type	**Less than 1 Year**	**1-5 Years**	**6-10 Years**	**More Than 10 Years**	**Fair Value**
U.S. Agency Strips	$ 5,503,314	$ 10,063,413	$ 3,055,430	$ 655,399	$ 19,277,556
U.S. Treasury Strips	7,202,979	30,221,547	30,554,298	40,053,136	108,031,960
Total Investments	$12,706,293	$ 40,284,960	$ 33,609,728	$ 40,708,535	$ 127,309,516

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 2013, 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 and U.S. Treasury securities. Borrowers were required to deliver collateral for each loan equal to not less than 102 percent of the fair 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, 2013, the State and the Lottery had no credit risk exposure to borrowers related to securities on loan.

As of June 30, 2013, the total fair value of securities on loan from the OSTF was $833,166,939, the collateral received was $850,185,218 and the fair value of invested collateral was $596,311,410. Cash 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, 2013, is presented in the following schedule:

	Securities Lending Balances		
	Fair Value of Securities on Loan	Collateral Received	Fair Value of Invested Cash Collateral
Lottery Share OSTF	$ 27,046,978	$ 27,599,440	$ 19,357,972
Lottery Investments	69,206,994	70,481,361	70,481,502
Total	$ 96,253,972	$ 98,080,801	$ 89,839,474

6. Capital Assets

Capital asset activity for the year ended June 30, 2013, is shown in the schedule below:

	Beginning Balance	Increases	Decreases	Ending Balance
Depreciable Capital Assets				
Equipment	$ 146,385,631	$ 455,663	$ (4,073,482)	$ 142,767,812
Computer Software	21,447,439	6,257,764	(2,632,373)	25,072,830
Building and Improvements	11,958,350	-	(23,999)	11,934,351
Vehicles	4,036,979	288,715	(349,772)	3,975,922
Leasehold Improvements	157,233	12,354	-	169,587
Total Assets Being Depreciated	183,985,632	7,014,496	(7,079,626)	183,920,502
Accumulated Depreciation				
Equipment	121,584,494	8,098,250	(3,343,710)	126,339,034
Computer Software	11,719,554	4,072,450	(2,320,649)	13,471,355
Building and Improvements	5,215,369	401,119	-	5,616,488
Vehicles	2,166,012	392,112	(269,797)	2,288,327
Leasehold Improvements	138,961	18,483	-	157,444
Total Accumulated Depreciation	140,824,390	12,982,414	(5,934,156)	147,872,648
Capital Assets, Net	$ 43,161,242	$ (5,967,918)	$ (1,145,470)	$ 36,047,854

7. Long-term Liabilities

As of June 30, 2013, there were 97 Oregon Lottery game winners with long-term annual prize payments. The estimated number of years remaining for payments extends to 52 years. Prize liabilities shown on the Statement of Net Position include $19,296,463 in estimated and actual prizes won that have not yet been claimed.

Contracts Payable in the schedule below includes a pension related liability of $4,998,222, which is the amount of the State's liability allocated to Lottery at June 30, 2013. Prior to January 1, 2002, the State and community colleges were pooled together in the State and Community College Pool (SCCP), while local government employers participated in the Local Government Rate Pool (LGRP). Effective January 1, 2002, these two actuarial pools were combined to form the State and Local Government Rate Pool (SLGRP). The SCCP employers joined the SLGRP with a transitional liability. The State's portion of the pre-SLGRP liability is not included in the unfunded actuarial liability of the Public Employees Retirement System (PERS) multiple-employer cost-sharing plan in which the State participates, so the payment for this liability is not included in the actuarially determined required employer contributions to the plan. However, amounts owed for the Pre-SLGRP liability are being collected by PERS through the standard employer contributions process. The employer contribution rates in Note 13A include the additional contributions being made for principal and interest payments owed for the Pre-SLGRP liability. The balance of the liability attributable to the State is being amortized over the period ending December 31, 2027.

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[1]	Increases	Decreases	Ending Balance	Due Within One Year
Prizes	$ 154,361,039	$ 259,289,350	$ (253,592,694)	$ 160,057,695	$ 32,498,038
Compensated Absences	2,793,692	532,071	(338,311)	2,987,452	1,941,844
Net OPEB Obligation	603,625	85,011	-	688,636	-
Contracts Payable	5,121,585	1,516,684	(236,977)	6,401,292	429,959
Total	$ 162,879,941	$ 261,423,116	$ (254,167,982)	$ 170,135,075	$ 34,869,841

[1]The beginning balance of Contracts Payable has been restated to reflect a prior period adjustment of $5,109,678.

8. Video Lottery[SM] Net Revenue

Video Lottery[SM] revenue is reported net of discounts and prize expense in the Statement of Revenues, Expenses, and Changes in Fund Net Position. The following schedule reconciles cash received with actual wagering and prize activity:

Revenue		Prize Expense	
Cash Received	$ 2,621,437,136	Cash Paid Out	$ 1,884,055,913
Dollars Won and Played	7,293,530,051	Dollars Won and Played	7,293,530,051
Total Revenue	$ 9,914,967,187	**Total Prizes**	$ 9,177,585,964
Net Revenue before Discounts = $737,381,223			

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 Position. For the fiscal year ended June 30, 2013, sales revenue is reported net of $1,632,014 in discounts and free plays and net of $44,280 in allowances for uncollectible amounts. At June 30, 2013, accounts receivable in the Statement of Net Position is reported net of $269,798 allowance for uncollectible amounts.

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 fees for services of MUSL and the Product Groups. The Oregon Lottery's share of MUSL's fees for the fiscal year ended June 30, 2013, was $255,747.

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. Product groups manage product offerings, establish budgets, establish rules and policies for a product as well as the fees for services. The Audit and Finance Committee recommends all fees for services to be charged by MUSL and product groups to the

Executive Committee who review and submit to the Board for final action. MUSL is subject to annual audits conducted by independent auditors that are retained by the Board. 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, 2013 and June 30, 2012 (in thousands):

	2013	2012
Assets	$ 554,028	$ 583,165
Total Assets	$ 554,028	$ 583,165
Liabilities	$ 542,004	$ 583,010
Net Assets - Unrestricted	12,024	155
Liabilities and Net Assets	$ 554,028	$ 583,165
Unrestricted Revenues	$ 17,259	$ 4,783
Unrestricted Expenses	5,390	4,869
Change in Unrestricted Net Assets	$ 11,869	$ (86)

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 conveying the right to use capital assets. As of June 30, 2013, 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 draw game) sales processing system.

The original video agreement began in fiscal year 1996, and the most recent contract amendment extended the agreement through September 30, 2015. The agreement includes all necessary equipment for a central and backup video host system. Through September 30, 2013, the monthly rate is $147,603. From October 1, 2013 to the expiration date, the monthly rate is $157,603. The traditional system agreement was signed on October 3, 2007. The original agreement was amended in March 2012 and is effective through November 30, 2020. The Lottery currently leases 430 self-service kiosks for $186.75 per month, per kiosk; and 3,100 monitors for $7.50 per monitor, per month. Lease expense for fiscal year 2013 for the video and traditional system equipment was $3,013,866. Future minimum lease payments for these two lease agreements as of June 30, 2013 are shown in the schedule below:

Future Minimum Lease Payments	
Year Ending June 30,	**Amount**
2014	$ 3,103,866
2015	3,133,866
2016	1,715,439
2017	1,242,630
2018	1,242,630
2019 - 2021	3,003,023
Total Future Minimum Lease Payments	$ 13,441,454

12. Other Significant Commitments and Contingencies

A. Commitments

At June 30, 2013, the Lottery had contractual commitments of $2,450,474 for the purchase of gaming software and financial software implementation services. 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 of 1.6999 percent of net sales for all traditional products. In fiscal year 2013, the Lottery had expenses of $5,419,352 for traditional product commissions. The amount is included in Game Vendor Charges on the Statement of Revenues, Expenses, and Changes in Fund Net Position.

In January 2013, the Lottery entered into a contract for the development and implementation of a video lottery gaming system to replace the central video system it currently leases. The system includes all hardware and software necessary for a host and backup system that communicates and stores transactions occurring on Video Lottery℠ terminals throughout the State. Project planning is in progress and the system implementation schedule is still being developed. The payments for license fees, development, installation, training and technical support for the system are $167,603 per month and begin when the system is implemented. The rate will increase to $175,224 when a contractual change in the system protocol is deployed. The contract expires seven years from when the contract rate increases. Estimated total charges for the contract are $18.7 million. The contract also includes a lease purchase agreement for system equipment. Lottery will pay $95,672 a month for 84 months beginning when the equipment is delivered, a total cost of $8,036,448.

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 is 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, 2013 were $19,839.

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.

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. 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, PO Box 23700, Tigard, Oregon 97281-3700.

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 2013 was 8.8 percent. Lottery contributions for the fiscal year ended June 30, 2013, were approximately $1,395,000. Contributions for fiscal year 2012 were approximately $1,438,000 and $435,000 for fiscal year 2011. These contributions were equal to the required contributions for each

year. Beginning January 1, 2004, plan member contributions were no longer contributed to the PERS Plan.

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. 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, PO Box 23700, Tigard, Oregon 97281-3700.

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 2013 was 7.44 percent. Lottery contributions for the fiscal year ended June 30, 2013, were approximately $592,000. Contributions for fiscal year 2012 were approximately $528,000 and $189,000 for fiscal year 2011. 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, 2013, 2012, and 2011 were approximately $1,429,000, $1,427,000, and $1,456,000, 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, PO Box 23700, Tigard, Oregon 97281-3700.

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, 2013, the

Lottery was required by statute to contribute 0.59 percent of PERS covered payroll and 0.50 percent of OPSRP covered payroll to fund the RHIA. Actual employer contributions made by Lottery for the current year were approximately $133,000. Contributions for fiscal year 2012 and 2011 were approximately $132,000 and $57,000 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, PO Box 23700, Tigard, Oregon 97281-3700.

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, 2013, the Lottery was required by statute to contribute 0.16 percent of PERS covered payroll and 0.11 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, 2013, the Lottery's annual OPEB cost (expense) was approximately $34,000 for the RHIPA which was equal to the ARC. Fiscal year 2012 and 2011 OPEB costs were approximately $34,000 and $13,000 respectively, and were equal to the ARC for each 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 2013 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
6/30/2011	$ 1,428,000	100%	$ -
6/30/2012	3,378,000	100%	-
6/30/2013	3,444,000	100%	-

Funded Status and Funding Progress. The funded status of the RHIPA plan as of December 31, 2011, the most recent actuarial valuation, was as follows (dollars in millions):

RHIPA OPEB Plan - Funded Status		
Actuarial Accrued Liability (AAL)	$	34.4
Actuarial Value of Plan Assets		4.5
Unfunded Actuarial Accrued Liability (UAAL)	$	29.9
Funded Ratio (Actuarial Value of Plan Assets/AAL)		13.1%
Covered Payroll	$	2,376.9
UAAL as a Percentage of Covered Payroll		1.3%

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, 2011 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial value of plan assets is equal to the fair 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; an inflation assumption of 2.75 percent; and an annual healthcare cost trend rate graded from 6.9 percent in 2012 to 4.5 percent in 2029. 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 10 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, 2013 was $67,782 and the OPEB cost was $152,793. 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 year ended June 30, 2013. The portion of the ending Net OPEB obligation allocated to Lottery was $688,636, which represents 0.81 percent of the State's liability.

PEBB OPEB Plan	
Annual Required Contribution (ARC)	$ 20,915,792
Interest on Net OPEB Obligation	2,260,157
Adjustment to ARC	(4,322,970)
Annual OPEB Cost	18,852,979
Contributions Made	(8,363,549)
Increase in Net OPEB Obligation	10,489,430
Beginning Net OPEB Obligation	64,595,380
Ending Net OPEB Obligation	$ 75,084,810

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 2013 and the two preceding years were as follows:

PEBB OPEB Plan - Annual OPEB Cost			
Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2011	$ 16,565,000	53.8%	$ 55,383,474
6/30/2012	18,212,746	49.4%	64,595,380
6/30/2013	18,852,979	44.4%	75,084,810

Funded Status and Funding Progress. The funded status of the PEBB plan as of July 1, 2011, the most recent actuarial valuation, was as follows (dollars in millions):

PEBB OPEB Plan - Funded Status	
Actuarial Accrued Liability (AAL)	$ 154.7
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	$ 154.7
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0.0%
Covered Payroll	$ 2,647.0
UAAL as a Percentage of Covered Payroll	5.8%

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, 2011 actuarial valuation, the entry age normal actuarial cost method was used. Significant actuarial assumptions include: a 3.5 percent rate of return on the investment of present and future assets; an initial medical healthcare cost trend rate of 4.03 percent and an ultimate rate of 5.5 percent; a dental healthcare cost trend rate of 2.73 percent in 2012 and 5.0 percent in all subsequent years; and an inflation rate of 2.75 percent. The unfunded actuarial accrued liability for the PEBB plan is being amortized using the level percentage amortization method and an open amortization period of 15 years.

15. Risk Financing

The State of Oregon administers property and casualty insurance programs covering State government through its Insurance Fund (included in the Central Services 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 2013 share of the 2011-2013 biennial assessment was $513,287. For the Lottery, the amount of claim settlements did not exceed insurance coverage for each of the past three fiscal years.

16. Prior Period Adjustment

Beginning net position was restated by $5,109,678 to correct a pension related error. Prior to January 1, 2002, the State and community colleges were pooled together in the State and Community College Pool (SCCP), while local government employers participated in the Local Government Rate Pool (LGRP). Effective January 1, 2002, these two actuarial pools were combined to form the State and Local Government Rate Pool (SLGRP). The SCCP employers joined the SLGRP with a transitional liability. However, the State did not record its portion of the liability upon transition. Thus, a prior period adjustment was made to restate beginning net position by the amount of the State's liability allocated to Lottery at June 30, 2012.

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	$ -	$ 323.4	$ 323.4	0%	$ 2,187.2	14.8%
7/1/2009	-	161.7	161.7	0%	2,562.5	6.3%
7/1/2011	-	154.7	154.7	0%	2,647.0	5.8%

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)
12/31/2009	$ 6.4	$ 24.5	$ 18.1	26.1%	$ 2,371.8	0.8%
12/31/2010	5.7	33.9	28.2	16.8%	2,379.7	1.2%
12/31/2011	4.5	34.4	29.9	13.1%	2,376.9	1.3%

Notes to the Required Supplementary Information – Schedules of Funding Progress

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, PO Box 23700, Tigard, Oregon 97281-3700.

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 (Non-GAAP) Basis Comparison Schedule
For the Fiscal Year Ended June 30, 2013
(See Note 2. A., Budgetary Compliance)

	Actual	Budget[1]	Variance Over/ (Under)
Revenue			
Video Lottery℠ (Gross Receipts)	$ 9,914,956,244	$ 9,946,338,188	$ (31,381,944)
Scratch-its℠ Instant Tickets	117,079,308	117,918,868	(839,560)
Keno	91,636,954	91,790,716	(153,762)
Powerball®	58,322,876	50,992,421	7,330,455
Megabucks℠	38,084,764	34,433,834	3,650,930
Mega Millions®	11,823,070	11,097,762	725,308
Raffle℠	4,998,300	4,998,200	100
Win For Life℠	4,845,906	4,851,217	(5,311)
Lucky Lines℠	2,317,312	2,357,329	(40,017)
Pick 4℠	1,351,260	1,340,354	10,906
Total Revenue	10,245,415,994	10,266,118,889	(20,702,895)
Prize Expense	9,389,013,657	9,416,099,675	27,086,018
Net Revenue	856,402,337	850,019,214	6,383,123
Direct Expenses			
Retailer Commissions	204,921,077	205,422,878	501,801
Game Vendor Charges	8,777,088	8,672,499	(104,589)
Tickets	3,363,077	2,887,505	(475,572)
Advertising	5,278,619	7,961,000	2,682,381
Sales Support	1,067,653	2,108,246	1,040,593
Game Equipment/Parts & Maintenance	1,496,442	1,258,474	(237,968)
Research	204,478	1,051,972	847,494
Depreciation	10,959,601	12,581,694	1,622,093
Total Direct Expenses	236,068,035	241,944,268	5,876,233
Gross Profit	620,334,302	608,074,946	12,259,356
Indirect Revenue			
Other Income (Loss)	1,453,887	853,259	600,628
Indirect Expenses			
Public Information	2,718,648	4,100,000	1,381,352
Personal Services	38,010,963	41,933,757	3,922,794
Services and Supplies	10,699,276	13,569,649	2,870,373
Depreciation	2,022,813	2,611,785	588,972
Total Indirect Expenses	53,451,700	62,215,191	8,763,491
Net Profit	$ 568,336,489	$ 546,713,014	$ 21,623,475

[1]Budget adopted by the Lottery Commission and adjusted by the Economic and Revenue Forecasts published by the Department of Administrative Services 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. Prior to fiscal year 2013, net position was referred to as net assets and net investment in capital assets was referred to as invested in capital assets. Prior year terminology has been renamed in these schedules for comparability.

Net Position by Component
Changes in Net Position

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 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 Lottery℠, the level of demand is generally impacted by variety of game choices, entertaining and sophisticated graphics, and convenience of available retailer locations.

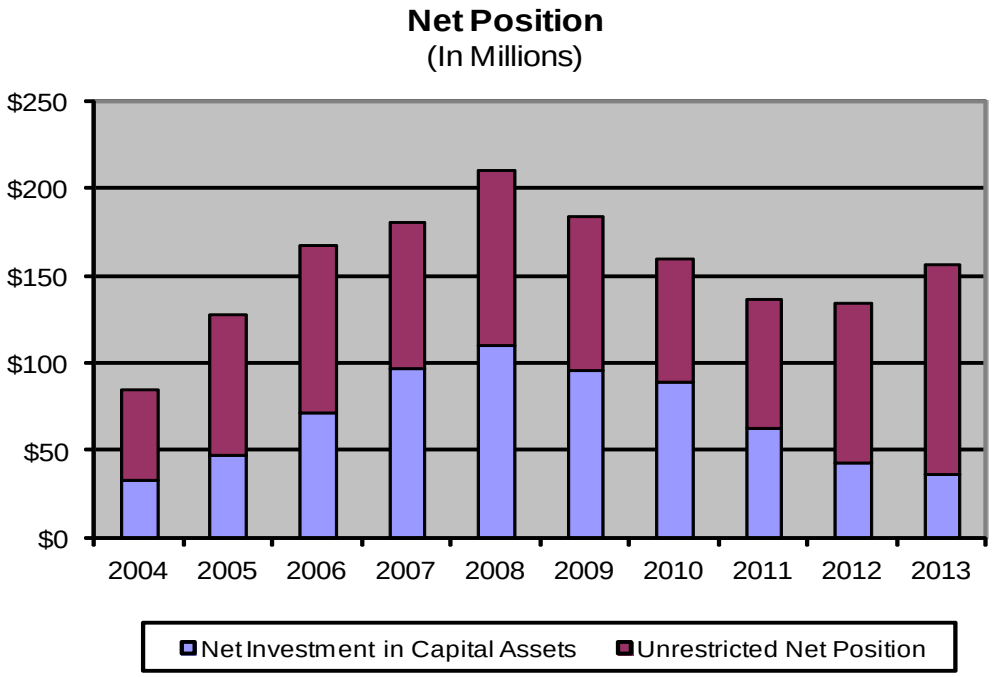
Number of Employees
Operating Indicators and Capital Asset Information

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 Position by Component
Last Ten Fiscal Years

Fiscal Year	Net Investment in Capital Assets	Unrestricted Net Position	Total Net Position
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
2009	95,689,630	88,353,446	184,043,076
2010	89,252,789	70,427,133	159,679,922
2011	62,805,601	73,792,695	136,598,296
2012	43,161,242	91,323,610	134,484,852
2013	36,047,854	119,849,568	155,897,422



Note: Total net position at June 30, 2012 was restated from $139,594,530 to $134,484,852 as the result of a prior period adjustment in fiscal year 2013.

Oregon State Lottery
Changes in Net Position
Last Ten Fiscal Years

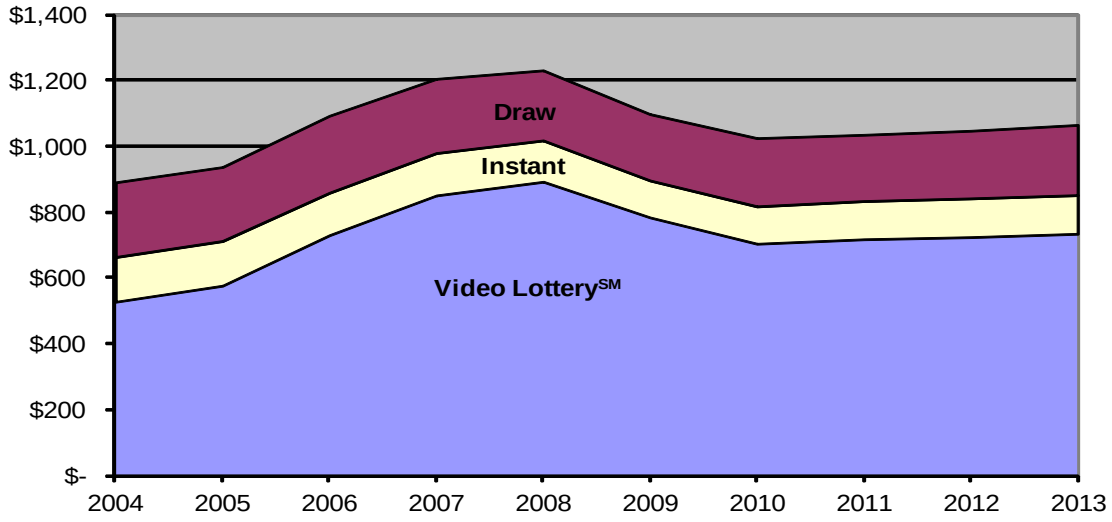
	2004	2005	2006	2007
Operating Revenues				
Sales:				
Video Lottery℠ (Net Receipts)	$ 530,966,187	$ 579,650,266	$ 732,888,437	$ 853,505,565
Scratch-its℠ Instant Tickets	132,731,374	133,241,896	127,244,323	127,636,964
Keno	116,478,125	122,196,298	116,240,045	113,198,024
Powerball®	45,974,759	35,004,855	59,070,621	48,658,403
Megabucks℠	46,473,330	48,283,356	37,771,877	40,164,337
Sports Action℠	10,063,790	11,292,930	12,105,674	14,009,541
Mega Millions®	-	-	-	-
Raffle℠	-	-	-	-
Win For Life℠	5,475,972	5,559,882	5,914,469	5,566,158
Lucky Lines℠	-	-	1,018,520	2,298,480
Pick 4℠	1,381,483	1,386,714	1,405,501	1,404,990
Breakopen Instant Tickets	2,630,176	2,185,157	1,671,571	1,173,585
Scoreboard℠	1,087,911	1,022,163	643,913	512,206
Provision for Uncollectibles	(133,563)	(294,516)	(29,002)	(56,434)
Other Income	332,697	361,798	234,719	1,602,185
Total Operating Revenues	893,462,241	939,890,799	1,096,180,668	1,209,674,004
Operating Expenses				
Prizes	232,122,621	245,125,049	236,638,134	240,076,739
Retailer Commissions	200,968,893	195,994,718	218,013,134	239,320,032
Salaries and Wages	24,496,409	23,860,802	25,873,708	29,123,801
Depreciation and Amortization	4,419,544	6,918,109	11,019,875	19,797,789
Services and Supplies	11,400,672	10,143,892	10,902,866	8,254,418
Game Vendor Charges	11,816,144	10,908,009	10,227,113	10,009,601
Advertising and Market Research	6,917,506	7,262,887	7,007,884	10,752,331
Public Information	3,124,828	3,106,149	3,858,646	5,128,899
Tickets	4,459,738	4,318,728	4,461,315	4,165,283
Game Equipment Parts and Maintenance	-	-	-	2,606,119
Sales Support	1,332,869	1,215,887	1,772,169	1,320,416
Total Operating Expenses	501,059,224	508,854,230	529,774,844	570,555,428
Operating Income	392,403,017	431,036,569	566,405,824	639,118,576
Nonoperating Revenues (Expenses)				
Interest and Investment Income (Loss)	(34,460)	15,862,977	8,357,783	24,392,398
Insurance Recoveries	49,867	69,315	34,111	16,655
Gain (Loss) on Disposition of Assets	32,123	(64,636)	(20,653)	(517,562)
Investment Expenses - Securities Lending	(837,276)	(1,525,023)	(2,998,549)	(5,352,243)
Interest Expense	-	-	-	-
Total Nonoperating Revenues (Expenses)	(789,746)	14,342,633	5,372,692	18,539,248
Income Before Transfers	391,613,271	445,379,202	571,778,516	657,657,824
Transfers to Economic Development Fund	(380,579,755)	(401,581,250)	(531,032,111)	(644,030,352)
Transfers to General Obligation Bond Fund	(203,770)	(1,148,632)	(1,121,812)	(1,195,464)
Change in Net Position	$ 10,829,746	$ 42,649,320	$ 39,624,593	$ 12,432,008

2008	2009	2010	2011	2012	2013
$ 895,111,696	$ 786,746,726	$ 706,981,950	$ 720,510,190	$ 727,124,878	$ 737,370,280
124,704,686	112,105,703	113,269,602	115,895,266	117,521,750	117,079,308
109,787,942	99,184,396	95,343,654	93,270,757	93,456,813	91,636,954
55,969,079	51,836,316	51,216,021	33,491,623	38,777,424	58,322,876
37,149,930	38,065,424	40,137,180	40,780,752	37,539,720	38,084,764
-	-	-	-	-	-
-	-	3,490,116	17,448,177	22,208,222	11,823,070
-	2,499,597	7,499,290	7,499,000	4,999,650	4,998,300
6,675,988	6,654,104	6,503,143	5,869,397	5,545,700	4,845,906
2,131,474	2,042,237	1,986,060	1,918,134	1,758,800	2,317,312
1,401,230	1,389,814	1,254,783	1,279,523	1,352,749	1,351,260
857,671	-	-	-	-	-
-	-	-	-	-	-
(7,797)	(128,699)	(112,559)	(128,164)	(71,327)	(44,280)
1,042,747	579,477	251,538	1,142,214	209,110	1,410,594
1,234,824,646	1,100,975,095	1,027,820,778	1,038,976,869	1,050,423,489	1,069,196,344
231,364,323	211,927,565	215,619,096	208,672,809	238,278,854	206,836,815
240,475,998	213,739,988	198,168,503	200,510,286	201,626,030	204,921,077
33,005,670	37,330,819	34,608,905	35,512,068	36,317,480	36,504,315
30,843,314	37,080,300	30,899,860	29,773,197	26,794,091	12,982,414
8,767,744	10,519,566	8,837,913	10,644,690	10,159,107	10,787,865
9,371,513	7,716,930	9,220,784	8,552,689	8,620,924	8,777,088
9,885,584	11,313,552	8,475,107	8,446,004	6,444,771	5,483,097
5,463,575	5,326,746	4,462,400	4,420,673	3,882,869	2,718,648
4,232,601	4,335,016	4,245,963	4,230,790	4,640,444	3,363,077
2,485,770	1,850,765	1,333,034	2,115,134	1,925,220	1,496,442
1,569,079	1,712,391	1,131,956	1,234,314	1,113,400	1,067,653
577,465,171	542,853,638	517,003,521	514,112,654	539,803,190	494,938,491
657,359,475	558,121,457	510,817,257	524,864,215	510,620,299	574,257,853
28,068,310	12,675,701	11,276,393	3,587,450	17,744,105	(2,982,432)
25,570	61,973	106,598	65,081	30,676	11,263
(317,204)	(1,767,242)	(5,323,677)	(2,919,876)	(147,802)	(969,699)
(5,047,007)	(808,660)	(192,727)	(237,391)	(138,855)	(143,462)
-	-	-	-	-	(330,386)
22,729,669	10,161,772	5,866,587	495,264	17,488,124	(4,414,716)
680,089,144	568,283,229	516,683,844	525,359,479	528,108,423	569,843,137
(648,408,187)	(592,846,506)	(539,582,457)	(546,996,892)	(523,652,688)	(546,923,919)
(1,317,079)	(1,463,447)	(1,464,541)	(1,444,213)	(1,459,501)	(1,506,648)
$ 30,363,878	$ (26,026,724)	$ (24,363,154)	$ (23,081,626)	$ 2,996,234	$ 21,412,570

Oregon State Lottery
Sales by Product
Last Ten Fiscal Years

			Draw Games				
Fiscal Year	Video Lottery℠	Instant Products	Keno	Powerball®	Megabucks℠	All Other Games	Total
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
2009	786,746,726	112,105,703	99,184,396	51,836,316	38,065,424	12,585,752	1,100,524,317
2010	706,981,950	113,269,602	95,343,654	51,216,021	40,137,180	20,733,392	1,027,681,799
2011	720,510,190	115,895,266	93,270,757	33,491,623	40,780,752	34,014,231	1,037,962,819
2012	727,124,878	117,521,750	93,456,813	38,777,424	37,539,720	35,865,121	1,050,285,706
2013	737,370,280	117,079,308	91,636,954	58,322,876	38,084,764	25,335,848	1,067,830,030

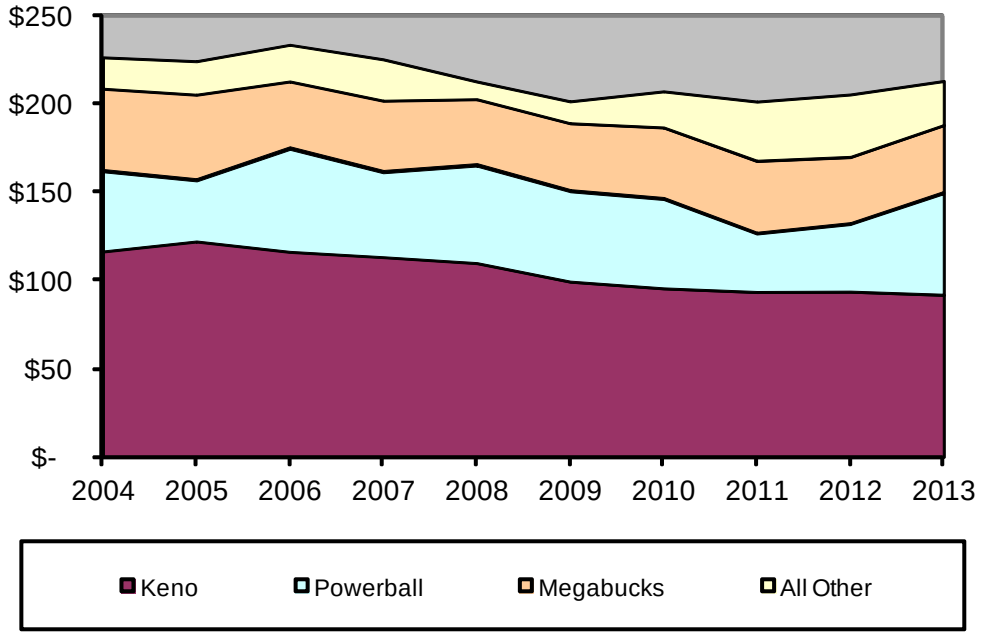
Sales by Product Type
(In Millions)



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

			Draw Games			
Fiscal Year	**Video Lottery℠**	**Instant Products**	**Keno**	**Powerball®**	**Megabucks℠**	**All Other Draw Games**
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%
2009	71.5%	10.2%	9.0%	4.7%	3.5%	1.1%
2010	68.8%	11.0%	9.3%	5.0%	3.9%	2.0%
2011	69.4%	11.2%	9.0%	3.2%	3.9%	3.3%
2012	69.2%	11.2%	8.9%	3.7%	3.6%	3.4%
2013	69.0%	11.0%	8.6%	5.4%	3.6%	2.4%

Draw Game Sales by Product
(In Millions)



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

		2013		
Rank	Retailer	Sales	Percent of Total Sales	County
1	Deli Store	$ 1,592,535	0.15%	Columbia
2	Dotty's #9	1,563,527	0.15%	Washington
3	Smokehouse Cafe #4	1,550,214	0.15%	Linn
4	Shari's-Airport Way #218	1,530,684	0.14%	Multnomah
5	Elmer's Pancake-Delta Park	1,478,136	0.14%	Multnomah
6	Original Joe's	1,449,595	0.14%	Multnomah
7	Elmer's	1,405,585	0.13%	Multnomah
8	Glass House Tavern	1,387,743	0.13%	Multnomah
9	Dotty's #27	1,377,895	0.13%	Multnomah
10	Dotty's #11	1,337,736	0.13%	Multnomah
	Totals	$ 14,673,650	1.39%	
	Total Lottery Sales	$1,067,830,030		

		2004		
Rank	Retailer	Sales	Percent of Total Sales	County
1	Bradley's	$ 1,870,299	0.21%	Multnomah
2	Dotty's #17	1,673,803	0.19%	Washington
3	Purple Parrot #7	1,542,512	0.17%	Jackson
4	Dotty's #11	1,528,962	0.17%	Multnomah
5	Glass House Tavern	1,527,672	0.17%	Multnomah
6	Richards Deli And Pub	1,470,719	0.16%	Washington
7	Dotty's #6	1,465,296	0.16%	Washington
8	Smokehouse Cafe #4	1,456,023	0.16%	Linn
9	Fox Den Eatery, The #5	1,452,091	0.16%	Linn
10	Dotty's #7	1,438,376	0.16%	Multnomah
	Totals	$ 15,425,753	1.71%	
	Total Lottery Sales	$ 893,263,107		

Source: Oregon State Lottery Research Department

Oregon State Lottery
Number of Lottery Retailers and Sales by County
For Business Year 2013

	Sales		Retailers	
County	Business Year Sales	Percent of Total Sales	Number of Lottery Retailers	Percent of Total Retailers
Multnomah	$ 297,500,181	27.88%	927	24.09%
Washington	124,281,327	11.65%	346	8.99%
Clackamas	102,956,102	9.65%	325	8.45%
Marion	89,178,297	8.36%	323	8.39%
Lane	88,313,200	8.27%	350	9.10%
Jackson	50,235,379	4.71%	196	5.09%
Deschutes	37,286,853	3.49%	133	3.46%
Linn	33,350,491	3.12%	134	3.48%
Douglas	23,886,735	2.24%	126	3.27%
Josephine	20,908,785	1.96%	94	2.44%
Umatilla	18,733,061	1.76%	75	1.95%
Columbia	18,503,178	1.73%	61	1.59%
Yamhill	17,006,321	1.59%	79	2.05%
Clatsop	16,435,204	1.54%	72	1.87%
Klamath	16,167,063	1.51%	70	1.82%
Lincoln	13,886,845	1.30%	73	1.90%
Malheur	12,422,242	1.16%	35	0.91%
Coos	11,071,873	1.04%	52	1.35%
Polk	11,034,035	1.03%	57	1.48%
Benton	9,199,883	0.86%	43	1.12%
Tillamook	9,104,144	0.85%	49	1.27%
Wasco	8,576,108	0.80%	32	0.83%
Hood River	6,480,075	0.61%	23	0.60%
Crook	5,498,118	0.52%	26	0.68%
Union	5,374,284	0.50%	27	0.70%
Baker	4,315,396	0.40%	22	0.57%
Curry	3,846,704	0.36%	24	0.62%
Jefferson	3,576,744	0.34%	16	0.42%
Morrow	1,621,521	0.15%	9	0.23%
Grant	1,497,706	0.14%	11	0.29%
Lake	1,303,163	0.12%	7	0.18%
Sherman	1,297,050	0.12%	6	0.16%
Harney	1,018,321	0.10%	7	0.18%
Wallowa	922,796	0.09%	10	0.26%
Gilliam	341,615	0.03%	6	0.16%
Wheeler	207,786	0.02%	2	0.05%
Total	$ 1,067,338,586	100.00%	3,848	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]
2003	3,547,376	$ 108,486,910	$ 30,582	8.1%
2004	3,569,463	112,973,834	31,650	7.3%
2005	3,613,202	117,634,076	32,557	6.2%
2006	3,670,883	127,403,090	34,706	5.3%
2007	3,722,417	133,821,268	35,950	5.2%
2008	3,768,748	140,975,982	37,407	6.5%
2009	3,808,600	133,907,191	35,159	11.1%
2010	3,838,332	137,820,653	35,906	10.7%
2011	3,871,859	145,299,628	37,527	9.6%
2012	3,899,353	151,241,129	38,786	8.7%

[1]Source: U.S. Department of Commerce, Bureau of Economic Analysis
[2]Source: Oregon Employment Department

Oregon State Lottery
Employment by Industry - State of Oregon
Calendar Year 2012 and Nine Years Prior

	2012		2003	
	Number of Employees	Percent of Total	Number of Employees	Percent of Total
Health care and social assistance	259,115	11.60%	216,904	10.40%
Retail trade	233,898	10.47%	231,782	11.12%
Manufacturing	186,301	8.34%	205,301	9.85%
Local government	177,354	7.94%	171,002	8.20%
Accommodation and food services	163,068	7.30%	143,280	6.87%
Professional, scientific, and technical services	138,882	6.21%	111,927	5.37%
Other services	119,374	5.34%	113,377	5.44%
Administrative and waste services	118,365	5.30%	109,546	5.25%
Construction	102,917	4.60%	114,114	5.47%
Real estate, rental, and leasing	102,272	4.58%	77,785	3.73%
Finance and insurance	96,808	4.33%	82,259	3.95%
Wholesale trade	83,925	3.75%	81,076	3.89%
Farm employment	65,613	2.94%	68,141	3.27%
Transportation and warehousing	64,148	2.87%	62,323	2.99%
State government	62,005	2.77%	63,464	3.04%
Arts, entertainment, and recreation	54,549	2.44%	43,635	2.09%
Educational services	54,267	2.43%	41,022	1.97%
Information	41,379	1.85%	39,591	1.90%
Management of companies	31,604	1.41%	26,068	1.25%
Forestry, fishing, and related activities	28,812	1.29%	29,144	1.40%
Federal government, civilian	28,141	1.26%	30,771	1.48%
Military	12,246	0.55%	13,403	0.64%
Utilities	4,809	0.22%	5,368	0.26%
Mining	4,651	0.21%	3,455	0.17%
Total employment	2,234,503	100.00%	2,084,738	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
Last Ten Calendar Years

	2003	2004	2005	2006	2007
Number Surveyed	1,002	1,000	1,000	1,004	1,001
Player Percentage	50.8%	50.9%	52.6%	49.0%	43.4%
	Players	Players	Players	Players	Players
Gender					
Male	53%	40%	51%	51%	52%
Female	47%	60%	49%	49%	48%
Age					
18 - 24	11%	14%	11%	14%	9%
25 - 34	18%	18%	18%	20%	19%
35 - 44	24%	17%	21%	19%	23%
45 - 54	21%	24%	18%	22%	22%
55 - 64	14%	14%	13%	13%	15%
65 +	13%	14%	18%	13%	11%
Education					
Some High School	5%	3%	2%	6%	7%
High School Graduate	22%	32%	25%	33%	29%
College/Tech School	42%	34%	39%	37%	38%
College Graduate	21%	21%	25%	17%	16%
Graduate School/Degree	11%	9%	9%	7%	10%
Marital Status					
Single	21%	23%	21%	22%	21%
Married	60%	65%	55%	54%	57%
Co-habitating	4%	3%	7%	7%	5%
Divorced or Separated	10%	6%	11%	13%	12%
Widowed	5%	3%	6%	4%	5%
Income					
Less than $15,000	8%	10%	7%	8%	8%
$15,000 - $49,999	45%	50%	49%	44%	44%
$50,000 - $74,999	19%	16%	16%	20%	17%
$75,000 - $99,999	10%	6%	9%	10%	12%
$100,000 +	8%	7%	7%	6%	10%
Refused/Don't Know	10%	11%	12%	12%	9%

Sources:
Player information from Oregon State Lottery's Tracking Study
State information from U.S. Census Bureau, 2012 American Community Survey

2008	2009	2010	2011	2012	
1,003	1,002	1,000	1,000	1,000	
42.2%	48.1%	50.7%	53.3%	52.0%	
Players	Players	Players	Players	Players	2012 State Population
54%	51%	48%	50%	52%	49.6%
46%	49%	52%	50%	48%	50.4%
8%	6%	10%	9%	12%	9.4%
19%	20%	19%	19%	18%	13.7%
22%	17%	17%	16%	15%	13.0%
23%	27%	26%	23%	23%	13.4%
18%	15%	15%	14%	13%	13.6%
11%	15%	14%	19%	18%	15.0%
8%	7%	4%	4%	6%	10.1%
26%	25%	21%	20%	22%	25.1%
36%	37%	37%	33%	30%	34.9%
20%	18%	20%	23%	21%	18.6%
10%	11%	16%	18%	19%	11.3%
17%	20%	22%	21%	23%	30.2%
56%	56%	58%	52%	54%	49.0%
9%	7%	6%	7%	5%	n/a
11%	10%	7%	11%	9%	15.3%
6%	5%	5%	6%	5%	5.5%
9%	11%	10%	10%	10%	6.4%
43%	44%	30%	31%	27%	52.3%
15%	18%	17%	16%	14%	22.0%
13%	11%	13%	11%	9%	9.2%
10%	9%	10%	14%	11%	10.0%
10%	8%	21%	18%	30%	n/a

Oregon State Lottery
Number of Employees
Last Ten Fiscal Years

	2004[2]	2005[2]	2006[2]	2007[3]	2008[4]	2009[5]	2010	2011	2012[6]	2013
Sales, Marketing & Retail Services	239	228	237	243	251	255	255	248	229	232
Support Services	126	121	124	135	148	157	151	151	143	154
Director's Office	25	29	29	30	31	32	30	31	29	30
Security[1]	9	11	11	12	17	19	17	16	16	13
Total	399	389	401	420	447	463	453	446	417	429

Source: Oregon State Payroll System for FY 2004 - FY 2012; Lottery Payroll System for FY 2013.

Note: Beginning in fiscal year 2013, the Marketing and Retail Operations business units were combined into one unit Sales, Marketing & Retail Services; prior years were restated for comparability.

[1]Number of employees for Security excludes employees of the Oregon State Police.

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

[3]Positions 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.

[4]In 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.

[5]During fiscal year 2009, vacant positions in Marketing were filled and some temporary employees were hired to assist with promotional Marketing activities.

[6]There were a significant number of positions vacant at year end due to a hiring freeze in effect during part of fiscal year 2012.

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

Fiscal Year	Number of Lottery Retailers[1]	Number of Video Lottery℠ Terminals Deployed[1]	Per Capita Sales[2]
2004	3,421	10,194	$ 251.81
2005	3,484	10,438	263.30
2006	3,579	11,125	303.33
2007	3,691	11,831	329.11
2008	3,785	12,205	331.45
2009	3,855	12,365	292.01
2010	3,916	12,393	269.83
2011	3,901	12,202	270.42
2012	3,907	12,175	271.26
2013	3,848	12,037	273.85

[1]Source: Oregon State Lottery Records

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

This page intentionally left blank.

Other Reports

Office of the Secretary of State

Kate Brown
Secretary of State

Audits Division

Gary Blackmer
Director

255 Capitol St. NE, Suite 500
Salem, OR 97310

(503) 986-2255
fax (503) 378-6767

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*

Independent Auditor's Report

The Honorable John Kitzhaber
Governor of Oregon

Elisa Dozono, Chair
Oregon State Lottery Commission

We have audited, in accordance with the 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, the financial statements of the Oregon State Lottery, an enterprise fund of the State of Oregon, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Oregon State Lottery's basic financial statements, and have issued our report thereon dated November 29, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Oregon State Lottery's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Oregon State Lottery's internal control. Accordingly, we do not express an opinion on the effectiveness of the Oregon State Lottery's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during

our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Oregon State Lottery's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Oregon State Lottery's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

OREGON AUDITS DIVISION

Kate Brown
Secretary of State

November 29, 2013