



**OREGON
LOTTERY™**

Together, we do good things.

Comprehensive Annual
Financial Report

For the Fiscal Year Ended June 30, 2018

An Enterprise Fund of the State of Oregon

Oregon State Lottery

An Enterprise Fund of the State of Oregon

Comprehensive Annual Financial Report

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Barry Pack
Director

Kathy Ortega, CPA, CGMA
Chief Financial Officer

Report Prepared by:

Finance and Accounting
Oregon State Lottery

Monique Fawver
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COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2018

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Introductory Section



December 3, 2018

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, 2018. 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, 2018. 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 which supports veterans and outdoor schools.

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 3,923 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 11,742 Video LotterySM terminals deployed throughout the state.

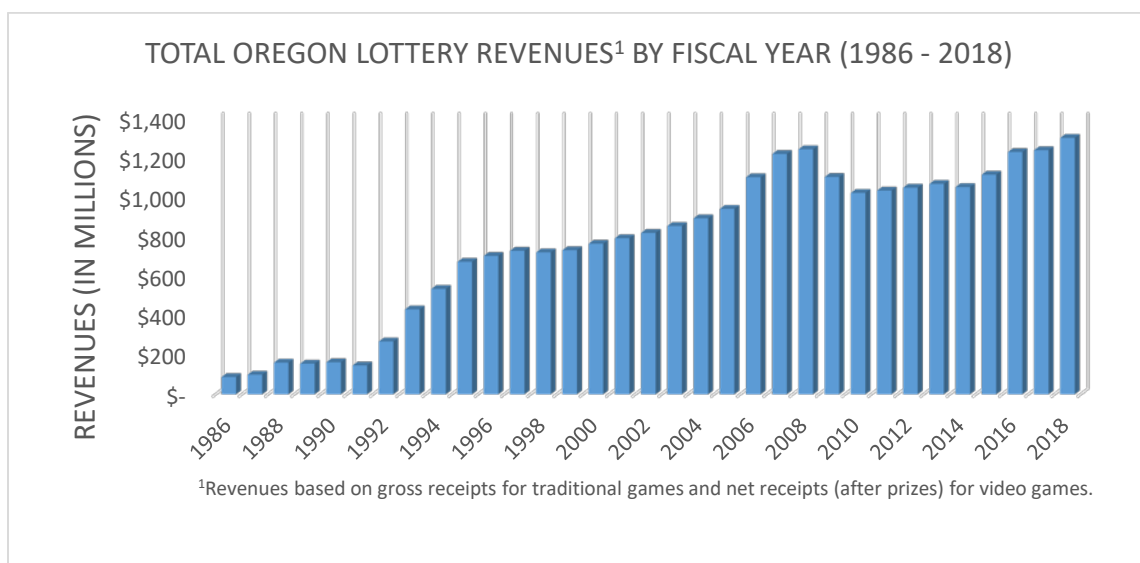
The Lottery, which is accounted for as a single enterprise fund, is entirely self-financed through its sales. Its operations are designed to fulfill its duty to develop, produce, and market Lottery games; pay winners and operating expenses; and remit the remaining net profits to the State. These net 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. This position is also subject to Senate confirmation. 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 2018 expenses were 3.13 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 and has continued to increase through fiscal year 2018.



Economic Condition and Outlook

According to the Oregon Office of Economic Analysis (OEA), Oregon’s employment growth accelerated 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 has steadily expanded and experienced a strong growth trend through 2018. Wages and household incomes are rising faster than most states. Statewide job growth has leveled out as well at approximately two percent annually.

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 5.1 percent in 2018, 6.0 percent in 2019 and 5.2 percent in 2020. National averages for 2018 to 2020 are 4.2, 5.2 and 4.8 percent. Oregon wage and salary income for 2018 to 2020 are projected to increase 6.2, 5.9, and 5.2 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, global political unrest, commodity price spikes and inflationary pressures, ongoing European debt and economic issues and financial market instability, 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 that appeal to both current and new players on the gaming platforms they want to use. The Lottery has moved to an operational program for video lottery that includes testing and replacing approximately 20 percent of the Video LotterySM terminals in the field each year. The Lottery will continue with major projects to further its business strategies that have been organized under five "pillars". This includes the alignment of budgeting and strategic investment to the strategic growth plan.

In the September 2018 Economic and Revenue Forecast, the Office of Economic Analysis (OEA), is reflecting Lottery transfers of \$1.42 billion for the 2017-2019 biennium. The OEA has incorporated a lower video lottery sales forecast over the past two years due to the opening of the ilani Casino Resort in southwest Washington. The casino has now been open for more than a year and there has been a noticeable impact on video lottery sales in Oregon, focused primarily in the Portland area. However, the impact is considerably smaller than was initially expected.

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, 2018 the actual cash balance in the reserve was \$100 million. The Lottery intends to use the contingency reserve to fund future business initiatives that are key to our ability to compete, remain relevant to our players, and maximize transfers to our beneficiaries. 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 modernization program, the Lottery is evaluating and planning for upgrades to several back-office support systems that are facing obsolescence and end of support. The Lottery continues to work with Gartner Consulting Services, a leading technology, research, and advisory company, to provide an in-depth analysis of its enterprise architecture and business capabilities. The modernization roadmap under development includes enterprise architecture options and a digital gaming platform, staging plans for the implementation of solutions, and system integration. The timeline for the roadmap is three to five years. The partnership with Gartner has aided in the development of the foundational activities that will 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.

The Lottery has defined a customer-centric brand promise strategy and developed an integrated communications plan. The Lottery is developing a retail channel strategy to generate sustainable long-term growth that will expand the market by reaching players through relevant channels. During fiscal year 2019, 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 through a customer-first approach. A positive digital customer experience will be instrumental to the Lottery modernization and growth success. The Lottery's existing and new games, platforms, and venues are being developed to attract more diverse demographic groups to maintain and enhance revenue performance. During fiscal year 2019 Lottery, with the use of a more modern communication structure and data tools, plans to expand the utility of the oregonlottery.org website. This will aid the Lottery in enhancing consumer engagement, improving the player experience, and diversifying the portfolio to withstand market disruptions. The Lottery has released the first installment of the Oregon Lottery mobile application that offers features defined as relevant and useful to players. Using a phased approach, additional features will be developed, tested, and released through application updates.

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), which is an integral component of Lottery's Brand Promise. 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. The Lottery has created a program 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, 2017. This was the tenth consecutive year that the Lottery has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

Respectfully submitted,



Kathy Ortega, Chief Financial Officer
Oregon State Lottery



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Oregon State Lottery

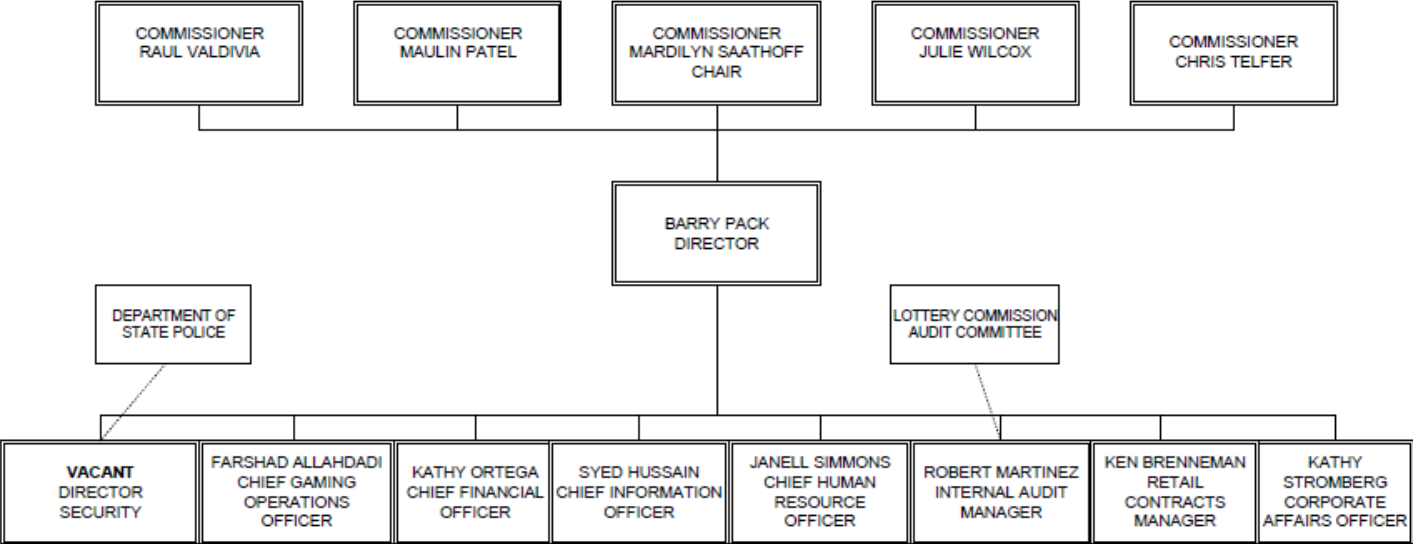
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill

Executive Director/CEO

Oregon State Lottery Commissioners and Executives



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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
Barry Pack, Director, Oregon State Lottery

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, 2018, 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, 2018, and the respective changes in financial position and, where applicable, 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, where applicable, 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, 2018, the changes in its financial position, or, where applicable, 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, pension plan schedules and information, and other post employment benefits schedules and information on pages 13—17 and 46—51 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 *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2018, 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 *Governmental 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 3, 2018

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, 2018. 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 \$1.3 billion, an increase of 4.5 percent over fiscal year 2017.
- Traditional (Scratch and Draw) game revenue increased 10.9 percent from the prior fiscal year and Video LotterySM revenue increased 2.2 percent.
- Net position (equity) decreased by \$15.2 million as a result of a prior period adjustment and transfer of unrestricted net position.
- The Lottery transferred \$706.4 million to Oregon's Economic Development Fund, which is \$10.6 million more than the prior year.
- In fiscal year 2018 the Lottery implemented the Governmental Accounting Standards Board (GASB) Statement 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Implementation required a prior period adjustment that reduced beginning net position by \$819,937.

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

	2018	2017	Change
Current assets	\$ 476,527,261	\$ 431,300,922	\$ 45,226,339
Capital assets	92,246,999	113,417,874	(21,170,875)
Other noncurrent assets	206,593,072	214,438,592	(7,845,520)
Deferred Outflows of Resources	11,916,514	18,126,890	(6,210,376)
Total assets and deferred outflows of resources	787,283,846	777,284,278	9,999,568
Current liabilities	346,162,804	309,474,826	36,687,978
Noncurrent liabilities	169,279,792	180,761,325	(11,481,533)
Deferred Inflows of Resources	331,080	326,694	4,386
Total liabilities and deferred inflows of resources	515,773,676	490,562,845	25,210,831
Net position:			
Net investment in capital assets	75,952,509	95,749,372	(19,796,863)
Restricted for OPEB Asset- RHIA	104,211	-	104,211
Unrestricted	195,453,450	190,972,061	4,481,389
Total net position	\$ 271,510,170	\$ 286,721,433	\$ (15,211,263)

Total assets increased \$10.0 million. Current assets increased due to a large receivable due from the Multi State Lottery Association. The association shares revenues and prizes of games that are offered nationwide. On June 20, 2018 an Oregon player won a Powerball cash prize just over \$90 million. Financial statements at June 30, 2018 include the amount due from MUSL for payment of the prize. The amount is due when the prize winner claims the prize, which occurred in July 2018. Capital assets decreased through depreciation.

Current liabilities increased \$36.7 million. This increase is also largely due to the Powerball prize won by an Oregon player on June 20, 2018 which is reflected in prize liabilities. Noncurrent liabilities decreased through payments to long-term winners and a net pension liability reduction of \$4.6 million.

A portion of the Lottery's net position, 28.0 percent, reflects investment in capital assets, primarily Video LotterySM gaming terminals. Of the \$195 million in unrestricted net position at fiscal year-end, \$92 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

	2018	2017	Increase/ (Decrease)
Operating revenue:			
Video Lottery SM game sales, net	\$ 933,980,026	\$ 914,071,290	\$ 19,908,736
Scratch-its SM instant ticket sales	130,389,967	126,498,948	3,891,019
Draw game sales	237,964,669	205,732,285	32,232,384
Other Income	523,843	582,980	(59,137)
Total operating revenues	1,302,858,505	1,246,885,503	55,973,002
Operating expenses:			
Prizes	231,670,894	217,150,249	14,520,645
Retailer commissions	245,681,221	239,551,975	6,129,246
Other operating expenses	136,397,001	126,601,379	9,795,622
Total operating expenses	613,749,116	583,303,603	30,445,513
Operating income	689,109,389	663,581,900	25,527,489
Interest and investment income	5,789,388	(481,760)	6,271,148
Insurance recoveries	16,908	15,221	1,687
Nonoperating expenses	(974,482)	(1,035,528)	(61,046)
Total nonoperating revenues (expenses)	4,831,814	(1,502,067)	6,333,881
Income before transfers	693,941,203	662,079,833	31,861,370
Transfers	(708,332,529)	(697,586,857)	10,745,672
Change in net position:	(14,391,326)	(35,507,024)	21,115,698
Net position - beginning	286,721,433	307,661,328	(20,939,895)
Prior period adjustment	(819,937)	14,567,129	(15,387,066)
Net position - beginning restated	285,901,496	322,228,457	(36,326,961)
Net position - ending	\$ 271,510,170	\$ 286,721,433	\$ (15,211,263)

Lottery operating revenues increased 4.5 percent as sales grew for nearly all products. The jackpot games of Powerball and Megamillions produced 49 percent of the increase. The Megamillions game adopted changes in October 2017. The changes were designed to help jackpots grow larger and included an increase to the minimum jackpot. Both products had three jackpots in fiscal year 2018 that were among the top ten largest for their respective products. Oregon's Game Megabucks saw sales increase 15 percent largely due to players cross playing all three jackpot games.

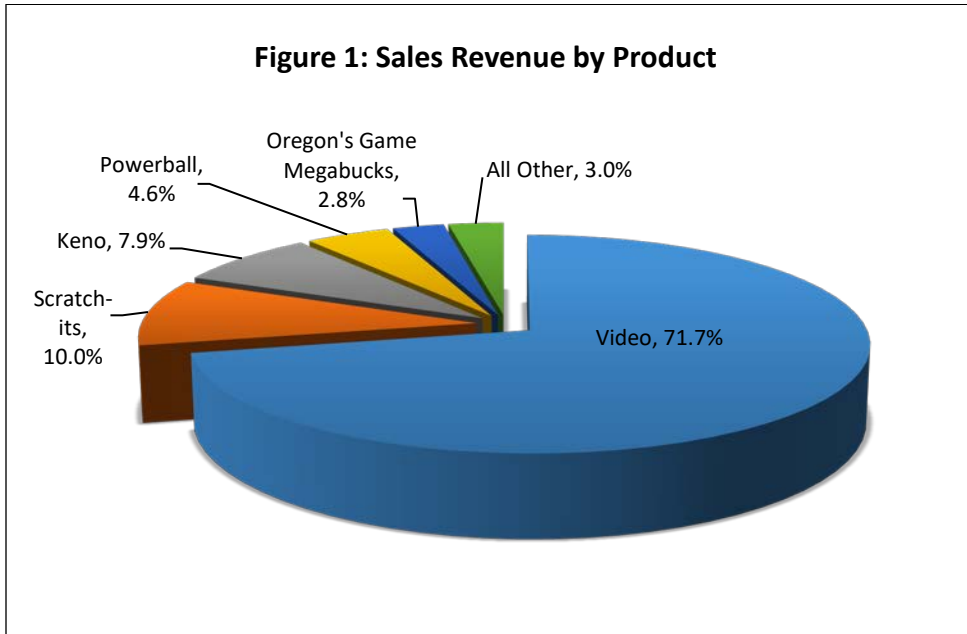
Operating expenses increased 5.2 percent from the prior fiscal year. Expenses for prizes and retailer commissions, which are directly related to the increased sales, were 67.8 percent of the increase. Depreciation and game equipment, parts and maintenance accounted for the remainder. Depreciation increased over the prior year as video lottery terminals and capital lease equipment acquired in late fiscal year 2017 and early fiscal year 2018 began depreciating. Game equipment, parts and maintenance increased over the prior year with the purchase of video lottery game sets.

Total nonoperating revenues and expenses increased \$6.3 million as a result of higher interest income and downward fluctuations in market value compared to the prior fiscal year. Interest income increased 46.8 percent as interest rates rose. The Lottery was earning 1.45 percent on cash balances at the beginning of fiscal year 2018 and by the end of the year the rate rose to 2.25 percent. The market value of Lottery held securities declined in both fiscal year 2017 and 2018. However, the loss in 2018 was lower than in 2017.

Lottery's income before transfers increased in fiscal year 2018 by 4.8 percent. The Lottery transferred \$706.4 million to the Economic Development Fund which was \$10.6 million more than the prior year. The transfers included Lottery's earnings as well as \$14.4 million in unrestricted net position. See note 2.F. The transfers along with the prior period adjustment of \$820 thousand reduced Lottery's net position by \$15.2 million from fiscal 2017.

Sales Revenue

Figure 1 below shows the major sources and percentages of sales revenue for fiscal year 2018:



Video LotterySM remains the largest source of revenue representing 71.7 percent of total sales. While sales of Video LotterySM continue to increase (2.2 percent in fiscal year 2018), Lottery continued to actively promote problem gambling programs. Sales of Scratch-itsSM were the second largest source of revenue, 10.0 percent. Scratch-it sales grew 3.1 percent during fiscal year 2018 while Keno sales increased less than 1 percent. As discussed earlier, Powerball, Megamillions and Oregon's Game Megabucks all had significant increases in sales which resulted in the games becoming a larger share of total Lottery sales compared to fiscal year 2017.

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 Video LotterySM gaming terminals and computer software.

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

	2018	2017	Change
Buildings, Equipment, and Vehicles	\$ 75,893,023	\$ 95,921,217	\$ (20,028,194)
Computer Software	15,777,057	15,991,205	(214,148)
Other Assets	419,600	24,132	395,468
Capital Assets in Progress	157,319	1,481,320	(1,324,001)
Total Capital Assets, Net	\$ 92,246,999	\$ 113,417,874	\$ (21,170,875)

During fiscal year 2018, capital assets net of depreciation decreased 18.7 percent. The decrease is the result of depreciation, the majority of which is for video lottery terminals. 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 growth continues to outperform other states and is expected to continue in the short-term. Job growth is slowing but is strong enough to absorb population gains and workers coming back into the labor market. Poverty rates are falling and need-based program case loads have declined. Oregon Employment Department shows that the median hourly wage increase has been 3.1 percent annually for the past three years which is slightly higher than the national wage growth of 3 percent. Lottery forecasted sales have been revised upward due to a lower than expected impact from the opening and operation of the Cowlitz Tribe's ilani Casino in southwest Washington. However, the outlook remains uncertain as future expansions of the casino are anticipated.

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Basic Financial Statements

OREGON STATE LOTTERY

Statement of Net Position

June 30, 2018

Assets

Current Assets:

Cash and Cash Equivalents	\$ 328,616,293
Securities Lending Cash Collateral	18,391,157
Investments for Prize Payments	10,815,777
Accounts Receivable (Net)	115,220,904
Ticket Inventory	1,594,322
Prepaid Expenses	1,888,808
Total Current Assets	<u>476,527,261</u>

Noncurrent Assets:

Cash and Cash Equivalents	92,074,532
Investments for Prize Payments	110,539,721
Prize Reserves with Multi-State Lottery (MUSL)	3,874,608
Net Other Postemployment Benefits (OPEB) Asset	104,211

Capital Assets:

Buildings, Equipment and Vehicles	202,534,514
Computer Software	27,000,830
Other Assets	1,386,660
Construction In Progress	157,319
Less Accumulated Depreciation and Amortization	<u>(138,832,324)</u>

Total Noncurrent Assets	<u>298,840,071</u>
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Total Assets	<u>775,367,332</u>
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Deferred Outflows of Resources

Deferred Amounts for Pensions	11,628,438
Deferred Amounts for Other Postemployment Benefits	288,076
Total Deferred Outflows of Resources	<u>11,916,514</u>

Total Assets and Deferred Outflows of Resources	<u>787,283,846</u>
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Liabilities

Current Liabilities:

Due to Economic Development Fund	188,474,518
Obligations Under Securities Lending	18,391,157
Prize Liability	122,455,278
Accounts Payable	10,162,269
Compensated Absences	3,093,435
Unearned Revenue	422,579
Contracts Payable	3,163,568
Total Current Liabilities	<u>346,162,804</u>

Noncurrent Liabilities:

Prize Liability	119,424,633
Compensated Absences	1,142,332
Net Pension Liability	29,809,503
Other Postemployment Benefits Liabilities	1,737,353
Contracts Payable	17,165,971
Total Noncurrent Liabilities	<u>169,279,792</u>

Total Liabilities	<u>515,442,596</u>
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Deferred Inflows of Resources

Deferred Amounts for Pensions	249,051
Deferred Amounts for Other Postemployment Benefits	82,029
Total Deferred Inflows of Resources	<u>331,080</u>

Total Liabilities and Deferred Inflows of Resources	<u>515,773,676</u>
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Net Position

Net Investment in Capital Assets	75,952,509
Restricted for Net OPEB Asset	104,211
Unrestricted	195,453,450

Total Net Position	<u><u>\$ 271,510,170</u></u>
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The accompanying notes are an integral part of the financial statements.

OREGON STATE LOTTERY
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Year Ended June 30, 2018

Operating Revenues

Sales:	
Video Lottery SM (Net Receipts)	\$ 933,980,026
Scratch-its SM Instant Tickets (Net of Returns)	130,389,967
Keno	102,023,352
Powerball [®]	60,088,322
Megabucks SM	36,525,999
Mega Millions [®]	30,089,400
Raffle SM	2,499,910
Win For Life SM	3,608,392
Lucky Lines SM	1,523,926
Pick 4 SM	1,605,368
Recovery of Uncollectibles	82,152
Other Income	441,691
Total Operating Revenues	<u>1,302,858,505</u>

Operating Expenses

Prizes	231,670,894
Retailer Commissions	245,681,221
Salaries and Wages	51,906,145
Depreciation and Amortization	33,888,584
Services and Supplies	13,738,901
Game Vendor Charges	8,439,800
Advertising and Market Research	11,106,857
Public Information	6,541,769
Tickets	3,042,684
Game Equipment Parts and Maintenance	6,766,475
Sales Support	965,786
Total Operating Expenses	<u>613,749,116</u>
Operating Income	<u>689,109,389</u>

Nonoperating Revenues (Expenses)

Interest	6,981,092
Investment and Securities Lending Income (Loss)	(1,191,704)
Insurance Recoveries	16,908
Gain (Loss) on Disposition of Assets	85,582
Investment Expenses - Securities Lending	(334,504)
Investment Expenses	(12,012)
Interest Expense	(713,548)
Total Nonoperating Revenues (Expenses)	<u>4,831,814</u>
Income Before Transfers	<u>693,941,203</u>

Transfers

Transfers to the Economic Development Fund	(706,350,736)
Transfers to the General Obligation Bond Fund	(1,981,793)
Total Transfers	<u>(708,332,529)</u>
Change in Net Position	<u>(14,391,326)</u>
Net Position - Beginning	286,721,433
Prior Period Restatement	(819,937)
Net Position - Beginning - As Restated	<u>285,901,496</u>
Net Position - Ending	<u>\$ 271,510,170</u>

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

OREGON STATE LOTTERY
Statement of Cash Flows
For the Year Ended June 30, 2018

Cash Flows from Operating Activities:	
Receipts from Customers	\$ 1,296,567,211
Payments to Employees for Services	(33,503,698)
Payments to Suppliers	(315,948,222)
Payments to Prize Winners	(230,984,240)
Other Income	54,554
Net Cash Provided (Used) by Operating Activities	<u>716,185,605</u>
Cash Flows from Noncapital Financing Activities:	
Principal and Interest Payments on Long-term Pension Debt	(528,929)
Transfers to the Economic Development Fund	(726,087,401)
Transfers to the General Obligation Bond Fund	(1,981,793)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(728,598,123)</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Capital Assets	(11,588,805)
Proceeds from Disposition of Capital Assets	428,718
Payments on Contracts	(3,283,214)
Insurance Recoveries for Capital Assets	16,908
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(14,426,393)</u>
Cash Flows from Investing Activities:	
Purchases of Investments	(1,423,082)
Proceeds from Sales and Maturities of Investments	11,326,000
Interest on Investments and Cash Balances	6,981,093
Securities Lending Expenses	(334,504)
Investment Expenses	(12,012)
Net Cash Provided (Used) by Investing Activities	<u>16,537,495</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(10,301,416)</u>
Cash and Cash Equivalents - Beginning	<u>430,992,241</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 420,690,825</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating Income	\$ 689,109,389
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation and Amortization	33,888,584
Net Changes in Assets and Liabilities:	
(Increase) / Decrease in Accounts Receivable	(94,635,328)
(Increase) / Decrease in Ticket Inventory	4,766
(Increase) / Decrease in Prepaid Expenses	(189,136)
(Increase) / Decrease in Prize Reserves with MUSL	(594,187)
(Increase) / Decrease in Pension Deferred Outflows	6,498,452
(Increase) / Decrease in Net OPEB Asset and OPEB Deferred Outflows	(392,287)
Increase / (Decrease) in Accounts Payable	(3,070,050)
Increase / (Decrease) in Compensated Absences Liability	138,076
Increase / (Decrease) in Unearned Revenue	(157,307)
Increase / (Decrease) in Prize Liability	89,947,228
Increase / (Decrease) in Net Pension Liability and Deferred Inflows	(4,649,596)
Increase / (Decrease) in OPEB Liabilities and OPEB Deferred Inflows	287,001
Total Adjustments	<u>27,076,216</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 716,185,605</u></u>
Noncash Investing, Capital, and Related Financing Activities:	
Net Change in Fair Value of Investments	\$ (1,191,704)
Intangible Assets Acquired Through Contract	1,472,040
Total Noncash Investing, Capital, and Related Financing Activities	<u><u>\$ 280,336</u></u>

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

OREGON STATE LOTTERY
Notes to the Financial Statements
June 30, 2018

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 three categories: net investment in capital assets, restricted for net OPEB asset 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 game design. 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, 2018 also includes \$4,247,861 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, 2018 was \$191,362.

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, 2018. 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. The fiscal year 2018 financial statements also include a large receivable due from the Multi-State Lottery to pay an Oregon winner's prize.

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, 2017. 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.

P. Net Other Postemployment Benefits Asset and Other Postemployment Benefits Liabilities, Related Deferred Inflows and Outflows of Resources, and Expense

Lottery employees may be covered by one of three postemployment benefit plans. The associated assets and liabilities for the two plans administered by the Oregon Public Employee’s Retirement System (PERS) are measured as of June 30, 2017 and recognized on the same basis the plan uses. PERS recognizes revenues when earned, contributions when due and benefits/withdrawals are recognized when payable. The other plan is administered by the Public Employees Benefit Board (PEBB) and is measured as of June 30, 2018. Amounts included are Lottery’s portion of the State of Oregon’s proportionate share of the respective other postemployment benefit plans. Expense for the plans 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 2018 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	\$ 3,321,997,521	Cash Paid Out	\$ 2,388,005,532
Dollars Won and Played	<u>8,669,510,346</u>	Dollars Won and Played	<u>8,669,510,346</u>
Total Revenue	<u>\$ 11,991,507,867</u>	Total Prizes	<u>\$ 11,057,515,878</u>
Net Revenue before Discounts = \$933,991,989			

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 (including outdoor school), veterans services, 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 2018 the Lottery operated within the legal limits defined by ORS 461.500:

<u>Revenues</u>		
Sales	\$ 12,359,850,540	
Other Distributable Income	7,450,348	
Total Distributable Revenue	<u>\$ 12,367,300,888</u>	
<u>Distribution of Revenues</u>		
Revenues Returned to the Public:		
Prizes to the Public	\$ 11,283,384,229	91.23%
Unclaimed Prizes Paid/Due to Economic Development Fund	5,802,543	0.05%
Transfers Paid/Due to Economic Development Fund	<u>691,139,473</u>	<u>5.59%</u>
Total Revenues Returned to the Public	11,980,326,245	96.87%
Administrative Expenses	<u>386,974,643</u>	<u>3.13%</u>
Total Revenue Distribution	<u>\$ 12,367,300,888</u>	<u>100.00%</u>

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.

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 2018, prizes in the amount of \$5,802,543 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, 2018:

Cash Available for Future Investment (Uncommitted Contingency Reserve)	\$ 99,895,789
Committed by Contract for Asset Purchases/Licensing (See Note 7 and 10)	17,074,531
Committed by Commission for Capital Purchases/Projects	75,000,000
Inventory and Prepaid Expenses	3,483,130
Total Unrestricted Net Position	\$ 195,453,450

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 \$14,391,326 of prior year Unrestricted Net Position. Actual cash transferred, including unclaimed prizes, during fiscal year 2018 was \$726,087,402. The remaining balance is included on the Statement of Net Position in liabilities. The following schedule reconciles the amounts:

	Balance Owed at June 30, 2017	Amounts Accrued	Cash Paid to Economic Development	Balance Remaining at June 30, 2018
Income	\$201,156,241	\$706,350,736	\$720,032,970	\$187,474,007
Unclaimed Prizes	1,252,400	5,802,543	6,054,432	1,000,511
Total	\$202,408,641	\$712,153,279	\$726,087,402	\$188,474,518

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 Revised Statute (ORS) Chapter 295. This statute creates a shared liability structure through a collateral pool of pledged securities held by a custodian. ORS 295 is administered by the Oregon State Treasurer using the Public Funds Collateralization Program (PFCP). This program monitors public funds balances in excess of Federal Deposit Insurance of \$250,000, total public funds on deposit, depository net worth and capitalization information. All depositories are required to report quarterly at a minimum but may be required to report as often as weekly. Reported information determines each depository's minimum market value of securities that must be pledged as collateral.

The PFCP determines collateral requirements based on the capitalization of each depository. Well capitalized depositories must pledge securities with a market value of 10 percent of their last reported uninsured public funds deposits. Collateral requirements increase for depositories considered to be less than well capitalized. Collateral requirements may be up to 110 percent of uninsured public funds deposits. The Oregon State Treasurer, in consultation with the Department of Consumer and Business Services, may also require collateral up to 110 percent for well capitalized banks. Depositories with increased collateral requirements are required to report weekly to ensure collateralization at the appropriate level.

Consequently, Lottery's bank balance at June 30, 2018 of \$422,355,518, 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 independent 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 \$4,163,072 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 RFC 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 3.43 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, 2018:

<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	\$ 1,469,585	\$ 1,932,644	\$ 760,843	\$ -	\$ 4,163,072
U.S. Treasury Strips	9,346,192	35,214,844	35,886,348	36,745,042	117,192,426
Total Investments	\$ 10,815,777	\$37,147,488	\$36,647,191	\$ 36,745,042	\$121,355,498

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 2018, 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, 2018. 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, 2018, the State and the Lottery had no credit risk exposure to borrowers related to securities on loan.

As of June 30, 2018, the total fair value of securities on loan from the OSTF was \$1,325,412,975, the collateral received was \$1,352,828,938 and the fair value of invested collateral was \$290,690,417. 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, 2018, is presented in the following schedule:

	Securities Lending Balances		
	Fair Value of Securities on Loan	Collateral Received	Fair Value of Invested Cash Collateral
Lottery Share OSTF	\$ 40,044,382	\$ 40,872,694	\$ 8,782,559
Lottery Investments	9,419,437	9,608,754	9,609,628
Total	\$ 49,463,819	\$ 50,481,448	\$ 18,392,187

6. Capital Assets

Capital asset activity for the year ended June 30, 2018, is shown in the following schedule:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Depreciable Capital Assets</u>				
Equipment	\$175,772,094	\$ 9,169,176	\$ 1,562,643	\$ 183,378,627
Building and Improvements	13,103,149	479,249	32,224	13,550,174
Vehicles	5,066,971	1,106,779	568,037	5,605,713
Computer Software	29,631,364	3,021,602	5,652,136	27,000,830
Other Assets	780,348	608,040	1,728	1,386,660
Total Assets Being Depreciated	224,353,926	14,384,846	7,816,768	230,922,004
<u>Accumulated Depreciation</u>				
Equipment	88,749,464	29,386,974	1,364,816	116,771,622
Building and Improvements	7,218,627	449,843	28,924	7,639,546
Vehicles	2,052,908	603,444	426,028	2,230,324
Computer Software	13,640,158	3,235,752	5,652,136	11,223,774
Other Assets	756,215	212,571	1,728	967,058
Total Accumulated Depreciation	112,417,372	33,888,584	7,473,632	138,832,324
<u>Capital Assets Not Being Depreciated</u>				
Capital Assets in Progress	1,481,320	157,319	1,481,320	157,319
Capital Assets, Net	\$113,417,874	\$ (19,346,419)	\$ 1,824,456	\$ 92,246,999

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 \$1,202,946.

On June 27, 2014 the Lottery vacated its current backup center and it remained idle at June 30, 2018. Carrying value included in capital assets is \$444,849.

During fiscal year 2018 equipment valued at \$198,768 was written off due to fire. Insurance recoveries for those losses were \$183,768. 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, 2018, there were 85 Oregon Lottery prizes with remaining long-term annual prize payments. The estimated number of years remaining for payments extends to 49 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. The monthly payment is \$175,224 and the contract will expire in September 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 Pre-SLGRP Pension Debt of \$4,035,048 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	\$157,735,226	\$320,931,467	\$236,786,782	\$241,879,911	\$122,455,278
Compensated Absences	4,097,691	4,063,144	3,925,068	4,235,767	3,093,435
Licensing Contracts	11,376,733	1,472,040	2,066,266	10,782,507	2,047,590
Capital Lease Obligation	6,291,769	-	779,785	5,511,984	863,478
Pre-SLGRP Pension Debt	4,287,592	-	252,544	4,035,048	252,500
	<u>\$183,789,011</u>	<u>\$326,466,651</u>	<u>\$243,810,445</u>	<u>\$266,445,217</u>	<u>\$128,712,281</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, 2018 Lottery awarded free play prizes of \$1,517,112. Promotional discounts and free plays also reduced sales by \$235,138.

At June 30, 2018, accounts receivable in the Statement of Net Position is reported net of \$63,983 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, 2018, was \$40,218.

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, 2018 and June 30, 2017 (in thousands):

	<u>2018</u>	<u>2017</u>
Assets	\$ 486,936	\$ 561,369
Total Assets	<u>\$ 486,936</u>	<u>\$ 561,369</u>
Liabilities	\$ 477,887	\$ 556,225
Net Assets ¹ - Unrestricted	9,049	5,144
Total Liabilities and Net Assets ¹	<u>\$ 486,936</u>	<u>\$ 561,369</u>
Revenue	\$ 10,422	\$ 4,345
Expenses	6,517	6,143
Excess Revenues Over Expenses	<u>\$ 3,905</u>	<u>\$ (1,798)</u>

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 LotterySM game terminals and the host system. Lease payments total \$8,679,364 with the last payment due in September 2024. 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 Buildings, Equipment and Vehicles on the Statement of Net Position.

Operating leases are agreements conveying the right to use tangible capital assets. As of June 30, 2018, 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 2018 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, 2018 are shown in the following schedule:

Fiscal Year Ending June 30,	Future Minimum Operating Lease Payments	Future Minimum Capital Lease Payments
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	-	1,239,909
2024-2025	-	497,495
Total Future Minimum Lease Payments	\$ 3,504,317	\$ 6,697,040

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 2018, the Lottery had expenses of \$6,417,904 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. For the fiscal year ended June 30, 2018 were no reimbursements required.

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) for employee contributions. Beginning January 1, 2004 all Tier 1/Tier 2 plan non-retired members 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. Tier 1/Tier 2 employee contributions prior to January 1, 2004 remain in the member's defined benefit account.

Death Benefit

Upon the death of a non-retired PERS Tier 1/Tier 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/Tier 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 benefit adjustments (COLA) 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 percent annual cap. Service time on or after October 1 receives a 1.25 percent increase on the first \$60,000 of annual benefit and .15 percent 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 2018 were effective July 1, 2017 and based on the December 31, 2015 valuation. Lottery contributions in fiscal year 2018 were \$3,531,439.

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. PERS recognized Lottery fiscal year 2018 contributions of \$1,925,953.

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

The collective net pension liability, measured as of June 30, 2017, is based on the December 31, 2015 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	Healthy retirees and beneficiaries: RP-2000 Sex-distinct, generational per Scale BB, with collar adjustments and set-backs as described in the valuation. Active members: Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation. Disabled Retirees: Mortality rates are a percentage (70% for males, 95% for females) of the RP-2000 Sex-distinct, generational per Scale BB, disabled mortality table.

These assumptions are the same as those used for the June 30, 2016 measurement date.

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. The following assumptions were used

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 26.82 percent as of the prior June 30, 2016 measurement date and increased to 27.36 percent as of the June 30, 2017 measurement date.

The State of Oregon's proportionate share of the net pension liability was allocated to funds based on actual fiscal year 2017 contributions. Lottery is .81 percent of the State's share, a decrease of .04 percent from the June 30, 2016 measurement date. Lottery's proportion of the State's share equates to .22 percent of the collective net pension liability. At June 30, 2018 Lottery reported a net pension liability of \$29,809,503. 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 – \$12,256,861
- 1% lower – \$50,800,835

For the year ended June 30, 2018, Lottery recognized pension expense of \$5,380,295. At June 30, 2018 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	\$ 1,441,600	\$ -
Changes in assumptions	5,433,740	-
Net difference between projected and actual earnings on investments	307,108	-
Changes in proportion and differences between fund contributions and proportionate share of contributions	914,551	249,051
Lottery contributions subsequent to the measurement date	3,531,439	-
	<u>\$ 11,628,438</u>	<u>\$ 249,051</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
2019	\$ 1,597,587
2020	4,008,884
2021	2,778,818
2022	(599,751)
2023	62,410
	<u>\$ 7,847,948</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

Oregon Lottery employees may be eligible for post-retirement insurance coverage through three other postemployment benefit (OPEB) plans available. Two plans are administered by the Public Employees Retirement System (PERS) and the other is administered by the Public Employees Benefit Board (PEBB). Lottery, as an enterprise fund of the State of Oregon, recognizes a portion of each plan in our financial statements.

A. Plans Administered by the Public Employees Retirement System

The Retirement Health Insurance Account (RHIA), administered by PERS, is a cost-sharing, multiple employer OPEB plan. The plan authorizes a payment of up to \$60 towards the monthly cost of health insurance for eligible PERS members. To be eligible the PERS member must have eight or more years of qualifying service in PERS at the time of retirement, receive both Medicare Parts A and B coverage, and enroll in a PERS-sponsored health plan. The coverage also extends to members receiving a disability allowance as if the member had at least eight years of creditable service. A surviving spouse or dependent of a deceased PERS retiree is eligible if he or she is receiving a retirement benefit or allowance from PERS or was insured at the time of the member’s death and the member retired before May 1, 1991. The plan is closed to entrants hired on or after August 29, 2003.

The RHIA plan and benefit amount is established by ORS 238.420. There are no automatic or ad-hoc adjustments to the benefit amount in the statute.

The other plan administered by PERS is the Retiree Health Insurance Premium Account (RHIPA). This plan is a single employer plan with the State of Oregon as the single employer. As authorized by ORS 238.415 retirees receive payment for the average difference between the health insurance premiums paid by retired state employees and the premiums paid by active state employees. The average amount is determined by the PERS Board on or before January 1 of each year. This plan is closed to entrants hired on or after August 29, 2003.

Retirees are eligible for the RHIPA plan if they have eight or more years of qualifying service but are not eligible for federal Medicare coverage. Retirees receiving a disability pension are also eligible if the pension was calculated as if they had eight or more years qualifying service and are not receiving federal Medicare coverage. A surviving spouse or dependent of a retired state employee is eligible if he or she is receiving a retirement benefit from PERS or was insured at the time the member died and the member retired on or after September 29, 1991.

Both plans are required by statute to be funded through employer contributions actuarially necessary to fund the liabilities of the plans. Employer contribution levels must be established by the PERS Board using the same actuarial assumptions it uses to determine employer contribution rates for the Public Employees Retirement Fund. Contribution rates for the fiscal year ending June 30, 2018 were effective July 1, 2017 and based on the December 31, 2015 valuation. The rates are a percentage of covered payroll and vary by the retirement plan of the participant. The contribution rates and amounts contributed during the year ended June 30, 2018 are shown in the following table:

	RHIA		RHIPA	
	PERS		PERS	
	Tier 1/Tier 2	OPSRP	Tier 1/Tier 2	OPSRP
Normal Cost	0.07%		0.11%	
Unfunded Actuarial Liability	0.43%	0.43%	0.38%	0.38%
Total Required Rate	<u>0.50%</u>	<u>0.43%</u>	<u>0.49%</u>	<u>0.38%</u>
Amounts Contributed	\$ 73,288	\$ 75,586	\$ 70,805	\$ 66,150

Both plans use assumptions and other inputs to measure the total OPEB liability. These assumptions and inputs are shown in the following table:

	<u>RHIA</u>	<u>RHIPA</u>
Plan Type	Cost-Sharing Multiple Employer	Single Employer (State of Oregon)
Valuation date	December 31, 2015	December 31, 2015
Measurement date	June 30, 2017	June 30, 2017
Experience Study	2014, published September 23, 2015	2014, published September 23, 2015
Actuarial assumptions:		
Actuarial cost method	Entry Age Normal	Entry Age Normal
Inflation rate	2.50 percent	2.50 percent
Long-term expected rate of return	7.50 percent	7.50 percent
Discount rate	7.50 percent	7.50 percent
Projected salary increases	3.50 percent	3.50 percent
Retiree healthcare participation	Healthy retirees: 38%, Disabled retirees: 20%	Varies by service at decrement, increasing from 10% at eight years of service to 38% at 30 years of service
Healthcare cost trend rate	Not Applicable	Applied at beginning of plan year, starting with 6.3% for 2016, decreasing to 5.3% for 2019, increasing to 6.5% for 2029, and decreasing to an ultimate rate of 4.4% for 2094 and beyond
Mortality	<p>Healthy retirees and beneficiaries:</p> <p>RP-2000 Sex-distinct, generational per Scale BB, with collar adjustments and set-backs as described in the valuation</p> <p>Active members:</p> <p>Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation</p> <p>Disabled retirees:</p> <p>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>	<p>Healthy retirees and beneficiaries:</p> <p>RP-2000 Sex-distinct, generational per Scale BB, with collar adjustments and set-backs as described in the valuation</p> <p>Active members:</p> <p>Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation</p> <p>Disabled retirees:</p> <p>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 projections of cash flows for both plans used to determine the discount rate assumes that employer(s) contributions are made at the contractually required rates, as actuarially determined.

The long-term expected rate of return for both plans is the same as that used for pension benefit projections. A description of how this rate is determined and information on the assumed asset allocation of the portfolio is included in Note 12(B). This long-term rate was applied to all periods of projected benefit payments to determine the total OPEB liability for both plans.

For the RHIA cost-sharing multiple employer plan, employer proportionate share was determined by comparing the employer’s actual, legally required contributions made during the measurement date fiscal year to the total actual contributions made during that period by all employers. For both plans, the State of Oregon’s internal allocation among funds was based on fiscal year 2017 actual contributions from each fund. Lottery’s share of both plans is shown below. The amounts are measured as of June 30, 2017 based on a December 31, 2015 actuarial valuation rolled forward. Effects of a 1 percentage point change in the healthcare cost trend rate and the discount rate are also shown in the following table:

	RHIA	RHIPA
State of Oregon Share of Plan	30.89%	100.00%
Lottery Percent of State of Oregon Share	0.8083%	0.8083%
Lottery Share of Net OPEB Liability/(Asset)	\$ (104,211)	\$ 377,106
Lottery Share with:		
1% increase in healthcare cost trend rate	\$ (104,211)	\$ 435,747
1% decrease in healthcare cost trend rate	(104,211)	325,432
1% increase in the discount rate	(205,205)	340,530
1% decrease in the discount rate	14,527	416,687

In the fiscal year ending June 30, 2018, Lottery recognized expense for the RHIA and RHIPA plans in following amounts respectively; \$4,751 and \$24,239. The following table shows the balances of Lottery's deferred outflows and inflows for the two plans:

	RHIA		RHIPA	
	Deferred Outflow of Resources	Deferred Inflow of Resources	Deferred Outflow of Resources	Deferred Inflow of Resources
Net difference between projected and actual earnings on investments	-	\$ (48,265)	-	\$ (4,101)
Changes in proportion and differences between fund contributions and proportionate share of contributions	\$ 2,247	-	-	-
Contributions Subsequent to Measurement Date	148,874	-	\$ 136,955	-
	<u>\$ 151,121</u>	<u>\$ (48,265)</u>	<u>\$ 136,955</u>	<u>\$ (4,101)</u>

Contributions subsequent to the measurement date will reduce the liability in the upcoming fiscal year. The other deferred amounts will increase/(reduce) OPEB expense as follows:

Fiscal Year Ending June 30	RHIA	RHIPA
2019	\$ (11,234)	\$ (1,025)
2020	(11,234)	(1,025)
2021	(11,484)	(1,025)
2022	(12,066)	(1,026)
	<u>\$ (46,018)</u>	<u>\$ (4,101)</u>

Detailed information about the PERS other postemployment benefit 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>.

B. Plan Administered by the Public Employees Benefit Board

The Public Employees Benefit Board (PEBB), through the authority of Oregon Revised Statutes Chapter 243, offers healthcare assistance to eligible retired employees and their beneficiaries. The PEBB plan is a single-employer plan (State of Oregon) that allows retired employees to continue their health insurance coverage on a self-pay basis until they are eligible for Medicare. The premium rate for retired employees is determined by pooling the retirees with active employees and thus creates an implicit rate subsidy. Employees are eligible if they retire and are immediately eligible for a pension benefit from PERS. In addition, the retiree must have been enrolled in a PEBB medical or dental plan immediately prior to retirement. Retirees must apply for retiree coverage within 60 days of the end of their active coverage.

The total OPEB liability for the PEBB plan was actuarially measured as of July 1, 2017 and projected forward to June 30, 2018. There are no assets accumulated for payment of the liability. Certain assumptions were made to value the future benefits. The following table shows significant assumptions used:

Valuation Date	July 1, 2017
Measurement Date	June 30, 2018
Discount Rate	3.87% (Bond Buyer 20-year General Obligation Bond Index)
Health Care Cost Trend	Generally just over 5% per year through year 15, increases to slightly over 6% through year 26 and then grades down to 4.2% through year 80
General Inflation	2.5% per year
Annual Salary Increases	3.5% per year
Mortality	RP-2014 Employee and Healthy Annuitant tables, no collar, sex distinct for members and dependents.

Lottery, as a fund of the State of Oregon, recognizes a portion of the total liability. Fund proportions are based on each fund’s fiscal year 2018 actual contributions. Lottery’s share of the liability at June 30, 2018 is \$1,360,247 which is .916 percent of the State of Oregon’s liability. The sensitivity of the liability to changes in the discount rate and healthcare cost trend rate are shown in the table below:

Lottery Share with:	
1% increase in healthcare cost trend rate	\$ 1,553,323
1% decrease in healthcare cost trend rate	1,198,524
1% increase in the discount rate	1,250,155
1% decrease in the discount rate	1,480,257

For the fiscal year ended June 30, 2018 Lottery recognized \$213,343 of expense for the PEBB plan. The Lottery’s portion of the PEBB OPEB plan deferred inflows of resources related to changes in assumptions as of June 30, 2018 is \$29,663. The amount will reduce Lottery’s proportion of OPEB expense in future years as follows:

Fiscal Year Ending June 30,	
2019	\$ (4,120)
2020	(4,120)
2021	(4,120)
2022	(4,120)
2023	(4,120)
Years thereafter	(9,063)
	<u>\$ (29,663)</u>

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 2018 share of the 2017-2019 biennial assessment was \$577,125. 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 and reduced by \$819,937 as the result of implementing Governmental Accounting Standards Board (GASB) Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". The statement is effective for fiscal years beginning after June 15, 2017. The statement improves transparency, accounting and reporting by state and local governments for non-pension, other postemployment benefits (OPEB).

Previously Reported Net Position at June 30, 2017	\$ 286,721,433
GASB Statement 75 implementation adjustment	<u>(819,937)</u>
Beginning Net Position for July 1, 2017	<u>\$ 285,901,496</u>

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Required Supplementary Information

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

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	
2017	0.2%	\$ 29.8	\$ 30.7	97.1%	83.1%	
2016	0.2%	34.4	30.1	114.1%	80.5%	
2015	0.2%	11.4	28.1	40.6%	91.9%	
2014	0.2%	(4.5)	23.7	(19.0)%	103.6%	
2013	0.2%	10.1	23.8	42.6%	92.0%	

*Additional years will be presented as they become available.
(See Notes to Required Supplementary Information)

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

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
2018	\$ 3.5	\$ 3.5	\$ -	\$ 32.1	10.90%
2017	2.3	2.0	0.3	30.7	6.48%
2016	2.3	2.0	0.3	30.1	6.75%
2015	1.5	1.9	(0.4)	28.1	6.60%
2014	2.0	1.9	0.1	23.7	8.07%

*Additional years will be presented as they become available.
(See Notes to Required Supplementary Information)

Schedule of Lottery Proportionate Share of the Net OPEB Liability
Oregon Public Employees Retirement System Retiree Health Insurance Account (RHIA)
Last Ten Measurement Dates*
(Dollars in Thousands)

Oregon State Lottery					
As of June 30,	Percent of Collective Net OPEB Liability	Share of Collective Net OPEB Liability/ (Asset)	Covered Employee Payroll	Share of Collective Net OPEB Liability/ (Asset) as a Percentage of Covered Payroll	RHIA Fiduciary Net Position as a Percent of Total OPEB Liability
2017	0.25%	\$ (104)	\$ 30,651	(.34%)	108.9%

*Additional years will be presented as they become available.
(See Notes to Required Supplementary Information)

Schedule of Lottery OPEB Contributions
Oregon Public Employees Retirement System RHIA
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
2018	\$ 149	\$ 149	\$ -	\$ 32,099	0.46%

*Additional years will be presented as they become available.
(See Notes to Required Supplementary Information)

Schedule of Lottery Proportionate Share of Net OPEB Liability
Oregon Public Employees Retirement System Retiree Health Insurance Premium Account (RHIPA)
Last Ten Measurement Dates*
(Dollars in Thousands)

Oregon State Lottery					
As of June 30,	Percent of State of Oregon Net OPEB Liability	Share of State of Oregon Net OPEB Liability/ (Asset)	Covered Employee Payroll	Share of State of Oregon Net OPEB Liability/ (Asset) as a Percentage of Covered Payroll	PERS Fiduciary Net Position as a Percent of Total OPEB Liability
2017	0.81%	\$ 377	\$ 30,651	1.23%	34.3%

*Additional years will be presented as they become available.
(See Notes to Required Supplementary Information)

Schedule of Lottery OPEB Contributions
Oregon Public Employees Retirement System RHIPA
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
2018	\$ 137	\$ 137	\$ -	\$ 32,099	0.43%

*Additional years will be presented as they become available.
(See Notes to Required Supplementary Information)

Schedule of Lottery Proportionate Share of OPEB Liability
Public Employees Benefit Board (PEBB)
Last Ten Measurement Dates*
(Dollars in Millions)

As of June 30,	Percentage of OPEB Liability	Share of OPEB Liability	Covered Employee Payroll	Share of Liability as a Percent of Covered Payroll
2018	0.92%	\$ 1.4	\$ 33.5	4.2%

*Additional years will be presented as they become available.
(See Notes to Required Supplementary Information)

Notes to Required Supplementary Information

Pension Schedules

- In 2013 the Oregon Legislature adopted changes reducing future cost of living adjustments. This reduced the liability as of June 30, 2014. The reduction to benefits was challenged and a significant portion of the legislation was reversed by the Oregon Supreme Court in April 2015. Consequently, the liability at June 30, 2015 increased.
- The PERS Board adopted assumption changes that were used to measure the June 30, 2016 pension liability. Included in the changes was a reduction of the long-term expected rate of return to 7.5 percent, a lowering of the assumed inflation rate to 2.5 percent, as well as changes in the assumptions for mortality, merit increases and other wage benefits affecting retiree benefits.
- 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>

Other Postemployment Plan (OPEB) Schedules

- The Public Employees Retirement System (PERS) issues a publicly available financial report that includes financial statements and required supplementary information for the RHIA and RHIPA plans. The report can be obtained at <http://www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx>
- The PEBB plan does not accumulate assets to pay benefits and does not issue a financial report.



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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, 2018

	Actual	Budget ¹	Variance Favorable/ (Unfavorable)
Revenue			
Video Lottery SM (Gross Receipts)	\$ 11,991,495,904	\$ 11,911,079,331	\$ 80,416,573
Scratch-its SM Instant Tickets	130,389,967	129,425,400	964,567
Keno	102,023,352	100,556,548	1,466,804
Powerball [®]	60,088,322	60,337,259	(248,937)
Megabucks SM	36,525,999	36,380,210	145,789
Mega Millions [®]	30,089,400	28,875,639	1,213,761
Raffle SM	2,499,910	2,499,910	0
Win For Life SM	3,608,392	3,600,060	8,332
Lucky Lines SM	1,523,926	1,579,689	(55,763)
Pick 4 SM	1,605,368	1,589,828	15,540
Total Revenue	12,359,850,540	12,275,923,874	83,926,666
Prize Expense	11,284,938,912	11,215,542,467	(69,396,445)
Net Revenue	1,074,911,628	1,060,381,407	14,530,221
Direct Expenses			
Retailer Commissions	245,681,221	247,055,982	1,374,761
Game Vendor Charges	8,439,800	8,278,301	(161,499)
Tickets	3,042,684	3,700,000	657,316
Advertising	10,814,573	14,552,546	3,737,973
Sales Support	965,786	1,530,825	565,039
Game Equipment/Parts & Maintenance	6,766,475	7,803,000	1,036,525
Depreciation	31,272,626	34,868,801	3,596,175
Total Direct Expenses	306,983,165	317,789,455	10,806,290
Gross Profit	767,928,463	742,591,952	25,336,511
Indirect Revenue			
Other Income (Loss)	1,664,268	3,506,000	(1,841,732)
Indirect Expenses			
Public Information	6,541,769	7,220,404	678,635
Research	292,284	1,871,512	1,579,228
Personal Services	54,164,323	53,816,627	(347,696)
Services and Supplies	13,581,824	21,778,589	8,196,765
Depreciation	2,615,958	2,963,509	347,551
Interest Expense	437,163	439,397	2,234
Total Indirect Expenses	77,633,321	88,090,038	10,456,717
Net Profit	\$ 691,959,410	\$ 658,007,914	\$ 33,951,496

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



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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

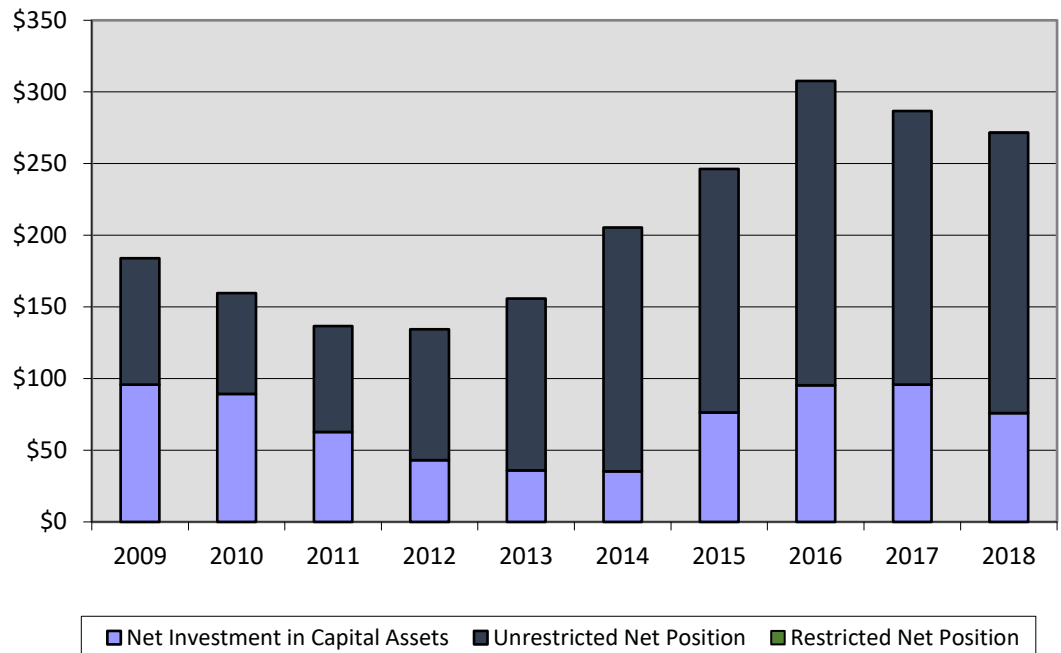
Note: The Lottery does not issue long-term debt; thus, information on debt capacity is not relevant.

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	Restricted Net Position	Total Net Position
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
2018	75,952,509	195,453,450	\$ 104,211	271,510,170

Net Position
 (In Millions)



Oregon State Lottery
Changes in Net Position
Last Ten Fiscal Years

	2009	2010	2011	2012
Operating Revenues				
Sales:				
Video Lottery SM (Net Receipts)	\$ 786,746,726	\$ 706,981,950	\$ 720,510,190	\$ 727,124,878
Scratch-its SM Instant Tickets	112,105,703	113,269,602	115,895,266	117,521,750
Keno	99,184,396	95,343,654	93,270,757	93,456,813
Powerball [®]	51,836,316	51,216,021	33,491,623	38,777,424
Megabucks SM	38,065,424	40,137,180	40,780,752	37,539,720
Mega Millions [®]	-	3,490,116	17,448,177	22,208,222
Raffle SM	2,499,597	7,499,290	7,499,000	4,999,650
Win For Life SM	6,654,104	6,503,143	5,869,397	5,545,700
Lucky Lines SM	2,042,237	1,986,060	1,918,134	1,758,800
Pick 4 SM	1,389,814	1,254,783	1,279,523	1,352,749
Recovery of (Provision for) Uncollectibles	(128,699)	(112,559)	(128,164)	(71,327)
Other Income	579,477	251,538	1,142,214	209,110
Total Operating Revenues	1,100,975,095	1,027,820,778	1,038,976,869	1,050,423,489
Operating Expenses				
Prizes	211,927,565	215,619,096	208,672,809	238,278,854
Retailer Commissions	213,739,988	198,168,503	200,510,286	201,626,030
Salaries and Wages	37,330,819	34,608,905	35,512,068	36,317,480
Depreciation and Amortization	37,080,300	30,899,860	29,773,197	26,794,091
Services and Supplies	10,519,566	8,837,913	10,644,690	10,159,107
Game Vendor Charges	7,716,930	9,220,784	8,552,689	8,620,924
Advertising and Market Research	11,313,552	8,475,107	8,446,004	6,444,771
Public Information	5,326,746	4,462,400	4,420,673	3,882,869
Tickets	4,335,016	4,245,963	4,230,790	4,640,444
Game Equipment Parts and Maintenance	1,850,765	1,333,034	2,115,134	1,925,220
Sales Support	1,712,391	1,131,956	1,234,314	1,113,400
Total Operating Expenses	542,853,638	517,003,521	514,112,654	539,803,190
Operating Income	558,121,457	510,817,257	524,864,215	510,620,299
Nonoperating Revenues (Expenses)				
Interest and Investment Income (Loss)	12,675,701	11,276,393	3,587,450	17,744,105
Insurance Recoveries	61,973	106,598	65,081	30,676
Gain (Loss) on Disposition of Assets	(1,767,242)	(5,323,677)	(2,919,876)	(147,802)
Investment Expenses - Securities Lending	(808,660)	(192,727)	(237,391)	(138,855)
Investment Expenses	-	-	-	-
Interest Expense	-	-	-	-
Total Nonoperating Revenues (Expenses)	10,161,772	5,866,587	495,264	17,488,124
Income Before Transfers	568,283,229	516,683,844	525,359,479	528,108,423
Transfers to Economic Development Fund	(592,846,506)	(539,582,457)	(546,996,892)	(523,652,688)
Transfers to General Obligation Bond Fund	(1,463,447)	(1,464,541)	(1,444,213)	(1,459,501)
Change in Net Position	\$ (26,026,724)	\$ (24,363,154)	\$ (23,081,626)	\$ 2,996,234

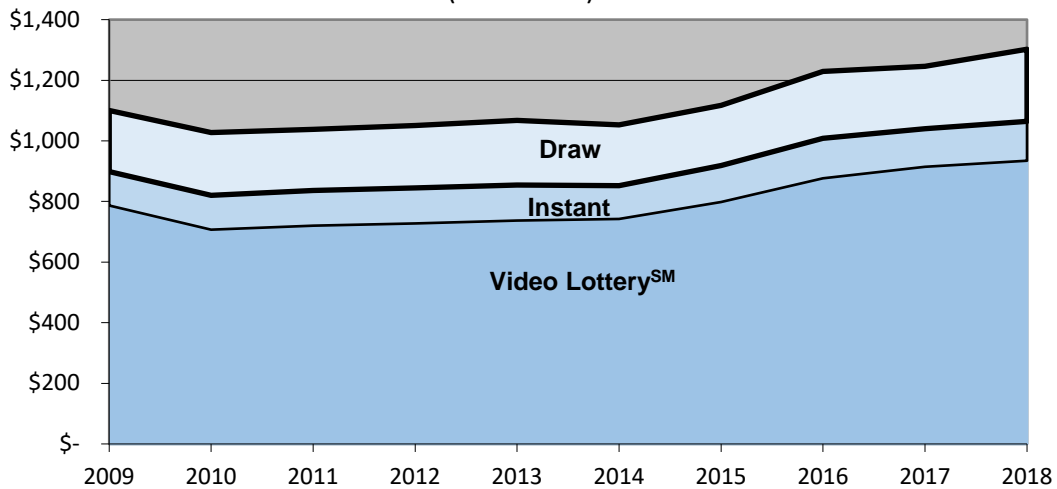
2013	2014	2015	2016	2017	2018
\$ 737,370,280	\$ 742,730,503	\$ 798,578,183	\$ 876,475,310	\$ 914,071,290	\$ 933,980,026
117,079,308	109,034,321	119,578,108	131,599,460	126,498,948	130,389,967
91,636,954	92,443,482	93,035,050	95,826,162	101,501,142	102,023,352
58,322,876	45,049,124	37,091,247	63,821,261	44,856,176	60,088,322
38,084,764	28,372,873	33,329,803	33,031,579	31,768,618	36,525,999
11,823,070	22,333,065	20,468,872	18,823,156	17,913,809	30,089,400
4,998,300	4,997,060	7,488,730	2,499,840	2,499,750	2,499,910
4,845,906	4,532,922	4,082,661	3,854,189	3,569,776	3,608,392
2,317,312	1,918,288	1,771,994	2,001,358	2,147,834	1,523,926
1,351,260	1,397,158	1,435,284	1,566,384	1,475,180	1,605,368
(44,280)	971	(4,594)	18,485	(10,109)	82,152
1,410,594	177,786	382,438	672,544	593,089	441,691
1,069,196,344	1,052,987,553	1,117,237,776	1,230,189,728	1,246,885,503	1,302,858,505
206,836,815	206,571,490	211,444,280	239,317,411	217,150,249	231,670,894
204,921,077	203,727,883	215,514,570	234,963,289	239,551,975	245,681,221
36,504,315	39,443,617	37,055,741	54,427,617	51,608,241	51,906,145
12,982,414	13,542,859	20,134,347	23,863,609	29,733,663	33,888,584
10,787,865	11,278,132	11,829,146	15,876,801	13,818,139	13,738,901
8,777,088	8,638,986	8,931,443	9,891,910	8,170,995	8,439,800
5,483,097	7,610,400	9,549,598	9,705,469	11,071,161	11,106,857
2,718,648	2,633,736	4,246,421	5,759,053	6,572,101	6,541,769
3,363,077	2,956,834	3,213,208	3,138,033	3,328,614	3,042,684
1,496,442	2,265,927	1,885,491	1,734,280	1,572,029	6,766,475
1,067,653	1,674,670	1,263,959	633,721	726,436	965,786
494,938,491	500,344,534	525,068,204	599,311,193	583,303,603	613,749,116
574,257,853	552,643,019	592,169,572	630,878,535	663,581,900	689,109,389
(2,982,432)	6,330,595	6,783,754	16,217,601	(481,760)	5,789,388
11,263	3,482	12,067	2,005	15,221	16,908
(969,699)	(257,250)	(1,473,869)	(98,971)	(12,653)	85,582
(143,462)	(45,956)	(74,757)	(212,675)	(369,908)	(334,504)
-	-	(4,185)	(71,522)	(13,939)	(12,012)
(330,386)	(315,269)	(325,227)	(316,029)	(639,028)	(713,548)
(4,414,716)	5,715,602	4,917,783	15,520,409	(1,502,067)	4,831,814
569,843,137	558,358,621	597,087,355	646,398,944	662,079,833	693,941,203
(546,923,919)	(507,250,297)	(545,948,950)	(583,179,120)	(695,750,970)	(706,350,736)
(1,506,648)	(1,692,668)	(1,883,433)	(1,910,077)	(1,835,887)	(1,981,793)
\$ 21,412,570	\$ 49,415,656	\$ 49,254,972	\$ 61,309,747	\$ (35,507,024)	\$ (14,391,326)

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
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
2018	933,980,026	130,389,967	102,023,352	60,088,322	36,525,999	39,326,996	1,302,334,662

Sales by Product Type
 (In Millions)

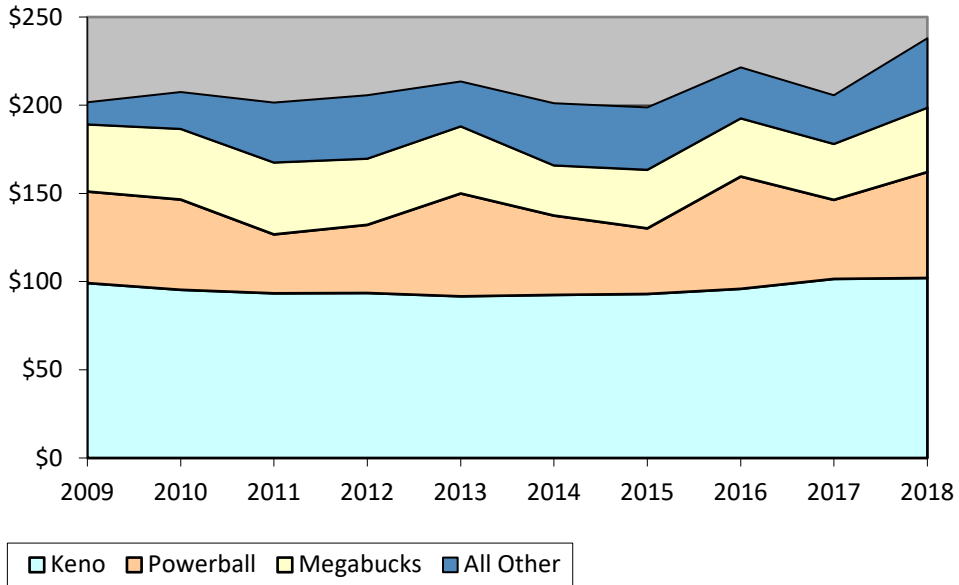


Oregon State Lottery
Product Percent of Total Sales
 Last Ten Fiscal Years

Draw Games

Fiscal Year	Video Lottery SM	Instant Products	Keno	Powerball®	Oregon's Game Megabucks SM	All Other Draw Games
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%
2018	71.7%	10.0%	7.8%	4.6%	2.8%	3.1%

Draw Game Sales by Product
 (In Millions)



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

Rank	Retailer	2018		
		Sales	Percent of Total Sales	County
1	Independent Sports Bar & Grill	\$ 6,874,825	0.52%	Multnomah
2	The Station Pub	5,821,851	0.44%	Multnomah
3	Patton Maryland	5,755,145	0.43%	Multnomah
4	Dotty's #9	2,042,803	0.15%	Washington
5	Richards Deli and Pub	1,744,480	0.13%	Washington
6	Jasper's	1,708,738	0.13%	Lane
7	Original Joe's	1,674,201	0.13%	Multnomah
8	Dotty's #29	1,668,187	0.13%	Multnomah
9	Dede's Café	1,660,747	0.13%	Washington
10	Dotty's #27	1,658,718	0.13%	Multnomah
	Totals	<u>\$ 30,609,695</u>	<u>2.32%</u>	

Total Lottery Sales \$ 1,323,053,959

Rank	Retailer	2009		
		Sales	Percent of Total Sales	County
1	Deli Store	\$ 1,855,552	0.17%	Columbia
2	Dotty's #24	1,779,730	0.16%	Multnomah
3	Bradley's Bar & Grill	1,771,696	0.16%	Multnomah
4	Original Joe's	1,742,585	0.16%	Multnomah
5	Smokehouse Café #4	1,606,596	0.15%	Linn
6	Dotty's #9	1,565,854	0.14%	Washington
7	Dotty's #8	1,492,508	0.14%	Washington
8	Dotty's #11	1,485,102	0.13%	Multnomah
9	Glass House Tavern	1,483,522	0.13%	Multnomah
10	Dotty's #17	1,480,445	0.13%	Washington
	Totals	<u>\$ 16,263,590</u>	<u>1.47%</u>	

Total Lottery Sales \$ 1,100,524,317

Source: Oregon State Lottery Research Department

Oregon State Lottery
Number of Lottery Retailers and Sales by County
For Business Year 2018

County	Sales		Retailers	
	Business Year Sales	Percent of Total Sales	Number of Lottery Retailers	Percent of Total Retailers
Multnomah	\$ 362,023,402	27.37%	982	23.32%
Washington	143,973,900	10.89%	339	8.04%
Clackamas	130,908,853	9.90%	382	9.06%
Marion	116,849,224	8.83%	382	9.06%
Lane	107,346,224	8.11%	366	8.68%
Jackson	64,458,306	4.87%	219	5.20%
Deschutes	49,784,670	3.76%	146	3.46%
Linn	37,299,847	2.82%	131	3.11%
Douglas	29,057,003	2.20%	141	3.35%
Josephine	28,606,042	2.16%	106	2.51%
Columbia	25,432,261	1.92%	73	1.73%
Yamhill	22,305,111	1.69%	91	2.16%
Umatilla	21,661,536	1.64%	87	2.06%
Clatsop	20,162,890	1.52%	74	1.76%
Klamath	18,552,231	1.40%	84	1.99%
Malheur	17,910,036	1.35%	45	1.07%
Lincoln	17,545,411	1.33%	83	1.97%
Polk	13,874,082	1.05%	57	1.35%
Coos	13,466,639	1.02%	64	1.52%
Benton	12,582,226	0.95%	55	1.30%
Tillamook	12,069,379	0.91%	51	1.21%
Wasco	10,894,196	0.82%	36	0.85%
Hood River	7,814,942	0.59%	25	0.59%
Crook	7,539,177	0.57%	29	0.69%
Union	6,291,765	0.48%	29	0.69%
Baker	5,020,147	0.38%	24	0.57%
Jefferson	4,887,511	0.37%	18	0.43%
Curry	4,430,168	0.33%	26	0.62%
Morrow	2,155,681	0.16%	12	0.28%
Grant	1,805,465	0.14%	11	0.26%
Lake	1,727,647	0.13%	10	0.24%
Harney	1,634,170	0.12%	11	0.26%
Sherman	1,379,009	0.10%	6	0.14%
Wallowa	1,010,601	0.08%	12	0.28%
Gilliam	433,731	0.03%	6	0.14%
Wheeler	160,476	0.01%	2	0.05%
	<u>\$ 1,323,053,959</u>	<u>100.00%</u>	<u>4,215</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
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%
2017	4,142,776	199,422,200	48,137	4.1%

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 2017 and Nine Years Prior

	2017		2008	
	Number of Employees	Percent of Total	Number of Employees	Percent of Total
Health care and social assistance	292,681	11.70%	247,850	10.59%
Retail trade	257,352	10.30%	248,349	10.62%
Manufacturing	209,080	8.37%	209,639	8.96%
Local government	203,686	8.14%	185,891	7.95%
Accommodation and food services	195,501	7.82%	162,608	6.95%
Professional, scientific, and technical services	163,551	6.54%	137,468	5.88%
Construction	133,912	5.35%	140,008	5.98%
Administrative and waste services	130,134	5.20%	123,910	5.30%
Other services	128,142	5.12%	124,700	5.33%
Real estate, rental, and leasing	117,109	4.68%	110,235	4.71%
Finance and insurance	98,228	3.93%	91,339	3.90%
Wholesale trade	84,188	3.37%	88,713	3.79%
Transportation and warehousing	81,895	3.27%	70,083	3.00%
Arts, entertainment, and recreation	62,878	2.51%	54,142	2.31%
Farm employment	62,268	2.49%	66,102	2.83%
Educational services	59,524	2.38%	51,491	2.20%
Management of companies	49,525	1.98%	32,679	1.40%
State government	44,703	1.79%	68,322	2.92%
Information	42,535	1.70%	43,408	1.86%
Forestry, fishing, and related activities	32,075	1.28%	30,760	1.31%
Federal government, civilian	28,273	1.13%	29,542	1.26%
Military	11,427	0.46%	12,157	0.52%
Mining	6,769	0.27%	4,985	0.21%
Utilities	5,621	0.22%	5,107	0.22%
Total employment	2,501,057	100.00%	2,339,488	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 employment in various business sectors.

Oregon State Lottery

Demographic Profile of Oregon Lottery Players

Last Ten Calendar Years

	2008	2009	2010	2011	2012
Number Surveyed	1,003	1,002	1,000	1,000	1,000
Player Percentage	42.2%	48.1%	50.7%	53.3%	52.0%
	Players	Players	Players	Players	Players
<u>Gender</u>					
Male	54%	51%	48%	50%	52%
Female	46%	49%	52%	50%	48%
<u>Age</u>					
18 - 24	8%	6%	10%	9%	12%
25 - 34	19%	20%	19%	19%	18%
35 - 44	22%	17%	17%	16%	15%
45 - 54	23%	27%	26%	23%	23%
55 - 64	18%	15%	15%	14%	13%
65 +	11%	15%	14%	19%	18%
<u>Education</u>					
Some High School	8%	7%	4%	4%	6%
High School Graduate	26%	25%	21%	20%	22%
College/Tech School	36%	37%	37%	33%	30%
College Graduate	20%	18%	20%	23%	21%
Graduate School/Degree	10%	11%	16%	18%	19%
<u>Marital Status</u>					
Single	17%	20%	22%	21%	23%
Married	56%	56%	58%	52%	54%
Co-habiting	9%	7%	6%	7%	5%
Divorced or Separated	11%	10%	7%	11%	9%
Widowed	6%	5%	5%	6%	5%
Civil Union/Domestic Partnership					
<u>Income</u>					
Less than \$15,000	9%	11%	10%	10%	10%
\$15,000 - \$49,999	43%	44%	30%	31%	27%
\$50,000 - \$74,999	15%	18%	17%	16%	14%
\$75,000 - \$99,999	13%	11%	13%	11%	9%
\$100,000 +	10%	9%	10%	14%	11%
Refused/Don't Know	10%	8%	21%	18%	30%

Sources:

Player information from Oregon State Lottery's Tracking Study

State information from U.S. Census Bureau, American Fact Finder, 2017 American Community Survey 1-Year Estimates

2013	2014	2015	2016	2017	
1,000	1,000	2,000	2,000	2,000	
47.8%	46.1%	54.1%	48.1%	54.3%	2017 State Population 18+
Players	Players	Players	Players	Players	
55%	50%	51%	49%	49%	49.6%
45%	50%	49%	51%	51%	50.4%
10%	9%	9%	9%	9%	11.3%
17%	19%	20%	20%	16%	17.6%
16%	16%	16%	15%	20%	16.9%
23%	21%	21%	22%	20%	15.8%
19%	16%	14%	10%	16%	16.7%
15%	19%	21%	24%	19%	21.7%
3%	4%	5%	5%	3%	9.0%
18%	20%	22%	25%	18%	23.2%
32%	33%	27%	25%	45%	34.0%
23%	21%	32%	32%	23%	21.0%
17%	16%	12%	11%	11%	12.7%
26%	25%	24%	24%	16%	31.3%
51%	48%	52%	51%	65%	49.2%
5%	6%	7%	8%	6%	n/a
7%	9%	10%	9%	7%	14.4%
4%	5%	6%	6%	4%	5.1%
1%	1%	1%	1%	2%	n/a
9%	8%	9%	8%	6%	4.1%
27%	31%	29%	25%	31%	49.3%
15%	12%	13%	12%	19%	22.3%
10%	6%	10%	10%	13%	11.1%
15%	12%	16%	15%	13%	13.2%
24%	31%	23%	30%	18%	n/a

Oregon State Lottery
Number of Employees
 Last Ten Fiscal Years

	2009	2010	2011	2012 ²	2013	2014 ³	2015	2016	2017	2018
Sales, Marketing & Retail Services	255	255	248	229	232	236	239	217	226	237
Support Services	157	151	151	143	154	157	152	163	142	135
Director's Office	32	30	31	29	30	33	35	52	63	66
Security ¹	19	17	16	16	13	15	19	16	18	17
Total	463	453	446	417	429	441	445	448	449	455

Source: Oregon State Payroll System for FY 2009 - FY 2013; Lottery Payroll System for FY 2014-2018.

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

²There were a significant number of positions vacant at year end due to a hiring freeze in effect during part of fiscal year 2012.

³There were a number of vacant positions filled during the year as the economy strengthened and hiring freeze was removed.

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
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	3,932	11,817	304.41
2018	3,923	11,742	314.36

¹Source: Oregon State Lottery Research Department

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

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Other Reports

Office of the Secretary of State

Dennis Richardson
Secretary of State

Leslie Cummings, Ph.D.
Deputy Secretary of State



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
Barry Pack, Director, Oregon State Lottery

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, 2018, 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 3, 2018.

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 3, 2018



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