

OREGON STATE LOTTERY

An Enterprise Fund of the State of Oregon



COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2017



**OREGON
LOTTERY™**

Oregon State Lottery

An Enterprise Fund of the State of Oregon

Comprehensive Annual Financial Report **For the Fiscal Year Ended June 30, 2017**



It Does Good Things®

Barry Pack
Director

Kathy Ortega, CPA, CGMA
Chief Financial Officer

Report Prepared by:

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Oregon State Lottery

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Introductory Section



December 19, 2017

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, 2017. 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, 2017. 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.

Lottery has a network of 3,932 retailers through which it 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 establishments licensed by Oregon Liquor Control Commission (OLCC). The Lottery has approximately 11,817 Video LotterySM terminals deployed throughout the state.

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

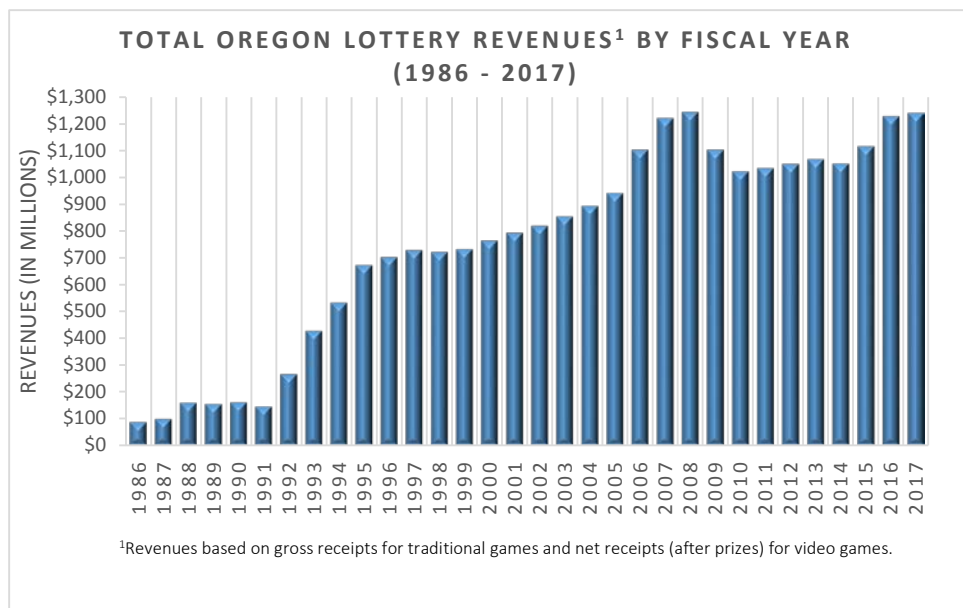
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The Lottery, which is accounted for as a single enterprise fund, is entirely self-financed through its sales. Its operations are designed to fulfill its duty to develop, produce, and market Lottery games; pay winners and operating expenses; and remit the remaining net profits to the State. These net profits are transferred to the Oregon Economic Development Fund and are then distributed by the State to finance the various uses allowed by law. Through its business units, the Lottery provides services that are necessary to operate successfully including security, marketing, retailer support, finance, management and information services. Additional information about the Lottery is available on its website 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 presented to the commission for approval if necessary. By law, expenses to operate the Lottery are limited to no more than 16 percent of total annual revenues and fiscal year 2017 expenses were 3.08 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 year 2011 and have shown steady but modest growth, except for fiscal year 2014 which showed a slight decline. However, revenue growth returned through fiscal year 2016 and has continued to increase in fiscal year 2017.



Economic Condition and Outlook

According to the Oregon Office of Economic Analysis (OEA), Oregon's employment growth started gaining ground in 2013, increasing 2.1 percent, and in 2014 continued to perform above the national average at 2.9

percent. Since 2015, Oregon's employment growth has steadily expanded and is continuing this strong trend at 2.1 percent in 2017.

In Oregon, along with labor market gains, personal income and wage and salary trends have continued to improve since 2014. Oregon's personal income is projected to increase 4.4 percent in 2017, 5.7 percent in 2018 and 5.6 percent in 2019. National averages for 2017 to 2019 are 3.6, 4.7 and 5.2 percent. Oregon wage and salary income for 2017 to 2019 are projected to increase 4.7, 6.5, and 5.7 percent over the next 3 years.

Oregon faces several economic factors in the near-term; potential impacts of the U.S. economy and federal fiscal policy, the strength and affordability of the housing market, political unrest in the Middle East and Ukraine, ongoing European debt and economic issues and financial market instability, commodity price inflation, and the effects of other global economic issues.

As an agency operating in the entertainment industry, we are encountering increased competition from other gambling offerings available to the citizens of Oregon.

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 in 2017, the Lottery has continued with the implementation of a multi-year technology replacement plan to support the next generation of Video LotterySM products. During fiscal year 2017, the Lottery implemented a new Video LotterySM central gaming system, continued with the statewide replacement of approximately 12,000 Video LotterySM terminals, and implemented a new gaming communications network. Together, these enhancements are expected to address technology obsolescence 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 have continued through fiscal year 2017.

In the September 2017 Economic and Revenue Forecast, the Office of Economic Analysis (OEA), is reflecting Lottery transfers of \$1.35 billion for the 2017-2019 biennium. The largest factor in the newest outlook is the significantly smaller impact of the new Ilani Casino Resort in southwest Washington on Video LotterySM sales. The large decline in expected sales did not materialize. Given the uncertainty and the improbability that the full impact of the new casino has been reached, the forecast includes small declines in Video LotterySM sales of one to two percent for the rest of fiscal year 2018.

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, 2017 the actual cash balance in the reserve was \$97.7 million. The Lottery intends to use the contingency reserve to fund the remaining portion of the Video LotterySM Terminal Modernization Program replacement plan and other technology projects. Further details on this can be found in the MD&A section of this report.

Major Initiatives

In addition to the completion of the Video LotterySM Technology Modernization Program, the Lottery is evaluating upgrades to several back office support systems that are facing obsolescence and end of support. The Lottery has engaged Gartner Consulting Services, a leading technology, research, and advisory company, to provide an in-depth analysis of its enterprise architecture and business capabilities. Gartner has produced a high-level roadmap for a complete replacement of the applications supporting the Lottery's business over the next three to five years. This partnership will develop the foundational activities that will facilitate planning, drive adoption and ensure the long-term success of the modernization program.

The key business modernization drivers are based on responsibly increasing revenues and leveraging a holistic understanding of retailer and customer behavior, preferences and motivators. The goal is to optimize investments in marketing, product innovations and internal capability enhancements, leveraging product costs

and personnel. As the Lottery develops its strategic business plan, work has begun to transform the agency into a data-driven, learning organization, ensuring people have the right data to make informed decisions.

During fiscal year 2018, Lottery will continue to evolve the Lottery brand promise to attract new players and retailers and appeal to a broad and diverse player and retailer base by investing in both retail operations and how Lottery participates in local communities and provide funding for causes Oregonians care about.

Lottery is planning several initiatives to reach out to current 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 2018, Lottery intends to expand the utility of oregonlottery.org website to include a more robust retailer website that creates consumer engagement and improves the player experience and diversify portfolio to withstand market disruptions.

The Lottery will continue its commitment to enhancing and expanding its Responsible Gambling Program, as part of its overall commitment to Corporate Social Responsibility (CSR). 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 free access to problem gambling treatment. In January 2017, a new program called *Good Business* was introduced to produce an overall positive impact for Oregon by balancing our business priorities with our social, economic, and environmental responsibilities. The overall CSR goals include keeping lottery entertainment entertaining, promoting help and hope for those struggling with gambling addiction, championing diversity, equity and inclusion and supporting sustainability.

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, 2016. This was the ninth 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,

A handwritten signature in black ink, reading "Kathy Ortega". The signature is fluid and cursive, with the first name "Kathy" and last name "Ortega" clearly distinguishable.

Kathy Ortega, Chief Financial Officer
Oregon State Lottery



Government Finance Officers Association

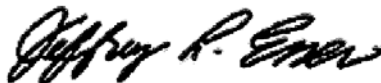
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Presented to

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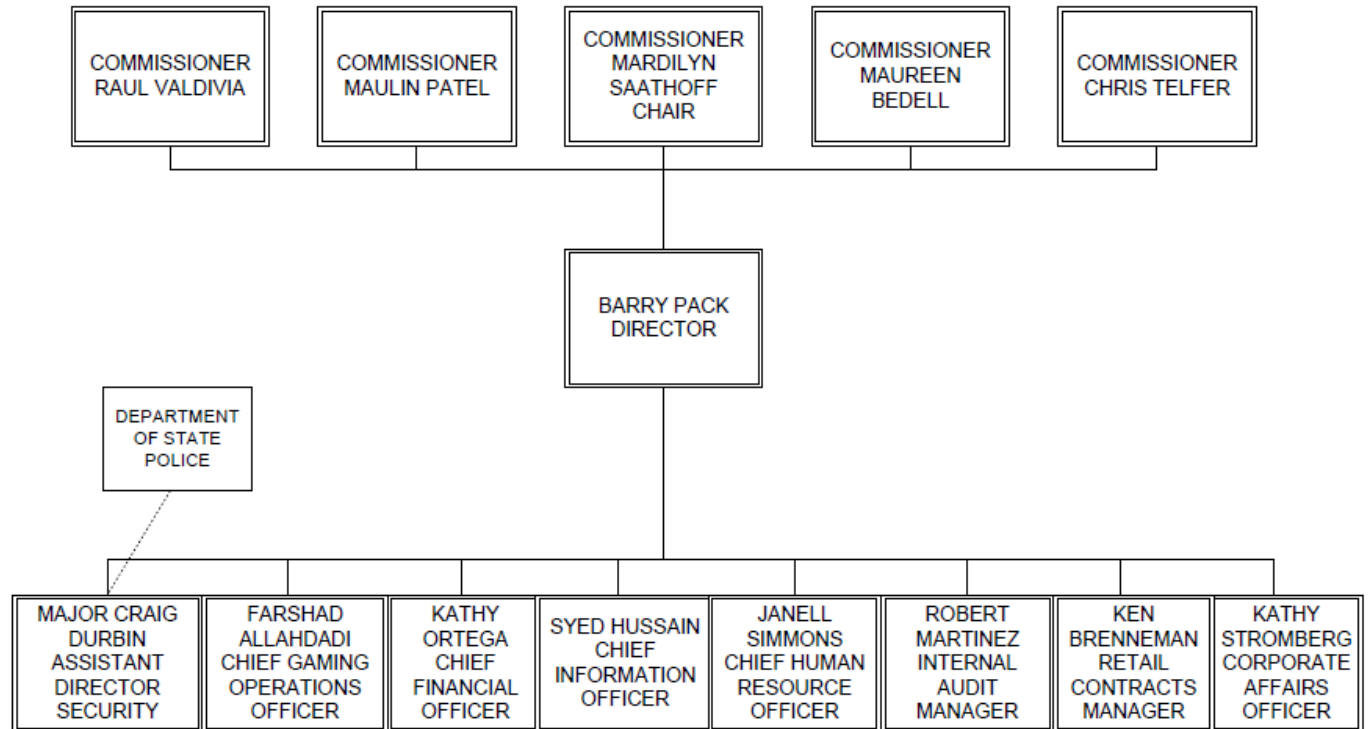
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016



Executive Director/CEO

Commissioners and Executives of the Oregon State Lottery



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Financial Section

Office of the Secretary of State

Dennis Richardson
Secretary of State

Leslie Cummings, Ph.D.
Deputy Secretary of State



Audits Division

Kip R. Memmott, MA, CGAP, CRMA
Director

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(503) 986-2255

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, 2017, 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, 2017 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, 2017, the changes in its financial position, or its cash flows for the year then ended in accordance 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, the schedule of Lottery's proportionate share of the net pension liability, the schedule of Lottery's pension contributions and the schedules of funding progress on pages 44-45 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 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 19, 2017, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Oregon State Lottery's 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 19, 2017

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, 2017. This analysis is to be considered in conjunction with information in the transmittal letter of this report.

Financial Highlights

- Revenue for all Lottery products is \$1.25 billion, an increase of 1.4 percent over fiscal year 2016.
- Video LotterySM revenue increased by \$37.6 million from the prior fiscal year, and revenue from traditional games decreased by \$20.8 million.
- Net position (equity) decreased by \$20.9 million as a result of fiscal year operations including a prior period adjustment and transfer of unrestricted net assets.
- The Lottery transferred \$695.8 million to Oregon's Economic Development Fund, which is \$112.6 million more than the prior year.

Overview of the Financial Statements

In addition to this discussion and analysis, the Financial Section of this annual report contains the basic financial statements, which include the fund financial statements and 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

	2017	2016	Change
Current assets	\$ 431,300,922	\$ 490,849,060	\$ (59,548,138)
Capital assets	113,417,874	95,316,854	18,101,020
Other noncurrent assets	214,438,592	164,927,224	49,511,368
Deferred Outflows of Resources	18,126,890	2,940,774	15,186,116
Total assets and deferred outflows of resources	777,284,278	754,033,912	23,250,366
Current liabilities	309,474,826	281,450,810	28,024,016
Noncurrent liabilities	180,761,325	162,144,488	18,616,837
Deferred Inflows of Resources	326,694	2,777,285	(2,450,591)
Total liabilities and deferred inflows of resources	490,562,845	446,372,583	44,190,262
Net position:			
Net investment in capital assets	95,749,372	95,316,854	432,518
Unrestricted	190,972,061	212,344,474	(21,372,413)
Total net position	\$ 286,721,433	\$ 307,661,328	\$ (20,939,895)

Total assets at June 30, 2017 were \$777.3 million, an increase of \$23.3 million over the prior year. All categories saw significant changes. The change in assets consists primarily of \$12.9 million in additional cash and cash equivalents, a decrease of \$10.5 million in securities lending cash collateral, and an increase of \$18.1 million in capital assets. Securities lending activity fluctuates based on the extent this activity is used by the Office of the State Treasurer. The Video LotterySM Modernization Program continued in fiscal year 2017 and included the implementation of a new video central system and the purchase of approximately 1,800 terminals.

Current liabilities increased \$28 million and noncurrent liabilities increased \$18.6 million. The current liability for amounts due to the Economic Development Fund (EDF) increased \$38.8 million compared to fiscal year 2016. The current year transferred all earnings as well as \$35.5 million of contingency reserve to the EDF. Changes in noncurrent liabilities are the result of a significant increase in the net pension liability of \$23 million, an increase in contracts payable of \$14.7 million, and a decrease of \$19.1 million in long-term prize liabilities. Net pension liability increased due to an 83 percent decline in investment income for the plan and the PERS Board decision to lower the long-term expected rate of return and inflation rates. Assumption changes such as these are deferred and recognized over a period of time driving the increase in deferred outflows. The increase in contracts payable was due to the contractual obligations involving the Lottery's new video gaming system and equipment deployed during fiscal year 2017. A prior period adjustment during the current fiscal year corrected a calculation causing the decrease in long-term prize liabilities.

A portion of the Lottery's net position, 33.4 percent, reflects investment in capital assets, primarily Video LotterySM gaming terminals. Of the \$191 million in unrestricted net position at fiscal year-end, \$90 million is committed for capital purchases, projects, and long-term contract obligations.

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

	2017	2016	Increase/ (Decrease)
Operating revenue:			
Video Lottery SM game sales, net	\$ 914,071,290	\$ 876,475,310	\$ 37,595,980
Scratch-its SM instant ticket sales	126,498,948	131,599,460	(5,100,512)
Draw game sales	205,732,285	221,423,929	(15,691,644)
Other Income	582,980	691,029	(108,049)
Total operating revenues	1,246,885,503	1,230,189,728	16,695,775
Operating expenses:			
Prizes	217,150,249	239,317,411	(22,167,162)
Retailer commissions	239,551,975	234,963,289	4,588,686
Other operating expenses	126,601,379	125,030,493	1,570,886
Total operating expenses	583,303,603	599,311,193	(16,007,590)
Operating income	663,581,900	630,878,535	32,703,365
Interest and investment income	(481,760)	16,217,601	(16,699,361)
Insurance recoveries	15,221	2,005	13,216
Nonoperating expenses	(1,035,528)	(699,197)	(336,331)
Total nonoperating revenues (expenses)	(1,502,067)	15,520,409	(17,022,476)
Income before transfers	662,079,833	646,398,944	15,680,889
Transfers	(697,586,857)	(585,089,197)	(112,497,660)
Change in net position:	(35,507,024)	61,309,747	(96,816,771)
Net position - beginning	307,661,328	246,351,581	61,309,747
Prior period adjustment	14,567,129	-	14,567,129
Net position - beginning restated	322,228,457	246,351,581	75,876,876
Net position - ending	\$ 286,721,433	\$ 307,661,328	\$ (20,939,895)

Lottery income before transfers increased 2.4 percent, or \$15.7 million, from the previous year due to improved sales and reduced expenses. Product sales increased \$16.8 million with Video LotterySM generating \$37.6 million of growth since fiscal year 2016. 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 seventh consecutive year of gains in Video LotterySM revenue, as economic conditions have yielded strong growth and product offerings attract play. Sales declined for Scratch-itsSM 3.9 percent and Powerball® sales decreased \$19 million, or 29.7 percent, from the previous year. Sales for Scratch-ItsSM in fiscal year 2017 closely mirrored sales in fiscal 2016 except for January 2017. In January 2017, the Portland snow storms caused a drop in sales in the largest market for Scratch-itsSM. Draw games reported a decrease of \$15.7 million, 7.1 percent lower than the prior year. Draw game decreases are attributable to the smaller jackpots during this fiscal year compared to the prior year.

Operating expenses decreased 2.7 percent. The majority of the decrease is in prize expense and correlates with the reduction in sales for Scratch-itsSM and draw games. Since revenues for Video LotterySM are reported net of prizes awarded, the prize expense in Table 2 includes only Traditional game prizes. Retailer commissions were 2 percent higher than the prior year reflecting the overall increase in sales. Commission rates paid to retailers vary based on the games offered (Traditional or Video) and the retailers' sales volume.

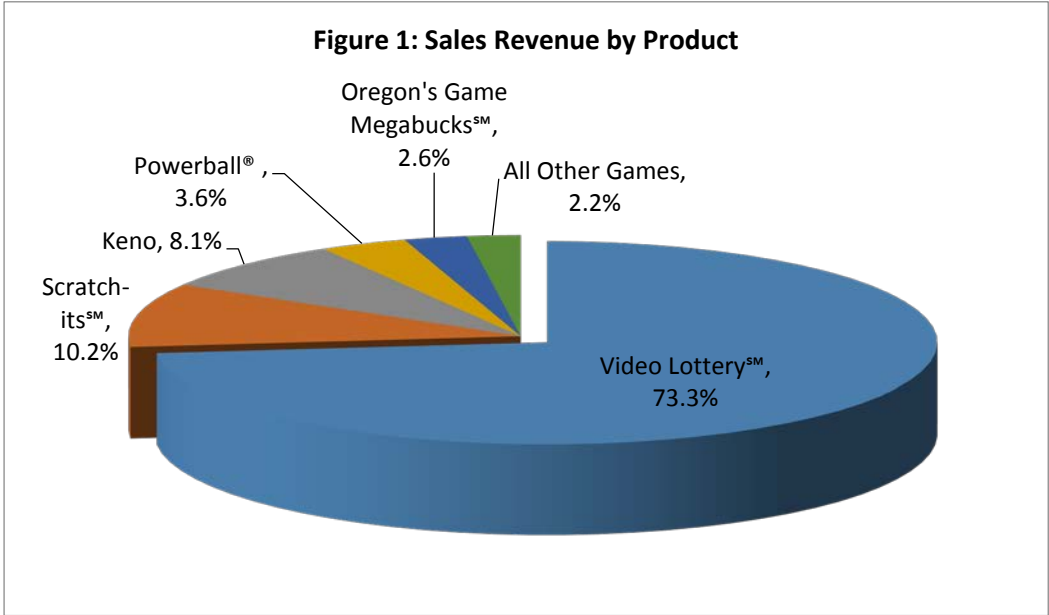
Nonoperating revenues and expenses declined 110 percent. Fiscal year 2016 had market value increases of \$13.7 million while fiscal year 2017 had market value losses of \$5.2 million, a total decrease in value of \$18.9

million. However, interest income was \$2.2 million more than the prior year due to increased cash balances and a small increase in interest rates.

The Lottery transferred \$695.8 million to the Economic Development Fund which was \$112.6 million more than the prior year. It included Lottery's earnings and \$35.5 million in unrestricted net assets. See note 2.F. Current year operations, including the prior period adjustment of \$14.6 million and the additional unrestricted net assets accrued for transfer reduced Lottery's net position by \$20.9 million from a year ago.

Sales Revenue

Figure 1 below shows the major sources and percentages of sales revenue for fiscal year 2017:



Video LotterySM remains the largest source of revenue representing 73.3 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, 10.2 percent), during fiscal year 2017. An increase in Keno sales during fiscal year 2017 can be attributed to a new Bulls-Eye option that can be added to any Keno or Special Keno game. During fiscal year 2017, Powerball[®] had the largest decrease in sales, \$19 million when compared to fiscal 2016. Fiscal year 2016 Powerball[®] sales were inflated by the record \$1.59 billion jackpot won in January 2016. Oregon's Game MegabucksSM represents 2.6 percent of total sales and was down 3.8 percent from the prior year. This is the result of MegabucksSM jackpots being won five times in 2017 versus four times in 2016. When jackpots are won, sales drop off and then increase as the new jackpot grows.

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 computer software.

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

	2017	2016	Change
Equipment	\$ 87,022,630	\$ 79,471,132	\$ 7,551,498
Computer Software	15,991,205	7,390,126	8,601,079
Building and Improvements	5,884,523	5,320,557	563,966
Vehicles	3,014,064	2,882,450	131,614
Other Assets	24,132	252,589	(228,457)
Capital Assets in Progress	1,481,320	-	1,481,320
Total Capital Assets, Net	\$ 113,417,874	\$ 95,316,854	\$ 18,101,020

During fiscal year 2017, net capital assets increased 19 percent. The change is primarily attributable to the Video LotterySM Technology Modernization Program including the purchase of Video LotterySM terminals and the new video gaming system. 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 is performing as the State's economists predicted with slower growth in a mature expansion. As the economy transitions to a more sustainable rate, businesses across the state are reporting it is more difficult to fill job openings than it was a few years ago. Oregon's unemployment rates are lower as a result of healthy job gains and a growing population. Job growth has slowed since the robust rates in 2014 and 2015, but Oregon is outpacing the nation overall. This is due to the state's ability to attract and retain young, working age individuals and our industrial structure. The Oregon Office of Economic Analysis (OEA) revised the initial impact of the Cowlitz Tribe's ilani Casino in southwest Washington on Video LotterySM sales in the September 2017 revenue forecast. Video LotterySM sales in zip codes along the Oregon-Washington border have fallen around 15 percent, versus the expected 40 percent.

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Basic Financial Statements

OREGON STATE LOTTERY
Statement of Net Position
June 30, 2017

Assets and Deferred Outflows of Resources

Current Assets:

Cash and Cash Equivalents	\$ 341,026,339
Securities Lending Cash Collateral	55,132,396
Investments for Prize Payments	11,257,851
Accounts Receivable (Net)	20,585,576
Ticket Inventory	1,599,088
Prepaid Expenses	1,699,672
Total Current Assets	431,300,922

Noncurrent Assets:

Cash and Cash Equivalents	89,965,902
Investments for Prize Payments	121,192,269
Prize Reserves with Multi-State Lottery	3,280,421

Capital Assets:

Equipment	175,772,094
Computer Software	29,631,364
Intangibles - Non-Software	648,609
Building and Improvements	13,103,149
Vehicles	5,066,971
Leasehold Improvements	131,739
Capital Assets In Progress	1,481,320
Less Accumulated Depreciation and Amortization	(112,417,372)

Total Noncurrent Assets 327,856,466

Deferred Outflows of Resources 18,126,890

Total Assets and Deferred Outflows of Resources **777,284,278**

Liabilities and Deferred Inflows of Resources

Current Liabilities:

Due to Economic Development Fund	202,408,641
Obligations Under Securities Lending	55,132,396
Prize Liability	32,728,712
Accounts Payable	12,993,409
Compensated Absences	2,663,499
Unearned Revenue	579,886
Deposit Liability	238,908
Capital Lease/Contracts Payable	2,729,375

Total Current Liabilities **309,474,826**

Noncurrent Liabilities:

Prize Liability	125,006,514
Compensated Absences	1,434,192
Net Pension Liability	34,381,457
Net Other Postemployment Benefits (OPEB) Obligation	712,443
Capital Lease/Contracts Payable	19,226,719

Total Noncurrent Liabilities **180,761,325**

Deferred Inflows of Resources 326,694

Total Liabilities and Deferred Inflows of Resources **490,562,845**

Net Position:

Net Investment in Capital Assets	95,749,372
Unrestricted	190,972,061

Total Net Position **\$ 286,721,433**

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, 2017

Operating Revenues

Sales:

Video Lottery SM (Net Receipts)	\$ 914,071,290
Scratch-its SM Instant Tickets (Net of Returns)	126,498,948
Keno	101,501,142
Powerball®	44,856,176
Megabucks SM	31,768,618
Mega Millions®	17,913,809
Raffle SM	2,499,750
Win For Life SM	3,569,776
Lucky Lines SM	2,147,834
Pick 4 SM	1,475,180
Provision for Uncollectibles	(10,109)

Other Income	593,089
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Total Operating Revenues	<u>1,246,885,503</u>
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Operating Expenses

Prizes	217,150,249
Retailer Commissions	239,551,975
Salaries and Wages	51,608,241
Depreciation and Amortization	29,733,663
Services and Supplies	13,818,139
Game Vendor Charges	8,170,995
Advertising and Market Research	11,071,161
Public Information	6,572,101
Tickets	3,328,614
Game Equipment Parts and Maintenance	1,572,029
Sales Support	726,436

Total Operating Expenses	<u>583,303,603</u>
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Operating Income	<u>663,581,900</u>
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Nonoperating Revenues (Expenses)

Interest	4,755,143
Investment and Securities Lending Income (Loss)	(5,236,903)
Insurance Recoveries	15,221
Gain (Loss) on Disposition of Assets	(12,653)
Investment Expenses - Securities Lending	(369,908)
Investment Expenses	(13,939)
Interest Expense	(639,028)

Total Nonoperating Revenues (Expenses)	<u>(1,502,067)</u>
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Income Before Transfers	662,079,833
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Transfers to the Economic Development Fund	(695,750,970)
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Transfers to the General Obligation Bond Fund	(1,835,887)
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Change in Net Position	<u>(35,507,024)</u>
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Net Position - Beginning	307,661,328
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Prior Period Restatement	14,567,129
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Net Position - Beginning Restated	<u>322,228,457</u>
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Net Position - Ending	<u>\$ 286,721,433</u>
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The accompanying notes are an integral part of the financial statements.

OREGON STATE LOTTERY
Statement of Cash Flows
For the Year Ended June 30, 2017

Cash Flows from Operating Activities:

Receipts from Customers	\$ 1,244,132,575
Payments to Employees for Services	(33,208,272)
Payments to Suppliers	(298,501,702)
Payments to Prize Winners	(218,025,850)
Other Income	472,808
Net Cash Provided (Used) by Operating Activities	<u>694,869,559</u>

Cash Flows from Noncapital Financing Activities:

Payments on Long-term Pension Contract	(527,493)
Transfers to the Economic Development Fund	(662,425,216)
Transfers to the General Obligation Bond Fund	(1,835,887)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(664,788,596)</u>

Cash Flows from Capital and Related Financing Activities:

Acquisition of Capital Assets	(29,143,848)
Proceeds from Disposition of Capital Assets	395,616
Payments on Long-term Capital Contracts	(2,508,101)
Insurance Recoveries for Capital Assets	15,221
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(31,241,112)</u>

Cash Flows from Investing Activities:

Purchases of Investments	(2,478,714)
Proceeds from Sales and Maturities of Investments	12,202,000
Interest on Investments and Cash Balances	4,755,144
Securities Lending Expenses	(369,908)
Investment Expenses	(13,939)
Net Cash Provided (Used) by Investing Activities	<u>14,094,583</u>
Net Increase (Decrease) in Cash and Cash Equivalents	12,934,434
Cash and Cash Equivalents - Beginning	418,057,807
Cash and Cash Equivalents - Ending	<u>\$ 430,992,241</u>

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

Operating Income	\$ 663,581,900
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation and Amortization	29,733,663
Net Changes in Assets and Liabilities:	
(Increase) / Decrease in Accounts Receivable	(2,226,257)
(Increase) / Decrease in Ticket Inventory	(28,371)
(Increase) / Decrease in Prepaid Expenses	(245,640)
(Increase) / Decrease in Prize Reserves with Multi-State Lottery	(12,803)
(Increase) / Decrease in Deferred Outflows - Pension	(15,186,117)
Increase / (Decrease) in Accounts Payable	(600,893)
Increase / (Decrease) in Compensated Absences Liability	225,624
Increase / (Decrease) in Other Postemployment Benefits Obligation	20,908
Increase / (Decrease) in Deposit Liability	169,908
Increase / (Decrease) in Unearned Revenue	(210,970)
Increase / (Decrease) in Prize Liability	(875,601)
Increase / (Decrease) in Net Pension Liability and Deferred Inflows	20,524,208
Total Adjustments	<u>31,287,659</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 694,869,559</u>

Noncash Investing, Capital, and Related Financing Activities:

Net Change in Fair Value of Investments	\$ (5,236,903)
Assets Acquired Through Contracts	19,099,105
Total Noncash Investing, Capital, and Related Financing Activities	<u>\$ 13,862,202</u>

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

OREGON STATE LOTTERY
Notes to the Financial Statements
June 30, 2017

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. 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 prizes 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).

Prize expense for fiscal year ending June 30, 2017 also includes \$4,537,528 of amortization of the long-term prize liability discount (see Note 1(F)).

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, 2017 was \$501,961.

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. Discount rates are based on interest rates earned on securities purchased to fund long-term prize 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 based on quoted market prices for similar assets at June 30, 2017. The fair value hierarchy established by generally accepted accounting principles categorizes valuation inputs in three levels. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are unobservable. The quoted prices used by Lottery are Level 2 inputs. Changes in the fair value of investments are recognized as investment income or 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 and licensing agreements, 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 sm equipment	5 to 7 or per agreement
Other machinery and equipment	3 to 25
Leasehold improvements	3 to 10 or per lease agreement
Vehicles	5-10
Computer hardware and software	2 to 10 or per agreement
Intangibles - Non-software	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 Liability, 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 measured as of June 30, 2016. 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, benefits and withdrawals are recognized when due and payable. 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 2017 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	\$ 3,235,881,854	Cash Paid Out	\$ 2,321,805,366
Dollars Won and Played	8,546,810,453	Dollars Won and Played	8,546,810,453
Total Revenue	<u>\$ 11,782,692,307</u>	Total Prizes	<u>\$ 10,868,615,819</u>
Net Revenue before Discounts = \$914,076,488			

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 native 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 2017 the Lottery operated within the legal limits defined by ORS 461.500:

<u>Revenues</u>			
Sales (Net of Provision for Uncollectibles)	\$12,114,909,302		
Other Distributable Income	19,675,371		
Total Distributable Revenue	<u>\$12,134,584,673</u>		
<u>Distribution of Revenues</u>			
Revenues Returned to the Public:			
Prizes to the Public	\$11,080,289,538	91.31%	
Unclaimed Prizes Paid/Due to Economic Development Fund	5,476,530	0.05%	
Transfers Paid/Due to Economic Development Fund	674,811,075	5.56%	
Total Revenues Returned to the Public	11,760,577,143	96.92%	
Administrative Expenses	374,007,530	3.08%	
Total Revenue Distribution	<u>\$ 12,134,584,673</u>	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. During fiscal year 2017, prizes in the amount of \$5,476,530

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.

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, 2017:

Cash available for future investment (uncommitted contingency reserve)	\$ 97,707,399
Committed for long-term contracts	17,668,502
Committed by Commission for capital purchases/projects	72,297,400
Inventory and prepaid expenses	3,298,760
Total Unrestricted Net Position	<u>\$ 190,972,061</u>

F. Transfers to Economic Development Fund

All current year income remaining after Transfers to the General Obligation Bond Fund was accrued for Transfer to the Economic Development Fund plus an additional \$35,507,024 of prior year Unrestricted Net Assets. Actual cash transferred, including unclaimed prizes, during fiscal year 2017 was \$662,425,216. The remaining balance is included on the Statement of Net Position in liabilities. The following schedule reconciles the amounts:

	Balance Owed at June 30, 2016	Amounts Accrued	Cash Paid to Economic Development	Balance Remaining at June 30, 2017
Income	\$ 162,702,201	\$ 695,750,970	\$ 657,296,930	\$ 201,156,241
Unclaimed Prizes	904,156	5,476,530	5,128,286	1,252,400
Total	<u>\$ 163,606,357</u>	<u>\$ 701,227,500</u>	<u>\$ 662,425,216</u>	<u>\$ 202,408,641</u>

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 at June 30, 2017 of \$432,543,231 deposited in financial institutions and the OSTF is 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 \$5,714,858 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. Investments in the RFC represents 4.31 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, 2017:

<u>Investment Type</u>	<u>Less than 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>More Than 10 Years</u>	<u>Fair Value</u>
U.S. Agency Strips	\$ 1,397,755	\$ 2,662,467	\$ 1,502,020	\$ 152,616	\$ 5,714,858
U.S. Treasury Strips	9,860,096	36,207,419	38,457,337	42,210,410	126,735,262
Total Investments	\$ 11,257,851	\$38,869,886	\$39,959,357	\$ 42,363,026	\$132,450,120

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 2017, 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 market 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. No such restrictions were made during the year ended June 30, 2017. The State may pledge or sell collateral securities in the event of 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, 2017, the State and the Lottery had no credit risk exposure to borrowers related to securities on loan.

As of June 30, 2017, the total fair value of securities on loan from the OSTF was \$320,675,515, the collateral received was \$327,368,656 and the fair value of invested collateral was \$88,204,522. 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, 2017, is presented in the following schedule:

	<u>Securities Lending Balances</u>		
	<u>Fair Value of Securities on Loan</u>	<u>Collateral Received</u>	<u>Fair Value of Invested Cash Collateral</u>
Lottery Share OSTF	\$12,173,949	\$12,428,044	\$ 3,348,548
Lottery Investments	50,634,564	51,784,705	51,797,962
Total	\$62,808,513	\$64,212,749	\$55,146,510

6. Capital Assets

Capital asset activity for the year ended June 30, 2017, is shown in the following schedule:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Depreciable Capital Assets</u>				
Equipment	\$169,252,415	\$32,400,455	\$25,880,776	\$ 175,772,094
Computer Software	21,060,826	12,562,208	3,991,670	29,631,364
Building and Improvements	12,260,716	1,001,489	159,056	13,103,149
Vehicles	4,964,049	797,480	694,558	5,066,971
Other Assets	864,417	-	84,069	780,348
Capital Assets in Progress	-	1,481,320	-	1,481,320
Total Assets Being Depreciated	208,402,423	48,242,952	30,810,129	225,835,246
<u>Accumulated Depreciation</u>				
Equipment	89,781,283	24,737,118	25,768,937	88,749,464
Computer Software	13,670,700	3,860,338	3,890,880	13,640,158
Building and Improvements	6,940,160	416,844	138,377	7,218,627
Vehicles	2,081,600	490,905	519,597	2,052,908
Other Assets	611,826	228,458	84,069	756,215
Total Accumulated Depreciation	113,085,569	29,733,663	30,401,860	112,417,372
Capital Assets, Net	\$ 95,316,854	\$18,509,289	\$ 408,269	\$ 113,417,874

Included in the equipment amounts above is \$6,736,500 of Video Retailer Terminals acquired through a capital lease. Equipment accumulated depreciation includes capital lease amortization of \$240,589.

On June 27, 2014 the Lottery vacated its current backup center and it remained idle at June 30, 2017. Carrying value included in capital assets is \$542,871.

During fiscal year 2017 equipment valued at \$96,087 was written off due to fire and theft. Insurance recoveries for those losses were \$86,087. 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, 2017, there were 88 Oregon Lottery prizes with remaining long-term annual prize payments. The estimated number of years remaining for payments extends to 50 years.

In September 2016 Lottery converted to a new video gaming system. 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. A liability of \$12,362,605 was recognized for the monthly payments through the end of the contract. The monthly rate increases when a contractual change in the system protocol is deployed. Deployment to the new functionality is scheduled for September 2017. This change is included in the liability for the contract and the average monthly payment is \$127,450. The contract will expire seven years from the date of the protocol change, currently estimated to be in October 2024.

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 pension liability of \$4,287,592 represents Lottery's allocation of the state liability.

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	\$178,654,486	\$217,973,625	\$238,892,885	\$157,735,226	\$32,728,712
Compensated Absences	3,872,067	4,013,688	3,788,064	4,097,691	2,663,499
Licensing Contracts	756,853	12,362,605	1,742,725	11,376,733	1,740,490
Capital Lease Obligation	-	6,736,500	444,731	6,291,769	779,785
Net OPEB Obligation	691,535	57,396	36,488	712,443	-
Pension Contracts	4,496,702	-	209,110	4,287,592	209,100
	<u>\$188,471,643</u>	<u>\$241,143,814</u>	<u>\$245,114,003</u>	<u>\$184,501,454</u>	<u>\$38,121,586</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. Some Lottery games offer free tickets as prizes instead of cash in the game structure. The sales value of these prizes reduces sales rather than being included as prize expense. For fiscal year ended June 30, 2017 Lottery awarded free play prizes of \$4,059,719. Promotional discounts and free plays also reduced sales by \$534,210.

At June 30, 2017, accounts receivable in the Statement of Net Position is reported net of \$51,708 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, 2017, was \$55,349.

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, 2017 and June 30, 2016 (in thousands):

	<u>2017</u>	<u>2016</u>
Assets	\$ 561,369	\$ 566,836
Total Assets	\$ 561,369	\$ 566,836
Liabilities	\$ 556,225	\$ 559,894
Net Assets ¹ - Unrestricted	5,144	6,942
Total Liabilities and Net Assets¹	\$ 561,369	\$ 566,836
Revenue	\$ 4,345	\$ 4,617
Expenses	6,143	6,135
Excess Expenses Over Revenues	\$ (1,798)	\$ (1,518)

¹Because MUSL is organized as a non-profit, its financial statements have been prepared in accordance with accounting standards promulgated by the Financial Accounting Standards Board (FASB). Therefore, MUSL's financial statements use the term "net assets" rather than "net position" for equity.

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

10. Capital and Operating Lease Commitments

In October 2016 the Lottery began a capital lease of 2,700 video retailer terminals, known as iLinks, which are part of the communication infrastructure between the Video Lottery game terminals and the host system. Monthly payments of \$95,672 are required for 84 months. After all payments are made ownership will transfer to the Lottery. The gross amount of the assets acquired is \$6,736,500 and is included in equipment on the Statement of Net Position.

Operating leases are agreements conveying the right to use capital assets. As of June 30, 2017, there was one lease agreement in effect that had a non-cancelable lease term in excess of one year. The agreement covers equipment for the traditional (instant and draw game) sales processing system and 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; 3,100 monitors for \$7.50 per monitor, per month; and 100 retailer terminals for \$56.61 per month, per terminal. Operating lease expense for fiscal year 2017 was \$1,450,062 for the traditional system equipment. Future minimum lease payments for capital and operating lease agreements in effect as of June 30, 2017 are shown in the following schedule:

Fiscal Year Ending June 30,	Future Minimum Operating Lease Payments	Future Minimum Capital Lease Payments
2018	\$ 1,450,062	\$ 1,216,948
2019	1,450,062	1,239,909
2020	1,450,062	1,239,909
2021	604,193	1,239,909
2022	-	1,239,909
2023-2027	-	1,737,404
Total Future Minimum Lease Payments	<u>\$ 4,954,379</u>	<u>\$ 7,913,988</u>

11. Other Significant Commitments and Contingencies

A. Commitments

The Lottery contracts through November 30, 2020 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 2017, the Lottery had expenses of \$5,630,657 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, 2017 were \$3,507.

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/Tier 2 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. The retirement allowance is payable monthly for life.

Tier 1 full pension benefits are available at age 58 (age 55 for P&F) or any age with 30 years of service (25 for P&F). There is a reduced benefit option available at age 55 (50 for P&F) and fewer than 30 years of service (25 for P&F). Tier 2 members can retire at age 60.

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 25 years of service.

OPSRP also includes the Individual Account Program (IAP). Beginning January 1, 2004 all PERS non-retired employees also established an account in the IAP. All employee contributions are deposited in the member's account, as are earnings less administrative expenses. At retirement, account balances are distributed to employees through a choice of a lump-sum payment or annuity options. PERS employee contributions prior to January 1, 2004 remain in the employees defined benefit account.

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.

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 adjustments (COLA) to benefits for both PERS and OPSRP members are required annually in current Oregon statutes. For service time before October 1, 2013 adjustments are tied to the Portland Consumer Price Index with a 2% annual cap. Service time on or after October 1 receives a 1.25% increase on the first \$60,000 of annual benefit and .15% for benefit over \$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 2017 were effective July 1, 2015 and based on the December 31, 2013 valuation. PERS recognized Lottery fiscal year 2017 contributions of \$1,985,158.

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. In fiscal year 2017 Lottery contributed \$1,840,275 for member contributions.

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

The collective net pension liability, measured as of June 30, 2016, is based on the December 31, 2014 actuarial valuation rolled forward to the measurement date. IAP accounts are not included in the measurement of the total pension liability. Assumptions used for the measurement include the following:

Experience Study Report	2014, published September 2015
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Inflation Rate	2.50 percent
Investment Rate of Return	7.50 percent
Projected Salary Increases	3.50 percent
Mortality	<p>Healthy retirees and beneficiaries: RP-2000 Sex-distinct, generational per Scale BB, with collar adjustments and set-backs as described in the valuation.</p> <p>Active members: Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.</p> <p>Disabled Retirees: Mortality rates are a percentage (70% for males, 95% for females) of the RP-2000 Sex-distinct, generational per Scale BB, disabled mortality table.</p>

The discount rate used to measure the collective pension liability was 7.50 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 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 actual investments in July 2015 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	8.00%	4.00%
Short-Term Bonds	8.00%	3.61%
Bank/Leveraged Loans	3.00%	5.42%
High Yield Bonds	1.00%	6.20%
Large/Mid Cap US Equities	15.75%	6.70%
Small Cap US Equities	1.31%	6.99%
Micro Cap US Equities	1.31%	7.01%
Developed Foreign Equities	13.13%	6.73%
Emerging Market Equities	4.12%	7.25%
Non-US Small Cap Equities	1.88%	7.22%
Private Equity	17.50%	7.97%
Real Estate (Property)	10.00%	5.84%
Real Estate (REITS)	2.50%	6.69%
Hedge Fund of Funds - Diversified	2.50%	4.64%
Hedge Fund - Event-driven	0.63%	6.72%
Timber	1.88%	5.85%
Farmland	1.88%	6.37%
Infrastructure	3.75%	7.13%
Commodities	1.88%	4.58%
Assumed Inflation - Mean 2.50%		

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 contributions with projected contributions required for past unfunded actuarial liabilities (UAL) and reducing those projections with 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. The State of Oregon's proportion was 25.47% as of the prior June 30, 2015 measurement date and increased to 26.82% as of the June 30, 2016 measurement date.

The State of Oregon's proportionate share of the net pension liability was allocated to funds based on actual fiscal year 2016 contributions. Lottery is .85% of the State's share, an increase of .07% from the June 30, 2015 measurement date. Lottery's proportion of the State's share equates to .23 percent of the collective net pension liability. At June 30, 2017 Lottery reported a net pension liability of \$34,381,457. 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 – \$16,717,856
- 1% lower – \$55,514,588

For the year ended June 30, 2017, Lottery recognized pension expense of \$7,323,249. At June 30, 2017 Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,137,489	\$ -
Changes in assumptions	7,332,738	-
Net difference between projected and actual earnings on investments	6,792,333	-
Changes in proportion and differences between fund contributions and proportionate share of contributions	879,172	326,694
Lottery contributions subsequent to the measurement date	1,985,158	-
	<u>\$ 18,126,890</u>	<u>\$ 326,694</u>

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
2018	\$ 2,874,358
2019	2,874,358
2020	5,371,476
2021	4,097,796
2022	597,051
Thereafter	-
	<u>\$ 15,815,039</u>

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/Financials/Actuarial-Financial-Information.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 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 viewed at:

<http://www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx>.

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, 2017, the Lottery was required by statute to contribute 0.53 percent of PERS covered payroll and 0.45 percent of OPSRP covered payroll to fund the RHIA. Actual employer contributions made by Lottery for the current year were approximately \$150,000. Contributions for fiscal year 2016 and 2015 were approximately \$148,000 and \$154,000 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 viewed at:

<http://www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx>.

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, 2017, the Lottery was required by statute to contribute 0.44 percent of PERS covered payroll and 0.35 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, 2017, the Lottery's annual OPEB cost (expense) was approximately \$121,000 for the RHIPA which was equal to the ARC. Fiscal year 2016 and 2015 OPEB costs were approximately \$120,000 and \$67,000 respectively and were equal to the ARC for each year. The State of Oregon's most recently available, and preceding two years annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year Ended	Approximate Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$ 6,200,000	100%	\$ -
6/30/2015	5,100,000	100%	-
6/30/2016	8,500,000	100%	-

Funded Status and Funding Progress. The funded status of the RHIPA plan as of December 31, 2015, the most recent actuarial valuation, was as follows (dollars in millions):

RHIPA OPEB Plan - Funded Status	
Actuarial Accrued Liability (AAL)	\$ 67.8
Actuarial Value of Plan Assets	11.2
Unfunded Actuarial Accrued Liability (UAAL)	\$ 56.6
Funded Ratio (Actuarial Value of Plan Assets/AAL)	16%
Covered Payroll	\$ 2,831.8
UAAL as a Percentage of Covered Payroll	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, 2015 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial value of plan assets is equal to the market value of assets on the valuation date. The actuarial assumptions include: a 7.5 percent investment rate of return; projected payroll growth of 3.5 percent; an inflation assumption of 2.5 percent; and an annual healthcare cost trend rate graded from 6.3 percent in 2016 to 4.4 percent in 2094. 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 a single 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, 2017 was \$36,488 and the OPEB cost was \$57,396. 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, 2017. The portion of the ending Net OPEB obligation allocated to Lottery was \$712,443, which represents 0.92 percent of the State's liability.

Annual Required Contribution (ARC)	\$81,876,808
Interest on Net OPEB Obligation	2,629,348
Adjustment to ARC	<u>(77,753,576)</u>
Annual OPEB Cost	6,752,580
Contributions Made	<u>(4,292,783)</u>
Increase/(Decrease) in Net OPEB Obligation	2,459,797
Beginning Net OPEB Obligation	<u>75,125,792</u>
Ending Net OPEB Obligation	<u><u>\$77,585,589</u></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 2017 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2015	\$ 10,832,004	56.40%	\$ 83,622,155
6/30/2016	(3,637,886)	-133.60%	75,125,792
6/30/2017	6,752,580	63.57%	77,585,589

Funded Status and Funding Progress. The funded status of the PEBB plan as of July 1, 2015, the most recent actuarial valuation, was as follows (dollars in millions):

PEBB OPEB Plan - Funded Status	
Actuarial Accrued Liability (AAL)	\$ 73.4
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 73.4</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0.0%
Covered Payroll	\$ 3,037.0
UAAL as a Percentage of Covered Payroll	2.4%

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, 2015 actuarial valuation, the entry age normal actuarial cost method was used. Significant actuarial assumptions include: a 3.5 discount rate; an initial healthcare (medical/dental) cost trend rate of 5.1 percent and an ultimate rate of 5.5 percent and an inflation rate of 2.5 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 1 year.

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 2017 share of the 2015-2017 biennial assessment was \$539,018. For the Lottery, the amount of claim settlements did not exceed insurance coverage for each of the past three fiscal years.

15. Prior Period Adjustment

Beginning net position was restated by \$14,567,129 to correct an error in calculation of the long-term prize liability. The liability now reflects the net present value using the discount rate applicable when a prize was claimed. The discount is then amortized over the life of the liability. Prior financial statements reported the long-term prize liability at net present value recalculated each year using current discount rates.



Required Supplementary Information

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

Oregon State Lottery					
As of June 30,	Percent of Collective Net Pension Liability	Share of Collective Net Pension Liability/(Asset)	Covered Employee Payroll	Share of Collective Net Pension Liability/ (Asset) as a Percentage of Covered Payroll	PERS Fiduciary Net Position as a Percent of Total Pension Liability
2016	0.2%	\$ 34,381	\$ 30,143	114.1%	80.5%
2015	0.2%	11,407	28,078	40.6%	91.9%
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
2017	\$ 2,299	\$ 1,985	\$ 314	\$ 30,651	6.48%
2016	2,332	2,034	298	30,143	6.75%
2015	1,495	1,853	(358)	28,078	6.60%
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)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c)
7/1/2015	\$ -	\$ 73.43	\$ 73.43	0.0%	\$ 3,037.00	2.4%
7/1/2013	-	105.10	105.10	0.0%	2,485.80	4.2%
7/1/2011	-	154.70	154.70	0.0%	2,329.40	6.6%

**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)
12/31/2015	\$ 11.2	\$ 67.8	\$ 56.6	16.5%	\$ 2,831.8	2.0%
12/31/2014	7.2	70.5	63.3	10.2%	2,718.9	2.3%
12/31/2013	5.2	61.2	56.0	8.6%	2,531.5	2.2%

Notes to the Presented Schedules

Schedule of Lottery Proportionate Share of the Net Pension Liability

- The net pension liability for fiscal year ending 2015 includes increased benefit projections resulting from the Oregon Supreme Court reversal of a significant portion of the COLA adjustments adopted by the Oregon Legislature in October 2013.
- The net pension asset for fiscal year ending 2014 includes reductions to COLA adjustments adopted by the Oregon Legislature in October 2013.

Other Post Employment Benefit 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/Financials/Actuarial-Financial-Information.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, 2017
(See Note 2. A., Budgetary Compliance)

	Actual	Budget (1)	Variance Favorable/ (Unfavorable)
Revenue			
Video Lottery SM (Gross Receipts)	\$ 11,782,687,111	\$ 11,591,207,708	\$ 191,479,403
Scratch-its SM Instant Tickets	126,498,948	127,061,893	(562,945)
Keno	101,501,143	100,370,331	1,130,812
Powerball®	44,856,176	42,187,372	2,668,804
Megabucks SM	31,768,618	31,934,452	(165,834)
Mega Millions®	17,913,809	16,843,703	1,070,106
Raffle SM	2,499,750	2,499,750	-
Win For Life SM	3,569,776	3,583,083	(13,307)
Lucky Lines SM	2,147,834	2,232,378	(84,544)
Pick 4 SM	1,475,179	1,481,109	(5,930)
Total Revenue	12,114,918,344	11,919,401,779	195,516,565
Prize Expense	11,081,228,541	10,904,526,157	176,702,384
Net Revenue	1,033,689,803	1,014,875,622	18,814,181
Direct Expenses			
Retailer Commissions	239,551,975	239,789,509	237,534
Game Vendor Charges	8,170,995	9,317,925	1,146,930
Tickets	3,328,614	3,442,716	114,102
Advertising	10,534,832	11,914,272	1,379,440
Sales Support	726,436	913,016	186,580
Game Equipment/Parts & Maintenance	1,572,029	2,467,500	895,471
Depreciation	26,866,435	41,807,808	14,941,373
Total Direct Expenses	290,751,316	309,652,746	18,901,430
Gross Profit	742,938,487	705,222,876	37,715,611
Indirect Revenue			
Other Income (Loss)	(5,071,727)	1,608,000	(6,679,727)
Indirect Expenses			
Public Information	6,572,101	7,068,850	496,749
Research	536,329	1,635,250	1,098,921
Personal Services	53,762,511	51,821,601	(1,940,910)
Services and Supplies	13,563,999	25,289,045	11,725,046
Depreciation	2,867,229	4,260,880	1,393,651
Interest Expense	320,645	324,528	3,883
Total Indirect Expenses	77,622,814	90,400,154	12,777,340
Net Profit	\$ 660,243,946	\$ 616,430,722	\$ 43,813,224

(1) Budget adopted (including mid-year modifications) by the Lottery Commission, and adjusted by Economic and Revenue Forecasts published throughout the year by the Department of Administrative Services.



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.

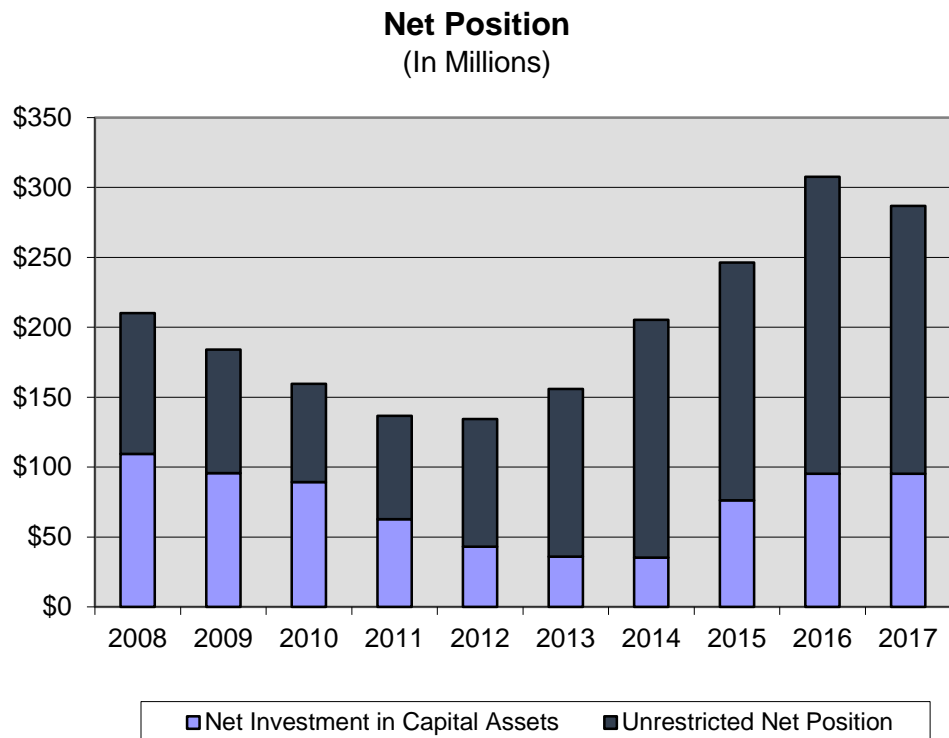
- Number of Employees
- Operating Indicators and Capital Asset Information

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
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
2016	95,316,854	212,344,474	307,661,328
2017	95,749,372	190,972,061	286,721,433



Oregon State Lottery

Changes in Net Position

Last Ten Fiscal Years

	2008	2009	2010	2011
Operating Revenues				
Sales:				
Video Lottery SM (Net Receipts)	\$ 895,111,696	\$ 786,746,726	\$ 706,981,950	\$ 720,510,190
Scratch-its SM Instant Tickets	124,704,686	112,105,703	113,269,602	115,895,266
Keno	109,787,942	99,184,396	95,343,654	93,270,757
Powerball®	55,969,079	51,836,316	51,216,021	33,491,623
Megabucks SM	37,149,930	38,065,424	40,137,180	40,780,752
Mega Millions®	-	-	3,490,116	17,448,177
Raffle SM	-	2,499,597	7,499,290	7,499,000
Win For Life SM	6,675,988	6,654,104	6,503,143	5,869,397
Lucky Lines SM	2,131,474	2,042,237	1,986,060	1,918,134
Pick 4 SM	1,401,230	1,389,814	1,254,783	1,279,523
Breakopen Instant Tickets	857,671	-	-	-
Recovery of (Provision for) Uncollectibles	(7,797)	(128,699)	(112,559)	(128,164)
Other Income	1,042,747	579,477	251,538	1,142,214
Total Operating Revenues	1,234,824,646	1,100,975,095	1,027,820,778	1,038,976,869
Operating Expenses				
Prizes	231,364,323	211,927,565	215,619,096	208,672,809
Retailer Commissions	240,475,998	213,739,988	198,168,503	200,510,286
Salaries and Wages	33,005,670	37,330,819	34,608,905	35,512,068
Depreciation and Amortization	30,843,314	37,080,300	30,899,860	29,773,197
Services and Supplies	8,767,744	10,519,566	8,837,913	10,644,690
Game Vendor Charges	9,371,513	7,716,930	9,220,784	8,552,689
Advertising and Market Research	9,885,584	11,313,552	8,475,107	8,446,004
Public Information	5,463,575	5,326,746	4,462,400	4,420,673
Tickets	4,232,601	4,335,016	4,245,963	4,230,790
Game Equipment Parts and Maintenance	2,485,770	1,850,765	1,333,034	2,115,134
Sales Support	1,569,079	1,712,391	1,131,956	1,234,314
Total Operating Expenses	577,465,171	542,853,638	517,003,521	514,112,654
Operating Income	657,359,475	558,121,457	510,817,257	524,864,215
Nonoperating Revenues (Expenses)				
Interest and Investment Income (Loss)	28,068,310	12,675,701	11,276,393	3,587,450
Insurance Recoveries	25,570	61,973	106,598	65,081
Gain (Loss) on Disposition of Assets	(317,204)	(1,767,242)	(5,323,677)	(2,919,876)
Investment Expenses - Securities Lending	(5,047,007)	(808,660)	(192,727)	(237,391)
Investment Expenses	-	-	-	-
Interest Expense	-	-	-	-
Total Nonoperating Revenues (Expenses)	22,729,669	10,161,772	5,866,587	495,264
Income Before Transfers	680,089,144	568,283,229	516,683,844	525,359,479
Transfers to Economic Development Fund	(648,408,187)	(592,846,506)	(539,582,457)	(546,996,892)
Transfers to General Obligation Bond Fund	(1,317,079)	(1,463,447)	(1,464,541)	(1,444,213)
Change in Net Position	\$ 30,363,878	\$ (26,026,724)	\$ (24,363,154)	\$ (23,081,626)

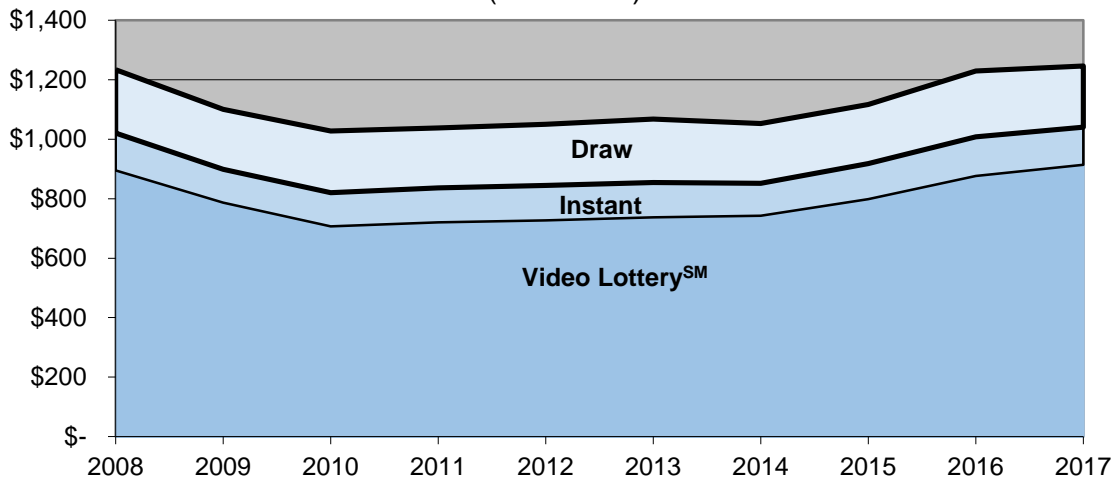
2012	2013	2014	2015	2016	2017
\$ 727,124,878	\$ 737,370,280	\$ 742,730,503	\$ 798,578,183	\$ 876,475,310	\$ 914,071,290
117,521,750	117,079,308	109,034,321	119,578,108	131,599,460	126,498,948
93,456,813	91,636,954	92,443,482	93,035,050	95,826,162	101,501,142
38,777,424	58,322,876	45,049,124	37,091,247	63,821,261	44,856,176
37,539,720	38,084,764	28,372,873	33,329,803	33,031,579	31,768,618
22,208,222	11,823,070	22,333,065	20,468,872	18,823,156	17,913,809
4,999,650	4,998,300	4,997,060	7,488,730	2,499,840	2,499,750
5,545,700	4,845,906	4,532,922	4,082,661	3,854,189	3,569,776
1,758,800	2,317,312	1,918,288	1,771,994	2,001,358	2,147,834
1,352,749	1,351,260	1,397,158	1,435,284	1,566,384	1,475,180
-	-	-	-	-	-
(71,327)	(44,280)	971	(4,594)	18,485	(10,109)
209,110	1,410,594	177,786	382,438	672,544	593,089
1,050,423,489	1,069,196,344	1,052,987,553	1,117,237,776	1,230,189,728	1,246,885,503
238,278,854	206,836,815	206,571,490	211,444,280	239,317,411	217,150,249
201,626,030	204,921,077	203,727,883	215,514,570	234,963,289	239,551,975
36,317,480	36,504,315	39,443,617	37,055,741	54,427,617	51,608,241
26,794,091	12,982,414	13,542,859	20,134,347	23,863,609	29,733,663
10,159,107	10,787,865	11,278,132	11,829,146	15,876,801	13,818,139
8,620,924	8,777,088	8,638,986	8,931,443	9,891,910	8,170,995
6,444,771	5,483,097	7,610,400	9,549,598	9,705,469	11,071,161
3,882,869	2,718,648	2,633,736	4,246,421	5,759,053	6,572,101
4,640,444	3,363,077	2,956,834	3,213,208	3,138,033	3,328,614
1,925,220	1,496,442	2,265,927	1,885,491	1,734,280	1,572,029
1,113,400	1,067,653	1,674,670	1,263,959	633,721	726,436
539,803,190	494,938,491	500,344,534	525,068,204	599,311,193	583,303,603
510,620,299	574,257,853	552,643,019	592,169,572	630,878,535	663,581,900
17,744,105	(2,982,432)	6,330,595	6,783,754	16,217,601	(481,760)
30,676	11,263	3,482	12,067	2,005	15,221
(147,802)	(969,699)	(257,250)	(1,473,869)	(98,971)	(12,653)
(138,855)	(143,462)	(45,956)	(74,757)	(212,675)	(369,908)
-	-	-	(4,185)	(71,522)	(13,939)
-	(330,386)	(315,269)	(325,227)	(316,029)	(639,028)
17,488,124	(4,414,716)	5,715,602	4,917,783	15,520,409	(1,502,067)
528,108,423	569,843,137	558,358,621	597,087,355	646,398,944	662,079,833
(523,652,688)	(546,923,919)	(507,250,297)	(545,948,950)	(583,179,120)	(695,750,970)
(1,459,501)	(1,506,648)	(1,692,668)	(1,883,433)	(1,910,077)	(1,835,887)
\$ 2,996,234	\$ 21,412,570	\$ 49,415,656	\$ 49,254,972	\$ 61,309,747	\$ (35,507,024)

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
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
2016	876,475,310	131,599,460	95,826,162	63,821,261	33,031,579	28,744,927	1,229,498,699
2017	914,071,290	126,498,948	101,501,142	44,856,176	31,768,618	27,606,349	1,246,302,523

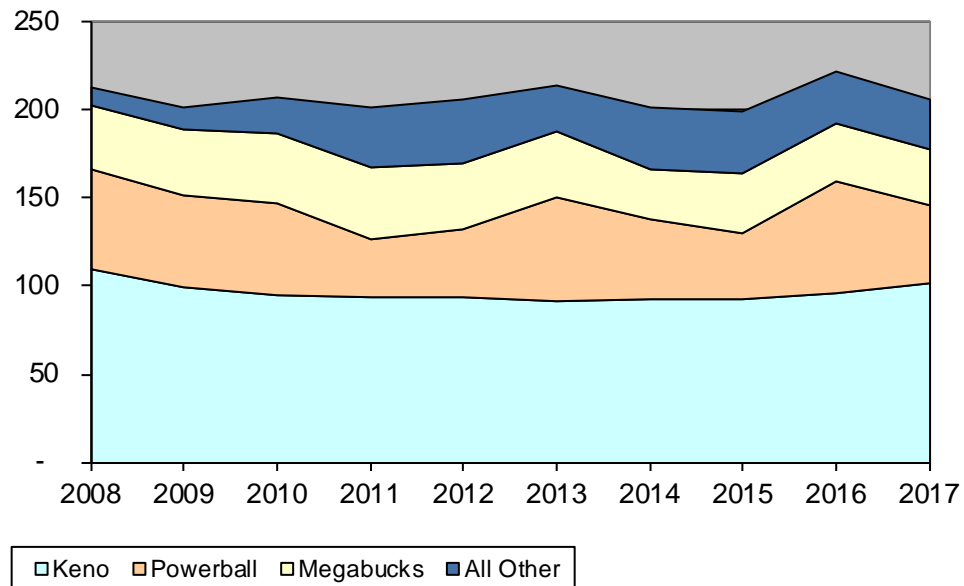
Sales by Product Type (In Millions)



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

Fiscal Year	Draw Games					
	Video Lottery SM	Instant Products	Keno	Powerball®	Oregon's Game Megabucks SM	All Other Draw Games
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%
2016	71.3%	10.7%	7.8%	5.2%	2.7%	2.3%
2017	73.4%	10.1%	8.1%	3.6%	2.5%	2.3%

Draw Game Sales by Product
 (In Millions)



Oregon State Lottery

Top Ten Retailers

Current Year and Nine Business Years Prior

Rank	Retailer	2017		
		Sales	Percent of Total Sales	County
1	Bradley's Bar & Grill	\$ 1,958,967	0.15%	Multnomah
2	Elmer's Pancake - Delta Park	1,834,939	0.15%	Multnomah
3	Original Joe's	1,826,456	0.15%	Multnomah
4	Deli Store	1,790,729	0.14%	Columbia
5	Dotty's #9	1,771,875	0.14%	Washington
6	Shari's-Airport Way #218	1,768,600	0.14%	Multnomah
7	Dotty's #24	1,693,957	0.14%	Multnomah
8	Jasper's	1,682,639	0.14%	Lane
9	Richards Deli and Pub	1,682,112	0.14%	Washington
10	Dotty's #29	1,621,143	0.13%	Multnomah
	Totals	\$ 17,631,417	1.42%	

Total Lottery Sales \$ 1,245,791,599

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

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

Source: Oregon State Lottery Research Department

Oregon State Lottery
Number of Lottery Retailers and Sales by County
For Business Year 2017

Sales			Retailers	
County	Business Year Sales	Percent of Total Sales	Number of Lottery Retailers	Percent of Total Retailers
Multnomah	\$ 344,447,680	27.67%	914	23.23%
Washington	132,925,358	10.67%	319	8.11%
Clackamas	125,777,284	10.10%	354	9.00%
Marion	108,663,543	8.72%	344	8.75%
Lane	102,805,023	8.25%	347	8.83%
Jackson	62,534,790	5.02%	204	5.19%
Deschutes	46,234,963	3.71%	141	3.59%
Linn	35,409,760	2.84%	120	3.05%
Josephine	27,325,549	2.19%	98	2.49%
Douglas	26,907,678	2.16%	131	3.33%
Columbia	23,530,216	1.89%	68	1.73%
Yamhill	20,838,700	1.67%	82	2.09%
Umatilla	20,302,120	1.63%	79	2.01%
Clatsop	18,529,518	1.49%	68	1.73%
Klamath	17,157,319	1.38%	79	2.01%
Lincoln	16,007,873	1.28%	78	1.98%
Malheur	15,715,329	1.26%	40	1.02%
Polk	12,798,667	1.03%	57	1.45%
Coos	12,733,819	1.02%	62	1.58%
Benton	12,241,706	0.98%	51	1.30%
Tillamook	10,975,118	0.88%	51	1.30%
Wasco	10,154,421	0.82%	34	0.86%
Crook	7,272,328	0.58%	29	0.74%
Hood River	7,082,730	0.57%	24	0.61%
Union	5,671,044	0.46%	28	0.71%
Baker	4,770,144	0.38%	24	0.61%
Jefferson	4,043,047	0.32%	17	0.43%
Curry	3,790,882	0.30%	25	0.64%
Morrow	1,960,795	0.16%	12	0.31%
Lake	1,632,622	0.13%	9	0.23%
Grant	1,453,108	0.12%	11	0.28%
Harney	1,416,171	0.11%	9	0.23%
Sherman	1,314,175	0.11%	6	0.15%
Wallowa	919,060	0.07%	10	0.25%
Gilliam	295,992	0.02%	5	0.13%
Wheeler	153,067	0.01%	2	0.05%
	<u>\$ 1,245,791,599</u>	<u>100.00%</u>	<u>3,932</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
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%
2015	4,028,977	176,401,260	43,783	5.7%
2016	4,093,465	185,839,645	45,399	4.9%

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 2016 and Nine Years Prior

	2016		2007	
	Number of Employees	Percent of Total	Number of Employees	Percent of Total
Health care and social assistance	289,463	11.80%	238,283	10.26%
Retail trade	254,346	10.37%	252,348	10.88%
Manufacturing	204,940	8.36%	216,782	9.35%
Accommodation and food services	189,958	7.74%	161,374	6.95%
Local government	202,118	8.23%	180,925	7.79%
Professional, scientific, and technical services	162,535	6.62%	132,640	5.71%
Administrative and waste services	128,436	5.23%	126,113	5.43%
Other services	130,670	5.32%	122,626	5.28%
Construction	123,321	5.02%	148,625	6.40%
Real estate, rental, and leasing	114,761	4.68%	104,563	4.50%
Finance and insurance	92,051	3.75%	89,355	3.85%
Wholesale trade	89,944	3.66%	88,889	3.83%
Transportation and warehousing	76,183	3.10%	69,234	2.98%
State government	45,972	1.87%	66,955	2.88%
Educational services	60,926	2.48%	48,301	2.08%
Arts, entertainment, and recreation	60,779	2.48%	52,096	2.24%
Farm employment	56,932	2.32%	67,223	2.89%
Management of companies	46,981	1.91%	31,840	1.37%
Information	41,370	1.69%	42,781	1.84%
Forestry, fishing, and related activities	31,758	1.29%	30,392	1.31%
Federal government, civilian	28,391	1.16%	29,136	1.25%
Military	11,582	0.47%	12,377	0.53%
Mining	6,153	0.25%	4,398	0.19%
Utilities	5,029	0.20%	4,968	0.21%
Total employment	2,454,599	100.00%	2,322,224	100.00%

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

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

Oregon State Lottery

Demographic Profile of Oregon Lottery Players

Last Ten Calendar Years

	2007	2008	2009	2010	2011
Number Surveyed	1,001	1,003	1,002	1,000	1,000
Player Percentage	43.4%	42.2%	48.1%	50.7%	53.3%
	Players	Players	Players	Players	Players
<u>Gender</u>					
Male	52%	54%	51%	48%	50%
Female	48%	46%	49%	52%	50%
<u>Age</u>					
18 - 24	9%	8%	6%	10%	9%
25 - 34	19%	19%	20%	19%	19%
35 - 44	23%	22%	17%	17%	16%
45 - 54	22%	23%	27%	26%	23%
55 - 64	15%	18%	15%	15%	14%
65 +	11%	11%	15%	14%	19%
<u>Education</u>					
Some High School	7%	8%	7%	4%	4%
High School Graduate	29%	26%	25%	21%	20%
College/Tech School	38%	36%	37%	37%	33%
College Graduate	16%	20%	18%	20%	23%
Graduate School/Degree	10%	10%	11%	16%	18%
<u>Marital Status</u>					
Single	21%	17%	20%	22%	21%
Married	57%	56%	56%	58%	52%
Co-habiting	5%	9%	7%	6%	7%
Divorced or Separated	12%	11%	10%	7%	11%
Widowed	5%	6%	5%	5%	6%
Civil Union/Domestic Partnership					
<u>Income</u>					
Less than \$15,000	8%	9%	11%	10%	10%
\$15,000 - \$49,999	44%	43%	44%	30%	31%
\$50,000 - \$74,999	17%	15%	18%	17%	16%
\$75,000 - \$99,999	12%	13%	11%	13%	11%
\$100,000 +	10%	10%	9%	10%	14%
Refused/Don't Know	9%	10%	8%	21%	18%

Sources:

Player information from Oregon State Lottery's Tracking Study

State information from U.S. Census Bureau, American Fact Finder, 2016 American Community Survey 1-Year Estimates

2012	2013	2014	2015	2016	2016 State Population 18+
1,000 52.0%	1,000 47.8%	1,000 46.1%	2,000 54.1%	2,000 48.1%	
Players	Players	Players	Players	Players	
52%	55%	50%	51%	49%	49.1%
48%	45%	50%	49%	51%	50.9%
12%	10%	9%	9%	9%	11.4%
18%	17%	19%	20%	20%	17.8%
15%	16%	16%	16%	15%	16.5%
23%	23%	21%	21%	22%	15.9%
13%	19%	16%	14%	10%	17.0%
18%	15%	19%	21%	24%	21.5%
6%	3%	4%	5%	5%	7.0%
22%	18%	20%	22%	25%	24.7%
30%	32%	33%	27%	25%	37.2%
21%	23%	21%	32%	32%	19.5%
19%	17%	16%	12%	11%	11.6%
23%	26%	25%	24%	24%	31.0%
54%	51%	48%	52%	51%	48.9%
5%	5%	6%	7%	8%	n/a
9%	7%	9%	10%	9%	14.7%
5%	4%	5%	6%	6%	5.5%
	1%	1%	1%	1%	n/a
10%	9%	8%	9%	8%	5.5%
27%	27%	31%	29%	25%	49.1%
14%	15%	12%	13%	12%	22.2%
9%	10%	6%	10%	10%	10.1%
11%	15%	12%	16%	15%	13.2%
30%	24%	31%	23%	30%	n/a

Oregon State Lottery
Number of Employees
Last Ten Fiscal Years

	2008 ²	2009 ³	2010	2011	2012 ⁴	2013	2014 ⁵	2015	2016 ⁶	2017 ⁷
Sales, Marketing & Retail Services	251	255	255	248	229	232	236	239	217	226
Support Services	148	157	151	151	143	154	157	152	163	142
Director's Office	31	32	30	31	29	30	33	35	52	63
Security ¹	17	19	17	16	16	13	15	19	16	18
Total	447	463	453	446	417	429	441	445	448	449

Source: Oregon State Payroll System for FY 2008 - FY 2013; Lottery Payroll System for FY 2014-2017.

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.

¹Security employees excludes employees of the Oregon State Police

²In 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.

³During fiscal year 2009, vacant positions in Marketing were filled and some temporary employees were hired to assist with promotional Marketing activities.

⁴There were a significant number of positions vacant at year end due to a hiring freeze in effect during part of fiscal year 2012.

⁵There were a number of vacant positions filled during the year as economy strengthened and hiring freeze was removed.

⁶A segment of communication staff was moved to fall under the Director's Office. Support Services increased staffing for the new payment center and janitorial services that were previously contracted.

⁷Realignment moved Support Services staff to both Sales, Marketing & Retail Services, as well as the Director's Office

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

Fiscal Year	Number of Lottery Retailers ¹	Number of Video Lottery Terminals Deployed ¹	Per Capita Sales ²
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
2016	3,920	11,909	304.50
2017 ³	3,932	11,817	304.41

¹Source: Oregon State Lottery Research Department

²Source: Calculated based on calendar year population data from US Department of Commerce, Bureau of Economic Analysis

³2017 Per Capita Sales based on July 2016 population estimates

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Other Reports

Office of the Secretary of State

Dennis Richardson
Secretary of State

Leslie Cummings, Ph.D.
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Audits Division

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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, 2017, 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 19, 2017.

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 19, 2017



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