

OREGON LOTTERY

An Enterprise Fund of the State of Oregon

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2014



It Does Good Things™

Oregon State Lottery

An Enterprise Fund of the State of Oregon

Comprehensive Annual Financial Report **For the Fiscal Year Ended June 30, 2014**



It does good things™

Jack Roberts
Director

Kathy Ortega, CPA
Chief Financial Officer

Report Prepared by:

Finance and Accounting
Support Services Division, Oregon State Lottery

Sandy Kumnick, CPA
Martha Wildfang

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For The Fiscal Year Ended June 30, 2014
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Introductory Section



It Does Good Things.

November 26, 2014

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, 2014. 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, 2014. 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's commitment is to provide information and tools that help our customers make informed choices and enjoy Lottery games in a responsible way. Further, the Lottery is committed to ensuring that players and their families know how to access treatment for problem gambling, and that they understand treatment is free, confidential and effective.

Through a network of 3,843 retailers, the Lottery offers players a broad mix of traditional games as well as Video LotterySM. Traditional Lottery games include: Scratch-itsSM Instant Tickets, Keno, Powerball®, Oregon's Game MegabucksSM, RaffleSM, Win for LifeSM, Mega Millions®, Lucky LinesSM, and Pick 4SM. Video LotterySM is a product sold on stand-alone Video LotterySM terminals located in bar and tavern retail establishments. The Lottery has approximately 11,951 Video LotterySM 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

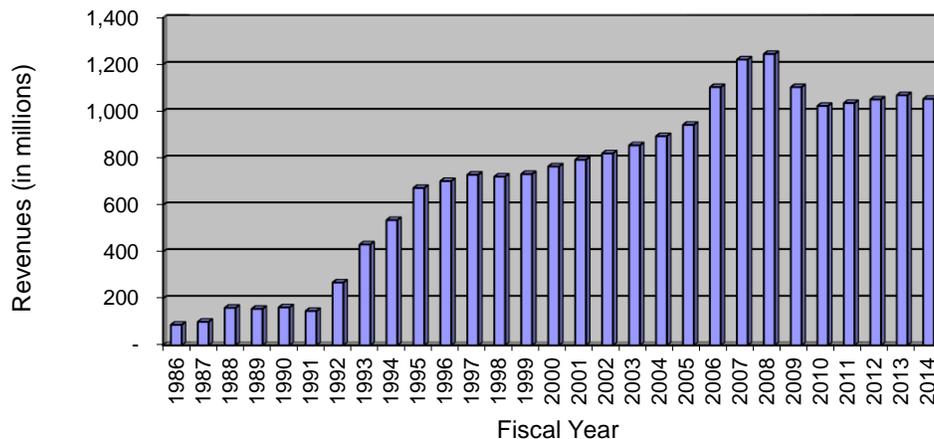
The Lottery, which is accounted for as a single enterprise fund, is entirely self-financed through its sales. Its operations are designed to fulfill its duty to develop, produce, and market Lottery games; pay winners and operating expenses; and remit the remaining net profits to the State. These net 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, showed modest but steady growth in 2012 and 2013, and showed a slight decline in 2014.

Total Oregon Lottery Revenues¹ by Fiscal Year (1986 - 2014)



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

Economic Condition and Outlook

According to the Oregon Office of Economic Analysis (OEA), Oregon’s employment 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 1.3 percent in 2012, slightly below employment growth for the nation in both years. In 2013, Oregon’s employment growth started gaining ground increasing 2.1 percent, performing above the national average of 1.7. For 2014, Oregon’s employment growth is continuing

to perform above the national average at 2.6 percent, the outlook is for this growth to persist for two to three years before demographic trends weigh on growth rates.

In Oregon, along with the improving labor market, improved personal income and wage and salary trends have been noted. Oregon's personal income is projected to increase 4.5 percent in 2014, 5.0 percent in 2015 and 5.5 percent in 2016. National averages for 2014 to 2016 are 3.6, 4.7 and 5.3 percent. Oregon wage and salary income will also increase 4.7-5.2 percent over the next 3 years.

Several factors currently facing the Oregon economy are potential impacts of the federal fiscal policy, including the undoing of the fiscal packages used to combat the financial crisis and recession, the strength and durability of the housing market recovery, ongoing European debt and economic issues and financial market instability, commodity price inflation, federal timber payments and the effects of other 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 LotterySM products. This plan includes implementation of a new Video LotterySM central gaming system, replacement of approximately 12,000 Video LotterySM 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 LotterySM games. The implementation and deployment efforts began in the last quarter of fiscal 2014 and will continue through fiscal 2016.

The replacement of existing Video LotterySM terminals is expected to cost approximately \$211.0 million over four years, of which Lottery will self-fund \$80.6 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 6.5 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 2014 Economic and Revenue Forecast, projections of earnings transfers for the current biennium and the 2017-2019 biennium factor in the impacts of the Lottery's capital replacement plan. The Office of Economic Analysis (OEA) projected a decrease in Lottery earnings for the 2013-2015 biennium from the prior forecast in May of 2014. The \$15.9 million decrease in transfers in the forecast is the result of lower than expected sales in Video LotterySM in May and June of 2014. Year over year, Video LotterySM sales are up, however less than previous forecasts had assumed, so the forecast was adjusted to reflect current trends. The OEA sees lottery sales continuing to strengthen with Oregon's economic expansion and growth, however, given the 1.24 percent annualized growth rate over the past 4 fiscal years, this longer term outlook is lower.

Relevant Financial Policies

In order to provide resources for current operations and future investment, the Lottery Commission established a contingency reserve fund. In May of 2014, the Commission authorized an increase to the cash portion of the reserve with a cap of \$100 million. At June 30, 2014 the actual cash balance in the reserve was \$93 million. The Lottery intends to use the contingency reserve to fund the remaining portion Video LotterySM Terminal Modernization Program replacement plan. Further details on this can be found in the MD&A section of this report.

Major Initiatives

During fiscal year 2014, the Lottery began implementing its plans to modernize the technology that supports its Video LotterySM products. Initial activities for implementation of the new Video LotterySM 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.

During fiscal year 2014 the contracts for the first two VLT models were executed, purchasing 4,700 new Video LotterySM terminals. At the end of fiscal year 2014 some of these VLTs were being tested, and deployed in retailer establishments. This deployment will continue until January 2015, replacing approximately 1/3 of the obsolete VLTs statewide.

During fiscal year 2015, Lottery will refresh its game offerings on the older VLT models, the IGT TrimLine and Spielo prodiGiVuTM 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 continue to appeal to consumers.

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-itSM tickets will be seasonally focused and include high-touch Holiday Surprise and Delight in-store promotions as well as social, digital and broadcast media. Two RaffleSM games will be offered in fiscal year 2015. The raffles will be promoted with a combination of real-time media, public relations, and event marketing.

The Lottery will continue its commitment to enhancing and expanding its Responsible Gambling Program. This includes sharing an Oregon Lottery Responsible Gambling Code of Practice with the public that details our values, commitments, and areas of focus regarding the promotion of responsible gambling and enabling access to problem gambling treatment.

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, 2013. This was the sixth 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, 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, 2013

Executive Director/CEO

Principal Officials of Oregon State Lottery

Elisa Dozono
Commission Chair

Raul Valdivia
Commissioner

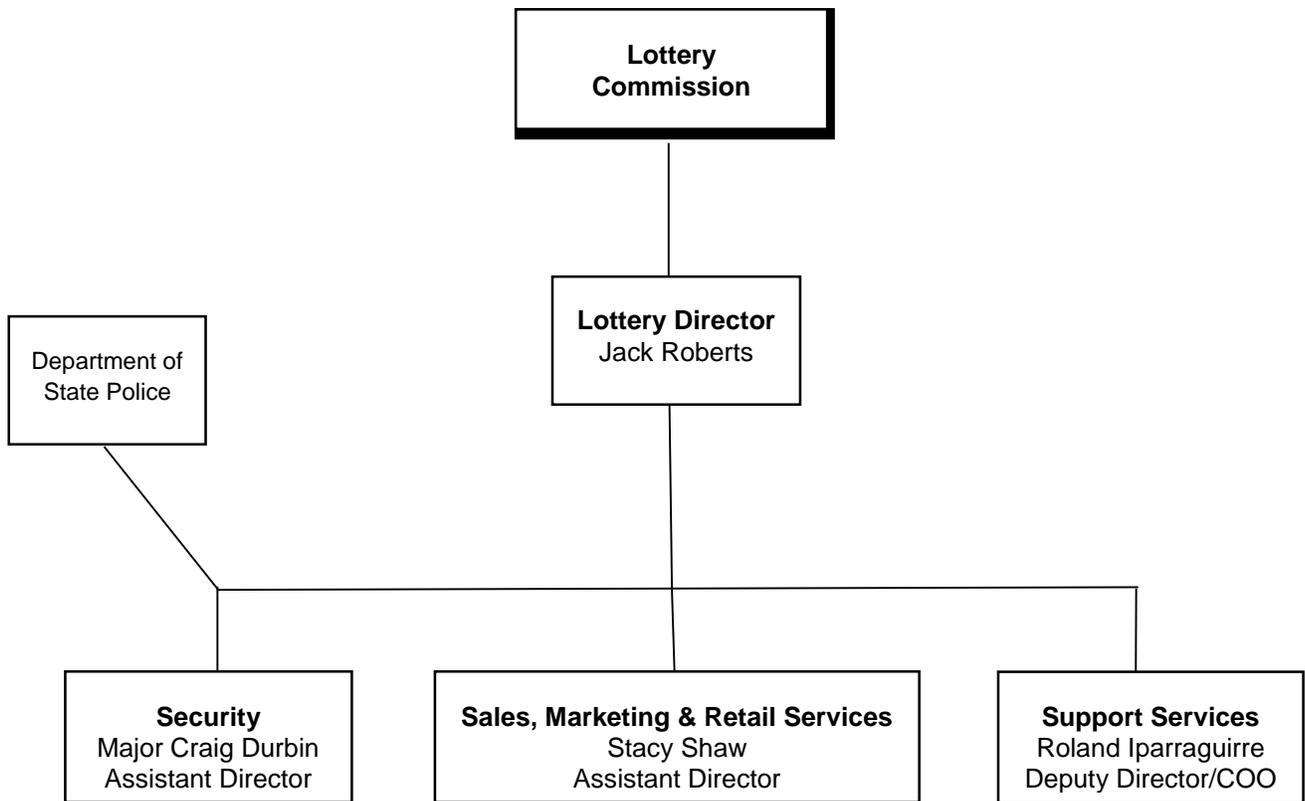
Mary Wheat
Commissioner

Chris Telfer
Commissioner

Liz Carle
Commissioner

Jack Roberts
Director

Organization Chart



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Financial Section

Office of the Secretary of State

Kate Brown
Secretary of State

Robert Taylor
Deputy 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, 2014, and the related notes to the financial statements, which collectively comprise the Oregon State Lottery's basic financial statements, as listed in the table of contents.

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 these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2014, 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, 2014, 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 26, 2014, on our consideration of Oregon State Lottery’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Office of the Secretary of State, Audits Division

State of Oregon
November 26, 2014

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, 2014. 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 \$1.05 billion, a decrease of 1.4 percent from fiscal year 2013.
- Video LotterySM revenue increased by \$5.4 million from the prior fiscal year, and revenue from traditional games decreased by \$20.4 million.
- Net position (equity) increased by \$49.4 million as a result of fiscal year operations.
- The Lottery transferred \$507.3 million to Oregon's Economic Development Fund, which is \$39.7 million less 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, 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, 2014 were \$607.6 million, an increase of \$31.9 million from the prior year. The change in assets consists primarily of an increase in cash and investments for prize payments at fair value, and a decrease in securities lending cash collateral. As described in the Letter of Transmittal, the Lottery has initiated a multi-year plan to support the next generation of Video LotterySM products. This plan includes implementation of a new Video LotterySM central gaming system, replacement of approximately 12,000 Video LotterySM terminals statewide, and implementation of a new gaming communications network. Funds have been set aside for this initiative, which contributed to a larger balance of cash reported at fiscal 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 decreased by \$17.6 million from the prior year. A decrease of \$22.0 million in obligations under securities lending, a decrease of \$4.2 million in the amount due to the Economic Development Fund (EDF), and an increase of \$6.8 million in accounts payable contributed to the net change. The amount owed to the EDF at the end of fiscal year 2014, which represents fourth quarter earnings not yet transferred, was lower than the prior year as a result of several factors. Revenues from traditional products were lower due to the prior year's near record Powerball® jackpot in May 2013 which significantly increased sales. No Jackpot rollups occurred in the 4th quarter of fiscal year 2014 resulting in a lower transfer for that time period.

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

	2014	2013	Change
Current assets	\$ 380,560,425	\$ 373,203,619	\$ 7,356,806
Capital assets	35,206,297	36,047,854	(841,557)
Other noncurrent assets	191,878,146	166,530,388	25,347,758
Total assets and deferred outflows of resources	607,644,868	575,781,861	31,863,007
Current liabilities	267,597,487	284,619,205	(17,021,718)
Noncurrent liabilities	134,734,303	135,265,234	(530,931)
Total liabilities and deferred inflows of resources	402,331,790	419,884,439	(17,552,649)
Net position:			
Net investment in capital assets	35,206,297	36,047,854	(841,557)
Unrestricted	170,106,781	119,849,568	50,257,213
Total net position	\$ 205,313,078	\$ 155,897,422	\$ 49,415,656

A portion of the Lottery's net position (17.1 percent) reflects its investment in capital assets, primarily Video LotterySM gaming terminals and ticket vending machines. The Lottery has no outstanding debt associated with its capital assets.

Of the \$170.1 million in unrestricted net position at fiscal year end \$71.3 million was committed. This consisted of \$64.0 million for the purchase of Video LotterySM terminals to replace those that are becoming obsolete in the marketplace, \$2.8 million for the deployment of new Video LotterySM games and software upgrades into the market, and \$4.1 million to transition the gaming network to Ethernet technology at Lottery retailers. An additional \$448,617 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:	2014	2013	Change
Video Lottery SM game sales, net	\$ 742,730,503	\$ 737,370,280	\$ 5,360,223
Scratch-its SM instant ticket sales	109,034,321	117,079,308	(8,044,987)
Keno sales	92,443,482	91,636,954	806,528
Powerball [®] sales	45,049,124	58,322,876	(13,273,752)
Oregon's Game Megabucks SM sales	28,372,873	38,084,764	(9,711,891)
All other game sales	35,178,493	25,335,848	9,842,645
Provision for/Recovery of uncollectibles	971	(44,280)	45,251
Other income	177,786	1,410,594	(1,232,808)
Total operating revenues	1,052,987,553	1,069,196,344	(16,208,791)
Operating expenses:			
Prizes	206,571,490	206,836,815	(265,325)
Retailer commissions	203,727,883	204,921,077	(1,193,194)
Salaries and wages	39,443,617	36,504,315	2,939,302
Depreciation and amortization	13,542,859	12,982,414	560,445
Services and supplies	11,278,132	10,787,865	490,267
Game vendor charges	8,638,986	8,777,088	(138,102)
Advertising and market research	7,610,400	5,483,097	2,127,303
Public information	2,633,736	2,718,648	(84,912)
Tickets	2,956,834	3,363,077	(406,243)
Game equipment parts and maintenance	2,265,927	1,496,442	769,485
Sales support	1,674,670	1,067,653	607,017
Total operating expenses	500,344,534	494,938,491	5,406,043
Nonoperating revenues (expenses):			
Interest and investment income (loss)	6,330,595	(2,982,432)	9,313,027
Insurance recoveries	3,482	11,263	(7,781)
Gain (loss) on disposition of assets	(257,250)	(969,699)	712,449
Investment expenses - securities lending	(45,956)	(143,462)	97,506
Interest expense	(315,269)	(330,386)	15,117
Total nonoperating revenues (expenses)	5,715,602	(4,414,716)	10,130,318
Income before transfers	558,358,621	569,843,137	(11,484,516)
Transfers to the economic development fund	(507,250,297)	(546,923,919)	39,673,622
Transfers to the general obligation bond fund	(1,692,668)	(1,506,648)	(186,020)
Change in net position	49,415,656	21,412,570	28,003,086
Net position - beginning	155,897,422	139,594,530	16,302,892
Prior period adjustment		(5,109,678)	5,109,678
Net position - beginning	155,897,422	134,484,852	21,412,570
Net position - ending	\$ 205,313,078	\$ 155,897,422	\$ 49,415,656

The Lottery's net position increased by \$49.4 million as a result of fiscal year operations and retention of working capital for the Video LotterySM Terminal Modernization Program. Overall, net product sales were lower by \$15.0 million, or 1.4 percent below prior year. There was a decrease of \$20.4 million, or 6.17 percent, in sales of traditional games. This is due in part to the fluctuation of jackpot amounts between the years and their direct effect on sales. Powerball[®] sales for fiscal year 2014 decreased \$13.3 million, Oregon's Game MegabucksSM decreased \$9.7 million, and Scratch-itsSM saw a decrease of \$8.0 million. Fiscal year 2014 Mega Millions[®] jackpot sales increased \$10.5 million. Steps are underway to address the declining sales in traditional games.

There was an increase of \$5.4 million in Video LotterySM revenue over fiscal year 2013. During the year, new game sets were deployed on select Video LotterySM terminals to offer a wide variety of game choices that appeal to a diverse audience. This is the fourth consecutive year of slight gains in Video LotterySM revenue, as economic conditions have gradually improved.

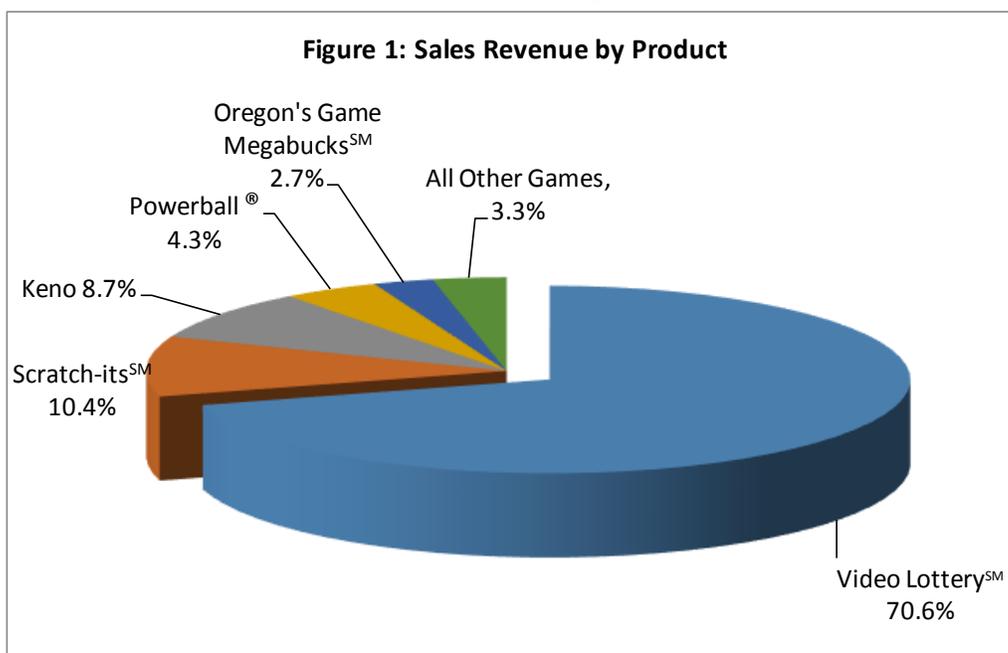
Retailer commissions were .06 percent lower than the prior year generally as a result of decreased sales. Commission rates paid to retailers vary based on the games offered (traditional or video) and the retailers' sales volume. Traditional prize expenses were \$265 thousand lower than the prior year due to a combination of several factors. The fair value of investments being held to fund prizes with long-term payments increased this year resulting in a \$9.2 million increase in prize expenses. This increase was offset by a decrease in prize expenses for Powerball® and Oregon's Game MegabucksSM attributable to decreased sales. Since revenues for Video LotterySM are reported net of prizes awarded, the prize expenses in Table 2 include only traditional game prizes.

Salaries and Wages increased \$2.9 million due to the filling of vacancies, increased benefit costs, elimination of furloughs, and merit and COLA increases. Advertising and market research expenses were \$2.1 million higher than last year as a result of increased media efforts. Increases in game equipment parts and maintenance were due to the new Video LotterySM terminal deployment. These additional costs were offset by an increase of \$10.1 million in nonoperating revenues, of which \$9.3 million was an increase in the fair value of investments due to favorable market conditions.

As a result of the above-mentioned operations, the Lottery was able to transfer \$507.3 million to the Economic Development Fund. The transfer was \$39.7 million less than the prior year as the Lottery is retaining working capital for the VLT Modernization Program as mentioned above.

Sales Revenue

Figure 1 below shows the major sources and percentages of sales revenue for fiscal year 2014:



Video LotterySM remains the largest source of revenue and represents 70.6 percent of total sales. In fiscal year 2014, the Lottery offered several new games on select Video LotterySM terminals, and began deployment of the new Video LotterySM Terminals as part of the Video LotterySM modernization program. While Video LotterySM remains an excellent source of continuing revenue for the State, the Lottery actively seeks to promote responsible gambling behavior.

Sales of Scratch-itsSM were the second largest source of revenue (10.4 percent) during fiscal year 2014. One of Lottery's promotions involved on-site visits to stores where sales representatives "surprised and delighted" shoppers with the gift of Scratch-itsSM tickets, which contributed to successful holiday ticket revenue. In addition, the Lottery introduced several new Scratch-itsSM games at various price points offering players a wide variety of entertaining and interesting games. Keno represented 8.7 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 LotterySM gaming terminals and ticket vending machines.

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

	2014	2013	Change
Equipment	\$18,120,197	\$16,428,778	\$1,691,419
Computer Software	8,766,257	11,601,475	(2,835,218)
Building and Improvements	5,876,648	6,317,863	(441,215)
Vehicles	1,790,929	1,687,595	103,334
Other Assets	652,266	12,143	640,123
Total Capital Assets, Net	\$35,206,297	\$36,047,854	(\$841,557)

During fiscal year 2014, net capital assets decreased by \$842 thousand, a 2.4 percent decline. The net change is primarily attributed to depreciation expense for the year. Additional information on Lottery's capital assets can be found in Note 6 of this report.

Factors Relevant to Future Operations

The strengthening economic recovery in Oregon is expected to continue having an impact on sales of Lottery products. Oregon's unemployment rate for July 2014 was 6.9 percent, slightly higher than the previous three months. Job growth for the second quarter of calendar year 2014 was 2.6 percent, which was also slightly higher than the first quarter. To the extent that future economic conditions continue to impact discretionary consumer spending, consumers remain cautious with their disposable income, net revenues generated through Lottery sales will likely be affected.

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Basic Financial Statements

OREGON STATE LOTTERY
Statement of Net Position
June 30, 2014

Assets and Deferred Outflows of Resources

Current Assets:

Cash and Cash Equivalents	\$ 274,220,364
Securities Lending Cash Collateral	67,865,167
Investments for Prize Payments	12,245,371
Accounts Receivable (Net)	23,778,392
Ticket Inventory	1,706,480
Prepaid Expenses	744,651

Total Current Assets	380,560,425
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Noncurrent Assets:

Cash and Cash Equivalents	66,764,348
Investments for Prize Payments	121,775,449
Prize Reserves with Multi-State Lottery (MUSL)	3,338,349

Capital Assets:

Equipment	147,441,055
Computer Software	25,292,234
Building and Improvements	11,927,468
Vehicles	4,188,750
Other Assets	810,355

Less Accumulated Depreciation and Amortization	(154,453,565)
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Total Noncurrent Assets	227,084,443
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Total Assets and Deferred Outflows of Resources	607,644,868
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Liabilities and Deferred Inflows of Resources

Current Liabilities:

Due to Economic Development Fund	140,644,180
Obligations Under Securities Lending	67,865,167
Prize Liability	32,413,332
Accounts Payable	21,284,773
Compensated Absences	2,067,258
Unearned Revenue	2,922,161
Deposit Liability	103,021
Contracts Payable	297,595

Total Current Liabilities	267,597,487
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Noncurrent Liabilities:

Prize Liability	126,669,651
Compensated Absences	1,064,951
Net Other Postemployment Benefits (OPEB) Obligation	723,454
Contracts Payable	6,276,247

Total Noncurrent Liabilities	134,734,303
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Total Liabilities and Deferred Inflows of Resources	402,331,790
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Net Position:

Net Investment in Capital Assets	35,206,297
Unrestricted	170,106,781

Total Net Position	\$ 205,313,078
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The accompanying notes are an integral part of the financial statements.

OREGON STATE LOTTERY
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Year Ended June 30, 2014

Operating Revenues

Sales:	
Video Lottery SM (Net Receipts)	\$ 742,730,503
Scratch-its SM Instant Tickets (Net of Returns)	109,034,321
Keno	92,443,482
Powerball®	45,049,124
Oregon's Game Megabucks SM	28,372,873
Mega Millions®	22,333,065
Raffle SM	4,997,060
Win For Life SM	4,532,922
Lucky Lines SM	1,918,288
Pick 4 SM	1,397,158
Recovery of Uncollectibles	971
Other Income	177,786
Total Operating Revenues	<u>1,052,987,553</u>

Operating Expenses

Prizes	206,571,490
Retailer Commissions	203,727,883
Salaries and Wages	39,443,617
Depreciation and Amortization	13,542,859
Services and Supplies	11,278,132
Game Vendor Charges	8,638,986
Advertising and Market Research	7,610,400
Public Information	2,633,736
Tickets	2,956,834
Game Equipment Parts and Maintenance	2,265,927
Sales Support	1,674,670
Total Operating Expenses	<u>500,344,534</u>
Operating Income	<u>552,643,019</u>

Nonoperating Revenues (Expenses)

Interest and Investment Income (Loss)	6,330,595
Insurance Recoveries	3,482
Gain (Loss) on Disposition of Assets	(257,250)
Investment Expenses - Securities Lending	(45,956)
Interest Expense	(315,269)
Total Nonoperating Revenues (Expenses)	<u>5,715,602</u>
Income Before Transfers	558,358,621
Transfers to the Economic Development Fund	(507,250,297)
Transfers to the General Obligation Bond Fund	(1,692,668)
Change in Net Position	<u>49,415,656</u>
Net Position - Beginning	155,897,422
Net Position - Ending	<u><u>\$ 205,313,078</u></u>

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

OREGON STATE LOTTERY
Statement of Cash Flows
For the Year Ended June 30, 2014

Cash Flows from Operating Activities:

Receipts from Customers	\$ 1,053,680,911
Payments to Employees for Services	(38,539,256)
Payments to Suppliers	(235,078,797)
Payments to Prize Winners	(202,679,529)
Other Income	1,013,363
Net Cash Provided (Used) by Operating Activities	578,396,692

Cash Flows from Noncapital Financing Activities:

Payments on Contracts	(443,682)
Transfers to the Economic Development Fund	(516,666,092)
Transfers to the General Obligation Bond Fund	(1,706,427)
Net Cash Provided (Used) by Noncapital Financing Activities	(518,816,201)

Cash Flows from Capital and Related Financing Activities:

Acquisition of Capital Assets	(12,415,452)
Proceeds from Disposition of Capital Assets	102,198
Payments on Contracts	(344,336)
Insurance Recoveries for Capital Assets	3,482
Net Cash Provided (Used) by Capital and Related Financing Activities	(12,654,108)

Cash Flows from Investing Activities:

Purchases of Investments	(15,484,571)
Proceeds from Sales and Maturities of Investments	13,369,000
Interest on Investments and Cash Balances	1,734,861
Securities Lending Expenses	(45,956)
Net Cash Provided (Used) by Investing Activities	(426,666)
Net Increase (Decrease) in Cash and Cash Equivalents	46,499,717
Cash and Cash Equivalents - Beginning	294,484,995
Cash and Cash Equivalents - Ending	\$ 340,984,712

Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:

Operating Income	\$ 552,643,019
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation and Amortization	13,542,859
Net Changes in Assets and Liabilities:	
(Increase) / Decrease in Accounts Receivable	(795,496)
(Increase) / Decrease in Ticket Inventory	(208,299)
(Increase) / Decrease in Prepaid Expenses	(154,181)
(Increase) / Decrease in Prize Reserves with MUSL	(309,835)
Increase / (Decrease) in Accounts Payable	6,786,733
Increase / (Decrease) in Compensated Absences Liability	144,758
Increase / (Decrease) in Other Postemployment Benefits Obligation	34,818
Increase / (Decrease) in Deposit Liability	8,302
Increase / (Decrease) in Unearned Revenue	2,502,218
Increase / (Decrease) in Prize Liability	4,201,796
Total Adjustments	25,753,673
Net Cash Provided (Used) by Operating Activities	\$ 578,396,692

Noncash Investing, Capital, and Related Financing Activities:

Net Change in Fair Value of Investments	\$ (4,595,734)
Assets Acquired Through Contract	645,300
Total Noncash Investing, Capital, and Related Financing Activities	\$ (3,950,434)

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

OREGON STATE LOTTERY
Notes to the Financial Statements
June 30, 2014

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 Oregon's Game MegabucksSM, Powerball[®], Mega Millions[®], Keno, Win for LifeSM, RaffleSM, Pick 4SM, and Lucky LinesSM (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 LotterySM games are recognized when sales to the public occur and are reported net of prizes awarded (refer to Note 8 for more information on Video LotterySM revenue and prize expense). All revenues are reported net of free plays, discounts, and allowances.

D. 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 LotterySM prize expense is recognized as game play completes and prizes are known. More detailed information for Video LotterySM 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, 2014 was \$310,145.

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-itsSM 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:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	5 to 40
Video lottery terminals	5 to 7
Other machinery and equipment	3 to 25
Leasehold improvements	3 to 5
Vehicles	5
Computer hardware and software	3 to 8
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 2014 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 2014 the Lottery operated within the legal limits defined by ORS 461.500:

<u>Revenues</u>		
Sales (Net of Provision for Uncollectibles)	\$ 10,285,385,946	
Other Distributable Income	6,446,618	
Total Distributable Revenue	\$ 10,291,832,564	
<u>Distribution of Revenues</u>		
Revenues Returned to the Public:		
Prizes to the Public	\$ 9,433,971,162	91.66%
Unclaimed Prizes Paid/Due to Economic Development Fund	5,176,507	0.05%
Transfers Paid/Due to Economic Development Fund	507,250,297	4.93%
Total Revenues Returned to the Public	9,946,397,966	96.64%
Administrative Expenses	296,018,942	2.88%
Retained for Contingency Reserve	49,415,656	0.48%
Total Revenue Distribution	\$ 10,291,832,564	100.00%

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

C. Unclaimed Prizes

ORS 461.500 requires all unclaimed prizes to be allocated to the benefit of public purpose. Lottery administrative rules declare a prize as unclaimed when it is known that winning shares have been sold and have not been redeemed within one year of the end of the game, one year from the draw date, or one year from the date of issue. In fiscal year 2014, prizes in the amount of \$5,176,507 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 2014, the Lottery Commission approved a contingency reserve amount such that the cash available for future investment does not exceed \$100,000,000. The following table shows the liquidity detail of Unrestricted Net Position shown on the Statement of Net Position at June 30, 2014:

Cash Available for Future Investment (Uncommitted Contingency Reserve)	\$ 93,021,836
Committed by Contract for Asset Purchases (See Note 12.A.)	61,232,448
Committed by Commission for Capital Purchases/Projects	10,063,017
Inventory, Prepaid Expenses, Prize Reserves	5,789,480
Total Unrestricted Net Position	\$ 170,106,781

E. Transfers to Economic Development Fund

All income remaining after Transfers to the General Obligation Bond Fund less the \$49,415,656 retained by the Lottery was accrued for Transfer to the Economic Development Fund. Actual cash transferred, including unclaimed prizes, during fiscal year 2014 was \$516,666,091. The remaining balance is included on the Statement of Net Position in liabilities. The following schedule reconciles the amounts:

	Balance Owed at June 30, 2013	Amounts Accrued	Cash Paid to Economic Development	Balance Remaining at June 30, 2014
Income	\$ 144,456,919	\$ 507,250,297	\$ 514,271,691	\$ 137,435,525
Unclaimed Prizes	426,548	5,176,507	2,394,400	3,208,655
Total	\$ 144,883,467	\$ 512,426,804	\$ 516,666,091	\$ 140,644,180

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](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's bank balance of \$341,820,278 deposited 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 \$13,987,898 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. The \$13,987,898 of investments in the RFC represents 10.4 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, 2014:

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	\$ 4,180,009	\$ 7,361,509	\$ 2,392,890	\$ 53,490	\$ 13,987,898
U.S. Treasury Strips	8,065,362	33,565,719	33,697,967	44,703,874	120,032,922
Total Investments	\$ 12,245,371	\$ 40,927,228	\$ 36,090,857	\$ 44,757,364	\$ 134,020,820

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 2014, 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 has the ability to impose restrictions on the amount of the loans that the securities lending agent made on its behalf. Several such restrictions were made during the year ended June 30, 2014. 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, 2014, the State and the Lottery had no credit risk exposure to borrowers related to securities on loan.

As of June 30, 2014, the total fair value of securities on loan from the OSTF was \$1,004,306,656, the collateral received was \$1,024,898,691 and the fair value of invested collateral was \$611,685,237. 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, 2014, 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	\$ 36,350,039	\$ 37,095,350	\$ 22,139,435
Lottery Investments	44,888,025	45,729,849	45,721,345
Total	\$ 81,238,064	\$ 82,825,199	\$ 67,860,780

6. Capital Assets

Capital asset activity for the year ended June 30, 2014, is shown in the schedule below:

	Beginning Balance	Increases	Decreases	Ending Balance
Depreciable Capital Assets				
Equipment	\$ 142,767,812	\$ 9,023,508	\$ (4,350,265)	\$ 147,441,055
Computer Software	25,072,830	2,849,530	(2,630,126)	25,292,234
Building and Improvements	11,934,351	37,827	(44,710)	11,927,468
Vehicles	3,975,922	496,765	(283,937)	4,188,750
Other Assets	169,587	653,122	(12,354)	810,355
Total Assets Being Depreciated	183,920,502	13,060,752	(7,321,392)	189,659,862
Accumulated Depreciation				
Equipment	126,339,034	7,160,111	(4,178,288)	129,320,857
Computer Software	13,471,355	5,596,854	(2,542,232)	16,525,977
Building and Improvements	5,616,488	454,284	(19,953)	6,050,819
Vehicles	2,288,327	328,278	(218,783)	2,397,822
Other Assets	157,444	3,332	(2,686)	158,090
Total Accumulated Depreciation	147,872,648	13,542,859	(6,961,942)	154,453,565
Capital Assets, Net	\$ 36,047,854	\$ (482,107)	\$ (359,450)	\$ 35,206,297

On June 27, 2014 the Lottery vacated its current backup center leaving it idle at June 30, 2014. Carrying value included in capital assets is \$449,802.

During fiscal year 2014 equipment valued at \$19,811 was written off due to fire and vandalism. Insurance recoveries for those losses were \$11,171. The net loss is included in Gain (Loss) on Disposition of Assets on the Statement of Revenues, Expenses, and Changes in Fund Net Position.

7. Long-term Liabilities

As of June 30, 2014, there were 90 Oregon Lottery game winners with remaining long-term annual prize payments. The estimated number of years remaining for payments extends to 51 years. Prize liabilities shown on the Statement of Net Position include \$22,909,323 in estimated and actual prizes awarded that have not yet been claimed.

Contracts payable includes a pension liability of \$4,869,808, which is Lottery's allocation of a state liability. Prior to the formation of the PERS State and Local Government Rate Pool (SLGRP), 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). These two pools combined to form the SLGRP effective January 1, 2002. The unfunded actuarial liability (UAL) attributable to the SCCP at the time the SLGRP was formed is maintained separately, is reduced by contributions and increased for interest charges at the assumed interest rate. The balance of the pre-SLGRP pooled 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	Increases	Decreases	Ending Balance	Due Within One Year
Prizes	\$ 160,057,695	\$ 254,580,725	\$ (255,555,437)	\$ 159,082,983	\$ 32,413,332
Compensated Absences	2,987,452	3,249,332	(3,104,575)	3,132,209	2,067,258
Net OPEB Obligation	688,636	34,818	-	723,454	-
Contracts Payable	6,401,292	645,300	(472,750)	6,573,842	297,595
	<u>\$ 170,135,075</u>	<u>\$ 258,510,175</u>	<u>\$ (259,132,762)</u>	<u>\$ 169,512,488</u>	<u>\$ 34,778,185</u>

8. Video LotterySM Net Revenue

Video LotterySM 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:

<u>Revenue</u>		<u>Prize Expense</u>	
Cash Received	\$ 2,659,696,930	Cash Paid Out	\$ 1,916,953,187
Dollars Won and Played	7,315,622,992	Dollars Won and Played	7,315,622,992
Total Revenue	<u>\$ 9,975,319,922</u>	Total Prizes	<u>\$ 9,232,576,179</u>
Net Revenue before Discounts = \$742,743,743			

9. Discounts and Allowances

Revenues are reported net of discounts and free plays in the Statement of Revenues, Expenses and Changes in Fund Net Position. For the fiscal year ended June 30, 2014, sales revenue is reported net of \$1,027,875 in discounts and free plays. At June 30, 2014, accounts receivable in the Statement of Net Position is reported net of \$142,812 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, 2014, was \$39,306.

MUSL is a non-profit, government-benefit association owned and operated by its member lotteries. It 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 from MUSL financial statements as of June 30, 2014 and June 30, 2013 (in thousands):

	<u>2014</u>	<u>2013</u>
Assets	\$ 706,151	\$ 554,028
Total Assets	\$ 706,151	\$ 554,028
Liabilities	\$ 695,948	\$ 542,004
Net Assets - Unrestricted	10,203	12,024
	\$ 706,151	\$ 554,028
Unrestricted Revenues	\$ 3,170	\$ 17,259
Unrestricted Expenses	4,991	5,390
Change in Unrestricted Net Assets	\$ (1,821)	\$ 11,869

The 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, 2014, 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. In January 2013 the Lottery entered into a contract for the development and implementation of a new Video LotterySM gaming system to replace the video system currently leased. The system includes all hardware and software necessary for a host and backup system that communicates and stores transactions occurring on Video LotterySM terminals throughout the State. Implementation is currently scheduled for July 1, 2016. The Lottery is negotiating to extend the current contract and pricing until the new system is implemented. The current monthly rate is \$157,603. Per the new contract, 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. Deployment is anticipated to be complete by January 1, 2017. The new contract will expire seven years from deployment of the new protocol.

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 2014 for the video and traditional system equipment was \$3,103,866. Future minimum lease payments for these two lease agreements as of June 30, 2014 are shown in the schedule below:

Future Minimum Lease Payments	
<u>Year Ending June 30,</u>	<u>Operating Leases</u>
2015	\$ 3,133,866
2016	3,133,866
2017	3,299,592
2018	3,345,318
2019	3,345,318
2020-2024	10,171,145
Total Future Minimum Lease Payments	\$ 26,429,105

12. Other Significant Commitments and Contingencies

A. Commitments

At June 30, 2014, the Lottery had contractual commitments of \$69,268,896 for the purchase of gaming equipment and software. The purchases are expected to occur in the next two fiscal years. 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 2014, the Lottery had expenses of \$5,313,570 for traditional product commissions. The amount is included in Game Vendor Charges on the Statement of Revenues, Expenses, and Changes in Fund Net Position.

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, 2014 were \$27,346.

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 2014 was 9.0 percent. Lottery contributions for the fiscal year ended June 30, 2014, were approximately \$1,342,000. Contributions for fiscal year 2013 were approximately \$1,395,000 and \$1,438,000 for fiscal year 2012. 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 2014 was 7.45 percent. Lottery contributions for the fiscal year ended June 30, 2014, were approximately \$661,000. Contributions for fiscal year 2013 were approximately \$592,000 and \$528,000 for fiscal year 2012. 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, 2014, 2013, and 2012 were approximately \$1,424,000, \$1,429,000, and \$1,427,000, 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, 2014, the Lottery was required by statute to contribute 0.59 percent of PERS covered payroll and 0.49 percent of OPSRP covered payroll to fund the RHIA. Actual employer contributions made by Lottery for the current year were approximately \$131,000. Contributions for fiscal year 2013 and 2012 were approximately \$133,000 and \$132,000 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 of the State of Oregon, administered by PERS. Lottery Fund participates as a cost-sharing member. 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, 2014, the Lottery was required by statute to contribute 0.27 percent of PERS covered payroll and 0.20 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, 2014, the Lottery's annual OPEB cost (expense) was approximately \$58,000 for the RHIPA which was equal to the ARC. Fiscal year 2013 and 2012 OPEB costs were approximately \$34,000 each, 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 2014 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
6/30/2012	\$ 3,378,000	100%	\$ -
6/30/2013	3,444,000	100%	-
6/30/2014	6,150,000	100%	-

Funded Status and Funding Progress. The funded status of the RHIPA plan as of December 31, 2012, the most recent actuarial valuation, was as follows (dollars in millions):

RHIPA OPEB Plan - Funded Status	
Actuarial Accrued Liability (AAL)	\$ 60.3
Actuarial Value of Plan Assets	4.4
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 55.9</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	7.4%
Covered Payroll	\$ 2,432.4
UAAL as a Percentage of Covered Payroll	2.3%

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, 2012 actuarial valuation, the entry age normal 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: a 7.75 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 8 percent in 2013 to 4.7 percent in 2083. 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, 2014 was \$60,621 and the OPEB cost was \$95,439. 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, 2014. The portion of the ending Net OPEB obligation allocated to Lottery was \$723,454, which represents 0.91 percent of the State's liability.

PEBB OPEB Plan	
Annual Required Contribution (ARC)	\$ 12,820,707
Interest on Net OPEB Obligation	2,627,914
Adjustment to ARC	(5,005,550)
Annual OPEB Cost	10,443,071
Contributions Made	(6,633,241)
Increase in Net OPEB Obligation	3,809,830
Beginning Net OPEB Obligation	75,084,810
Ending Net OPEB Obligation	<u>\$ 78,894,640</u>

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 2014 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
6/30/2012	18,212,746	49.4%	64,595,380
6/30/2013	18,852,979	44.4%	75,084,810
6/30/2014	10,443,071	63.5%	78,894,640

Funded Status and Funding Progress. The funded status of the PEBB plan as of July 1, 2013, the most recent actuarial valuation, was as follows (dollars in millions):

PEBB OPEB Plan - Funded Status	
Actuarial Accrued Liability (AAL)	\$ 105.1
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 105.1</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0.0%
Covered Payroll	\$ 2,485.8
UAAL as a Percentage of Covered Payroll	4.2%

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 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 are consistent with the long-term perspective of the calculations.

In the July 1, 2013 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 3.58 percent and an ultimate rate of 5.4 percent; a dental healthcare cost trend rate of 2.21 percent in 2014 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 2014 share of the 2013-2015 biennial assessment was \$443,751. For the Lottery, the amount of claim settlements did not exceed insurance coverage for each of the past three fiscal years.



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)
7/1/2009	\$ -	\$ 161.7	\$ 161.7	0%	\$ 2,562.5	6.3%
7/1/2011	-	154.7	154.7	0%	2,329.4	6.6%
7/1/2013	-	105.1	105.1	0%	2,485.8	4.2%

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)
12/31/2010	\$ 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%
12/31/2012	4.4	60.3	55.9	7.4%	2,432.4	2.3%

Notes to the Required Supplementary Information – Schedules of Funding Progress

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

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.



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, 2014
(See Note 2. A., Budgetary Compliance)

	Actual	Budget ⁽¹⁾	Variance Favorable/ (Unfavorable)
Revenue			
Video Lottery SM (Gross Receipts)	\$ 9,975,306,682	\$10,063,237,369	\$ (87,930,687)
Scratch-its SM Instant Tickets	109,034,321	111,543,728	(2,509,407)
Keno	92,443,482	93,565,248	(1,121,766)
Powerball®	45,049,124	45,799,394	(750,270)
Oregon's Game Megabucks SM	28,372,873	29,663,210	(1,290,337)
Mega Millions®	22,333,065	21,903,433	429,632
Raffle SM	4,997,060	4,995,060	2,000
Win For Life SM	4,532,922	4,651,309	(118,387)
Lucky Lines SM	1,918,288	1,914,649	3,639
Pick 4 SM	1,397,158	1,376,300	20,858
Total Revenue	10,285,384,975	10,378,649,700	(93,264,725)
Prize Expense	9,434,551,936	9,517,030,341	82,478,405
Net Revenue	850,833,039	861,619,359	(10,786,320)
Direct Expenses			
Retailer Commissions	203,727,883	206,289,030	2,561,147
Game Vendor Charges	8,638,986	8,823,730	184,744
Tickets	2,956,834	3,256,744	299,910
Advertising	7,077,486	8,911,780	1,834,294
Sales Support	1,674,671	2,459,550	784,879
Game Equipment/Parts & Maintenance	2,265,927	2,612,550	346,623
Research	532,914	1,137,050	604,136
Depreciation	11,593,119	12,374,164	781,045
Total Direct Expenses	238,467,820	245,864,598	7,396,778
Gross Profit	612,365,219	615,754,761	(3,389,542)
Indirect Revenue			
Other Income (Loss)	1,548,649	1,224,700	323,949
Indirect Expenses			
Public Information	2,633,736	4,155,000	1,521,264
Personal Services	41,451,554	45,490,441	4,038,887
Services and Supplies	11,212,885	14,883,051	3,670,166
Depreciation	1,949,740	2,662,274	712,534
Total Indirect Expenses	57,247,915	67,190,766	9,942,851
Net Profit	\$ 556,665,953	\$ 549,788,695	\$ 6,877,258

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

- Number of Employees
- Operating Indicators and Capital Asset Information

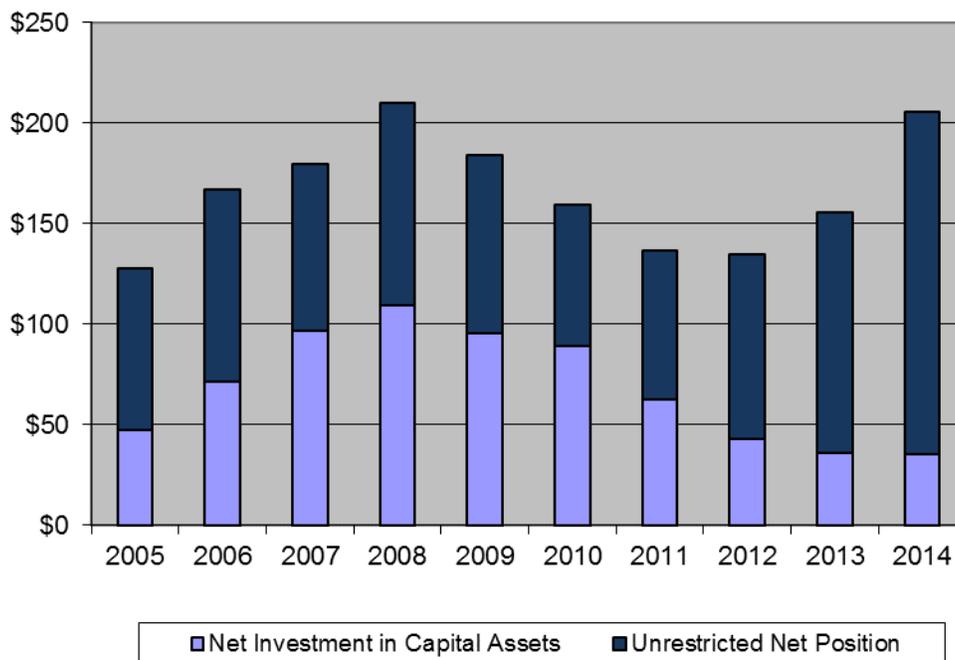
Note: The Lottery does not issue long-term debt; thus, information on debt capacity is not relevant.

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

Oregon State Lottery
Net Position by Component
 Last Ten Fiscal Years

Fiscal Year	Net Investment in Capital Assets	Unrestricted Net Position	Total Net Position
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
2014	35,206,297	170,106,781	205,313,078

Net Position
 (In Millions)



Oregon State Lottery

Changes in Net Position

Last Ten Fiscal Years

	2005	2006	2007	2008
Operating Revenues				
Sales:				
Video Lottery SM (Net Receipts)	\$ 579,650,266	\$ 732,888,437	\$ 853,505,565	\$ 895,111,696
Scratch-its SM Instant Tickets	133,241,896	127,244,323	127,636,964	124,704,686
Keno	122,196,298	116,240,045	113,198,024	109,787,942
Powerball®	35,004,855	59,070,621	48,658,403	55,969,079
Oregon's Game Megabucks SM	48,283,356	37,771,877	40,164,337	37,149,930
Sports Action SM	11,292,930	12,105,674	14,009,541	-
Mega Millions®	-	-	-	-
Raffle SM	-	-	-	-
Win For Life SM	5,559,882	5,914,469	5,566,158	6,675,988
Lucky Lines SM	-	1,018,520	2,298,480	2,131,474
Pick 4 SM	1,386,714	1,405,501	1,404,990	1,401,230
Breakopen Instant Tickets	2,185,157	1,671,571	1,173,585	857,671
Scoreboard SM	1,022,163	643,913	512,206	-
Recovery of (Provision for) Uncollectibles	(294,516)	(29,002)	(56,434)	(7,797)
Other Income	361,798	234,719	1,602,185	1,042,747
Total Operating Revenues	939,890,799	1,096,180,668	1,209,674,004	1,234,824,646
Operating Expenses				
Prizes	245,125,049	236,638,134	240,076,739	231,364,323
Retailer Commissions	195,994,718	218,013,134	239,320,032	240,475,998
Salaries and Wages	23,860,802	25,873,708	29,123,801	33,005,670
Depreciation and Amortization	6,918,109	11,019,875	19,797,789	30,843,314
Services and Supplies	10,143,892	10,902,866	8,254,418	8,767,744
Game Vendor Charges	10,908,009	10,227,113	10,009,601	9,371,513
Advertising and Market Research	7,262,887	7,007,884	10,752,331	9,885,584
Public Information	3,106,149	3,858,646	5,128,899	5,463,575
Tickets	4,318,728	4,461,315	4,165,283	4,232,601
Game Equipment Parts and Maintenance	-	-	2,606,119	2,485,770
Sales Support	1,215,887	1,772,169	1,320,416	1,569,079
Total Operating Expenses	508,854,230	529,774,844	570,555,428	577,465,171
Operating Income	431,036,569	566,405,824	639,118,576	657,359,475
Nonoperating Revenues (Expenses)				
Interest and Investment Income (Loss)	15,862,977	8,357,783	24,392,398	28,068,310
Insurance Recoveries	69,315	34,111	16,655	25,570
Gain (Loss) on Disposition of Assets	(64,636)	(20,653)	(517,562)	(317,204)
Investment Expenses - Securities Lending	(1,525,023)	(2,998,549)	(5,352,243)	(5,047,007)
Interest Expense	-	-	-	-
Total Nonoperating Revenues (Expenses)	14,342,633	5,372,692	18,539,248	22,729,669
Income Before Transfers	445,379,202	571,778,516	657,657,824	680,089,144
Transfers to Economic Development Fund	(401,581,250)	(531,032,111)	(644,030,352)	(648,408,187)
Transfers to General Obligation Bond Fund	(1,148,632)	(1,121,812)	(1,195,464)	(1,317,079)
Change in Net Position	\$ 42,649,320	\$ 39,624,593	\$ 12,432,008	\$ 30,363,878

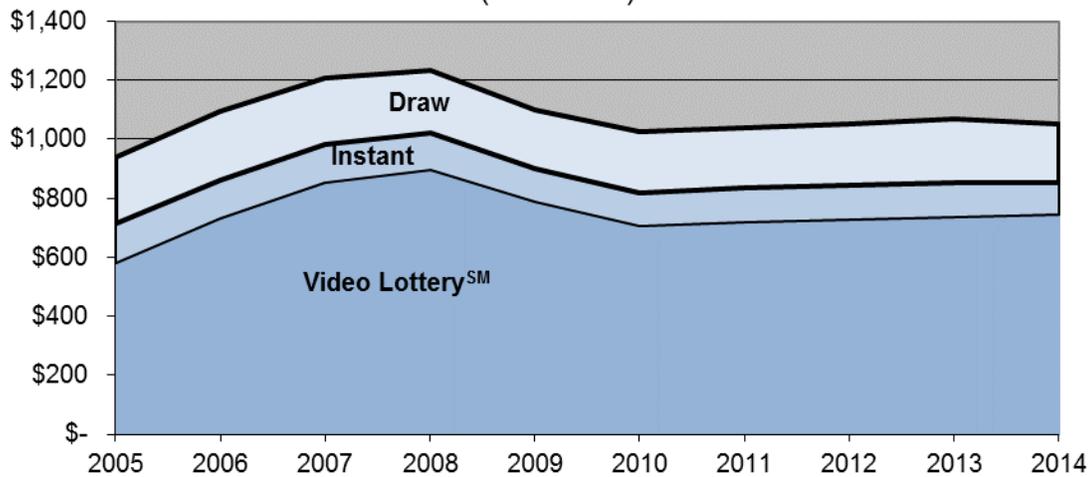
2009	2010	2011	2012	2013	2014
\$ 786,746,726	\$ 706,981,950	\$ 720,510,190	\$ 727,124,878	\$ 737,370,280	\$ 742,730,503
112,105,703	113,269,602	115,895,266	117,521,750	117,079,308	109,034,321
99,184,396	95,343,654	93,270,757	93,456,813	91,636,954	92,443,482
51,836,316	51,216,021	33,491,623	38,777,424	58,322,876	45,049,124
38,065,424	40,137,180	40,780,752	37,539,720	38,084,764	28,372,873
-	-	-	-	-	-
-	3,490,116	17,448,177	22,208,222	11,823,070	22,333,065
2,499,597	7,499,290	7,499,000	4,999,650	4,998,300	4,997,060
6,654,104	6,503,143	5,869,397	5,545,700	4,845,906	4,532,922
2,042,237	1,986,060	1,918,134	1,758,800	2,317,312	1,918,288
1,389,814	1,254,783	1,279,523	1,352,749	1,351,260	1,397,158
-	-	-	-	-	-
(128,699)	(112,559)	(128,164)	(71,327)	(44,280)	971
579,477	251,538	1,142,214	209,110	1,410,594	177,786
1,100,975,095	1,027,820,778	1,038,976,869	1,050,423,489	1,069,196,344	1,052,987,553
211,927,565	215,619,096	208,672,809	238,278,854	206,836,815	206,571,490
213,739,988	198,168,503	200,510,286	201,626,030	204,921,077	203,727,883
37,330,819	34,608,905	35,512,068	36,317,480	36,504,315	39,443,617
37,080,300	30,899,860	29,773,197	26,794,091	12,982,414	13,542,859
10,519,566	8,837,913	10,644,690	10,159,107	10,787,865	11,278,132
7,716,930	9,220,784	8,552,689	8,620,924	8,777,088	8,638,986
11,313,552	8,475,107	8,446,004	6,444,771	5,483,097	7,610,400
5,326,746	4,462,400	4,420,673	3,882,869	2,718,648	2,633,736
4,335,016	4,245,963	4,230,790	4,640,444	3,363,077	2,956,834
1,850,765	1,333,034	2,115,134	1,925,220	1,496,442	2,265,927
1,712,391	1,131,956	1,234,314	1,113,400	1,067,653	1,674,670
542,853,638	517,003,521	514,112,654	539,803,190	494,938,491	500,344,534
558,121,457	510,817,257	524,864,215	510,620,299	574,257,853	552,643,019
12,675,701	11,276,393	3,587,450	17,744,105	(2,982,432)	6,330,595
61,973	106,598	65,081	30,676	11,263	3,482
(1,767,242)	(5,323,677)	(2,919,876)	(147,802)	(969,699)	(257,250)
(808,660)	(192,727)	(237,391)	(138,855)	(143,462)	(45,956)
-	-	-	-	(330,386)	(315,269)
10,161,772	5,866,587	495,264	17,488,124	(4,414,716)	5,715,602
568,283,229	516,683,844	525,359,479	528,108,423	569,843,137	558,358,621
(592,846,506)	(539,582,457)	(546,996,892)	(523,652,688)	(546,923,919)	(507,250,297)
(1,463,447)	(1,464,541)	(1,444,213)	(1,459,501)	(1,506,648)	(1,692,668)
\$ (26,026,724)	\$ (24,363,154)	\$ (23,081,626)	\$ 2,996,234	\$ 21,412,570	\$ 49,415,656

Oregon State Lottery
Sales by Product
 Last Ten Fiscal Years

Draw Games

Fiscal Year	Video Lottery SM	Instant Products	Keno	Powerball®	Oregon's Game Megabucks SM	All Other Games	Total
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
2014	742,730,503	109,034,321	92,443,482	45,049,124	28,372,873	35,178,493	1,052,808,796

Sales by Product Type
 (In Millions)

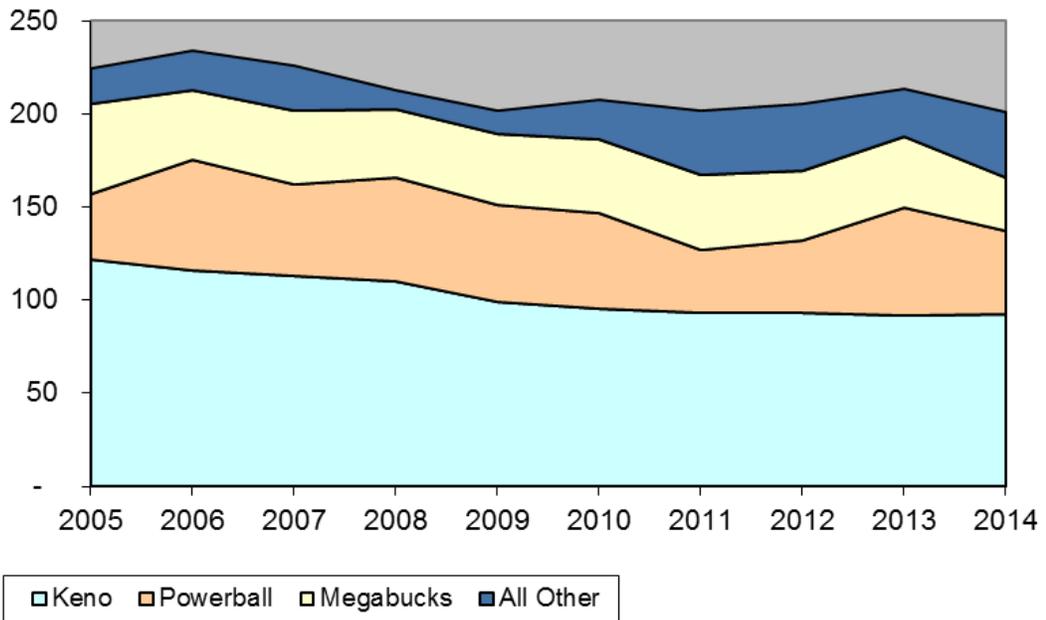


Oregon State Lottery
Product Percent of Total Sales
 Last Ten Fiscal Years

Draw Games

Fiscal Year	Video Lottery SM	Instant Products	Keno	Powerball®	Oregon's Game Megabucks SM	All Other Draw Games
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%
2014	70.5%	10.4%	8.8%	4.3%	2.7%	3.3%

Draw Game Sales by Product
 (In Millions)



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

Rank	Retailer	2014		
		Sales	Percent of Total Sales	County
1	Elmer's Pancake-Delta Park	\$ 1,554,767	0.15%	Multnomah
2	Dotty's #9	1,530,802	0.15%	Washington
3	Dotty's #24	1,495,415	0.14%	Multnomah
4	Shari's-Airport Way #218	1,492,779	0.14%	Multnomah
5	Deli Store	1,488,597	0.14%	Columbia
6	Owl's Nest #2	1,435,644	0.14%	Multnomah
7	Bradley's Bar & Grill	1,413,824	0.13%	Multnomah
8	The Fox Den Eatery # 4	1,405,695	0.13%	Linn
9	Glass House Tavern	1,377,591	0.13%	Multnomah
10	Elmer's	1,372,790	0.13%	Multnomah
	Totals	<u>\$ 14,567,904</u>	<u>1.38%</u>	

Total Lottery Sales \$ 1,053,726,648

Rank	Retailer	2005		
		Sales	Percent of Total Sales	County
1	Farmhouse Lounge	\$ 1,903,454	0.21%	Multnomah
2	Purple Parrot #7	1,768,974	0.19%	Jackson
3	Dotty's #8	1,709,054	0.19%	Washington
4	Dotty's #7	1,667,441	0.18%	Multnomah
5	Dotty's #9	1,664,149	0.18%	Washington
6	Original Joe's	1,659,678	0.18%	Multnomah
7	Richards Deli And Pub	1,652,354	0.18%	Washington
8	Dotty's #17	1,629,318	0.18%	Washington
9	Dotty's #24	1,626,462	0.18%	Multnomah
10	Maddy's	1,598,259	0.17%	Multnomah
	Totals	<u>\$ 16,879,143</u>	<u>1.84%</u>	

Total Lottery Sales \$ 922,488,721

Source: Oregon State Lottery Research Department

Oregon State Lottery
Number of Lottery Retailers and Sales by County
For Business Year 2014

County	Sales		Retailers	
	Business Year Sales	Percent of Total Sales	Number of Lottery Retailers	Percent of Total Retailers
Multnomah	\$ 300,012,005	28.47%	956	24.88%
Washington	111,793,796	10.61%	308	8.01%
Clackamas	103,814,709	9.85%	338	8.80%
Marion	90,491,403	8.59%	334	8.69%
Lane	85,738,799	8.14%	337	8.77%
Jackson	50,424,098	4.79%	193	5.02%
Deschutes	37,445,101	3.55%	131	3.41%
Linn	31,461,302	2.99%	126	3.28%
Douglas	23,578,460	2.24%	122	3.17%
Josephine	20,630,509	1.96%	91	2.37%
Columbia	19,384,311	1.84%	61	1.59%
Umatilla	18,122,139	1.72%	76	1.98%
Yamhill	17,395,957	1.65%	81	2.11%
Clatsop	15,858,368	1.50%	71	1.85%
Klamath	15,418,897	1.46%	71	1.85%
Lincoln	14,140,007	1.34%	76	1.98%
Malheur	12,547,741	1.19%	35	0.91%
Coos	11,075,611	1.05%	55	1.43%
Polk	10,376,483	0.98%	53	1.38%
Benton	10,224,394	0.97%	54	1.41%
Tillamook	8,883,466	0.84%	47	1.22%
Wasco	8,382,212	0.80%	35	0.91%
Hood River	6,440,266	0.61%	24	0.62%
Crook	5,719,524	0.54%	28	0.73%
Union	5,109,005	0.48%	27	0.70%
Baker	4,308,932	0.41%	20	0.52%
Jefferson	3,483,125	0.33%	16	0.42%
Curry	3,427,373	0.33%	19	0.49%
Morrow	1,734,027	0.16%	10	0.26%
Grant	1,339,169	0.13%	11	0.29%
Sherman	1,222,852	0.12%	6	0.16%
Lake	1,210,198	0.11%	7	0.18%
Harney	1,137,124	0.12%	8	0.21%
Wallowa	882,277	0.08%	9	0.23%
Gilliam	330,107	0.03%	5	0.13%
Wheeler	182,900	0.02%	2	0.04%
Total	\$ 1,053,726,648	100.00%	3,843	100.00%

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
2004	3,569,463	112,783,369	31,597	7.3%
2005	3,613,202	117,579,338	32,542	6.2%
2006	3,670,883	127,173,356	34,644	5.3%
2007	3,722,417	133,245,788	35,796	5.2%
2008	3,768,748	138,582,602	36,772	6.5%
2009	3,808,600	135,667,041	35,621	11.1%
2010	3,838,332	137,671,666	35,869	10.8%
2011	3,868,229	146,001,498	37,744	9.7%
2012	3,899,353	152,721,624	39,166	8.8%
2013	3,930,065	158,116,922	40,233	7.7%

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

²Source: Oregon Employment Department

Oregon State Lottery
Employment by Industry - State of Oregon
Calendar Year 2013 and Nine Years Prior

	2013		2004	
	Number of Employees	Percent of Total	Number of Employees	Percent of Total
Health care and social assistance	262,456	11.60%	220,363	10.30%
Retail trade	237,603	10.50%	236,062	11.04%
Manufacturing	191,160	8.45%	210,362	9.84%
Local government	174,753	7.72%	172,019	8.04%
Accommodation and food services	167,525	7.40%	146,368	6.84%
Professional, scientific, and technical services	141,848	6.25%	117,746	5.51%
Other services	119,212	5.26%	117,285	5.48%
Administrative and waste services	120,023	5.30%	115,065	5.38%
Construction	108,701	4.79%	120,966	5.66%
Real estate, rental, and leasing	98,885	4.37%	81,685	3.82%
Finance and insurance	95,051	4.20%	81,438	3.81%
Wholesale trade	79,477	3.50%	82,817	3.87%
Farm employment	66,978	2.96%	68,075	3.18%
Transportation and warehousing	65,350	2.89%	63,917	2.99%
State government	62,165	2.74%	66,471	3.11%
Arts, entertainment, and recreation	56,285	2.48%	45,322	2.12%
Educational services	54,969	2.43%	45,407	2.12%
Information	40,721	1.80%	39,187	1.83%
Management of companies	39,075	1.73%	27,023	1.26%
Forestry, fishing, and related activities	31,775	1.40%	29,225	1.37%
Federal government, civilian	27,606	1.22%	30,344	1.42%
Military	12,151	0.54%	12,919	0.60%
Mining	6,455	0.27%	3,351	0.15%
Utilities	4,781	0.20%	5,471	0.26%
Total employment	2,265,005	100.00%	2,138,888	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

	2004	2005	2006	2007	2008
Number Surveyed	1,000	1,000	1,004	1,001	1,003
Player Percentage	50.9%	52.6%	49.0%	43.4%	42.2%
	Players	Players	Players	Players	Players
<u>Gender</u>					
Male	40%	51%	51%	52%	54%
Female	60%	49%	49%	48%	46%
<u>Age</u>					
18 - 24	14%	11%	14%	9%	8%
25 - 34	18%	18%	20%	19%	19%
35 - 44	17%	21%	19%	23%	22%
45 - 54	24%	18%	22%	22%	23%
55 - 64	14%	13%	13%	15%	18%
65 +	14%	18%	13%	11%	11%
<u>Education</u>					
Some High School	3%	2%	6%	7%	8%
High School Graduate	32%	25%	33%	29%	26%
College/Tech School	34%	39%	37%	38%	36%
College Graduate	21%	25%	17%	16%	20%
Graduate School/Degree	9%	9%	7%	10%	10%
<u>Marital Status</u>					
Single	23%	21%	22%	21%	17%
Married	65%	55%	54%	57%	56%
Co-habiting	3%	7%	7%	5%	9%
Divorced or Separated	6%	11%	13%	12%	11%
Widowed	3%	6%	4%	5%	6%
<u>Income</u>					
Less than \$15,000	10%	7%	8%	8%	9%
\$15,000 - \$49,999	50%	49%	44%	44%	43%
\$50,000 - \$74,999	16%	16%	20%	17%	15%
\$75,000 - \$99,999	6%	9%	10%	12%	13%
\$100,000 +	7%	7%	6%	10%	10%
Refused/Don't Know	11%	12%	12%	9%	10%

Sources:

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

¹ 2013 State Population data includes ages 15-65+

2009	2010	2011	2012	2013	
1,002	1,000	1,000	1,000	1,000	
48.1%	50.7%	53.3%	52.0%	47.8%	
Players	Players	Players	Players	Players	2013 State Population ¹
51%	48%	50%	52%	55%	49.5%
49%	52%	50%	48%	45%	50.5%
6%	10%	9%	12%	10%	13.1%
20%	19%	19%	18%	17%	13.6%
17%	17%	16%	15%	16%	13.1%
27%	26%	23%	23%	23%	13.0%
15%	15%	14%	13%	19%	13.7%
15%	14%	19%	18%	15%	15.5%
7%	4%	4%	6%	3%	10.2%
25%	21%	20%	22%	18%	24.3%
37%	37%	33%	30%	32%	34.7%
18%	20%	23%	21%	23%	19.3%
11%	16%	18%	19%	17%	11.5%
20%	22%	21%	23%	26%	30.3%
56%	58%	52%	54%	51%	49.2%
7%	6%	7%	5%	5%	n/a
10%	7%	11%	9%	7%	15.0%
5%	5%	6%	5%	4%	5.5%
11%	10%	10%	10%	9%	13.1%
44%	30%	31%	27%	27%	36.7%
18%	17%	16%	14%	15%	18.5%
11%	13%	11%	9%	10%	12.4%
9%	10%	14%	11%	15%	19.3%
8%	21%	18%	30%	24%	n/a

Oregon State Lottery
Number of Employees
 Last Ten Fiscal Years

	2005 ^{1,2}	2006 ²	2007 ³	2008 ⁴	2009 ⁵	2010	2011	2012 ⁶	2013	2014 ⁷
Sales, Marketing & Retail Services	228	237	243	251	255	255	248	229	232	236
Support Services	121	124	135	148	157	151	151	143	154	157
Director's Office	29	29	30	31	32	30	31	29	30	33
Security ¹	11	11	12	17	19	17	16	16	13	15
Total	389	401	420	447	463	453	446	417	429	441

Source: Oregon State Payroll System for FY 2005 - FY 2012; Lottery Payroll System for FY 2013-2014.

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.

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

²During fiscal year 2005 to 2006, some vacant positions were eliminated to reduce operating expenses.

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

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

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

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

⁷There were a number of vacant positions filled during the year as the economy strengthened.

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

<u>Fiscal Year</u>	<u>Number of Lottery Retailers¹</u>	<u>Number of Video LotterySM Terminals Deployed¹</u>	<u>Per Capita Sales^{2,3}</u>
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
2014	3,843	11,951	268.12

¹Source: Oregon State Lottery Records

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

³Source: 2014 Per Capita is based on 2013 population estimates from census.gov

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Other Reports

Office of the Secretary of State

Kate Brown
Secretary of State

Robert Taylor
Deputy 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 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*

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, 2014, 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 26, 2014.

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 entity'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.

Office of the Secretary of State, Audits Division

State of Oregon
November 26, 2014