

Oregon State Lottery

AN
ENTERPRISE
FUND OF
THE STATE
OF OREGON

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

For the Fiscal Year Ended June 30, 2015



It Does Good ThingsSM

Oregon State Lottery

An Enterprise Fund of the State of Oregon

Comprehensive Annual Financial Report **For the Fiscal Year Ended June 30, 2015**



It does good things™

Jack Roberts
Director

Kathy Ortega, CPA
Chief Financial Officer

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COMPREHENSIVE ANNUAL FINANCIAL REPORT
For The Fiscal Year Ended June 30, 2015
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Introductory Section



December 17, 2015

To the Honorable Governor Kate Brown 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, 2015. 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, 2015. 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 3,939 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 11,925 Video LotterySM terminals deployed throughout the state.

500 Airport Road SE Salem, Oregon 97301 P O Box 12649 Salem, OR 97309-0649

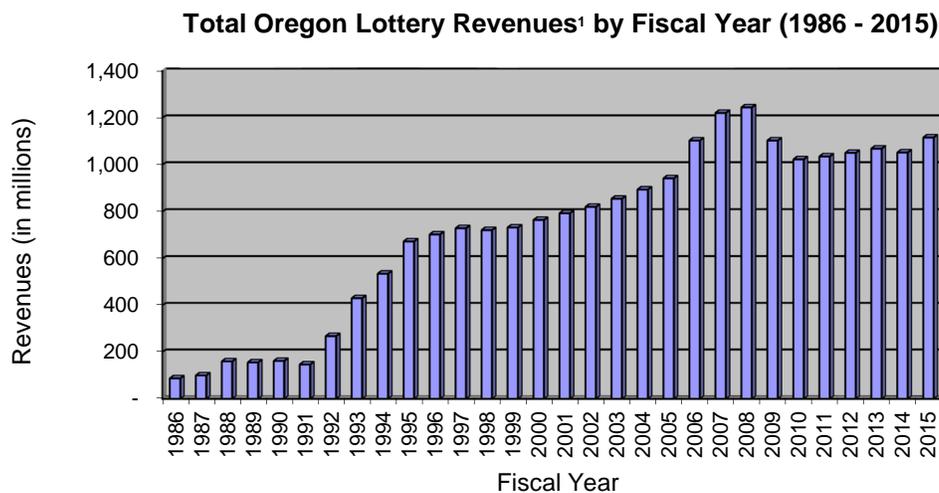
P 503 540-1000 F 503 540-1001 www.oregonlottery.org

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 and fiscal year 2015 expenses were 2.86 percent.

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 fiscal 2011 and have shown steady but modest growth, except for fiscal 2014 which showed a slight decline; however, revenue growth returned in fiscal 2015.



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 began improving with job growth 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, and in 2014

continued to perform above the national average at 2.8 percent. Oregon's employment growth is steadily expanding and is projected to be 3.1 percent in 2015.

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 5.7 percent in 2015, 6.5 percent in 2016 and 7.0 percent in 2017. National averages for 2015 to 2017 are 4.2, 4.7 and 5.4 percent. Oregon wage and salary income will also increase 6.0-7.6 percent over the next 3 years.

Several factors currently facing the Oregon economy are potential impacts of 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 Strategic Plan in conjunction with an annual Business Plan and budget to manage its operations. Lottery's main strategic objective is to responsibly offer games to appeal to both current and new players on the gaming platforms they want to use. 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. To-date we have deployed 2,198 new IGT Oxygen Video LotterySM terminals and 2,204 E20 terminals. Deployment is complete for these models. We currently have 248 Bally V32 Video LotterySM terminals installed and expect this deployment to be completed in May 2016.

The replacement of existing Video LotterySM terminals, the gaming network, and back office systems is expected to cost approximately \$227.1 million over four years, of which Lottery will self-fund \$96.7 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 6.8 percent of available revenue to be transferred, and \$59.2 million in 2015-2017, or an estimated 5.2 percent of available revenue.

In the December 2015 Office of Economic Analysis (OEA), 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 OEA projected an increase of \$27.1 million in Lottery earnings for the 2015-2017 biennium from the prior forecast in September of 2015. Approximately \$24.8 million of the increase is the result of higher than expected sales for video products. The remainder of \$2.3 million is due to the increase of slightly stronger traditional product sales and revenue improvements in the 2013-2015 biennium. The OEA sees lottery sales continuing to strengthen with Oregon's economic expansion and growth, however, the Lottery only averaged a 1.2 percent annualized growth rate over the past 4 fiscal years.

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, 2015 the actual cash balance in the reserve was \$72 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 2015, the Lottery continued with the implementation to modernize the technology that supports its Video LotterySM products. 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 2015, Lottery replaced over one-third of the obsolete Video LotterySM terminals, began testing the new telecommunications network and established a new quality assurance program with partner Gaming Laboratories International to enable an effective gaming system implementation. The new Video Central System, Intelligen, is scheduled for implementation during fiscal year 2016 after the system is readiness tested through a controlled quality assurance process. The contract to purchase the third Video LotterySM terminals model was executed with Bally in fiscal year 2015 to purchase up to 2,350 new Video LotterySM terminals with deployment completion planned for May 2016.

During fiscal year 2016, we will continue to evolve the Lottery brand to attract new players and retailers and ultimately appeal to a broad and diverse player and retailer base by investing in both how we look at retail and how we participate in the communities in which we operate. The Lottery will continue to expand efforts to make the *Oregon Wins* platform the face of the Lottery brand through various sponsorship programs, partner engagement, and social media usage.

Lottery is planning several initiatives to reach out to existing and new players. The Lottery's existing and new games, platforms, and venues are being developed in order to attract more diverse demographic groups to maintain and enhance revenue performance. During fiscal year 2016, Lottery intends to expand the utility of oregonlottery.org web site to include a more robust retailer website and creates consumer engagement.

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, 2014. This was the seventh 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, 2014

Executive Director/CEO

Principal Officials of Oregon State Lottery

MardiLyn Saathoff
Commission Chair

Raul Valdivia
Commissioner

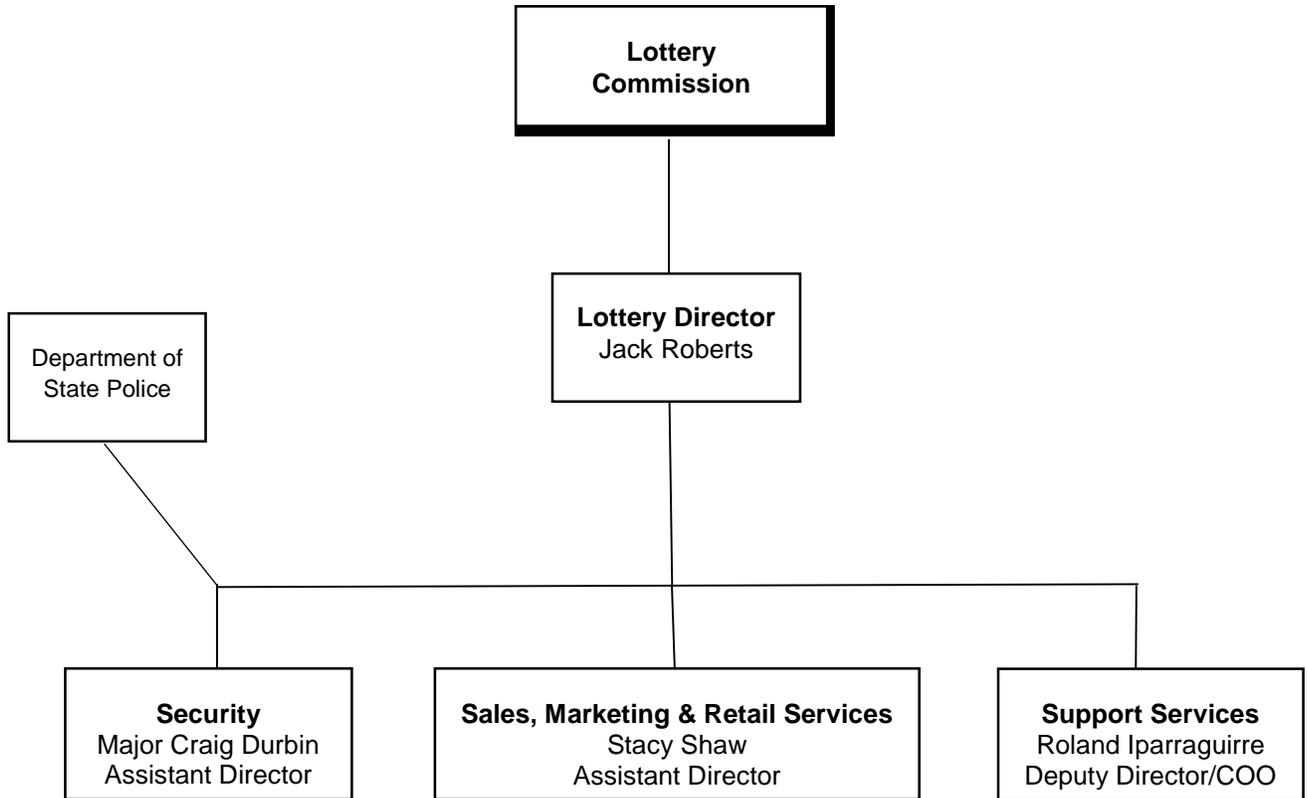
Mary Wheat
Commissioner

Chris Telfer
Commissioner

Liz Carle
Commissioner

Jack Roberts
Director

Organization Chart



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Financial Section



Office of the Secretary of State

Jeanne P. Atkins
Secretary of State

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Deputy Secretary of State

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Independent Auditor's Report

The Honorable Kate Brown
Governor of Oregon

MardiLyn Saathoff, 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, 2015, 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, 2015 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, 2015, 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 December 17, 2015, 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
December 17, 2015

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, 2015. 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 \$1.12 billion, an increase of 6.1 percent over fiscal year 2014.
- Video LotterySM revenue increased by \$55.8 million from the prior fiscal year, and revenue from traditional games increased by \$8.2 million.
- Net position (equity) increased by \$41 million. This is the net result of \$49.3 million in current year operations and the restatement of beginning net position mentioned below.
- The Lottery transferred \$545.9 million to Oregon's Economic Development Fund, which is \$38.7 million more than the prior year.
- During the fiscal year 2015 Lottery implemented two new accounting standards issued by the Governmental Accounting Standards Board (GASB). Statement 68 established new standards for reporting pension liabilities at actuarially determined amounts due, less pension assets available. For the Lottery, this resulted in a net pension asset of \$4,500,208 at June 30, 2015. Statement 68 also requires recognizing pension expense as the change in net pension liability from the prior year measurement date to the current, net of certain deferrals. Lottery recognized a \$4.1 million reduction in pension expense based on the change between measurement dates. Application of transition guidance in Statement 68, and its amendment Statement 71, resulted in a reduction to beginning net position of \$8.2 million. More detailed information is available in Note 12 to the financial statements.

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 accompanying notes; 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 further details regarding pension and other postemployment benefits. 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), resources that will be consumed in a future fiscal year (deferred outflows of resources), 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 resources that are applicable to a future fiscal year (deferred inflows of resources). 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 as well as reports the prior period restatement amount.

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

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

Table 1: Oregon State Lottery's Net Position

	2015	2014	Change
Current assets	\$ 419,504,366	\$ 380,560,425	\$ 38,943,941
Capital assets	76,354,491	35,206,297	41,148,194
Other noncurrent assets	170,543,369	191,878,146	(21,334,777)
Deferred Outflows of Resources	1,665,565	-	1,665,565
Total assets and deferred outflows of resources	668,067,791	607,644,868	60,422,923
Current liabilities	272,912,953	267,597,487	5,315,466
Noncurrent liabilities	140,119,678	134,734,303	5,385,375
Deferred Inflows of Resources	8,683,579	-	8,683,579
Total liabilities and deferred inflows of resources	421,716,210	402,331,790	19,384,420
Net position:			
Net investment in capital assets	76,354,491	35,206,297	41,148,194
Unrestricted	169,997,090	170,106,781	(109,691)
Total net position	\$ 246,351,581	\$ 205,313,078	\$ 41,038,503

Total assets at June 30, 2015 were \$668.1 million, an increase of \$60.4 million over the prior year. The change in assets consists primarily of \$41.1 million of additional capital assets and \$11.7 million of securities lending cash collateral. Lottery is in the process of replacing approximately 12,000 Video LotterySM terminals statewide. During fiscal year 2015 Lottery purchased nearly 4700 replacement terminals towards this goal. Securities lending activity fluctuates based on the extent this activity is used by the Office of the State Treasurer for cash management purposes. Deferred outflows of resources and deferred inflows of resources are new this year as a result of implementing GASB statements 68 and 71 for pension reporting.

Current liabilities increased \$5.3 million and noncurrent liabilities increased \$5.4 million. There was a 47.9 percent decline in accounts payable as Video LotterySM terminals received late in fiscal year 2014 were paid for. This was offset by an increase in obligations for securities lending. Amounts due to the Economic Development Fund (EDF) increased \$7.4 million. The amount owed to the EDF at the end of fiscal year 2015, which represents fourth quarter earnings not yet transferred, was higher due to increased sales over the previous year's fourth quarter sales. Unearned revenue declined \$2.5 million which is the direct result of Raffle game sales at the end of fiscal year 2014 and the draw taking place on July 3, 2015. Changes in noncurrent liabilities are the result of increased long-term prize liabilities, slightly offset by a reduction in long-term contract liabilities. There were eight prizes in fiscal year 2015 that had long-term payouts.

A portion of the Lottery's net position (31 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 million in unrestricted net position at fiscal year-end \$85.7 million is committed for the purchase of Video LotterySM terminals to replace those that are becoming obsolete in the marketplace.

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

	2015	2014	Change
Operating revenues	\$ 1,117,237,776	\$ 1,052,987,553	\$ 64,250,223
Operating expenses	(525,068,204)	(500,344,534)	24,723,670
Total nonoperating revenues (expenses)	4,917,783	5,715,602	(797,819)
Income before transfers	597,087,355	558,358,621	38,728,734
Transfers	(547,832,383)	(508,942,965)	38,889,418
Change in net position	49,254,972	49,415,656	(160,684)
Net position - beginning	205,313,078	155,897,422	49,415,656
Prior period adjustment	(8,216,469)	-	8,216,469
Net position - beginning restated	197,096,609	155,897,422	41,199,187
Net position - ending	\$ 246,351,581	\$ 205,313,078	\$ 41,038,503

Lottery income before transfers increased 7.0 percent from the previous year because of improved sales and modest growth in expenses. Product sales increased \$64.1 million with Video LotterySM generating \$55.9 million of the growth. During the year, new game sets and terminals were deployed to offer a wide variety of game choices that appeal to a diverse audience. This is the fifth consecutive year of gains in Video LotterySM revenue, as economic conditions have gradually improved and product offerings attract play. Scratch-itsSM sales grew 9.7%, or \$10.5 million over the prior year while draw games sales decreased slightly, 1.2% less than the prior year. Draw game declines are attributed to those games with large, fluctuating jackpots.

Operating expenses grew at a 4.9 percent rate. The majority of the increase is in retailer commissions and traditional prizes, both related to the increased sales. Retailer commissions were 5.8 percent more than the prior year. Commission rates paid to retailers vary based on the games offered (traditional or video) and the retailers' sales volume. Traditional prize expenses were \$4.9 million more than the prior year, the direct result of increased sales for traditional games.

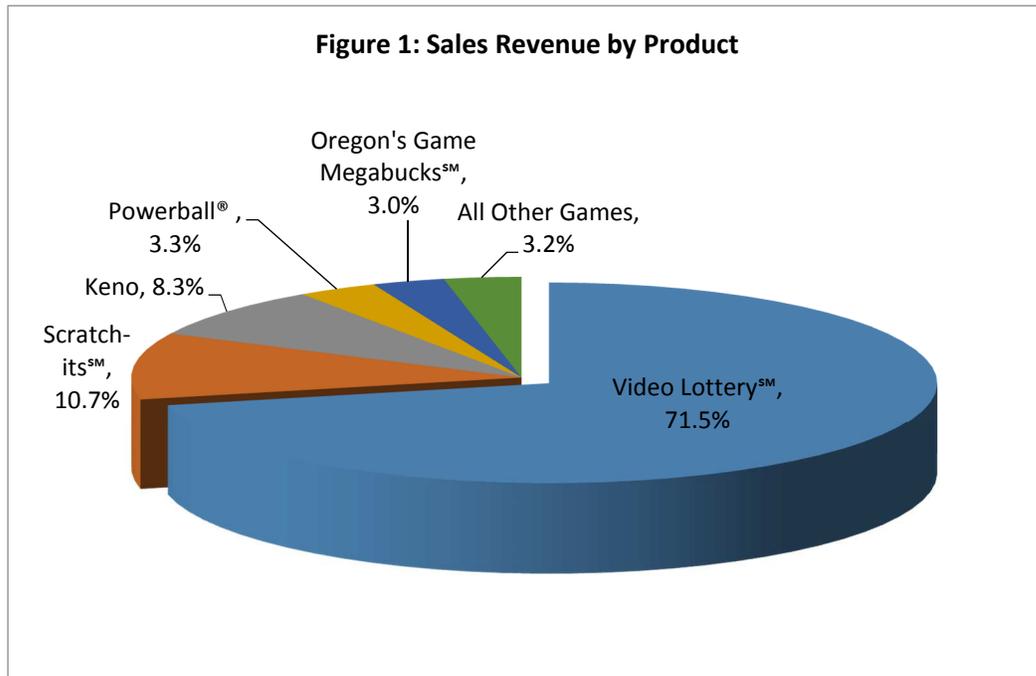
Depreciation expense increased \$6.6 million as older equipment was replaced as part of the Lottery's effort to replace Video LotterySM products. Salaries and Wages decreased \$2.4 million as a result of implementing the new accounting standards for pension reporting offset by normal annual salary increases. Pension expense is now recognized based on changes in net pension liabilities between the most recent measurement dates, which were June 30, 2013 and June 30, 2014. In October 2013, the Oregon legislature enacted Senate Bill 861 which limited post retirement COLA increases. This resulted in a significant decrease to the pension liability calculated for the June 30, 2014 measurement date.

Nonoperating revenues consist of \$5.1 million in investment income earned on assets held for long-term prize payments and \$1.7 million in interest on bank balances. Nonoperating expenses are comprised mostly of \$1.5 million of loss on disposal of assets. Nearly all of the loss relates to Video LotterySM terminals being replaced.

The Lottery's net position increased \$41 million from a year ago. Fiscal year 2015 activity added \$49.3 million to net position. However, this was offset by the reduction of Lottery's beginning net position due to the implementation of the new accounting standards for pension reporting. As a result of the above-mentioned operations, the Lottery was able to transfer \$545.9 million to the Economic Development Fund which was \$38.7 million more than the prior year.

Sales Revenue

Figure 1 below shows the major sources and percentages of sales revenue for fiscal year 2015:



Video LotterySM remains the largest source of revenue and represents 71.5 percent of total sales. While sales of Video LotterySM have increased, Lottery continues to actively promote problem gambling programs. Sales of Scratch-itsSM were the second largest source of revenue (10.7 percent) during fiscal year 2015. Powerball[®] had the largest decline in sales of 17.7%. The fluctuation is the result of correlation between sales and jackpot amounts. Fiscal year 2015 had eight jackpots under \$100 million while fiscal year 2014 had only three. Oregon's Game MegabucksSM saw a sales increase of nearly \$5 million, the direct result of two jackpots over \$12 million compared to the prior year's largest jackpot of \$10.5 million. Keno sales represented 8.3 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. 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

	2015	2014	Change
Equipment	\$ 61,813,594	\$ 18,120,197	\$ 43,693,397
Computer Software	6,502,302	8,766,257	(2,263,955)
Building and Improvements	5,373,281	5,876,648	(503,367)
Vehicles	2,184,372	1,790,929	393,443
Other Assets	480,942	652,266	(171,324)
Total Capital Assets, Net	\$ 76,354,491	\$ 35,206,297	\$ 41,148,194

During fiscal year 2015, net capital assets more than doubled over 2014. The net change is primarily attributed to the purchase of Video LotterySM terminals as a part of the video modernization program. Additional information on Lottery's capital assets can be found in Note 6 to the basic financial statements.

Factors Relevant to Future Operations

Oregon's economy continues its six year trend of expansion. Although the expansion has been lackluster, there is currently no recession expected in the immediate future. Oregon's results in job and income growth are better than other states. Wages for the average Oregon worker are increasing faster than the typical state and are above the rate of inflation. Despite the gains, Oregon is not fully recovered from the Great Recession and there are still concerns that the number of workers participating in the work force are low compared to the labor market at full strength. Impacts on discretionary consumer spending can effect Lottery sales so the outlook remains positive but cautious.

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Basic Financial Statements

OREGON STATE LOTTERY

Statement of Net Position

June 30, 2015

Assets and Deferred Outflows of Resources

Current Assets:

Cash and Cash Equivalents	\$ 297,666,529
Securities Lending Cash Collateral	79,595,446
Investments for Prize Payments	12,541,734
Accounts Receivable (Net)	27,184,759
Ticket Inventory	1,446,353
Prepaid Expenses	1,069,545

Total Current Assets 419,504,366

Noncurrent Assets:

Cash and Cash Equivalents	35,721,900
Investments for Prize Payments	126,999,346
Prize Reserves with Multi-State Lottery (MUSL)	3,321,915
Net Pension Asset	4,500,208

Capital Assets:

Equipment	159,256,674
Computer Software	20,820,148
Building and Improvements	11,827,977
Vehicles	4,350,842
Other Assets	863,876

Less Accumulated Depreciation and Amortization (120,765,026)

Total Noncurrent Assets 246,897,860

Deferred Outflows of Resources - Pension Related 1,665,565

Total Assets and Deferred Outflows of Resources 668,067,791

Liabilities and Deferred Inflows of Resources

Current Liabilities:

Due to Economic Development Fund	148,040,098
Obligations Under Securities Lending	79,595,446
Prize Liability	30,579,025
Accounts Payable	11,086,033
Compensated Absences	2,354,983
Unearned Revenue	460,613
Deposit Liability	93,942
Contracts Payable	702,813

Total Current Liabilities 272,912,953

Noncurrent Liabilities:

Prize Liability	133,004,845
Compensated Absences	1,213,173
Net Other Postemployment Benefits (OPEB) Obligation	764,716
Contracts Payable	5,136,944

Total Noncurrent Liabilities 140,119,678

Deferred Inflows of Resources - Pension Related 8,683,579

Total Liabilities and Deferred Inflows of Resources 421,716,210

Net Position:

Net Investment in Capital Assets	76,354,491
Unrestricted	169,997,090

Total Net Position **\$ 246,351,581**

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, 2015

Operating Revenues

Sales:	
Video Lottery SM (Net Receipts)	\$ 798,578,183
Scratch-its SM Instant Tickets (Net of Returns)	119,578,108
Keno	93,035,050
Powerball [®]	37,091,247
Megabucks SM	33,329,803
Mega Millions [®]	20,468,872
Raffle SM	7,488,730
Win For Life SM	4,082,661
Lucky Lines SM	1,771,994
Pick 4 SM	1,435,284
Provision for Uncollectibles	(4,594)
Other Income	382,438
Total Operating Revenues	<u>1,117,237,776</u>

Operating Expenses

Prizes	211,444,280
Retailer Commissions	215,514,570
Salaries and Wages	37,055,741
Depreciation and Amortization	20,134,347
Services and Supplies	11,829,146
Game Vendor Charges	8,931,443
Advertising and Market Research	9,549,598
Public Information	4,246,421
Tickets	3,213,208
Game Equipment Parts and Maintenance	1,885,491
Sales Support	1,263,959
Total Operating Expenses	<u>525,068,204</u>
Operating Income	<u>592,169,572</u>

Nonoperating Revenues (Expenses)

Interest and Investment Income (Loss)	6,783,754
Insurance Recoveries	12,067
Gain (Loss) on Disposition of Assets	(1,473,869)
Investment Expenses - Securities Lending	(74,757)
Investment Expenses	(4,185)
Interest Expense	(325,227)
Total Nonoperating Revenues (Expenses)	<u>4,917,783</u>
Income Before Transfers	597,087,355
Transfers to the Economic Development Fund	(545,948,950)
Transfers to the General Obligation Bond Fund	(1,883,433)
Change in Net Position	<u>49,254,972</u>
Net Position - Beginning	205,313,078
Prior Period Restatement	(8,216,469)
Net Position - Beginning - As Restated	<u>197,096,609</u>
Net Position - Ending	<u>\$ 246,351,581</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, 2015

Cash Flows from Operating Activities:	
Receipts from Customers	\$ 1,110,879,460
Payments for Employees Services	(42,168,800)
Payments to Suppliers	(266,818,943)
Payments to Prize Winners	(201,016,987)
Other Income	490,399
Net Cash Provided (Used) by Operating Activities	<u>601,365,129</u>
Cash Flows from Noncapital Financing Activities:	
Payments on Contracts	(537,490)
Transfers to the Economic Development Fund	(544,463,005)
Transfers to the General Obligation Bond Fund	(1,879,307)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(546,879,802)</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Capital Assets	(63,288,349)
Proceeds from Disposition of Capital Assets	542,375
Payments on Contracts	(532,257)
Insurance Recoveries for Capital Assets	12,067
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(63,266,164)</u>
Cash Flows from Investing Activities:	
Purchases of Investments	(12,710,672)
Proceeds from Sales and Maturities of Investments	12,254,000
Interest on Investments and Cash Balances	1,720,168
Securities Lending Expenses	(74,757)
Investment Expenses	(4,185)
Net Cash Provided (Used) by Investing Activities	<u>1,184,554</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(7,596,283)
Cash and Cash Equivalents - Beginning	340,984,712
Cash and Cash Equivalents - Ending	<u><u>\$ 333,388,429</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating Income	\$ 592,169,572
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation and Amortization	20,134,347
Net Changes in Assets and Liabilities:	
(Increase) / Decrease in Accounts Receivable	(3,406,367)
(Increase) / Decrease in Inventory and Prepaids	(64,768)
(Increase) / Decrease in Prize Reserves with MUSL	16,434
(Increase) / Decrease in Pension Asset and Deferred Outflows	(14,382,242)
Increase / (Decrease) in Accounts Payable	(10,202,865)
Increase / (Decrease) in Benefit Liabilities and Pension Deferred Inflows	9,160,787
Increase / (Decrease) in Deposit Liability	(9,079)
Increase / (Decrease) in Unearned Revenue	(2,461,548)
Increase / (Decrease) in Prize Liability	10,410,858
Total Adjustments	<u>9,195,557</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 601,365,129</u>
Noncash Investing, Capital, and Related Financing Activities:	
Net Change in Fair Value of Investments	\$ 5,063,586
Intangible Assets Acquired Through Contract	10,435
Total Noncash Investing, Capital, and Related Financing Activities	<u><u>\$ 5,074,021</u></u>

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

OREGON STATE LOTTERY

Notes to the Financial Statements

June 30, 2015

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 draw games Oregon's Game MegabucksSM, Powerball[®], Mega Millions[®], Keno, Win for LifeSM, RaffleSM, Pick 4SM, and Lucky LinesSM 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 2(B) 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 2(B).

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, 2015 was \$322,554.

F. Prize Liability

Prize liability is recorded when the prize expense is recognized (see Note 1.E above) 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	2 to 10
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 the fiscal year end and includes estimated tax 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.

O. Net Pension Asset, Pension Related Deferred Inflows and Outflows of Resources and Pension Expense

These items are included at amounts equal to Lottery’s portion of the State of Oregon’s proportionate share of Oregon Public Employee’s Retirement System (PERS) plan totals. Amounts are recognized on the same basis the plan uses. PERS uses the accrual basis of accounting. As such revenues are recognized when earned, contributions are recognized when due, expenses are recognized when incurred, benefits are recognized when currently due and payable and withdrawals are recognized when due and payable. Investments are recognized at fair value. Lottery pension expense is included in Salaries and Wages expense.

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 2015 Financial Plan is presented as supplementary information in this report.

B. 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	\$ 2,836,186,909	Cash Paid Out	\$ 2,037,589,969
Dollars Won and Played	7,897,597,095	Dollars Won and Played	7,897,597,095
Total Revenue	<u>\$ 10,733,784,004</u>	Total Prizes	<u>\$ 9,935,187,064</u>
Net Revenue before Discounts = \$798,596,940			

C. 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 2015 the Lottery operated within the legal limits defined by ORS 461.500:

Revenues		
Sales (Net of Provision for Uncollectibles)	\$ 11,052,042,402	
Other Distributable Income	6,490,392	
Total Distributable Revenue	\$ 11,058,532,794	
Distribution of Revenues		
Revenues Returned to the Public:		
Prizes to the Public	\$ 10,140,721,371	91.70%
Unclaimed Prizes Paid/Due to Economic Development Fund	5,909,973	0.05%
Transfers Paid/Due to Economic Development Fund	545,948,950	4.94%
Total Revenues Returned to the Public	10,692,580,294	96.69%
Administrative Expenses	316,697,528	2.86%
Retained for Contingency Reserve	49,254,972	0.45%
Total Revenue Distribution	\$ 11,058,532,794	100.00%

D. 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 2015, prizes in the amount of \$5,909,973 were determined to be unclaimed and were either transferred or accrued for transfer to the Economic Development Fund.

E. 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, 2015:

Cash Available for Future Investment (Uncommitted Contingency Reserve)	\$ 71,788,118
Committed by Contract for Asset Purchases (See Note 11.A)	30,190,000
Committed by Commission for Capital Purchases/Projects	55,592,995
Inventory, Prepaid Expenses, Net Pension Asset, Prize Reserves, Deferred Outflows of Resources- Pension Related	12,425,977
Total Unrestricted Net Position	\$ 169,997,090

F. Transfers to Economic Development Fund

All income remaining after Transfers to the General Obligation Bond Fund less the \$49,254,972 retained by the Lottery was accrued for Transfer to the Economic Development Fund. Actual cash transferred, including unclaimed prizes, during fiscal year 2015 was \$544,463,005. The remaining

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.

balance is included on the Statement of Net Position in liabilities. The following schedule reconciles the amounts:

	Balance Owed at June 30, 2014	Amounts Accrued	Cash Paid to Economic Development	Balance Remaining at June 30, 2015
Income	\$ 137,435,525	\$ 545,948,950	\$ 536,472,523	\$ 146,911,952
Unclaimed Prizes	3,208,655	5,909,973	7,990,482	1,128,146
Total	\$ 140,644,180	\$ 551,858,923	\$ 544,463,005	\$ 148,040,098

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](http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-(OSTF).aspx)

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 \$334,110,714 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 \$9,988,651 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 \$9,988,651 of investments in the RFC represents 7.16 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, 2015:

Investment Type	Less than 1				Fair Value
	Year	1-5 Years	6-10 Years	More Than 10 Years	
U.S. Agency Strips	\$ 2,558,589	\$ 5,195,721	\$ 2,234,341	\$ -	\$ 9,988,651
U.S. Treasury Strips	9,983,144	35,974,751	36,967,287	46,627,247	129,552,429
Total Investments	\$12,541,733	\$41,170,472	\$39,201,628	\$46,627,247	\$139,541,080

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 2015, 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, 2015. 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, 2015, the State and the Lottery had no credit risk exposure to borrowers related to securities on loan.

As of June 30, 2015, the total fair value of securities on loan from the OSTF was \$808,785,321, the collateral received was \$825,780,294 and the fair value of invested collateral was \$500,409,055. 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, 2015, 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	\$ 31,616,492	\$ 32,280,848	\$ 19,561,655
Lottery Investments	58,909,032	60,108,773	60,037,770
Total	\$ 90,525,524	\$ 92,389,621	\$ 79,599,425

6. Capital Assets

Capital asset activity for the year ended June 30, 2015, is shown in the following schedule:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Depreciable Capital Assets</u>				
Equipment	\$ 147,441,055	\$ 58,072,178	\$ 46,256,559	\$ 159,256,674
Computer Software	25,292,234	4,122,784	8,594,870	20,820,148
Building and Improvements	11,927,468	169,564	269,055	11,827,977
Vehicles	4,188,750	880,737	718,645	4,350,842
Other Assets	810,355	53,521	-	863,876
Total Assets Being Depreciated	<u>\$ 189,659,862</u>	<u>\$ 63,298,784</u>	<u>\$ 55,839,129</u>	<u>\$ 197,119,517</u>
<u>Accumulated Depreciation</u>				
Equipment	\$ 129,320,857	\$ 14,041,101	\$ 45,918,878	\$ 97,443,080
Computer Software	16,525,976	4,954,027	7,162,157	14,317,846
Building and Improvements	6,050,819	604,894	201,017	6,454,696
Vehicles	2,397,822	309,481	540,833	2,166,470
Other Assets	158,090	224,844	-	382,934
Total Accumulated Depreciation	<u>\$ 154,453,564</u>	<u>\$ 20,134,347</u>	<u>\$ 53,822,885</u>	<u>\$ 120,765,026</u>
Capital Assets, Net	<u><u>\$ 35,206,298</u></u>	<u><u>\$ 43,164,437</u></u>	<u><u>\$ 2,016,244</u></u>	<u><u>\$ 76,354,491</u></u>

On June 27, 2014 the Lottery vacated its current backup center and it remained idle at June 30, 2015. Carrying value included in capital assets is \$563,508.

During fiscal year 2015 equipment valued at \$37,046 was written off due to fire and vandalism. Insurance recoveries for those losses were \$27,060. 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, 2015, there were 94 Oregon Lottery game winners with remaining long-term annual prize payments. The estimated number of years remaining for payments extends to 49 years.

Contracts payable includes a pension liability of \$4,657,545, 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:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Prizes	\$ 159,082,983	\$ 212,047,051	\$ 207,546,164	\$ 163,583,870	\$ 30,579,025
Compensated Absences	3,132,209	3,870,422	3,434,475	3,568,156	2,354,983
Net OPEB Obligation	723,454	94,542	53,280	764,716	-
Contracts Payable	6,573,842	10,435	744,520	5,839,757	702,813
	<u>\$ 169,512,488</u>	<u>\$ 216,022,450</u>	<u>\$ 211,778,439</u>	<u>\$ 173,756,499</u>	<u>\$ 33,636,821</u>

8. 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, 2015, sales revenue is reported net of \$2,447,609 of free play prizes and \$365,805 in discounts and promotional free plays. At June 30, 2015, accounts receivable in the Statement of Net Position is reported net of \$104,633 allowance for uncollectible amounts.

9. 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, 2015, was \$62,495.

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, 2015 and June 30, 2014 (in thousands):

	<u>2015</u>	<u>2014</u>
Assets	\$ 401,082	\$ 706,151
Total Assets	\$ 401,082	\$ 706,151
Liabilities	\$ 392,622	\$ 695,948
Net Position - Unrestricted	8,460	10,203
	\$ 401,082	\$ 706,151
Unrestricted Revenues	\$ 3,514	\$ 3,170
Unrestricted Expenses	5,257	4,991
Change in Unrestricted Net Position	\$ (1,743)	\$ (1,821)

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

10. Operating Lease Commitments

Operating leases are agreements conveying the right to use capital assets. As of June 30, 2015, there were two lease agreements in effect that had a non-cancelable 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 May 31, 2016. The agreement includes all necessary equipment for a central and backup video host system and the current monthly rate is \$157,603. 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 February 2016. 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 completed in April 2016. 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 480 self-service kiosks with an average cost of \$191.52 per month, per kiosk; and 3,100 monitors for \$7.50 per monitor, per month.

Lease expense for fiscal year 2015 for the video and traditional system equipment was \$3,203,616. Future minimum lease payments for these two lease agreements as of June 30, 2015 are shown in the following schedule:

Year Ending June 30,	Future Minimum Lease Payments
2016	\$ 4,873,108
2017	5,019,318
2018	5,019,318
2019	5,019,318
2020	5,019,318
2021-2024	7,523,327
Total Future Minimum Lease Payments	<u>\$ 32,473,707</u>

11. Other Significant Commitments and Contingencies

A. Commitments

At June 30, 2015, the Lottery had a contractual commitment of \$30,190,000 for the purchase of video lottery terminals. The purchases are expected to occur in fiscal year 2016. 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 2015, the Lottery had expenses of \$5,368,614 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, 2015 were \$72,106.

12. Employee Retirement Plan

A. General Information

The State of Oregon participates in the Oregon Public Employees Retirement System (PERS) plan. As an agency of the State of Oregon, eligible Lottery employees receive pension benefits through the plan. PERS is a defined benefit, cost-sharing multiple employer plan, administered by the Public Employees Retirement Board (Board) as required by Chapters 238 and 238(A) of the Oregon Revised Statutes (ORS). Board members are appointed by the governor and confirmed by the state Senate.

Pension benefits are based on hire dates and are provided under the PERS plan or the Oregon Public Service Retirement Plan (OPSRP). PERS members who established membership before January 1, 1996 receive PERS Tier 1 benefits while those who established membership on or after that date receive PERS Tier 2 benefits. The PERS plan was closed to new members on August 28, 2003. Eligible employees hired after that date are members of OPSRP. Both plans provide a life pension, death and disability benefits.

Pension Benefit

Tier 1/Tier2 member's basic pension benefits are calculated based on years of service and final average salary, multiplied by 1.67 percent for general service employees and 2.0 percent for police and fire (P&F) employees. Benefits may also be calculated under a money match computation if a greater benefit results. For members contributing prior to August 21, 1981 benefits may also be calculated under a formula plus annuity computation. Pension benefit options include survivorship and lump sum refunds.

Tier 1 general service employees can retire at age 58, or any age with 30 years of service. For Tier 2 employees the age is 60. Reduced benefits are available at age 55 and less than 30 years of service. P&F employees can retire at age 55, or with 25 years of service, age 50. Reduced benefits are also available at age 50 for P&F employees with less than 25 years of service.

OPSRP member pension benefits are calculated based on years of service and the final average salary multiplied by 1.5 percent for general service employees, 1.8 percent for P&F. General service employees may retire at 65 or at age 58 with 30 years of service. P&F employees are eligible at age 60 or age 53 with 30 years of service.

Additionally, all retirees receive benefits from their accounts established in the Individual Account Program (IAP). Amounts received are based on member balances, consisting of member contributions and earnings less administrative expenses. The balance is distributed through a choice of lump-sum payment or annuity options. The IAP began January 1, 2004. Prior to this date member contributions were retained in employees' defined benefit account and are included in the life pension calculation.

Death Benefit

Upon the death of a non-retired PERS Tier 1/2 member the beneficiary receives a lump-sum refund of the member's accumulated contributions and interest. The beneficiary also receives a lump-sum payment from employer funds equal to the account balance. Upon the death of a non-retired OPSRP member the spouse (or person constitutionally required to be treated as a spouse) receives a life pension at 50 percent of what would have been paid to the member. IAP account balances are paid to the beneficiary in a lump sum.

Disability Benefit

All members can receive non-job related disability benefits after 10 years of service. Job related disability is available for any length of service. Tier 1/2 monthly benefits are calculated with service time to age 58 (55 for P&F). OPSRP members receive 45 percent of their salary during the last full month of service.

Benefit Changes

After retiring PERS plan members may choose to continue participation in a variable equities investment account and may experience benefit fluctuations due to changes in the market value of equity investments. Cost-of-living (COLA) changes for both PERS and OPSRP members are required in current Oregon statutes. The first \$60,000 of annual benefit is increased 1.25 percent and .15 percent for annual benefits above \$60,000. The Oregon legislature has authority to change benefits.

Contributions

As required by Oregon statute, employer contribution rates are actuarially determined and allow accumulation of assets sufficient to pay defined pension benefits when due. Employer contribution rates are expressed as a percentage of covered payroll. The Board's practice is to implement new rates in each odd-numbered year based on the valuation of the previous odd-numbered year. Rates

used in fiscal year 2015 were effective July 1, 2013 and based on the December 31, 2011 valuation. PERS recognized Lottery fiscal year 2015 contributions of \$1,585,088.

The Lottery employee contribution rate, set by statute, is 6 percent of covered salary. As allowed by current law, Lottery has elected to pay the employees' required contribution.

B. Pension Liability/(Asset), Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

The collective net pension asset, measured as of June 30, 2014, is based on the December 31, 2012 actuarial valuation rolled forward to the measurement date. Assumptions used for the measurement include the following:

Experience Study Report	2012, published September 18, 2013
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Inflation Rate	2.75 percent
Investment Rate of Return	7.75 percent
Projected Salary Increases	3.75 percent
Mortality	Healthy retirees and beneficiaries: RP-2000 Sex-distinct, generational per Scale AA, with collar adjustments and set-backs as described in the valuation. Active members: Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation. Disabled Retirees: Mortality rates are a percentage (65% for males, 90% for females of the RP-2000 static combined disabled mortality sex-distinct table.

The June 30, 2014 measurement date valuation also includes legislative changes to benefits that were adopted in 2013. Senate Bill 861, signed in October 2013, limited the post-retirement COLA for years after 2013 to 1.25% on the first \$60,000 of annual benefit and 0.15% for benefits above \$60,000. These changes reduced the PERS pension liability by \$2.4 billion. Prior to the Senate bill COLA was based on the change in the Consumer Price Index with an increase limit of 2.0 percent. IAP accounts are not included in the measurement of the total pension liability.

The discount rate used to measure the collective pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed contributions from contributing employers and plan members are made at the actuarially determined rates required to meet projected benefit payments. Therefore the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments

The long-term expected rate of return used in projecting the collective pension liability is based on a forward looking capital market economic model. The assumed asset allocation is based on the Oregon Investment Council's (OIC) target allocation and investments in July 2013 based on the target. Using the OIC description of asset classes, investments were mapped to the asset classes and percentages below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption.

Asset Class	Target	Compound Annual Return (Geometric)
Core Fixed Income	7.20%	4.50%
Short-Term Bonds	8.00%	3.70%
Intermediate-Term Bonds	3.00%	4.10%
High Yield Bonds	1.80%	6.66%
Large Cap US Equities	11.65%	7.20%
Mid Cap US Equities	3.88%	7.30%
Small Cap US Equities	2.27%	7.45%
Developed Foreign Equities	14.21%	6.90%
Emerging Market Equities	5.49%	7.40%
Private Equity	20.00%	8.26%
Opportunity Funds/Absolute Return	5.00%	6.01%
Real Estate (Property)	13.75%	6.51%
Real Estate (REITS)	2.50%	6.76%
Commodities	1.25%	6.07%
Assumed Inflation - Mean	2.75%	

The State of Oregon proportionate share of the net pension asset was allocated to individual funds based on actual fiscal year 2014 contributions. Lottery is .8 percent of the State's proportionate share which equates to .2 percent of the collective net pension asset. At June 30, 2015 Lottery reported a net pension asset of \$4,500,208.

PERS actuarially determined each employer's proportionate share by comparing each employer's projected long term contribution effort to the plan with the total projected long-term contribution effort of all employers. The projected long-term contribution effort is estimated by combining the present value of projected future normal cost rate contributions with projected contributions required for past unfunded actuarial liabilities (UAL) and reducing those projections by any transition surpluses or lump sum payments from employers. Estimated future normal cost rate contributions represent future service contributions while UAL estimated contributions represent contributions for past service. PERS has determined employer transition liabilities to meet the definition of separately financed employer liabilities and are not included in the projected contribution effort. There were no changes to employers' proportionate shares between the prior and current measurement dates. The following demonstrates Lottery's proportionate share of the net pension liability/(asset) sensitivity to a 1 percentage point change in the discount rate.

- 1% higher – (\$16,366,317)
- 1% lower – \$9,529,815

Subsequent to the June 30, 2014 measurement date the Oregon Supreme Court ruled in the Moro decision that provisions of Senate Bill 861, signed in October of 2013, which limited post-retirement COLA, was unconstitutional because the limits were applied to benefits earned prior to the bill's signing. Benefits could be modified prospectively but not retrospectively. As a result, those who retired before its passage will continue to receive COLA tied to the Consumer Price Index and restoration payments will be made. Members who accrued benefits before and after the effective dates will have a blended COLA rate when they retire. This ruling is estimated to increase Lottery's net pension liability by approximately \$9.76 million.

For the year ended June 30, 2015, Lottery recognized a reduction in pension expense of \$4,113,575. Deferred inflows of resources of \$8,683,579 were recognized for the difference between projected

and actual earnings on investments. The amount is being amortized over a five year period. Deferred outflows of \$1,665,565 were reported. Of this amount \$80,477 is for a difference between employer contributions and proportionate share of contributions and will be amortized over 5.6 years. Also included is \$1,585,088 for Lottery contributions subsequent to the measurement date which will reduce the pension liability measured at June 30, 2016. The deferred amounts, not including contributions subsequent to the measurement date, will be included in pension expense as shown in the following table.

Fiscal Year Ending June 30,	Amount to Pension Expense
2016	\$ (2,153,400)
2017	(2,153,400)
2018	(2,153,400)
2019	(2,153,400)
2020	10,497
Thereafter	-
Total	\$ (8,603,103)

Detailed information about the PERS pension plan’s fiduciary net position is available in the separately issued Comprehensive Annual Financial Report on the PERS website at: http://www.oregon.gov/pers/Pages/section/financial_reports/financials.aspx.

13. 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, 2015, 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 \$154,000. Contributions for fiscal year 2014 and 2013 were approximately \$131,000 and \$133,000

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, 2015, 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, 2015, the Lottery's annual OPEB cost (expense) was approximately \$67,000 for the RHIPA which was equal to the ARC. Fiscal year 2014 and 2013 OPEB costs were approximately \$58,000 and \$34,000 respectively and were equal to the ARC for each year. The State of Oregon's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2015 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2013	\$ 3,444,000	100%	\$ -
6/30/2014	6,150,000	100%	-
6/30/2015	6,887,000	100%	-

Funded Status and Funding Progress. The funded status of the RHIPA plan as of December 31, 2013, the most recent actuarial valuation, was as follows (dollars in millions):

RHIPA OPEB Plan - Funded Status	
Actuarial Accrued Liability (AAL)	\$ 61.2
Actuarial Value of Plan Assets	5.2
Unfunded Actuarial Accrued Liability (UAAL)	\$ 55.9
Funded Ratio (Actuarial Value of Plan Assets/AAL)	8.5%
Covered Payroll	\$ 2,531.5
UAAL as a Percentage of Covered Payroll	2.2%

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 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, 2013 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 6.1 percent in 2014 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, 2015 was \$53,280 and the OPEB cost was \$94,542. The following schedule 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, 2015. The portion of the ending Net OPEB obligation allocated to Lottery was \$764,716 representing 0.87 percent of the State's liability.

Annual Required Contribution (ARC)	\$ 13,330,284
Interest on Net OPEB Obligation	2,761,258
Adjustment to ARC	(5,259,538)
Annual OPEB Cost	10,832,004
Contributions Made	(6,104,489)
Increase in Net OPEB Obligation	4,727,515
Beginning Net OPEB Obligation	78,894,640
Ending Net OPEB Obligation	<u>\$ 83,622,155</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 2015 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2013	\$ 18,852,979	44.4%	\$ 75,084,810
6/30/2014	10,443,071	63.5%	78,894,640
6/30/2015	10,832,004	56.4%	83,622,155

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 healthcare (medical/dental) cost trend rate of 3.6 percent and an ultimate rate of 5.4 percent 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.

14. 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 2015 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.

15. Prior Period Restatement

Beginning net position was restated as the result of implementing Governmental Accounting Standards Board (GASB) Statement No. 68, as amended by GASB Statement No. 71. Statement No. 68, as amended, establishes improved standards for measuring and recognizing pension liability, pension related deferred outflows and inflows of resources and pension related expense. The new standards are effective for fiscal years beginning after June 15, 2014. Elements of the prior period restatement shown on the Statement of Net Position are presented here.

Previously Reported Net Position on June 30, 2014	\$ 205,313,078
Adjustments:	
Net Pension Liability (measurement at 6/30/13)	(10,131,501)
Deferred Outflows - Contributions Made after the Measurement Date	1,915,032
Total Prior Period Restatement	(8,216,469)
Beginning Net Position for July 1, 2014	\$ 197,096,609



Required Supplementary Information

Schedule of Lottery Proportionate Share of the Net Pension Liability
Oregon Public Employers' Retirement System Plan (PERS)
Last Ten Fiscal Years*
(Dollars in Thousands)

Fiscal Year Ending June 30,	Oregon State Lottery			Share of Collective Net Pension Liability/(Asset) as a Percentage of Covered Payroll	PERS Fiduciary Net Position as a Percent of Total Pension Liability
	Percent of Collective Net Pension Liability	Share of Collective Net Pension Liability/(Asset)	Covered Employee Payroll		
2014	0.2%	\$ (4,500)	\$ 23,736	(19.0)%	103.6%
2013	0.2%	10,132	23,811	42.6%	92.0%

*Additional years will be presented as they become available

Schedule of Lottery Pension Contributions
Oregon Public Employers' Retirement System Plan (PERS)
Last Ten Fiscal Years*
(Dollars in Thousands)

Fiscal Year Ending June 30,	Actuarially Required Contributions	PERS Recognized Contributions	Contribution Deficiency/(Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2014	\$ 2,004	\$ 1,915	\$ 89	\$ 23,736	8.07%

*Additional years will be presented as they become available

Schedule of Funding Progress – Other Postemployment Benefit Plan
Public Employees Benefit Board (PEBB) Plan
(Dollars in Millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b) (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c
7/1/2009	\$ -	\$ 161.70	\$ 161.70	0.0%	\$ 2,562.50	6.3%
7/1/2011	-	154.70	154.70	0.0%	2,329.40	6.6%
7/1/2013	-	105.10	105.10	0.0%	2,485.80	4.2%

**Schedule of Funding Progress – Other Postemployment Benefit Plan
Retiree Health Insurance Premium Account (RHIPA) Plan**
(Dollars in Millions)

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 Presented Schedules

Schedule of Lottery Proportionate Share of the Net Pension Liability

- The net pension liability for fiscal year ending 2014 includes reductions to COLA adjustments adopted by the Oregon Legislature in October 2013.

Other Post Employment Plans

- 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. The report can be obtained at http://www.oregon.gov/pers/Pages/section/financial_reports/financials.aspx

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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, 2015
(See Note 2. A., Budgetary Compliance)

	Actual	Budget ⁽¹⁾	Variance Favorable/ (Unfavorable)
Revenue			
Video Lottery SM (Gross Receipts)	\$10,733,765,247	\$10,711,561,489	\$ 22,203,758
Scratch-its SM Instant Tickets	119,578,108	117,766,869	1,811,239
Keno	93,035,050	92,706,212	328,838
Powerball®	37,091,247	38,206,353	(1,115,106)
Megabucks SM	33,329,803	33,682,484	(352,681)
Mega Millions®	20,468,872	19,132,063	1,336,809
Raffle SM	7,488,730	7,484,980	3,750
Win For Life SM	4,082,661	4,125,716	(43,055)
Lucky Lines SM	1,771,994	1,824,246	(52,252)
Pick 4 SM	1,435,284	1,422,672	12,612
Total Revenue	11,052,046,996	11,027,913,084	24,133,912
Prize Expense	10,141,567,758	10,119,001,834	(22,565,924)
Net Revenue	910,479,238	908,911,250	1,567,988
Direct Expenses			
Retailer Commissions	215,514,570	217,750,721	2,236,151
Game Vendor Charges	8,931,443	8,986,708	55,265
Tickets	3,213,208	3,366,698	153,490
Advertising	8,617,789	11,023,500	2,405,711
Sales Support	1,263,959	1,670,802	406,843
Game Equipment/Parts & Maintenance	1,885,491	3,978,389	2,092,898
Research	931,810	1,119,090	187,280
Depreciation	17,533,757	18,114,347	580,590
Total Direct Expenses	257,892,027	266,010,255	8,118,228
Gross Profit	652,587,211	642,900,995	9,686,216
Indirect Revenue			
Other Income (Loss)	273,569	1,350,000	(1,076,431)
Indirect Expenses			
Public Information	4,246,421	5,093,500	847,079
Personal Services	39,264,401	46,340,615	7,076,214
Services and Supplies	11,545,447	19,463,197	7,917,750
Depreciation	2,600,590	3,464,120	863,530
Total Indirect Expenses	57,656,859	74,361,432	16,704,573
Net Profit	\$ 595,203,921	\$ 569,889,563	\$ 25,314,358

⁽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

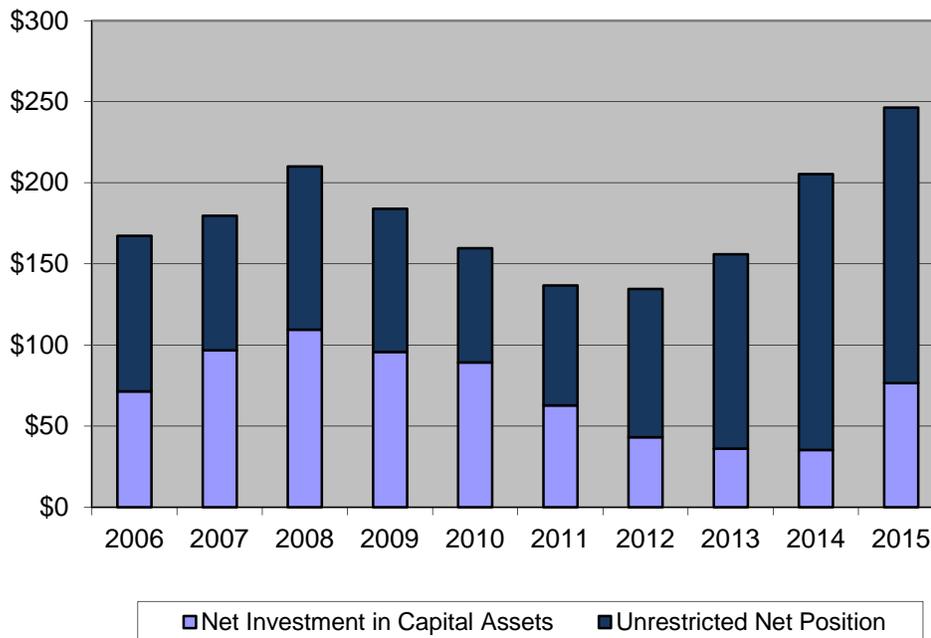
Note: The Lottery does not issue long-term debt; thus, information on debt capacity is not relevant.

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
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
2015	76,354,491	169,997,090	246,351,581

Net Position
 (In Millions)



Oregon State Lottery

Changes in Net Position

Last Ten Fiscal Years

	2006	2007	2008	2009
Operating Revenues				
Sales:				
Video Lottery SM (Net Receipts)	\$ 732,888,437	\$ 853,505,565	\$ 895,111,696	\$ 786,746,726
Scratch-its SM Instant Tickets	127,244,323	127,636,964	124,704,686	112,105,703
Keno	116,240,045	113,198,024	109,787,942	99,184,396
Powerball®	59,070,621	48,658,403	55,969,079	51,836,316
Megabucks SM	37,771,877	40,164,337	37,149,930	38,065,424
Sports Action SM	12,105,674	14,009,541	-	-
Mega Millions®	-	-	-	-
Raffle SM	-	-	-	2,499,597
Win For Life SM	5,914,469	5,566,158	6,675,988	6,654,104
Lucky Lines SM	1,018,520	2,298,480	2,131,474	2,042,237
Pick 4 SM	1,405,501	1,404,990	1,401,230	1,389,814
Breakopen Instant Tickets	1,671,571	1,173,585	857,671	-
Scoreboard SM	643,913	512,206	-	-
Recovery of (Provision for) Uncollectibles	(29,002)	(56,434)	(7,797)	(128,699)
Other Income	234,719	1,602,185	1,042,747	579,477
Total Operating Revenues	1,096,180,668	1,209,674,004	1,234,824,646	1,100,975,095
Operating Expenses				
Prizes	236,638,134	240,076,739	231,364,323	211,927,565
Retailer Commissions	218,013,134	239,320,032	240,475,998	213,739,988
Salaries and Wages	25,873,708	29,123,801	33,005,670	37,330,819
Depreciation and Amortization	11,019,875	19,797,789	30,843,314	37,080,300
Services and Supplies	10,902,866	8,254,418	8,767,744	10,519,566
Game Vendor Charges	10,227,113	10,009,601	9,371,513	7,716,930
Advertising and Market Research	7,007,884	10,752,331	9,885,584	11,313,552
Public Information	3,858,646	5,128,899	5,463,575	5,326,746
Tickets	4,461,315	4,165,283	4,232,601	4,335,016
Game Equipment Parts and Maintenance	-	2,606,119	2,485,770	1,850,765
Sales Support	1,772,169	1,320,416	1,569,079	1,712,391
Total Operating Expenses	529,774,844	570,555,428	577,465,171	542,853,638
Operating Income	566,405,824	639,118,576	657,359,475	558,121,457
Nonoperating Revenues (Expenses)				
Interest and Investment Income (Loss)	8,357,783	24,392,398	28,068,310	12,675,701
Insurance Recoveries	34,111	16,655	25,570	61,973
Gain (Loss) on Disposition of Assets	(20,653)	(517,562)	(317,204)	(1,767,242)
Investment Expenses - Securities Lending	(2,998,549)	(5,352,243)	(5,047,007)	(808,660)
Investment Expenses	-	-	-	-
Interest Expense	-	-	-	-
Total Nonoperating Revenues (Expenses)	5,372,692	18,539,248	22,729,669	10,161,772
Income Before Transfers	571,778,516	657,657,824	680,089,144	568,283,229
Transfers to Economic Development Fund	(531,032,111)	(644,030,352)	(648,408,187)	(592,846,506)
Transfers to General Obligation Bond Fund	(1,121,812)	(1,195,464)	(1,317,079)	(1,463,447)
Change in Net Position	\$ 39,624,593	\$ 12,432,008	\$ 30,363,878	\$ (26,026,724)

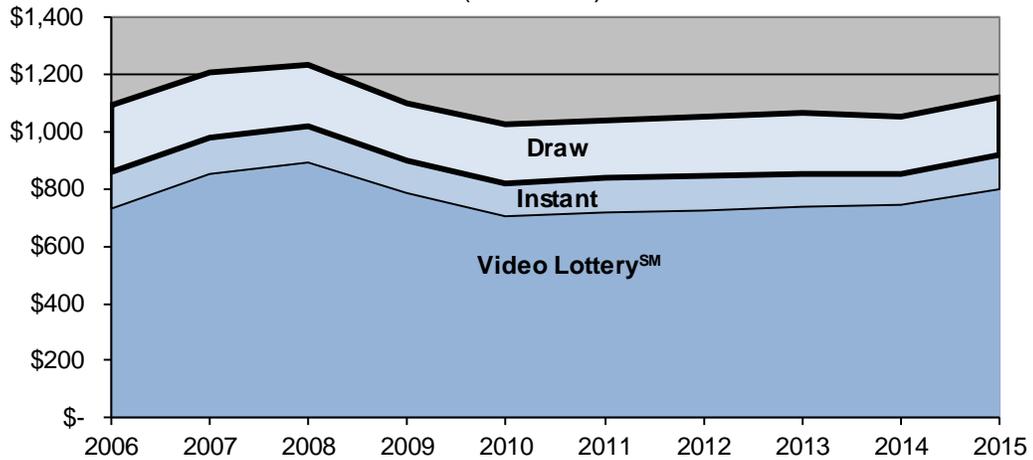
2010	2011	2012	2013	2014	2015
\$ 706,981,950	\$ 720,510,190	\$ 727,124,878	\$ 737,370,280	\$ 742,730,503	\$ 798,578,183
113,269,602	115,895,266	117,521,750	117,079,308	109,034,321	119,578,108
95,343,654	93,270,757	93,456,813	91,636,954	92,443,482	93,035,050
51,216,021	33,491,623	38,777,424	58,322,876	45,049,124	37,091,247
40,137,180	40,780,752	37,539,720	38,084,764	28,372,873	33,329,803
-	-	-	-	-	-
3,490,116	17,448,177	22,208,222	11,823,070	22,333,065	20,468,872
7,499,290	7,499,000	4,999,650	4,998,300	4,997,060	7,488,730
6,503,143	5,869,397	5,545,700	4,845,906	4,532,922	4,082,661
1,986,060	1,918,134	1,758,800	2,317,312	1,918,288	1,771,994
1,254,783	1,279,523	1,352,749	1,351,260	1,397,158	1,435,284
-	-	-	-	-	-
-	-	-	-	-	-
(112,559)	(128,164)	(71,327)	(44,280)	971	(4,594)
251,538	1,142,214	209,110	1,410,594	177,786	382,438
1,027,820,778	1,038,976,869	1,050,423,489	1,069,196,344	1,052,987,553	1,117,237,776
215,619,096	208,672,809	238,278,854	206,836,815	206,571,490	211,444,280
198,168,503	200,510,286	201,626,030	204,921,077	203,727,883	215,514,570
34,608,905	35,512,068	36,317,480	36,504,315	39,443,617	37,055,741
30,899,860	29,773,197	26,794,091	12,982,414	13,542,859	20,134,347
8,837,913	10,644,690	10,159,107	10,787,865	11,278,132	11,829,146
9,220,784	8,552,689	8,620,924	8,777,088	8,638,986	8,931,443
8,475,107	8,446,004	6,444,771	5,483,097	7,610,400	9,549,598
4,462,400	4,420,673	3,882,869	2,718,648	2,633,736	4,246,421
4,245,963	4,230,790	4,640,444	3,363,077	2,956,834	3,213,208
1,333,034	2,115,134	1,925,220	1,496,442	2,265,927	1,885,491
1,131,956	1,234,314	1,113,400	1,067,653	1,674,670	1,263,959
517,003,521	514,112,654	539,803,190	494,938,491	500,344,534	525,068,204
510,817,257	524,864,215	510,620,299	574,257,853	552,643,019	592,169,572
11,276,393	3,587,450	17,744,105	(2,982,432)	6,330,595	6,783,754
106,598	65,081	30,676	11,263	3,482	12,067
(5,323,677)	(2,919,876)	(147,802)	(969,699)	(257,250)	(1,473,869)
(192,727)	(237,391)	(138,855)	(143,462)	(45,956)	(74,757)
-	-	-	-	-	(4,185)
-	-	-	(330,386)	(315,269)	(325,227)
5,866,587	495,264	17,488,124	(4,414,716)	5,715,602	4,917,783
516,683,844	525,359,479	528,108,423	569,843,137	558,358,621	597,087,355
(539,582,457)	(546,996,892)	(523,652,688)	(546,923,919)	(507,250,297)	(545,948,950)
(1,464,541)	(1,444,213)	(1,459,501)	(1,506,648)	(1,692,668)	(1,883,433)
\$ (24,363,154)	\$ (23,081,626)	\$ 2,996,234	\$ 21,412,570	\$ 49,415,656	\$ 49,254,972

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
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
2015	798,578,183	119,578,108	93,035,050	37,091,247	33,329,803	35,247,541	1,116,859,932

Sales by Product Type
 (In Millions)

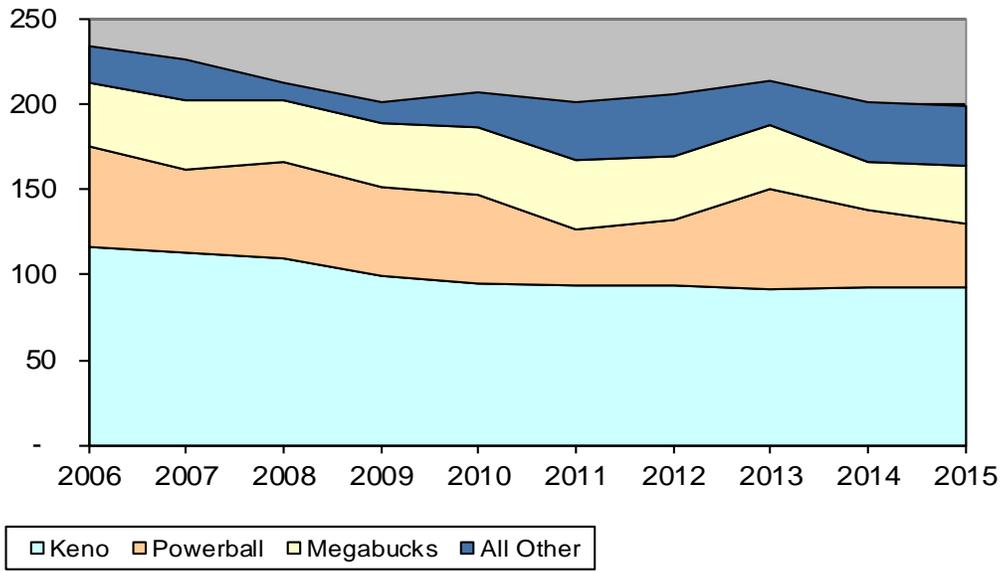


Oregon State Lottery
Product Percent of Total Sales
 Last Ten Fiscal Years

Draw Games

Fiscal Year	Video Lottery SM	Instant Products	Keno	Powerball®	Oregon's Game Megabucks SM	All Other Draw Games
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%
2015	71.5%	10.7%	8.3%	3.3%	3.0%	3.2%

Draw Game Sales by Product
 (In Millions)



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

		2015		
<u>Rank</u>	<u>Retailer</u>	<u>Sales</u>	<u>Percent of Total Sales</u>	<u>County</u>
1	Bradley's Bar & Grill	\$ 1,714,821	0.15%	Multnomah
2	Deli Store	\$ 1,700,189	0.15%	Columbia
3	Dotty's #9	\$ 1,623,765	0.15%	Washington
4	Elmer's Pancake-Delta Park	\$ 1,601,378	0.14%	Multnomah
5	Dotty's #24	\$ 1,595,674	0.14%	Multnomah
6	Shari's-Airport Way #218	\$ 1,545,948	0.14%	Multnomah
7	Fox Den Eatery # 4, The	\$ 1,535,355	0.14%	Linn
8	Elmer's	\$ 1,512,432	0.14%	Multnomah
9	Original Joe's	\$ 1,490,091	0.13%	Multnomah
10	Maddy's	\$ 1,452,860	0.13%	Clackamas
	Totals	<u>\$ 15,772,514</u>	<u>1.42%</u>	

Total Lottery Sales \$ 1,114,080,376

		2006		
<u>Rank</u>	<u>Retailer</u>	<u>Sales</u>	<u>Percent of Total Sales</u>	<u>County</u>
1	Bradley's Bar & Grill	\$ 2,114,658	0.19%	Multnomah
2	Dotty's #24	\$ 1,921,646	0.18%	Multnomah
3	Original Joe's	\$ 1,910,688	0.17%	Multnomah
4	Ashley's Cafe	\$ 1,851,061	0.17%	Deschutes
5	Maddy's	\$ 1,850,162	0.17%	Multnomah
6	Deli Store	\$ 1,844,887	0.17%	Columbia
7	Wan Q Restaurant	\$ 1,822,091	0.17%	Multnomah
8	Fox Den Eatery # 4, The	\$ 1,812,428	0.17%	Linn
9	Purple Parrot #7	\$ 1,810,204	0.17%	Jackson
10	Elmer's Pancake-Delta Park	\$ 1,790,672	0.16%	Multnomah
	Totals	<u>\$ 18,728,497</u>	<u>1.71%</u>	

Total Lottery Sales \$ 1,093,387,311

Source: Oregon State Lottery Research Department

Oregon State Lottery
Number of Lottery Retailers and Sales by County
For Business Year 2015

County	Sales		Retailers	
	Business Year Sales	Percent of Total Sales	Number of Lottery Retailers	Percent of Total Retailers
Multnomah	\$ 315,003,967	28.27%	954	24.22%
Washington	\$ 117,756,522	10.57%	312	7.92%
Clackamas	\$ 111,405,812	10.00%	359	9.11%
Marion	\$ 96,636,293	8.67%	340	8.63%
Lane	\$ 91,747,817	8.24%	347	8.81%
Jackson	\$ 53,404,319	4.79%	208	5.28%
Deschutes	\$ 40,123,141	3.60%	139	3.53%
Linn	\$ 32,852,255	2.95%	127	3.23%
Douglas	\$ 24,508,830	2.20%	124	3.15%
Josephine	\$ 21,931,564	1.97%	96	2.44%
Columbia	\$ 20,550,748	1.84%	63	1.60%
Umatilla	\$ 18,828,961	1.69%	81	2.06%
Yamhill	\$ 18,294,076	1.64%	84	2.13%
Clatsop	\$ 17,066,082	1.53%	72	1.83%
Klamath	\$ 15,588,799	1.40%	75	1.90%
Lincoln	\$ 14,610,857	1.31%	74	1.88%
Malheur	\$ 13,212,789	1.19%	37	0.94%
Coos	\$ 11,661,194	1.05%	60	1.52%
Benton	\$ 11,005,012	0.99%	56	1.42%
Polk	\$ 10,783,189	0.97%	54	1.37%
Tillamook	\$ 9,780,013	0.88%	49	1.24%
Wasco	\$ 8,952,691	0.80%	35	0.89%
Hood River	\$ 6,999,294	0.63%	23	0.58%
Crook	\$ 6,033,026	0.54%	28	0.71%
Union	\$ 5,456,798	0.49%	27	0.70%
Baker	\$ 4,522,373	0.41%	22	0.56%
Jefferson	\$ 3,776,076	0.34%	16	0.41%
Curry	\$ 3,490,503	0.31%	20	0.51%
Morrow	\$ 1,758,464	0.16%	10	0.25%
Lake	\$ 1,286,978	0.12%	8	0.20%
Sherman	\$ 1,265,692	0.11%	6	0.15%
Harney	\$ 1,264,453	0.11%	8	0.20%
Grant	\$ 1,201,631	0.11%	9	0.23%
Wallowa	\$ 889,536	0.08%	10	0.25%
Gilliam	\$ 256,137	0.02%	4	0.10%
Wheeler	\$ 174,480	0.02%	2	0.05%
Total	<u>\$ 1,114,080,372</u>	<u>100.00%</u>	<u>3,939</u>	<u>100.00%</u>

Source: Oregon State Lottery Research Department

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

Calendar Year	Population ¹	Personal Income ¹ (in thousands)	Per Capita Personal Income	Annual Unemployment Rate ²
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%
2014	3,970,239	163,652,836	41,220	6.9%

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 2014 and Nine Years Prior

	2014		2005	
	Number of Employees	Percent of Total	Number of Employees	Percent of Total
Health care and social assistance	268,103	11.60%	224,324	10.19%
Retail trade	242,136	10.48%	243,445	11.06%
Manufacturing	197,303	8.54%	214,556	9.75%
Local government	176,371	7.63%	174,274	7.92%
Accommodation and food services	172,960	7.49%	150,240	6.83%
Professional, scientific, and technical services	147,616	6.39%	119,720	5.44%
Administrative and waste services	124,990	5.41%	120,170	5.46%
Other services	122,343	5.30%	119,225	5.42%
Construction	114,184	4.94%	132,102	6.00%
Real estate, rental, and leasing	98,945	4.28%	86,800	3.94%
Finance and insurance	93,813	4.06%	83,523	3.80%
Wholesale trade	80,327	3.48%	85,680	3.89%
Transportation and warehousing	67,916	2.94%	65,949	3.00%
Farm employment	61,967	2.68%	67,897	3.09%
State government	61,798	2.67%	68,548	3.11%
Educational services	58,111	2.52%	47,968	2.18%
Arts, entertainment, and recreation	56,454	2.44%	46,529	2.11%
Management of companies	41,254	1.79%	28,536	1.30%
Information	40,328	1.75%	40,672	1.85%
Forestry, fishing, and related activities	32,921	1.42%	29,578	1.34%
Federal government, civilian	27,503	1.19%	29,674	1.35%
Military	11,927	0.52%	12,673	0.58%
Mining	6,236	0.27%	3,521	0.16%
Utilities	4,814	0.21%	5,051	0.23%
Total employment	<u>2,310,320</u>	<u>100.00%</u>	<u>2,200,655</u>	<u>100.00%</u>

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

	2005	2006	2007	2008	2009
Number Surveyed	1,000	1,004	1,001	1,003	1,002
Player Percentage	52.6%	49.0%	43.4%	42.2%	48.1%
	Players	Players	Players	Players	Players
<u>Gender</u>					
Male	51%	51%	52%	54%	51%
Female	49%	49%	48%	46%	49%
<u>Age</u>					
18 - 24	11%	14%	9%	8%	6%
25 - 34	18%	20%	19%	19%	20%
35 - 44	21%	19%	23%	22%	17%
45 - 54	18%	22%	22%	23%	27%
55 - 64	13%	13%	15%	18%	15%
65 +	18%	13%	11%	11%	15%
<u>Education</u>					
Some High School	2%	6%	7%	8%	7%
High School Graduate	25%	33%	29%	26%	25%
College/Tech School	39%	37%	38%	36%	37%
College Graduate	25%	17%	16%	20%	18%
Graduate School/Degree	9%	7%	10%	10%	11%
<u>Marital Status</u>					
Single	21%	22%	21%	17%	20%
Married	55%	54%	57%	56%	56%
Co-habiting	7%	7%	5%	9%	7%
Divorced or Separated	11%	13%	12%	11%	10%
Widowed	6%	4%	5%	6%	5%
Civil Union/Domestic Partnership					
<u>Income</u>					
Less than \$15,000	7%	8%	8%	9%	11%
\$15,000 - \$49,999	49%	44%	44%	43%	44%
\$50,000 - \$74,999	16%	20%	17%	15%	18%
\$75,000 - \$99,999	9%	10%	12%	13%	11%
\$100,000 +	7%	6%	10%	10%	9%
Refused/Don't Know	12%	12%	9%	10%	8%

Sources:

Player information from Oregon State Lottery's Tracking Study
 State information from U.S. Census Bureau, American Fact Finder, 2014 American Community Survey
 and 2014 Population Estimate

¹Player information from Oregon State Lottery's May 2015 Tracking Study

2010	2011	2012	2013	2014 ¹	
1,000	1,000	1,000	1,000	1,000	
50.7%	53.3%	52.0%	47.8%	46.1%	
Players	Players	Players	Players	Players	2014 State Population
48%	50%	52%	55%	50%	49.5%
52%	50%	48%	45%	50%	50.5%
10%	9%	12%	10%	9%	11.7%
19%	19%	18%	17%	19%	17.5%
17%	16%	15%	16%	16%	16.6%
26%	23%	23%	23%	21%	16.5%
15%	14%	13%	19%	16%	17.3%
14%	19%	18%	15%	19%	20.4%
4%	4%	6%	3%	4%	10.3%
21%	20%	22%	18%	20%	24.3%
37%	33%	30%	32%	33%	34.6%
20%	23%	21%	23%	21%	19.2%
16%	18%	19%	17%	16%	11.6%
22%	21%	23%	26%	25%	30.7%
58%	52%	54%	51%	48%	48.5%
6%	7%	5%	5%	6%	n/a
7%	11%	9%	7%	9%	15.3%
5%	6%	5%	4%	5%	5.5%
			1%	1%	n/a
10%	10%	10%	9%	8%	5.5%
30%	31%	27%	27%	31%	52.4%
17%	16%	14%	15%	12%	21.1%
13%	11%	9%	10%	6%	9.8%
10%	14%	11%	15%	12%	11.2%
21%	18%	30%	24%	31%	n/a

Oregon State Lottery
Number of Employees
 Last Ten Fiscal Years

	2006 ²	2007 ³	2008 ⁴	2009 ⁵	2010	2011	2012 ⁶	2013	2014 ⁷	2015
Sales, Marketing & Retail Services	237	243	251	255	255	248	229	232	236	239
Support Services	124	135	148	157	151	151	143	154	157	152
Director's Office	29	30	31	32	30	31	29	30	33	35
Security ¹	11	12	17	19	17	16	16	13	15	19
Total	401	420	447	463	453	446	417	429	441	445

Source: Oregon State Payroll System for FY 2005 - FY 2012; Lottery Payroll System for FY 2013-2015.

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 economy strengthened and hiring freeze was removed.

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

<u>Fiscal Year</u>	<u>Number of Lottery Retailers¹</u>	<u>Number of Video LotterySM Terminals Deployed¹</u>	<u>Per Capita Sales²</u>
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
2015	3,939	11,925	281.31

¹Source: Oregon State Lottery Records

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

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Other Reports

Office of the Secretary of State

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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 Kate Brown
Governor of Oregon

MardiLyn Saathoff, 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, 2015, 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 December 17, 2015.

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
December 17, 2015



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