



OREGON  
LOTTERY®

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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AN ENTERPRISE FUND OF THE STATE OF OREGON







# Oregon State Lottery

An Enterprise Fund of the State of Oregon

## Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2020



**OREGON  
LOTTERY®**

Together, we do good things.

**Barry Pack**  
Director

**Kathy Ortega, CPA, CGMA**  
Chief Financial Officer

**Report Prepared by:**

Finance and Accounting  
Oregon State Lottery

Alia Ayhan  
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# COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2020

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# **Introductory Section**





December 11, 2020

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, 2020. 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, 2020. 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. 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 habitat restoration projects to the list of allowable uses of Lottery proceeds in November 1998. Oregonians have voted to use Lottery profits for programs that make Oregon a great place to live and support 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 3,919 retailers through which it offers players a broad mix of Traditional Games as well as Video Lottery<sup>SM</sup>. Traditional Lottery games include: Scratch-its<sup>SM</sup> Instant Tickets, Keno, Powerball<sup>®</sup>, Oregon's Game Megabucks<sup>SM</sup>, Raffle<sup>SM</sup>, Win for Life<sup>SM</sup>, Mega Millions<sup>®</sup>, Lucky Lines<sup>SM</sup>, and Pick 4<sup>SM</sup>. Video Lottery<sup>SM</sup> is a product sold on stand-alone Video Lottery<sup>SM</sup> terminals located in establishments licensed by Oregon Liquor Control Commission (OLCC). The Lottery has approximately 11,567 Video Lottery<sup>SM</sup> terminals deployed throughout the state. In October 2019, Lottery launched an on-line sports betting game, Scoreboard. Scoreboard is currently sold only through Lottery's downloadable mobile application.

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

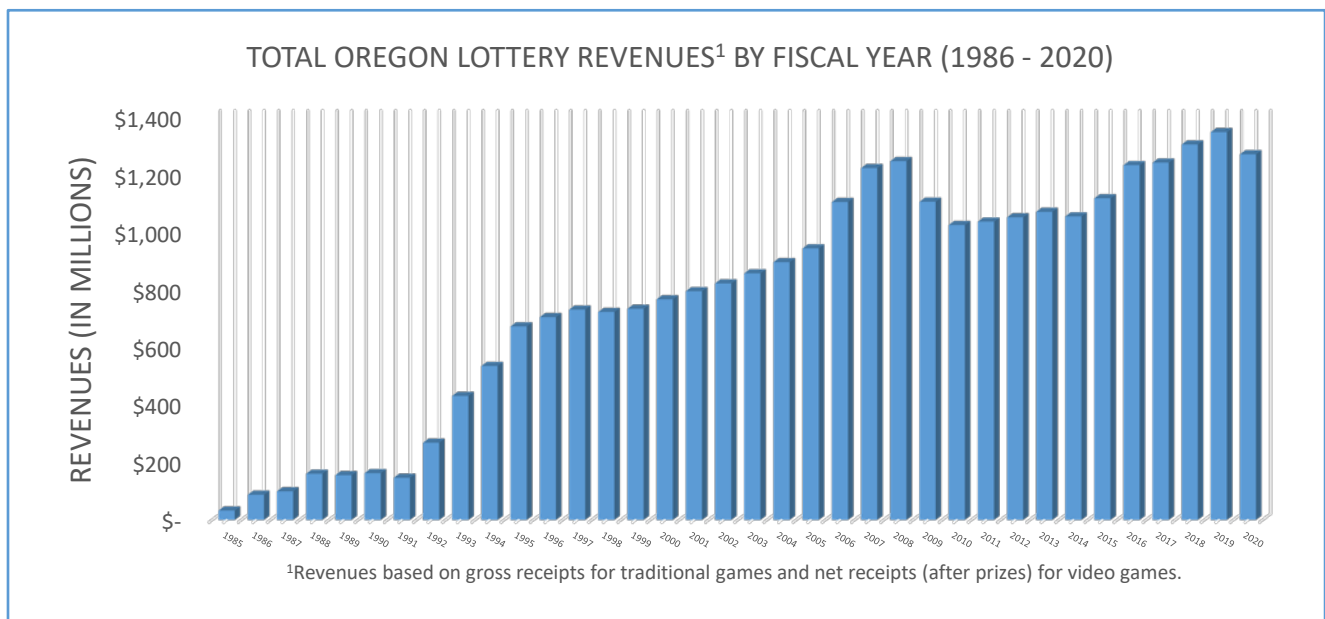


remit the remaining net profits to the State. These net profits are transferred to the Oregon Economic Development Fund and are then distributed by the State to finance the various uses allowed by law. Through its business units, the Lottery provides services that are necessary to operate successfully 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 Strategic 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 2020 expenses were 3.33 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 years 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 2020. However, fourth quarter fiscal year 2020 sales were significantly reduced by effects of the COVID-19 pandemic and resulting retailer location closures.



### Economic Condition and Outlook

According to the Oregon Office of Economic Analysis (OEA) September 2020 Economic and Revenue Forecast, Oregon's employment has steadily expanded and experienced a strong but slowing growth trend through 2019, which outpaced national averages. The combined economic effects of the COVID-19 pandemic and summer wildfires resulted in a -6 percent statewide non-farm growth rate for Oregon, compared to the national average of -5.5 percent. OEA predicts returning to a positive .4 percent employment growth rate in 2021.

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 8.0 percent in 2020, -6.5 percent in 2021, and 5.2 percent in 2022. National averages for 2020 to 2022 are 7.4, -3.9, and 4.5 percent. Oregon wage and salary income for 2020 to 2022 is projected to change -1.2, .9, and 5.1 percent over the next 3 years.

Oregon faces several economic factors in the near-term; potential impacts of the U.S. economy resulting from the COVID-19 pandemic and federal fiscal policy, the strength and affordability of the housing market, global economic instability, effects of the climate and natural disasters, commodity price inflation, federal timber policy and transfers impact, and Oregon initiatives, referendums and referrals.

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 Strategic 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 strategy for video lottery that includes testing and replacing Video Lottery<sup>SM</sup> terminals in the field each year and active game management that has increased sales. 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 2020 Economic and Revenue Forecast, the Office of Economic Analysis (OEA), is reflecting Lottery transfers of \$1.26 billion for the 2019-2021 biennium. A consideration in previous forecasts was the opening of ilani Casino Resort in southwest Washington several years ago. Most of the impact of the casino has been absorbed and is over. Should the potential for a destination hotel arise, the impact on sales will be re-evaluated.

### **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, 2020 the actual cash balance in the reserve was \$73.1 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 and as a reserve in the event of revenue declines from COVID-19 or other economic factors. Further details on this can be found in the MD&A section of this report.

### **Major Initiatives**

The Lottery is planning for the implementation of upgrades to several back-office support systems that are facing obsolescence and end-of-life support. The modernization roadmap under development includes enterprise architecture options and a digital transformation, staging plans for the implementation of solutions, and system integration. The timeline for the roadmap is three to five years. The assessment of Lottery's business processes and capabilities and analysis of the enterprise architecture 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. The Lottery has developed its strategic business plan, and 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 has implemented a retail channel strategy to generate sustainable long-term growth that will expand the market by reaching players through relevant channels. During fiscal year 2020, Lottery continued to evolve our Brand Promise initiative to attract new players and retailers, and appeal to a broad and diverse player and retailer base. We achieve this by investing in both retail operations and participating in local communities to improve funding for programs 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 is 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 2020, Lottery launched Scoreboard, an online sports betting product. This provides an entirely new revenue stream and a different style of play for Lottery customers. Online customers are to be better served in fiscal year 2020, with the use of a more modern communication structure, digital architecture and data tools. Plans to re-launch the oregonlottery.org website were also completed. This will aid the Lottery in enhancing customer engagement, improving the player experience, and diversifying the portfolio to withstand market disruptions. The Lottery is entering the second year of the Oregon Lottery mobile application that has fundamentally improved and enhanced mobile experience and utility for customers. Using a phased approach and data-driven research, additional features are on a roadmap for development, testing, and release through application updates.

The Lottery continues 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, 2019. This was the twelfth 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  
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Presented to

**Oregon State Lottery**

For its Comprehensive Annual  
Financial Report  
For the Fiscal Year Ended

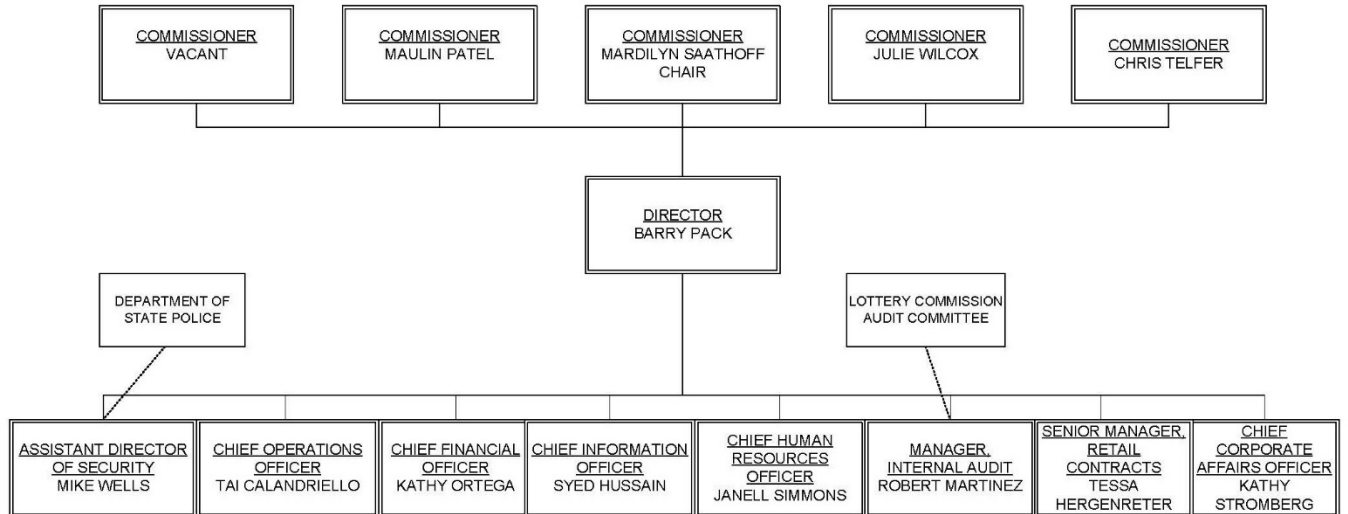
June 30, 2019

*Christopher P. Morill*

Executive Director/CEO



# OREGON STATE LOTTERY COMMISSION



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# Financial Section



**Office of the Secretary of State**

Bev Clarno  
Secretary of State

Jeff Morgan  
Interim Deputy Secretary of State



**Audits Division**

Kip R. Memmott, MA, CGAP, CRMA  
Director

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Salem, OR 97310

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, 2020, 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, 2020, 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, 2020, 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 – 18 and 45 – 49 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 11, 2020, 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 11, 2020



# 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, 2020. 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 \$1.14 billion, a decrease of 15.1 percent over fiscal year 2019.
- Traditional (Scratch and Draw) game revenue decreased 11.3 percent from the prior fiscal year and Video Lottery<sup>SM</sup> revenue decreased 17.5 percent.
- A new product Scoreboard<sup>SM</sup> was launched in October 2019 and generated \$8.6 million of new revenue.
- Net position (equity) decreased by \$11.5 million after prior year reserved profits were transferred.
- The Lottery transferred \$583.4 million to Oregon's Economic Development Fund, which is \$131 million less than the prior year.

### Overview of the Financial Statements

In addition to this discussion and analysis, the Financial Section of this annual report contains the basic financial statements, which include the fund financial statements and 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 the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Fund Net Position. This statement measures the results of the Lottery's operations over the past year.

The primary purpose of the Statement of Cash Flows is to provide information about the Lottery's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities.

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Thus, expenses are recorded when liabilities are incurred, and revenues are recognized when earned, not when received.

## Analysis of Financial Position and Operations

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

	2020	2019	Change
Current assets	\$ 296,677,303	\$ 390,785,944	\$ (94,108,641)
Capital assets	48,657,211	65,678,270	(17,021,059)
Other noncurrent assets	280,771,569	244,064,562	36,707,007
Total assets	626,106,083	700,528,776	(74,422,693)
Deferred Outflows of Resources	16,558,458	14,840,499	1,717,959
<b>Total assets and deferred outflows of resources</b>	<b>642,664,541</b>	<b>715,369,275</b>	<b>(72,704,734)</b>
Current liabilities	205,264,253	264,647,929	(59,383,676)
Noncurrent liabilities	167,768,604	169,685,485	(1,916,881)
Total Liabilities	373,032,857	434,333,414	(61,300,557)
Deferred Inflows of Resources	2,406,165	2,295,740	110,425
<b>Total liabilities and deferred inflows of resources</b>	<b>375,439,022</b>	<b>436,629,154</b>	<b>(61,190,132)</b>
<b>Net position:</b>			
Net investment in capital assets	38,040,215	52,108,890	(14,068,675)
Restricted for OPEB Asset- RHIA	592,770	333,846	258,924
Unrestricted	228,592,534	226,297,385	2,295,149
<b>Total net position</b>	<b>\$ 267,225,519</b>	<b>\$ 278,740,121</b>	<b>\$ (11,514,602)</b>

Total assets decreased \$74.4 million. Current cash and cash equivalents declined \$144.6 million due to reductions in sales and cash being restricted for future projects, contract payments and prize reserves. Securities lending collateral (current asset) increased \$40.7 million due to increased securities lending activity by the State of Oregon Treasurer's Office. Accounts receivable balances increased \$7.4 million at June 30, 2020 due to three more days of sales compared to last year and working to help our retailers survive the financial hardships caused by pandemic related closures. Capital assets decreased as a result of \$25.0 million in depreciation offset by \$8.1 million in acquisitions. Other noncurrent assets grew when cash was restricted for upcoming projects and investment market values increased.

Overall, current liabilities decreased \$59.4 million. Amounts due to the Economic Development Fund decreased 55.9 percent (\$109.1 million) over the prior year. Transfers to the Economic Development Fund are remitted quarterly leaving only the April to June amounts due at the end of the fiscal year. Mandated bar and restaurant closures due to the COVID-19 pandemic were in effect during this period which led to significant declines in Video Lottery<sup>SM</sup> transfers due. However, closure of the Lottery payment centers created a lag in payments resulting in an increase in prize liabilities of \$3.6 million. Additionally, securities lending activity increased amounts due for collateral held at year end by \$40.7 million and accounts payable increased \$5.2 with the purchase of video lottery terminals in May and June.

A portion of the Lottery's net position, 14.2 percent, reflects investment in capital assets, primarily Video Lottery<sup>SM</sup> gaming terminals. Of the \$228.6 million in unrestricted net position at fiscal year-end, \$149.6 million is committed for capital purchases, projects, and long-term contract obligations.

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

Table 2: Oregon State Lottery's Changes in Net Position			
	2020	2019	Increase/ (Decrease)
<b>Operating revenue:</b>			
Video Lottery <sup>SM</sup> game sales, net	\$ 797,498,371	\$ 966,474,906	\$ (168,976,535)
Scoreboard <sup>SM</sup> sales, net	8,620,945	-	8,620,945
Scratch-its <sup>SM</sup> instant ticket sales	149,831,274	131,236,973	18,594,301
Draw game sales	187,307,053	248,814,126	(61,507,073)
Other Income	2,053,562	1,210,580	842,982
<b>Total operating revenues</b>	<b>1,145,311,205</b>	<b>1,347,736,585</b>	<b>(202,425,380)</b>
<b>Operating expenses:</b>			
Prizes	223,500,660	239,044,444	(15,543,784)
Retailer commissions	217,920,495	254,277,458	(36,356,963)
Other operating expenses	152,701,534	150,234,369	2,467,165
<b>Total operating expenses</b>	<b>594,122,689</b>	<b>643,556,271</b>	<b>(49,433,582)</b>
<b>Operating income</b>	<b>551,188,516</b>	<b>704,180,314</b>	<b>(152,991,798)</b>
Interest and investment income	24,122,455	20,482,336	3,640,119
Insurance recoveries	4,053	1,049	3,004
Nonoperating expenses	(1,093,255)	(822,965)	(270,290)
<b>Total nonoperating revenues (expenses)</b>	<b>23,033,253</b>	<b>19,660,420</b>	<b>3,372,833</b>
<b>Income before transfers</b>	<b>574,221,769</b>	<b>723,840,734</b>	<b>(149,618,965)</b>
Transfers	(585,736,371)	(716,610,783)	130,874,412
<b>Change in net position:</b>	<b>(11,514,602)</b>	<b>7,229,951</b>	<b>(18,744,553)</b>
Net position - beginning	278,740,121	271,510,170	7,229,951
<b>Net position - ending</b>	<b>\$ 267,225,519</b>	<b>\$ 278,740,121</b>	<b>\$ (11,514,602)</b>

Despite the addition of the Scoreboard<sup>SM</sup> sports betting platform to the Lottery product line up in October, pandemic related closures lead to an overall operating revenue decline of 15.1 percent. Scoreboard<sup>SM</sup> sales were \$8.6 million of new revenue until the pandemic which caused cancellation of sports worldwide. Scoreboard<sup>SM</sup> revenues were about 38% less than originally anticipated. Other income increased 69.6 percent due to an unexpected gain from defeasance of a Win For Life<sup>SM</sup> prize liability.

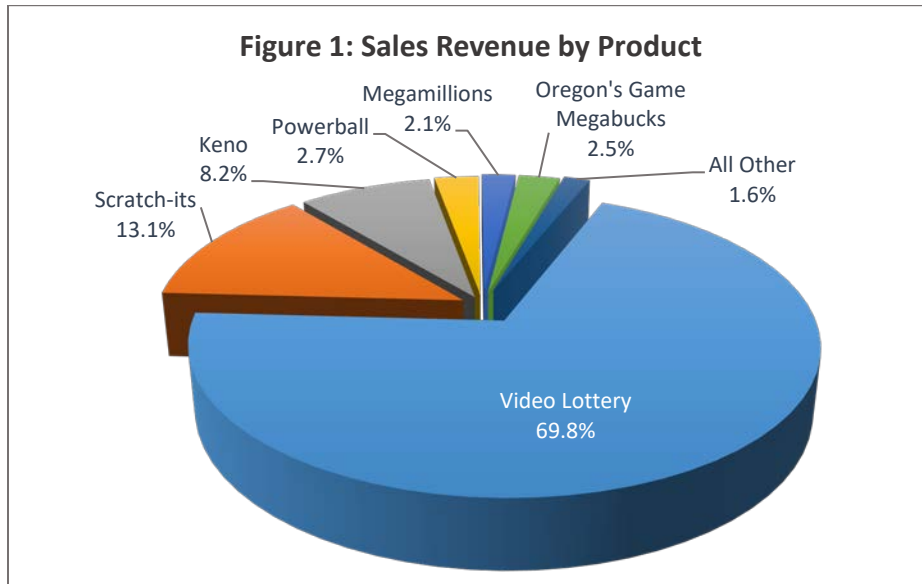
Operating expenses declined 7.7 percent from the prior fiscal year. Prizes and retailer commissions, which are directly related to sales, declined with the corresponding drop in revenue. Other operating expenses increased 1.6 percent as a result of start-up costs and vendor fees for the Scoreboard<sup>SM</sup> product. Depreciation decreased 28.2 percent from the prior fiscal year as video lottery terminals aged and became fully depreciated.

Total nonoperating revenues increased \$3.4 million. Investment income increased \$4.7 million over the prior year based on the market value growth of securities purchased to fund long-term prizes. Lottery holds securities to maturity; thus, market value fluctuations do not impact operational decisions or cash position.

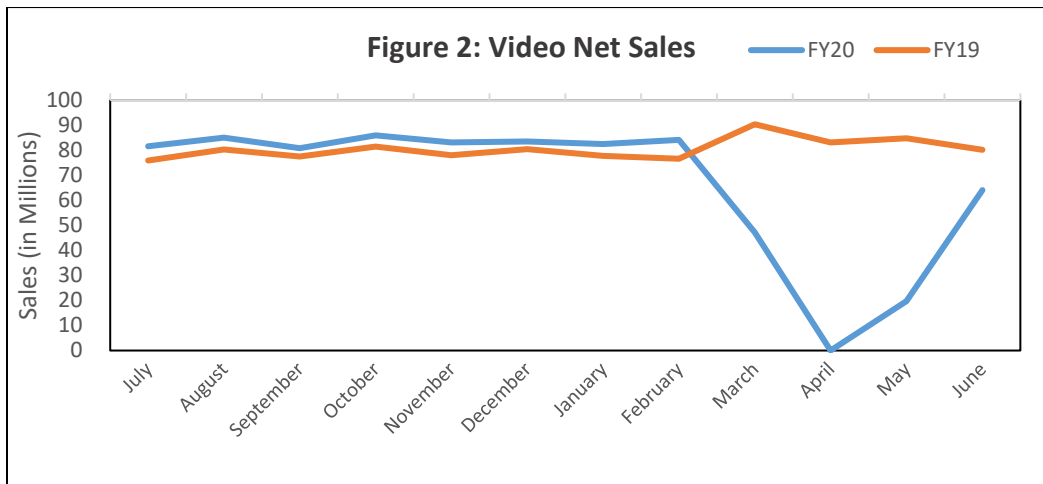
Overall, income before transfers decreased 20.7 percent and there was a decrease in transfers to the Economic Development fund as a result of reduced revenues. Transfers decreased from the 2019 fiscal year by 18.3 percent, or \$131.0 million.

**Sales Revenue**

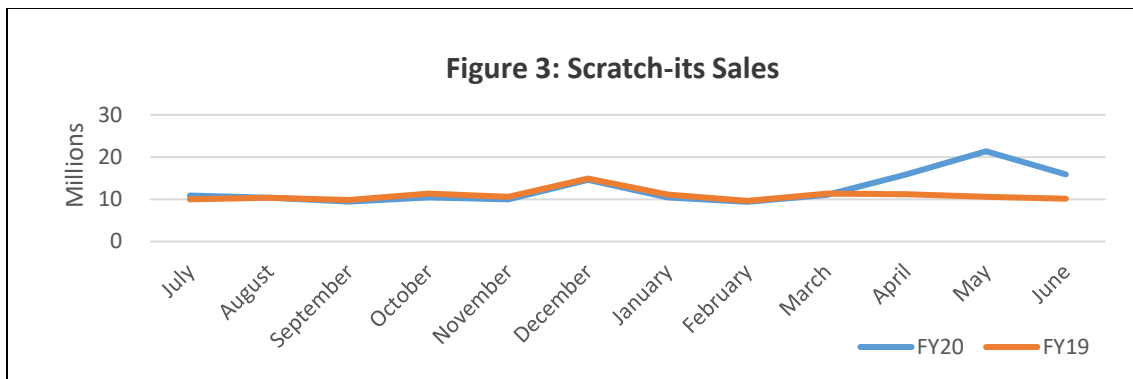
Figure 1 below shows the major sources and percentages of sales revenue for fiscal year 2020:



Video Lottery<sup>SM</sup> remains the Lottery’s largest source of revenue representing 69.8 percent of total sales. However, video revenues dropped during fiscal year 2020 by 17.5 percent as a result of the pandemic and a mandated statewide lockdown beginning in March. Prior to the March shutdown video lottery year to date revenues were 6.1 percent higher than fiscal year 2019. Once limited, county by county re-opening began in late May, revenues began to rebound. Throughout the year the Lottery continued to actively promote problem gambling programs.



Sales of Scratch-its<sup>SM</sup>, the second largest source of sales revenue at 13.1 percent, had 14.2 percent growth in fiscal year 2020. Prior to the March shutdown instant ticket sales had been trailing fiscal year 2019 by 2.6 percent. However, sales for the period April through June 2020 surpassed the same period of 2019 by \$21.2 million or 66.4 percent due to a shift in player behavior. Figure 3 on the next page displays the trend:



Significant sales declines in the jackpot games of Powerball, Megamillions and Oregon’s Game Megabucks, led to the drop in draw game sales of \$61.5 million over the prior fiscal year. While sales did decline in the last quarter of the year due to the COVID-19 pandemic, most of the decline was caused by low jackpot levels throughout the year. Megamillions had the largest percentage drop in sales, down 52.7 percent year over year, because the largest jackpot in fiscal year 2020 was only \$414 million while fiscal year 2019 had a record breaking \$1.537 billion jackpot. Powerball’s largest jackpot during the year was only slightly over half of the prior fiscal year’s largest jackpot. Additionally, the Multi-State Lottery Association reduced the starting jackpots for both Megamillions and Powerball from \$40 million to \$20 million as pandemic related sales declined nationwide. Oregon’s Game Megabucks had five jackpot winners in fiscal year 2020 compared to fiscal year 2019 which had only three winning jackpots. A larger number of winners resulted in jackpots not increasing to higher levels that generate more sales.

Keno sales had a 9.0 percent decline since most of the play occurs in bars and restaurants which were closed in March due to the COVID-19 outbreak. However, Keno sales during the closures increased in convenience and grocery stores which helped offset the decline in sales at bars and restaurants. The increased sales in these venues also helped play levels quickly return to normal volumes as the shut-down restrictions began lifting.

### 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 Lottery<sup>SM</sup> gaming terminals and computer software:

	2020	2019	Change
Buildings, Equipment, and Vehicles	\$ 37,345,839	\$ 49,825,425	\$ (12,479,586)
Computer Software	11,307,071	13,760,084	(2,453,014)
Other Assets	4,301	207,788	(203,486)
Capital Assets in Progress	-	1,884,973	(1,884,973)
<b>Total Capital Assets, Net</b>	<b>\$ 48,657,211</b>	<b>\$ 65,678,270</b>	<b>\$ (17,021,059)</b>

During fiscal year 2020, capital assets net of depreciation decreased 25.9 percent. The decrease is the result of depreciation, the majority of which is for video lottery terminals. However, there was \$5.7 million of new video lottery terminals added which partially offset the decrease from depreciation. Additional information on Lottery’s capital assets can be found in Note 6 of the financial statements.



## **Factors Relevant to Future Operations**

Considering the COVID-19 pandemic containment measures such as bar and restaurant closures and capacity limitations, Lottery revenues are only expected to decline about 10 percent in the upcoming year. The biggest factor in this expectation is the strong player response and pent-up demand that was seen immediately after re-opening. Statistics have shown that video lottery players returned faster and at a higher percentage than restaurant diners did after re-opening. Lottery games have also benefitted from federal aid that boosted personal incomes and the relative lack of other forms of entertainment such as movie theaters and sporting events. Gaming revenues rebounding is a pattern seen nationwide.

The Lottery will continue limited and controlled spending with the focus on essentials and items needed for revenue generation. While the revenues forecasted are not as negative as anticipated early in the pandemic, there is still concern as we enter the winter months and COVID-19 spreading as people stay indoors. Additionally, Lottery considers the risk of increased competition for disposable income and potential shifts in generational preferences for gaming. However, surging COVID-19 cases in the late fall resulted in the closure of bars and restaurants across the state in late November. This freeze was for a two-week period and counties with lower risk were allowed to open again. The Lottery has already taken social distancing safety measures for video lottery terminals so establishments which can open are ready to do so. Risk of lower sales revenues remain as counties currently in closure status are some of Oregon's top selling counties.



**OREGON**  
**LOTTERY™**

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# **Basic Financial Statements**

**OREGON STATE LOTTERY**  
**Statement of Net Position**  
**June 30, 2020**

**Assets**

Current Assets:

Cash and Cash Equivalents	\$ 172,485,704
Securities Lending Cash Collateral	72,629,171
Investments for Prize Payments	10,581,859
Accounts Receivable (Net)	35,125,296
Ticket Inventory	1,608,254
Prepaid Expenses	4,247,019
Total Current Assets	296,677,303

Noncurrent Assets:

Cash and Cash Equivalents	150,453,734
Investments for Prize Payments	122,472,602
Prize Reserves	7,252,463
Net Other Post-Employment Benefits (OPEB) Asset	592,770

Capital Assets:

Buildings, Equipment and Vehicles	206,018,910
Computer Software	27,911,153
Other Assets	1,386,660
Less Accumulated Depreciation and Amortization	(186,659,512)
Total Noncurrent Assets	329,428,780
Total Assets	626,106,083

**Deferred Outflows of Resources**

Deferred Amounts for Pensions	16,356,996
Deferred Amounts for Other Post-Employment Benefits (OPEB)	201,462
Total Deferred Outflows of Resources	16,558,458
Total Assets and Deferred Outflows of Resources	642,664,541

**Liabilities**

Current Liabilities:

Due to Economic Development Fund	71,116,871
Obligations Under Securities Lending	72,629,171
Prize Liability	36,572,114
Accounts Payable	17,846,141
Compensated Absences	3,035,696
Unearned Revenue	859,200
Contracts Payable	3,205,060
Total Current Liabilities	205,264,253

Noncurrent Liabilities:

Prize Liability	110,381,908
Compensated Absences	1,634,605
Net Pension Liability	43,457,600
Other Post-Employment Benefits (OPEB) Liabilities	1,515,225
Contracts Payable	10,779,266
Total Noncurrent Liabilities	167,768,604
Total Liabilities	373,032,857

**Deferred Inflows of Resources**

Deferred Amounts for Pensions	2,071,799
Deferred Amounts for Other Post-Employment Benefits (OPEB)	334,366
Total Deferred Inflows of Resources	2,406,165
Total Liabilities and Deferred Inflows of Resources	375,439,022

**Net Position**

Net Investment in Capital Assets	38,040,215
Restricted for Net Other Post-Employment Benefits (OPEB) Asset	592,770
Unrestricted	228,592,534
<b>Total Net Position</b>	<b>\$ 267,225,519</b>

*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, 2020**

**Operating Revenues**

Sales:		
Video Lottery <sup>SM</sup> (Net Receipts)	\$	797,498,371
Scoreboard <sup>SM</sup> (Net Receipts)		8,620,945
Scratch-its <sup>SM</sup> Instant Tickets (Net of Returns)		149,831,274
Keno		93,417,823
Powerball <sup>®</sup>		31,196,079
Megabucks <sup>SM</sup>		29,041,472
Mega Millions <sup>®</sup>		23,770,095
Raffle <sup>SM</sup>		2,499,890
Win For Life <sup>SM</sup>		3,637,752
Lucky Lines <sup>SM</sup>		2,013,468
Pick 4 <sup>SM</sup>		1,730,474
Provision for Uncollectibles		(253,303)
Other Income		2,306,865
Total Operating Revenues		<u>1,145,311,205</u>

**Operating Expenses**

Prizes	223,500,660
Retailer Commissions	217,920,495
Salaries and Wages	63,045,069
Depreciation and Amortization	24,967,865
Services and Supplies	27,382,826
Game Vendor Charges	12,496,247
Advertising and Market Research	8,052,269
Public Information	4,368,793
Tickets	3,398,500
Game Equipment Parts and Maintenance	8,383,835
Sales Support	606,130
Total Operating Expenses	<u>594,122,689</u>
Operating Income	<u>551,188,516</u>

**Nonoperating Revenues (Expenses)**

Interest	9,223,470
Investment and Securities Lending Income (Loss)	14,898,985
Insurance Recoveries	4,053
Gain (Loss) on Disposition of Assets	35,650
Investment Expenses - Securities Lending	(529,448)
Investment Expenses	(14,028)
Interest Expense	(585,429)
Total Nonoperating Revenues (Expenses)	<u>23,033,253</u>
Income Before Transfers	<u>574,221,769</u>

**Transfers**

Transfers to the Economic Development Fund	(583,442,933)
Transfers to the General Obligation Bond Fund	(2,293,438)
Total Transfers	<u>(585,736,371)</u>
Change in Net Position	(11,514,602)
Net Position - Beginning	<u>278,740,121</u>

**Net Position - Ending**

\$ 267,225,519

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

**OREGON STATE LOTTERY**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2020**

<b>Cash Flows from Operating Activities:</b>	
Receipts from Customers	\$ 1,135,891,214
Payments to Employees for Services	(41,604,906)
Payments to Suppliers	(298,000,944)
Payments to Prize Winners	(215,719,056)
Other Cash Receipts (Payments)	(1,674,811)
Net Cash Provided (Used) by Operating Activities	<u>578,891,497</u>
<b>Cash Flows from Noncapital Financing Activities:</b>	
Principal and Interest Payments on Long-term Pension Debt	(632,111)
Transfers to the Economic Development Fund	(698,844,266)
Transfers to the General Obligation Bond Fund	(2,293,438)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(701,769,815)</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Acquisition of Capital Assets	(7,955,792)
Proceeds from Disposition of Capital Assets	198,604
Payments on Contracts	(3,417,135)
Insurance Recoveries for Capital Assets	4,053
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(11,170,270)</u>
<b>Cash Flows from Investing Activities:</b>	
Purchases of Investments	(4,811,401)
Proceeds from Sales and Maturities of Investments	10,620,000
Interest on Investments and Cash Balances	9,223,471
Securities Lending Expenses	(529,448)
Investment Expenses	(14,028)
Net Cash Provided (Used) by Investing Activities	<u>14,488,594</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>(119,559,994)</u>
Cash and Cash Equivalents - Beginning	442,499,432
<b>Cash and Cash Equivalents - Ending</b>	<u>\$ 322,939,438</u>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</b>	
Operating Income	\$ 551,188,516
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation and Amortization	24,967,865
Net Changes in Assets and Liabilities:	
(Increase) / Decrease in Accounts Receivable	(7,419,033)
(Increase) / Decrease in Ticket Inventory	(122,647)
(Increase) / Decrease in Prepaid Expenses	(2,182,247)
(Increase) / Decrease in Prize Reserves	(2,363,573)
(Increase) / Decrease in Pension Deferred Outflows	(1,842,897)
(Increase) / Decrease in Net OPEB Asset and OPEB Deferred Outflows	(133,985)
Increase / (Decrease) in Accounts Payable	5,242,706
Increase / (Decrease) in Compensated Absences Liability	(59,637)
Increase / (Decrease) in Unearned Revenue	361,695
Increase / (Decrease) in Prize Liability	6,092,094
Increase / (Decrease) in Net Pension Liability and Deferred Inflows	5,164,403
Increase / (Decrease) in OPEB Liability and OPEB Deferred Inflows	(1,763)
Total Adjustments	<u>27,702,981</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 578,891,497</u>
<b>Noncash Investing, Capital, and Related Financing Activities:</b>	
Net Change in Fair Value of Investments	\$ 14,898,985
Intangible Assets Acquired Through Contract	153,968
Total Noncash Investing, Capital, and Related Financing Activities	<u>\$ 15,052,953</u>

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



## **OREGON STATE LOTTERY**

### **Notes to the Financial Statements**

June 30, 2020

#### **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 like 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 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 Megabucks<sup>SM</sup>, Powerball<sup>®</sup>, Mega Millions<sup>®</sup>, Keno, Win for Life<sup>SM</sup>, Raffle<sup>SM</sup>, Pick 4<sup>SM</sup>, and Lucky Lines<sup>SM</sup> are recognized when the draws occur. Revenues for instant scratch ticket games are recognized when retailers activate ticket packs for sale to the public. Scoreboard revenues are recognized when events have completed and the outcome is known and are reported net of returns to players. Revenues for Video Lottery<sup>SM</sup> 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 Lottery<sup>SM</sup> 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 and Scoreboard wagers can be placed prior to an event. When shares are sold or wagers are placed in advance of the draw or event date, sales revenue is not yet earned. Unearned revenue includes revenue associated with draw or event dates occurring 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 design includes 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. Scoreboard prize expense is recognized when the outcome of the wagered event is known. Video Lottery<sup>SM</sup> prize expense is recognized as game play completes and prizes are known. More detailed information for Video Lottery<sup>SM</sup> is in Note 2(B).

Prize expense for fiscal year ending June 30, 2020 also includes \$3,778,462 of amortization expense related to 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, 2020 was \$573,112.

**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 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, 2020. 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. Accounts receivable primarily consist of proceeds due from Lottery retailers. Most retailers selling Lottery products are required to remit weekly proceeds (Sunday through Saturday), less commissions, on the following Wednesday. Corporate accounts with multiple establishments may remit proceeds on the second Wednesday following the end of the business week.

**K. Inventories**

Inventories are valued at cost using the specific identification method. Ticket inventory consists of Scratch-its<sup>SM</sup> 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. When activations are no longer allowed, tickets not sold at retail establishments are expensed. The tickets are returned to the warehouse and subsequently destroyed.

**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. Prize reserves for Scoreboard are held in escrow and are available to our payment processor in the event cash amounts are not sufficient to cover player account withdrawals.

**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. 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 equipment	5 to 7 or per agreement
Other machinery and equipment	5 to 25
Leasehold improvements	3 to 10 or per lease agreement
Vehicles	5 to 10
Computer hardware and software	2 to 10 or per agreement
Intangibles - Non-software	Term of contract

**N. Compensated Absences**

Employees earn vacation leave of 10 to 20 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, 2019. 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, 2019 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, 2020. Amounts included are Lottery’s portion of the State of Oregon’s amount 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 and Strategic 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 2020 Financial Plan is presented as supplementary information in this report.

**B. Video Lottery<sup>SM</sup> and Scoreboard<sup>SM</sup> Net Revenue**

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

	<u>Revenue</u>		<u>Prize Expense</u>
Cash Received	\$ 2,894,970,062	Cash Paid Out	\$ 2,097,470,578
Dollars Won and Played	<u>7,556,468,996</u>	Dollars Won and Played	<u>7,556,468,996</u>
Total Revenue	<u>\$ 10,451,439,058</u>	Total Prizes	<u>\$ 9,653,939,574</u>
Net Revenue before Discounts = \$797,499,484			

Scoreboard<sup>SM</sup> revenue is reported net of discounts and prize expense in the Statement of Revenues, Expenses, and Changes in Fund Net Position. The following schedule shows actual wagering activity:

	<u>Amount</u>
Wagers Placed	\$ 116,478,425
Wagers Refunded Due to Cancellations	(482,254)
Prizes Won	<u>(106,951,270)</u>
Net Revenue Before Discounts	<u>\$ 9,044,901</u>

**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.<sup>1</sup> The following table shows that for fiscal year 2020 the Lottery operated within the legal limits defined by ORS 461.500:

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

<u>Revenues</u>			
Sales		\$ 10,913,422,339	
Other Distributable Income		14,190,614	
Total Distributable Revenue		\$ 10,927,612,953	
<u>Distribution of Revenues</u>			
Revenues Returned to the Public:			
Prizes to the Public		\$ 9,985,903,137	91.38%
Unclaimed Prizes Paid/Due to Economic Development Fund		6,326,012	0.06%
Transfers Paid/Due to Economic Development Fund		571,928,331	5.23%
Total Revenues Returned to the Public		10,564,157,480	96.67%
Administrative Expenses		363,455,473	3.33%
Total Revenue Distribution		<u>\$ 10,927,612,953</u>	<u>100.00%</u>

**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 2020, prizes in the amount of \$6,326,011 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, 2020:

Cash Available for Future Investment (Uncommitted Contingency Reserve)	\$ 73,123,400
Committed by Contract for Asset Purchases/Licensing (See Note 7 and 10)	89,151,020
Committed by Commission for Capital Purchases/Projects	60,462,841
Inventory and Prepaid Expenses	5,855,273
Total Unrestricted Net Position	<u>\$ 228,592,534</u>

**F. Transfers to Economic Development Fund**

All current year income remaining after transfers to the General Obligation Bond Fund as well as \$11,514,602 of contingency reserve was accrued for transfer to the Economic Development Fund. Actual cash transferred, including unclaimed prizes, during fiscal year 2020 was \$698,844,266. The remaining balance is included on the Statement of Net Position in current liabilities. The following schedule reconciles the amounts:

	Balance Owed at <u>June 30, 2019</u>	Amounts <u>Accrued</u>	Cash Paid to <u>Economic Development</u>	Balance Remaining at <u>June 30, 2020</u>
Income	\$ 178,703,933	\$ 583,442,933	\$ 692,286,138	\$ 69,860,728
Unclaimed Prizes	1,488,260	6,326,011	6,558,128	1,256,143
Total	<u>\$ 180,192,193</u>	<u>\$ 589,768,944</u>	<u>\$ 698,844,266</u>	<u>\$ 71,116,871</u>



### 3. Deposits

The Lottery uses a financial institution qualified by the Oregon State Treasurer to hold public funds, 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: <https://www.oregon.gov/treasury/public-financial-services/oregon-short-term-funds/pages/default.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% 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% 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% 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, 2020 of \$324,895,618, 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 both US Treasury STRIPS as well as US Agency STRIPS of the Resolution Funding Corporation (RFC). The RFC investments are not explicitly guaranteed by the U.S. government and do not have a credit rating. 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.

Concentration of credit risk is the risk of loss attributed to the magnitude of investments in a single issuer. Investments in the RFC represents 1.98 percent of the Lottery's investment holdings at June 30.

#### 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, 2020:

<u>Investment Type</u>	<u>Less than 1</u>			<u>More Than 10</u>		<u>Fair Value</u>
	<u>Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>Years</u>		
U.S. Agency STRIPS	\$ 874,409	\$ 1,761,765	\$ -	\$ -	\$ 2,636,174	
U.S. Treasury STRIPS	9,707,450	39,351,661	39,583,498	41,775,678	130,418,287	
<b>Total Investments</b>	<b>\$ 10,581,859</b>	<b>\$ 41,113,426</b>	<b>\$ 39,583,498</b>	<b>\$ 41,775,678</b>	<b>\$ 133,054,461</b>	

#### 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 2020, 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 can 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, 2020. 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. Therefore, the maturities of investments made with cash collateral generally did not match the maturities of the securities loans. On June 30, 2020, the State and the Lottery had no credit risk exposure to borrowers related to securities on loan.

As of June 30, 2020, the total fair value of securities on loan from the OSTF was \$336,884,171, the collateral received was \$343,798,417 and the fair value of invested collateral was \$280,444,678. 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, 2020, is presented in the following schedule:

	<u>Securities Lending Balances</u>		
	<u>Fair Value of</u>		<u>Fair Value of</u>
	<u>Securities on</u>	<u>Collateral</u>	<u>Invested Cash</u>
	<u>Loan</u>	<u>Received</u>	<u>Collateral</u>
Lottery Share OSTF	\$ 5,772,207	\$ 5,890,677	\$ 4,805,167
Lottery Investments	69,680,906	71,142,033	67,828,942
<b>Total</b>	<b>\$ 75,453,113</b>	<b>\$ 77,032,710</b>	<b>\$ 72,634,109</b>

**6. Capital Assets**

Capital asset activity for the year ended June 30, 2020, is shown in the following schedule:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Depreciable Capital Assets</u>				
Equipment	\$182,040,430	\$ 6,686,587	\$ 4,056,548	\$184,670,469
Building and Improvements	13,571,488	2,261,702	-	15,833,190
Vehicles	5,515,070	394,472	394,291	5,515,251
Computer Software	27,264,791	651,972	5,610	27,911,153
Other Assets	1,386,660	-	-	1,386,660
Total Assets Being Depreciated	229,778,439	9,994,733	4,456,449	235,316,723
<u>Accumulated Depreciation</u>				
Equipment	141,158,793	20,554,679	4,013,719	157,699,753
Building and Improvements	7,819,829	428,705	-	8,248,534
Vehicles	2,322,941	676,009	274,166	2,724,784
Computer Software	13,504,707	3,104,986	5,610	16,604,083
Other Assets	1,178,872	203,486	-	1,382,358
Total Accumulated Depreciation	165,985,142	24,967,865	4,293,495	186,659,512
<u>Capital Assets Not Being Depreciated</u>				
Capital Assets in Progress	1,884,973	-	1,884,973	-
Capital Assets, Net	<u>\$ 65,678,270</u>	<u>\$(14,973,132)</u>	<u>\$ 2,047,927</u>	<u>\$ 48,657,211</u>

Included in the equipment category above is \$6,736,500 of Video Retailer Terminals acquired through a capital lease. Equipment accumulated depreciation includes capital lease amortization of \$3,127,661.

On June 27, 2014 the Lottery vacated its backup center and it remained idle at June 30, 2020. Carrying value included in capital assets is \$444,849.

During fiscal year 2020 video lottery equipment valued at \$43,384 was written off due to fires at retail establishments. Insurance recoveries for those losses were \$35,604. The loss net of insurance reimbursement 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**

The following schedule presents changes in long-term liabilities during the fiscal year, as well as the amounts due in the next fiscal year:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Prizes	\$147,187,940	\$223,500,660	\$223,734,578	\$146,954,022	\$36,572,114
Compensated Absences	4,729,938	3,427,960	3,487,597	4,670,301	3,035,696
Licensing Contracts	8,920,875	153,968	2,177,226	6,897,617	1,838,786
Capital Lease Obligation	4,648,506	-	929,127	3,719,379	999,766
Pre-SLGRP Pension Debt	3,724,795	-	357,465	3,367,330	366,508
Total	<u>\$169,212,054</u>	<u>\$227,082,588</u>	<u>\$230,685,993</u>	<u>\$165,608,649</u>	<u>\$42,812,870</u>

As of June 30, 2020, there were 79 Oregon Lottery prizes with remaining long-term annual prize payments. The estimated number of years remaining for payments extends to 47 years. During fiscal year 2020, a \$1,689,510 gain was recognized for the defeasance of a previously estimated liability in the Win For Life<sup>SM</sup> game. The following

schedule of payments includes prizes with payments for a fixed period. Although estimated and included in prize liability, contingent prize payments are not shown in the table:

Fiscal Year Ending June 30	Principal	Interest
2021	\$ 8,558,608	\$ 141,059
2022	8,275,949	371,718
2023	7,990,418	605,248
2024	7,560,510	824,157
2025	6,948,455	1,015,212
2026-2030	24,914,966	5,965,368
2031-2035	14,658,901	6,256,433
2036-2040	5,665,954	3,203,380
2041-2045	1,057,593	725,740
2046-2050	396,458	240,209
Total	<u>\$ 86,027,812</u>	<u>\$ 19,348,524</u>

The Lottery currently has six software licensing contracts requiring monthly, quarterly, or annual payments for a defined period. In September 2016 Lottery contracted for a 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 Lottery<sup>SM</sup> terminals throughout the State. The contract will expire in September 2024. Should the Lottery default through non-payment or breach of contract, undisputed amounts on invoices for services performed and deliverables delivered, less any amounts previously paid, are due immediately.

The Lottery originally contracted for a hosted web portal with second chance drawing functionality in November 2010. The contract was amended and restated in February 2013 with a duration of five years. In December of 2018 an extension was signed extending the term through February 2021.

The Lottery also has licenses for recruitment tracking, recruitment and job description writing, and compensation data software as well as a license for project and planning tracking software.

The following table shows the total annual liability payments required by the licensing contracts:

Fiscal Year Ending June 30	Amount
2021	\$ 1,838,785
2022	1,579,587
2023	1,556,331
2024	1,538,331
2025	384,583
Total	<u>\$ 6,897,617</u>

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 \$3,367,330 represents Lottery’s allocation of the state liability. The payment schedule is shown in the following table:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 366,508	\$ 245,465
2022	393,372	218,601
2023	422,204	189,768
2024	453,150	158,823
2025	486,364	125,609
2026-2028	1,245,732	152,291
Total	<u>\$ 3,367,330</u>	<u>\$ 1,090,557</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 game structures offer free tickets as prizes instead of cash. The sales value of these prizes reduces sales rather than being included as prize expense. For fiscal year ended June 30, 2020 Lottery awarded free play prizes of \$695,766. Promotional discounts and free plays also reduced sales by \$573,112.

At June 30, 2020, accounts receivable in the Statement of Net Position is reported net of \$281,553 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. In the fiscal year ending June 30, 2020 there were sufficient revenues to cover expenses and no additional amounts were paid for fees and services.

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, 2020 and June 30, 2019 (in thousands):



	<u>2020</u>	<u>2019</u>
Assets	\$ 534,266	\$ 507,711
Total Assets	<u>\$ 534,266</u>	<u>\$ 507,711</u>
Liabilities	\$ 519,556	\$ 486,742
Net Assets <sup>1</sup> - Unrestricted	<u>14,710</u>	<u>20,969</u>
Total Liabilities and Net Assets <sup>1</sup>	<u>\$ 534,266</u>	<u>\$ 507,711</u>
Revenue	\$ 7,523	\$ 18,637
Expenses	5,982	6,716
Other Changes in Net Assets	(7,800)	
Excess Revenues Over Expenses	<u>\$ (6,259)</u>	<u>\$ 11,921</u>

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

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

#### 10. Capital and Operating Lease Commitments

In October 2016, the Lottery began a capital lease of 2,700 video retailer terminals, known as iLinks, which are part of the communication infrastructure between the Video Lottery<sup>SM</sup> 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, 2020, 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 was effective through November 30, 2020. In October 2019 a new agreement for equipment and operation of the traditional sales system was signed (see Note 11 A). This new contract extended the prior equipment lease until conversion to the new system which is anticipated to be in March 2021. Through the transition period the Lottery will continue to lease 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 2020 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, 2020 are shown in the following schedule:

Fiscal Year Ending June 30,	Future Minimum Operating Lease Payments	Future Minimum Capital Lease Payments	
		Principal	Interest
2021	\$ 966,708	\$ 999,766	\$ 240,143
2022	-	1,075,777	164,132
2023	-	1,157,566	82,343
2024	-	463,587	10,946
2025	-	22,683	279
Total Future Minimum Lease Payments	<u>\$ 966,708</u>	<u>\$ 3,719,379</u>	<u>\$ 497,843</u>

## 11. Other Significant Commitments and Contingencies

### A. Commitments

In October 2019 the Lottery signed a comprehensive agreement for all equipment, use of new software and services associated with processing transactions for traditional products. The contract term is five years from the conversion go-live date. Until conversion, which is anticipated in March 2021 the current contract for services and the use of software associated with processing transactions for its traditional products will continue. Under the current contract the contractor is paid a commission of 1.6999 percent of net sales for all traditional products. In fiscal year 2020, the Lottery had expenses of \$5,730,328 for traditional product commissions. The amount is included in Game Vendor Charges on the Statement of Revenues, Expenses, and Changes in Fund Net Position. After the go-live conversion date the Lottery will pay 2.5047 percent of net sales. In addition, the Lottery committed to purchasing \$27,514,658 of equipment needed for processing traditional product transactions.

In May 2019, Lottery contracted for services and access to software for a sports betting solution. The contract is for five years from the launch date of October 16, 2019. The contract will automatically renew for additional three-year periods unless one party notifies the other of intent not to renew. Software access fees are a percentage of net gaming revenues (NGR), which is revenue net of prizes and other allowed expenses. In the first three years the percentage varies from 11% to 9%, declining as NGR increases. The fourth year and after Lottery will pay 12% of NGR. Service fees are also a percentage of NGR, and during the first three years Lottery will pay 16%. The percentage then increases to 17% for year 4 and after. The current minimum service fee is \$350,000 and extends through the end of the term. Lottery has also agreed to reimburse the vendor for expenses related to third-party products required for the sports betting solution. If the contract is terminated a termination fee based on the average fees paid or \$300,000, whichever is greater, multiplied by the lesser of 24 months or remaining months of the term becomes due. However, Lottery does retain the right to terminate the contract under specified criteria with no termination fee. Lottery expenses for software access, services, and third-party reimbursements for the fiscal year ending June 30, 2020 were \$789,035, \$2,587,097, and \$361,253 respectively. These expenses are 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, 2020, \$302,910 of reimbursements were expensed.

## 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 and 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% annual cap. Service time on or after October 1 receives a 1.25% increase on the first \$60,000 of annual benefit and .15% for benefit over \$60,000. The Oregon legislature has authority to change benefits.

Contributions

As required by Oregon statute, employer contribution rates are actuarially determined and allow accumulation of assets sufficient to pay defined pension benefits when due. Employer contribution rates are expressed as a percentage of covered payroll. The Board’s practice is to implement new rates in each odd-numbered year based on the valuation of the previous odd-numbered year. Rates used in fiscal year 2020 were effective July 1, 2019 and based on the December 31, 2017 valuation. Lottery contributions in fiscal year 2020 were \$6,470,253.

Set by statute, Lottery employees contribute 6 percent of covered salary to their IAP account.

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

The collective net pension liability, measured as of June 30, 2019, is based on the December 31, 2017 actuarial valuation rolled forward to the measurement date. The measurement includes plan changes from Senate Bill 1049 signed into law in June 2019. The bill introduces a limit on the amount of annual salary included for the calculation of benefits. Beginning in 2020 annual salary in excess of \$195,000 (indexed in future years) will be excluded when determining member benefits. IAP accounts are not included in the measurement of the total pension liability. Assumptions used for the measurement include the following:

Experience Study Report	2016, published July 2017
Actuarial Cost Method	Entry Age Normal
<b>Actuarial Assumptions:</b>	
Inflation Rate	2.50 percent
Investment Rate of Return	7.20 percent
Projected Salary Increases	3.50 percent compounded
Cost of living adjustments (COLA)	Blend of 2.00 percent COLA and graded COLA (1.25/0.15 percent in accordance with Moro decision; blend based on service date.)
Mortality	<u>Healthy retirees and beneficiaries:</u> RP-2014 healthy annuitant, sex-distinct, generational projection with unisex social security data scale, with collar adjustments and set-backs as described in the valuation. <u>Active members:</u> RP-2014 employees, sex-distinct, generational projection with unisex social security data scale, with collar adjustments and set-backs as described in the valuation. <u>Disabled Retirees:</u> RP-2014 disabled retirees, sex-distinct, generational projection with unisex social security data scale

The discount rate used to measure the collective pension liability was 7.20 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 2017 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:

<u>Asset Class</u>	<u>Target</u>	<u>Compound Annual Return (Geometric)</u>
Core Fixed Income	8.00%	3.49%
Short-Term Bonds	8.00%	3.38%
Bank/Leveraged Loans	3.00%	5.09%
High Yield Bonds	1.00%	6.45%
Large/Mid Cap US Equities	15.75%	6.30%
Small Cap US Equities	1.31%	6.69%
Micro Cap US Equities	1.31%	6.80%
Developed Foreign Equities	13.13%	6.71%
Emerging Market Equities	4.13%	7.45%
Non-US Small Cap Equities	1.88%	7.01%
Private Equity	17.50%	7.82%
Real Estate (Property)	10.00%	5.51%
Real Estate (REITS)	2.50%	6.37%
Hedge Fund of Funds - Diversified	2.50%	4.09%
Hedge Fund - Event-driven	0.63%	5.86%
Timber	1.88%	5.62%
Farmland	1.88%	6.15%
Infrastructure	3.75%	6.60%
Commodities	1.88%	3.84%
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, lump sum payments from employers, and pre-State and Local Government Rate Pool (SLGRP) surpluses at the valuation date. 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 27.00% as of the prior June 30, 2018 measurement date and increased to 28.37% as of the June 30, 2019 measurement date.

The State of Oregon's proportionate share of the net pension liability was allocated to individual funds based on actual fiscal year 2019 contributions. Lottery is .89% of the State's share, a decrease of .05% from the June 30, 2018 measurement date. Lottery's proportion of the State's share equates to .25 percent of the collective net pension liability. At June 30, 2020 Lottery reported a net pension liability of \$43,457,600. 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 discount rate – 8.2%	\$21,585,460
1% lower discount rate – 6.2%	\$69,593,490

For the year ended June 30, 2020, Lottery recognized pension expense of \$9,791,759. At June 30, 2020 Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$ 2,396,558	\$ -
Changes in assumptions	5,895,519	-
Net difference between projected and actual earnings on investments	-	(1,231,979)
Changes in proportion and differences between fund contributions and proportionate share of contributions	1,594,665	(839,820)
Lottery contributions subsequent to the measurement date	6,470,254	-
Total	<u>\$ 16,356,996</u>	<u>\$ (2,071,799)</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 <u>Ending June 30,</u>	Amount to <u>Pension Expense</u>
2021	\$ 4,482,439
2022	647,447
2023	1,403,177
2024	1,176,777
2025	105,104
Thereafter	-
Total	<u>\$ 7,814,944</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:  
<https://www.oregon.gov/pers/Documents/Financials/CAFR/2019-CAFR.pdf>.

**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, 2020 were effective July 1, 2019 and based on the December 31, 2017 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, 2020 are shown in the following table:

	<u>RHIA</u>		<u>RHIPA</u>	
	PERS		PERS	
	<u>Tier 1/Tier 2</u>	<u>OPSRP</u>	<u>Tier 1/Tier 2</u>	<u>OPSRP</u>
Normal Cost	0.06%	0.00%	0.12%	0.00%
Unfunded Actuarial Liability	0.00%	0.00%	0.27%	0.27%
Total Required Rate	<u>0.06%</u>	<u>0.00%</u>	<u>0.39%</u>	<u>0.27%</u>
Amounts Contributed	<u>\$ 15,383</u>	<u>\$ 8,091</u>	<u>\$ 66,395</u>	<u>\$ 74,391</u>

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

Oregon State Lottery  
Notes to the Financial Statements (Continued)  
June 30, 2020

	<u>RHIA</u>	<u>RHIPA</u>
Plan Type	Cost-Sharing Multiple Employer	Single Employer (State of Oregon)
Valuation date	December 31, 2017	December 31, 2017
Measurement date	June 30, 2019	June 30, 2019
Experience Study	2016, published July 26, 2017	2016, published July 26, 2017
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	7.20 percent	7.20 percent
Discount rate	7.20 percent	7.20 percent
Projected salary increases	3.50 percent	3.50 percent
Retiree healthcare participation	Healthy retirees: 35%, Disabled retirees: 20%	8-14 years of service: 10% 15-19 years of service: 18% 20-24 years of service: 23% 25-29 years of service: 29% 30+ years of service: 38%
Healthcare cost trend rate	Not Applicable	Applied at beginning of plan year, starting with 7.5% for 2017, decreasing to 5.2% for 2024, increasing to 6.2% for 2029, and decreasing to an ultimate rate of 4.2% for 2093 and beyond
Mortality:		
	<b>Healthy retirees and beneficiaries:</b> RP-2014 Healthy annuitant, Sex-distinct, generational with Unisex, Social Security Data Scale, with collar adjustments and set-backs as described in the valuation	<b>Healthy retirees and beneficiaries:</b> RP-2014 Healthy annuitant, Sex-distinct, generational with Unisex, Social Security Data Scale, with collar adjustments and set-backs as described in the valuation
	<b>Active members:</b> RP-2014 Employees, sex distinct, generational with Unisex, Social Security Data Scale, with collar adjustments and set-backs as described in the valuation	<b>Active members:</b> RP-2014 Employees, sex distinct, generational with Unisex, Social Security Data Scale, with collar adjustments and set-backs as described in the valuation
	<b>Disabled retirees:</b> RP-2014 Disabled retirees, sex-distinct, generational with Unisex, Social Security Data Scale	<b>Disabled retirees:</b> RP-2014 Disabled retirees, sex-distinct, generational with Unisex, Social Security Data Scale

For both plans, the projections of cash flows 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.

Oregon State Lottery  
Notes to the Financial Statements (Continued)  
June 30, 2020

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 2019 actual contributions from each fund. Lottery’s share of both plans is shown below. The amounts are measured as of June 30, 2019 based on a December 31, 2017 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:

	<u>RHIA</u>	<u>RHIPA</u>
State of Oregon Share of Plan	30.15%	100.00%
Lottery Percent of State of Oregon Share	1.02%	.99%
Lottery Share of Net OPEB Liability/(Asset)	\$ (592,770)	\$ 249,949
Lottery Share with:		
1% increase in healthcare cost trend rate	N/A	\$ 319,874
1% decrease in healthcare cost trend rate	N/A	\$ 187,896
1% increase in the discount rate – 8.2%	\$ (706,284)	\$ 206,040
1% decrease in the discount rate – 6.2%	\$ (459,550)	\$ 297,233

In the fiscal year ending June 30, 2020, Lottery recognized expense for the RHIA and RHIPA plans in the following amounts respectively; \$(84,422) and \$20,004. The following table shows the balances of Lottery’s deferred outflows and inflows for the two plans:

	<u>RHIA</u>		<u>RHIPA</u>	
	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual experience	\$ -	\$ (78,169)	\$ -	\$ (23,757)
Changes in assumptions	-	(614)	2,994	-
Net difference between projected and actual earnings on investments	-	(36,588)		(903)
Changes in proportion and differences between fund contributions and proportionate share of contributions	1,814	(2,591)	-	-
Contributions Subsequent to Measurement Date	23,474	-	140,787	-
Total	<u>\$ 25,288</u>	<u>\$ (117,962)</u>	<u>\$ 143,781</u>	<u>\$ (24,660)</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
2021	\$ (58,973)	\$ (5,147)
2022	(54,051)	(5,147)
2023	(6,894)	(3,896)
2024	3,769	(3,396)
2025		(3,795)
Thereafter		(285)
Total	\$ (116,149)	\$ (21,666)

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:  
<https://www.oregon.gov/pers/Documents/Financials/CAFR/2019-CAFR.pdf>.

**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, 2019 and projected forward to June 30, 2020. 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, 2019
Measurement Date	June 30, 2020
Discount Rate	2.21%
Health Care Cost Trend	Pursuant to ORS 243.135(8), growth in per-member expenditures under self-insured plans and premium amounts is assumed to be 3.4% per year
General Inflation	2.5% per year
Annual Salary Increases	3.5% per year
Mortality	December 31, 2018 Oregon PERS Valuation
Election and Lapse Rates	30% of eligible employees, 60% spouse coverage for males, 35% for females. 7% annual lapse rate.
Actuarial Cost Method	Entry Age Normal

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 2020 actual contributions. Lottery’s share of the liability at June 30, 2020 is \$1,265,277 which is .86 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 – 4.4%	\$ 1,414,460
1% decrease in healthcare cost trend rate – 2.4%	\$ 1,138,585
1% increase in the discount rate – 3.21%	\$ 1,179,817
1% decrease in the discount rate – 1.21%	\$ 1,356,138

For the fiscal year ended June 30, 2020 Lottery recognized \$159,035 of expense for the PEBB plan. The Lottery’s portion of the PEBB OPEB plan deferred outflows of resources related to changes in assumptions as of June 30, 2020 is \$32,393. Deferred inflows related to changes in assumptions is \$185,738, and deferred inflows from differences between expected and actual experience are \$6,006. The amounts will reduce Lottery’s proportion of OPEB expense in future years as follows:

Fiscal Year Ending	
<u>June 30,</u>	
2021	\$ 21,230
2022	21,230
2023	21,230
2024	21,230
2025	21,230
Years thereafter	53,199
Total	<u>\$ 159,349</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; cyber security liability, 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 2020 share of the 2019-2021 biennial assessment was \$755,694. For the Lottery, the amount of claim settlements did not exceed insurance coverage for each of the past three fiscal years.

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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)

<u>As of June 30,</u>	<u>Oregon State Lottery</u>			<u>Share of Collective Net Pension Liability/ (Asset) as a Percentage of Covered Payroll</u>	<u>PERS Fiduciary Net Position as a Percent of Total Pension Liability</u>
	<u>Percent of Collective Net Pension Liability</u>	<u>Share of Collective Net Pension Liability/(Asset)</u>	<u>Covered Payroll</u>		
2019	0.3%	\$ 43.5	\$ 31.9	136.4%	80.2%
2018	0.3%	38.2	32.1	119.0%	82.1%
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)

<u>Fiscal Year Ending June 30,</u>	<u>Actuarially Required Contributions</u>	<u>PERS Recognized Contributions</u>	<u>Contribution Deficiency/ (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Employee Payroll</u>
2020	\$ 6.5	\$ 6.5	\$ -	\$ 43.5	14.87%
2019	3.5	3.5	-	31.9	10.97%
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/(Asset)**  
**Oregon Public Employees Retirement System Retiree Health Insurance Account (RHIA)**  
**Last Ten Measurement Dates\***  
(Dollars in Thousands)

As of <u>June 30,</u>	Percent of Collective Net <u>OPEB Liability</u>	<u>Oregon State Lottery</u>		Share of Collective Net OPEB Liability/ (Asset) as a Percentage of <u>Covered Payroll</u>	RHIA Fiduciary Net Position as a Percent of Total <u>OPEB Asset</u>
		Share of Collective Net OPEB <u>Liability/(Asset)</u>	Covered Employee <u>Payroll</u>		
2019	0.31%	\$ (593)	\$ 31,945	-1.86%	144.40%
2018	0.30%	(334)	32,099	-1.04%	124.00%
2017	0.25%	(104)	30,651	-0.34%	108.90%

\*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 <u>June 30,</u>	Actuarially Required <u>Contributions</u>	PERS Recognized <u>Contributions</u>	Contribution Deficiency/ <u>(Excess)</u>	Covered <u>Payroll</u>	Contributions as a Percentage of Covered <u>Employee Payroll</u>
2020	\$ 23	\$ 23	\$ -	\$ 43,498	0.05%
2019	147	147	-	31,945	0.46%
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)

Fiscal Year Ending June 30,	Percent of State of Oregon Net OPEB Liability	Oregon State Lottery		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
		Share of State of Oregon Net OPEB Liability/ (Asset)	Covered Employee Payroll		
2019	0.99%	\$250	\$31,945	0.78%	64.9%
2018	1.02%	359	32,099	1.12%	49.8%
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
2020	\$ 141	\$ 141	\$ -	\$ 43,498	0.32%
2019	136	136	-	31,945	0.43%
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)

<u>As of June</u> <u>30,</u>	<u>Percentage of</u> <u>OPEB Liability</u>	<u>Share of OPEB</u> <u>Liability</u>	<u>Covered Employee</u> <u>Payroll</u>	<u>Share of Liability as</u> <u>a Percent of</u> <u>Covered Payroll</u>
2020	0.86%	\$ 1.3	\$ 40.5	3.2%
2019	0.83%	1.3	37.0	3.5%
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.
- For the June 30, 2018 measurement of the pension liability, the PERS Board adopted assumptions that lowered the long-term expected rate of return to 7.2 percent as well as updated healthy retiree and healthy mortality assumptions that reflected updated trends and mortality improvement scale for all groups.
- Senate Bill 1049, signed into law in June 2019, imposed a limit of \$195,000 of annual salary included in the calculation of benefits. This limit is effective in 2020 and is indexed in future years.
- 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 Post Employment 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>
- For the June 30, 2018 measurement, the PERS Board adopted assumptions that lowered the long-term expected rate of return to 7.2 percent as well as updated healthy retiree and healthy mortality assumptions that reflected updated trends and mortality improvement scale for all groups.
- 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, 2020

	<u>Actual</u>	<u>Budget</u> <sup>(1)</sup>	Variance Favorable/ <u>(Unfavorable)</u>
<b>Revenue</b>			
Video Lottery <sup>SM</sup> (Gross Receipts)	\$ 10,451,437,944	\$ 9,756,127,983	\$ 695,309,961
Scoreboard <sup>SM</sup> (Gross Receipts)	115,572,215	178,330,475	(62,758,260)
Scratch-its <sup>SM</sup> Instant Tickets	149,831,274	143,268,049	6,563,225
Keno	93,417,823	89,763,586	3,654,237
Powerball <sup>®</sup>	31,196,079	32,445,013	(1,248,934)
Megabucks <sup>SM</sup>	29,041,472	29,340,214	(298,742)
Mega Millions <sup>®</sup>	23,770,095	22,853,686	916,409
Raffle <sup>SM</sup>	2,499,890	2,500,000	(110)
Win For Life <sup>SM</sup>	3,637,752	3,624,675	13,077
Lucky Lines <sup>SM</sup>	2,013,468	1,978,810	34,658
Pick 4 <sup>SM</sup>	1,730,474	1,737,253	(6,779)
<b>Total Revenue</b>	<b>10,904,148,486</b>	<b>10,261,969,744</b>	<b>642,178,742</b>
Prize Expense	9,980,613,042	9,391,583,861	(589,029,181)
<b>Net Revenue</b>	<b>923,535,444</b>	<b>870,385,883</b>	<b>53,149,561</b>
<b>Direct Expenses</b>			
Retailer Commissions	217,920,495	206,471,114	(11,449,381)
Game Vendor Charges	12,496,247	13,765,281	1,269,034
Tickets	3,398,500	4,370,000	971,500
Advertising	7,678,373	10,475,372	2,796,999
Sales Support	606,130	1,236,617	630,487
Game Equipment/Parts & Maintenance	8,383,835	20,822,500	12,438,665
Depreciation	21,905,493	23,348,852	1,443,359
<b>Total Direct Expenses</b>	<b>272,389,073</b>	<b>280,489,736</b>	<b>8,100,663</b>
<b>Gross Profit</b>	<b>651,146,371</b>	<b>589,896,147</b>	<b>61,250,224</b>
<b>Indirect Revenue</b>			
Other Income (Loss)	21,627,872	8,762,000	12,865,872
<b>Indirect Expenses</b>			
Public Information	4,368,793	7,248,942	2,880,149
Research	373,896	2,154,397	1,780,501
Personal Services	65,613,153	67,921,691	2,308,538
Services and Supplies	27,116,916	53,598,560	26,481,644
Depreciation	3,062,372	3,507,468	445,096
Interest Expense	310,782	310,782	-
<b>Total Indirect Expenses</b>	<b>100,845,912</b>	<b>134,741,840</b>	<b>33,895,928</b>
<b>Net Profit</b>	<b>\$ 571,928,331</b>	<b>\$ 463,916,307</b>	<b>\$ 108,012,024</b>

(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.



**OREGON**  
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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 Lottery<sup>SM</sup>, 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.

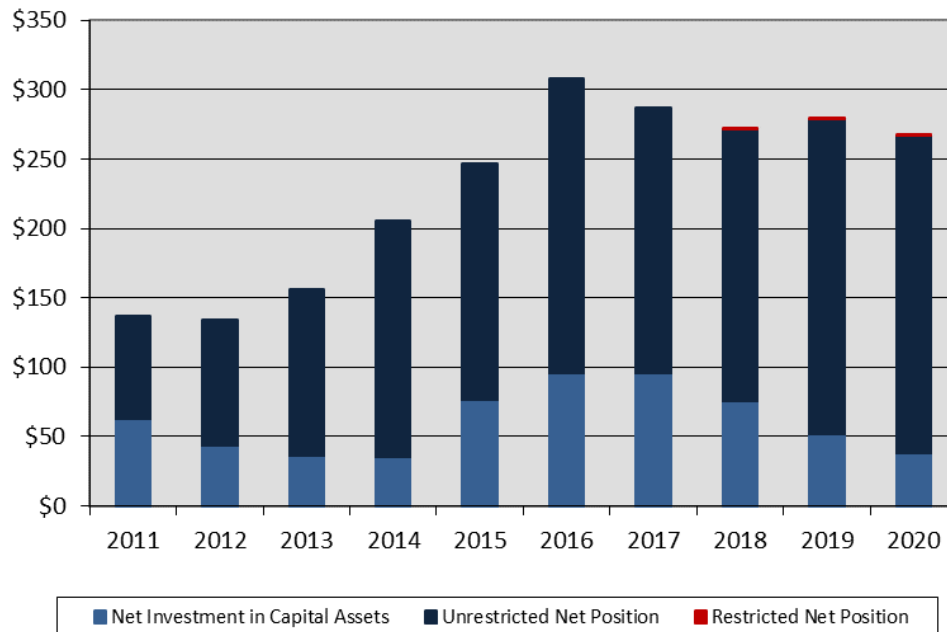
Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial report or the audited financial statements for the applicable year.



**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
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
2019	52,108,890	226,297,385	333,846	278,740,121
2020	38,040,215	228,592,534	592,770	267,225,519

**Net Position**  
 (In Millions)



**Oregon State Lottery**  
**Changes in Net Position**  
Last Ten Fiscal Years

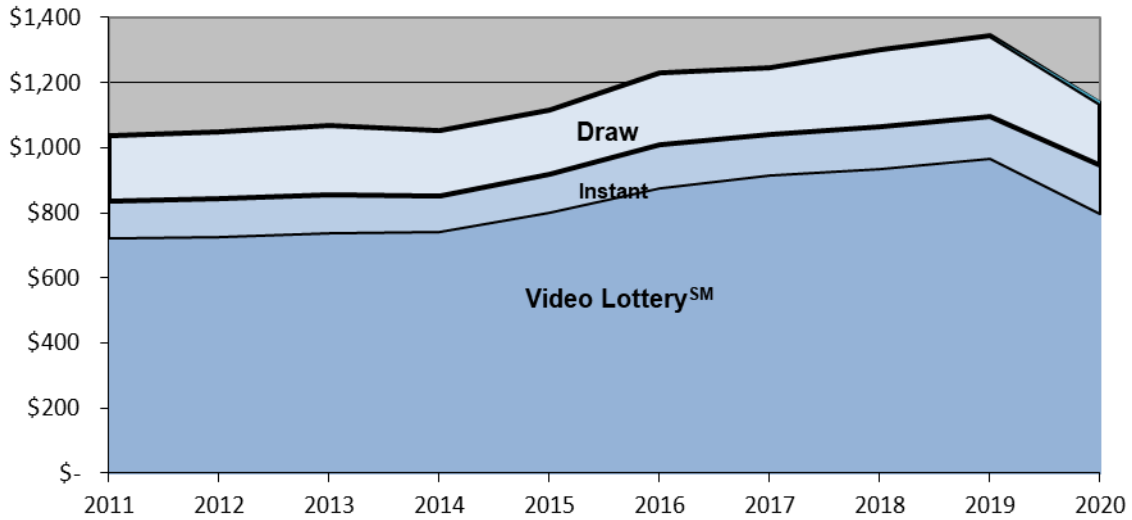
	2011	2012	2013	2014
<b>Operating Revenues</b>				
Sales:				
Video Lottery <sup>SM</sup> (Net Receipts)	\$ 720,510,190	\$ 727,124,878	\$ 737,370,280	\$ 742,730,503
Scoreboard <sup>SM</sup> (Net Receipts)				
Scratch-its <sup>SM</sup> Instant Tickets	115,895,266	117,521,750	117,079,308	109,034,321
Keno	93,270,757	93,456,813	91,636,954	92,443,482
Powerball <sup>®</sup>	33,491,623	38,777,424	58,322,876	45,049,124
Megabucks <sup>SM</sup>	40,780,752	37,539,720	38,084,764	28,372,873
Mega Millions <sup>®</sup>	17,448,177	22,208,222	11,823,070	22,333,065
Raffle <sup>SM</sup>	7,499,000	4,999,650	4,998,300	4,997,060
Win For Life <sup>SM</sup>	5,869,397	5,545,700	4,845,906	4,532,922
Lucky Lines <sup>SM</sup>	1,918,134	1,758,800	2,317,312	1,918,288
Pick 4 <sup>SM</sup>	1,279,523	1,352,749	1,351,260	1,397,158
Recovery of (Provision for)				
Uncollectibles	(128,164)	(71,327)	(44,280)	971
Other Income	1,142,214	209,110	1,410,594	177,786
<b>Total Operating Revenues</b>	<b>1,038,976,869</b>	<b>1,050,423,489</b>	<b>1,069,196,344</b>	<b>1,052,987,553</b>
<b>Operating Expenses</b>				
Prizes	208,672,809	238,278,854	206,836,815	206,571,490
Retailer Commissions	200,510,286	201,626,030	204,921,077	203,727,883
Salaries and Wages	35,512,068	36,317,480	36,504,315	39,443,617
Depreciation and Amortization	29,773,197	26,794,091	12,982,414	13,542,859
Services and Supplies	10,644,690	10,159,107	10,787,865	11,278,132
Game Vendor Charges	8,552,689	8,620,924	8,777,088	8,638,986
Advertising and Market Research	8,446,004	6,444,771	5,483,097	7,610,400
Public Information	4,420,673	3,882,869	2,718,648	2,633,736
Tickets	4,230,790	4,640,444	3,363,077	2,956,834
Game Equipment Parts and Maintenance	2,115,134	1,925,220	1,496,442	2,265,927
Sales Support	1,234,314	1,113,400	1,067,653	1,674,670
<b>Total Operating Expenses</b>	<b>514,112,654</b>	<b>539,803,190</b>	<b>494,938,491</b>	<b>500,344,534</b>
<b>Operating Income</b>	<b>524,864,215</b>	<b>510,620,299</b>	<b>574,257,853</b>	<b>552,643,019</b>
<b>Nonoperating Revenues (Expenses)</b>				
Interest and Investment Income (Loss)	3,587,450	17,744,105	(2,982,432)	6,330,595
Insurance Recoveries	65,081	30,676	11,263	3,482
Gain (Loss) on Disposition of Assets	(2,919,876)	(147,802)	(969,699)	(257,250)
Investment Expenses - Securities Lending	(237,391)	(138,855)	(143,462)	(45,956)
Investment Expenses	-	-	-	-
Interest Expense	-	-	(330,386)	(315,269)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>495,264</b>	<b>17,488,124</b>	<b>(4,414,716)</b>	<b>5,715,602</b>
<b>Income Before Transfers</b>	<b>525,359,479</b>	<b>528,108,423</b>	<b>569,843,137</b>	<b>558,358,621</b>
Transfers to Economic Development Fund	(546,996,892)	(523,652,688)	(546,923,919)	(507,250,297)
Transfers to General Obligation Bond Fund	(1,444,213)	(1,459,501)	(1,506,648)	(1,692,668)
<b>Change in Net Position</b>	<b>\$ (23,081,626)</b>	<b>\$ 2,996,234</b>	<b>\$ 21,412,570</b>	<b>\$ 49,415,656</b>

2015	2016	2017	2018	2019	2020
\$ 798,578,183	\$ 876,475,310	\$ 914,071,290	\$ 933,980,026	\$ 966,474,906	\$ 797,498,371
					8,620,945
119,578,108	131,599,460	126,498,948	130,389,967	131,236,973	149,831,274
93,035,050	95,826,162	101,501,142	102,023,352	102,665,467	93,417,823
37,091,247	63,821,261	44,856,176	60,088,322	49,829,088	31,196,079
33,329,803	33,031,579	31,768,618	36,525,999	36,418,393	29,041,472
20,468,872	18,823,156	17,913,809	30,089,400	50,210,700	23,770,095
7,488,730	2,499,840	2,499,750	2,499,910	2,307,370	2,499,890
4,082,661	3,854,189	3,569,776	3,608,392	3,766,700	3,637,752
1,771,994	2,001,358	2,147,834	1,523,926	1,850,874	2,013,468
1,435,284	1,566,384	1,475,180	1,605,368	1,765,534	1,730,474
(4,594)	18,485	(10,109)	82,152	(54,947)	(253,303)
382,438	672,544	593,089	441,691	1,265,527	2,306,865
1,117,237,776	1,230,189,728	1,246,885,503	1,302,858,505	1,347,736,585	1,145,311,205
211,444,280	239,317,411	217,150,249	231,670,894	239,044,444	223,500,660
215,514,570	234,963,289	239,551,975	245,681,221	254,277,458	217,920,495
37,055,741	54,427,617	51,608,241	51,906,145	61,731,587	63,045,069
20,134,347	23,863,609	29,733,663	33,888,584	34,763,881	24,967,865
11,829,146	15,876,801	13,818,139	13,738,901	17,747,590	27,382,826
8,931,443	9,891,910	8,170,995	8,439,800	8,557,771	12,496,247
9,549,598	9,705,469	11,071,161	11,106,857	8,350,536	8,052,269
4,246,421	5,759,053	6,572,101	6,541,769	9,026,042	4,368,793
3,213,208	3,138,033	3,328,614	3,042,684	2,923,348	3,398,500
1,885,491	1,734,280	1,572,029	6,766,475	5,912,370	8,383,835
1,263,959	633,721	726,436	965,786	1,221,244	606,130
525,068,204	599,311,193	583,303,603	613,749,116	643,556,271	594,122,689
592,169,572	630,878,535	663,581,900	689,109,389	704,180,314	551,188,516
6,783,754	16,217,601	(481,760)	5,789,388	20,482,336	24,122,456
12,067	2,005	15,221	16,908	1,049	4,053
(1,473,869)	(98,971)	(12,653)	85,582	107,516	35,650
(74,757)	(212,675)	(369,908)	(334,504)	(118,278)	(529,448)
(4,185)	(71,522)	(13,939)	(12,012)	(168,928)	(14,028)
(325,227)	(316,029)	(639,028)	(713,548)	(643,275)	(585,429)
4,917,783	15,520,409	(1,502,067)	4,831,814	19,660,420	23,033,253
597,087,355	646,398,944	662,079,833	693,941,203	723,840,734	574,221,769
(545,948,950)	(583,179,120)	(695,750,970)	(706,350,736)	(714,417,052)	(583,442,933)
(1,883,433)	(1,910,077)	(1,835,887)	(1,981,793)	(2,193,731)	(2,293,438)
\$ 49,254,972	\$ 61,309,747	\$ (35,507,024)	\$ (14,391,326)	\$ 7,229,951	\$ (11,514,602)

**Oregon State Lottery**  
**Sales by Product**  
 Last Ten Fiscal Years

Fiscal Year	Video Lottery <sup>SM</sup>	Score-board	Instant Products	Draw Games					Total
				Keno	Powerball*	Mega Millions*	Oregon's Game Mega-bucks <sup>SM</sup>	All Other Games	
2011	720,510,190		115,895,266	93,270,757	33,491,623	17,448,177	40,780,752	16,566,054	1,037,962,819
2012	727,124,878		117,521,750	93,456,813	38,777,424	22,208,222	37,539,720	13,656,899	1,050,285,706
2013	737,370,280		117,079,308	91,636,954	58,322,876	11,823,070	38,084,764	13,512,778	1,067,830,030
2014	742,730,503		109,034,321	92,443,482	45,049,124	22,333,065	28,372,873	12,845,428	1,052,808,796
2015	798,578,183		119,578,108	93,035,050	37,091,247	20,468,872	33,329,803	14,778,669	1,116,859,932
2016	876,475,310		131,599,460	95,826,162	63,821,261	18,823,156	33,031,579	9,921,771	1,229,498,699
2017	914,071,290		126,498,948	101,501,142	44,856,176	17,913,809	31,768,618	9,692,540	1,246,302,523
2018	933,980,026		130,389,967	102,023,352	60,088,322	30,089,400	36,525,999	9,237,596	1,302,334,662
2019	966,474,906		131,236,973	102,665,467	49,829,088	50,210,700	36,418,393	9,690,478	1,346,526,005
2020	797,498,371	8,620,945	149,831,274	93,417,823	31,196,079	23,770,095	29,041,472	9,881,584	1,143,257,642

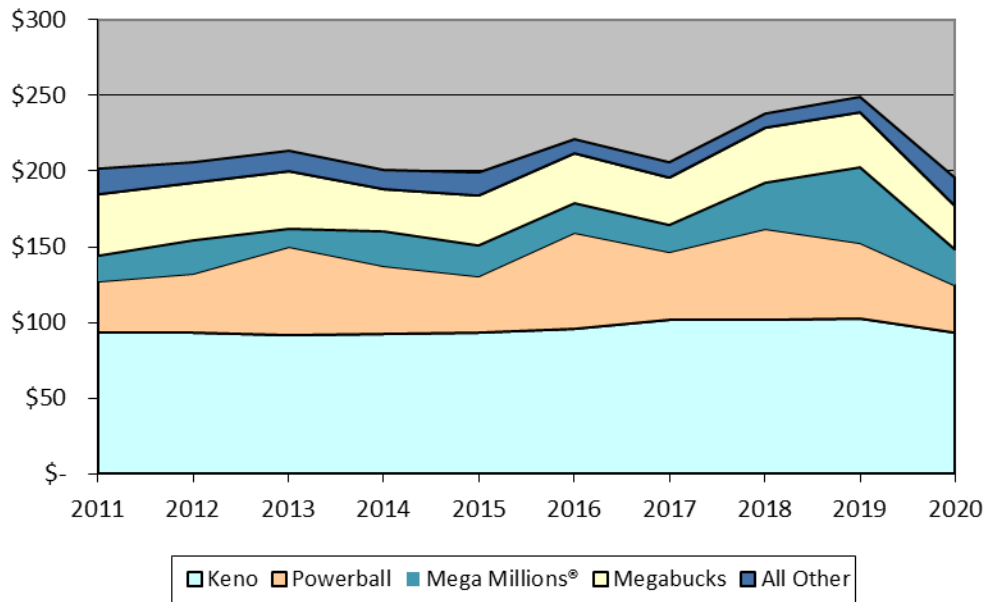
**Sales by Product Type**  
 (In Millions)



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

Fiscal Year	Video Lottery <sup>SM</sup>	Instant Products	Draw Games				
			Keno	Powerball <sup>®</sup>	Mega Millions <sup>®</sup>	Oregon's Game Megabucks <sup>SM</sup>	All Other Draw Games
2011	69.4%	11.2%	9.0%	3.2%	1.7%	3.9%	1.6%
2012	69.2%	11.2%	8.9%	3.7%	2.1%	3.6%	1.3%
2013	69.1%	11.0%	8.6%	5.5%	1.1%	3.6%	1.1%
2014	70.5%	10.4%	8.8%	4.3%	2.1%	2.7%	1.2%
2015	71.5%	10.7%	8.3%	3.3%	1.8%	3.0%	1.4%
2016	71.3%	10.7%	7.8%	5.2%	1.5%	2.7%	0.8%
2017	73.3%	10.1%	8.1%	3.6%	1.4%	2.5%	1.0%
2018	71.7%	10.0%	7.8%	4.6%	2.3%	2.8%	0.8%
2019	71.8%	9.7%	7.6%	3.7%	3.7%	2.7%	0.8%
2020	69.8%	13.1%	8.2%	2.7%	2.1%	2.5%	1.6%

**Draw Game Sales by Product**  
 (In Millions)



**Oregon State Lottery**

**Top Ten Retailers**

Current Year and Nine Business Years Prior

		2020		
<u>Rank</u>	<u>Retailer</u>	Sales	Percent of Total Sales	County
1	Independent Sports Bar & Grill	\$ 2,008,140	0.18%	Multnomah
2	Dotty's #9	1,583,030	0.14%	Washington
3	Deli Store	1,533,959	0.14%	Columbia
4	Produce Row Cafe	1,445,410	0.13%	Multnomah
5	Anchor Bar	1,415,861	0.13%	Multnomah
6	Dotty's #27	1,394,028	0.12%	Multnomah
7	Jonny's	1,373,049	0.12%	Clackamas
8	Sassy's Redmond	1,364,942	0.12%	Deschutes
9	Dotty's #29	1,342,238	0.12%	Multnomah
10	The Fox Den Eatery # 4	1,331,466	0.12%	Linn
Totals		<u>\$ 14,792,123</u>	<u>1.31%</u>	

Total Lottery Sales (FY) \$ 1,145,311,205

		2011		
<u>Rank</u>	<u>Retailer</u>	Sales	Percent of Total Sales	County
1	Dotty's #9	\$ 1,751,977	0.17%	Washington
2	Deli Store	1,681,431	0.16%	Columbia
3	Smokehouse Cafe #4	1,606,819	0.15%	Linn
4	Original Joe's	1,574,154	0.15%	Multnomah
5	Dotty's #24	1,466,517	0.14%	Multnomah
6	Dotty's #8	1,386,707	0.13%	Washington
7	Shari's-Airport Way #218	1,383,498	0.13%	Multnomah
8	Glass House Tavern	1,349,207	0.13%	Multnomah
9	Elmer's	1,348,054	0.13%	Multnomah
10	Dotty's #6	1,324,360	0.13%	Washington
Totals		<u>\$ 14,872,724</u>	<u>1.42%</u>	

Total Lottery Sales \$ 1,037,962,819

Source: Oregon State Lottery Business Analytics and Insights Department

**Oregon State Lottery**  
**Number of Lottery Retailers and Sales by County**  
For Business Year 2020

County	Sales		Retailers	
	Business Year Sales	Percent of Total Sales	Number of Lottery Retailers	Percent of Total Retailers
Multnomah	\$ 263,495,471	23.34%	914	22.02%
Washington	129,573,250	11.48%	360	8.67%
Clackamas	112,355,203	9.95%	370	8.92%
Marion	104,375,855	9.24%	368	8.87%
Lane	97,584,461	8.64%	381	9.18%
Jackson	60,145,324	5.33%	220	5.30%
Deschutes	45,400,707	4.02%	145	3.49%
Linn	33,944,954	3.01%	132	3.18%
Douglas	28,367,731	2.51%	136	3.28%
Josephine	25,183,515	2.23%	100	2.41%
Columbia	23,401,451	2.07%	76	1.83%
Yamhill	21,008,822	1.86%	94	2.27%
Umatilla	18,895,098	1.67%	79	1.90%
Klamath	17,689,217	1.57%	82	1.98%
Clatsop	17,439,750	1.54%	76	1.83%
Malheur	17,309,246	1.53%	48	1.16%
Lincoln	15,628,250	1.38%	78	1.88%
Polk	13,227,807	1.17%	61	1.47%
Coos	11,997,918	1.06%	65	1.57%
Benton	11,419,438	1.01%	56	1.35%
Tillamook	10,728,291	0.95%	51	1.23%
Wasco	9,311,203	0.82%	37	0.89%
Crook	7,001,636	0.62%	29	0.70%
Hood River	6,186,248	0.55%	26	0.63%
Union	5,272,947	0.47%	31	0.75%
Curry	4,427,623	0.39%	25	0.60%
Baker	4,374,437	0.39%	24	0.58%
Jefferson	4,040,184	0.36%	17	0.41%
Lake	1,920,206	0.17%	11	0.27%
Grant	1,824,185	0.16%	12	0.29%
Morrow	1,669,390	0.15%	11	0.27%
Harney	1,560,939	0.14%	13	0.31%
Wallowa	987,911	0.09%	10	0.24%
Sherman	921,936	0.08%	6	0.14%
Gilliam	307,081	0.03%	5	0.12%
Wheeler	59,713	0.01%	1	0.02%
	<b>\$ 1,129,037,398</b>	<b>100.00%</b>	<b>4,150</b>	<b>100.00%</b>

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

Calendar Year	Population <sup>1</sup>	Personal Income <sup>1</sup>	Per Capita Personal Income <sup>1</sup>	Annual Unemployment Rate <sup>2</sup>
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%
2018	4,190,713	213,070,100	50,843	4.2%
2019	4,217,737	224,346,400	53,191	3.7%

<sup>1</sup>Source: U.S. Department of Commerce, Bureau of Economic Analysis

<sup>2</sup>Source: Oregon Employment Department



**Oregon State Lottery**  
**Employment by Industry - State of Oregon**  
 Calendar Year 2019 - and Nine-Years Prior

	2019		2010	
	Number of Employees	Percent of Total	Number of Employees	Percent of Total
Health care and social assistance	304,559	11.63%	253,186	11.50%
Retail trade	259,275	9.90%	230,401	10.47%
Manufacturing	214,380	8.18%	178,881	8.13%
Local government	215,200	8.21%	154,223	7.01%
Accommodation and food services	204,388	7.80%	130,902	5.95%
Professional, scientific, and technical services	177,223	6.77%	115,565	5.25%
Construction	146,955	5.61%	104,865	4.76%
Administrative and waste services	135,314	5.17%	112,435	5.11%
Other services	135,281	5.16%	99,621	4.53%
Real estate, rental, and leasing	124,714	4.76%	96,304	4.38%
Transportation and warehousing	102,047	3.90%	80,858	3.67%
Finance and insurance	99,576	3.80%	69,577	3.16%
Wholesale trade	84,334	3.22%	61,707	2.80%
Farm employment	68,602	2.62%	52,428	2.38%
Arts, entertainment, and recreation	69,436	2.65%	52,412	2.38%
Educational services	57,097	2.18%	39,098	1.78%
Management of companies	52,968	2.02%	32,035	1.46%
State government	41,178	1.57%	27,941	1.27%
Information	44,083	1.68%	4,828	0.22%
Forestry, fishing, and related activities	33,668	1.29%	4,415	0.20%
Federal government, civilian	28,548	1.09%	184,440	8.38%
Military	11,388	0.43%	72,024	3.27%
Mining	4,341	0.17%	30,576	1.39%
Utilities	5,069	0.19%	12,350	0.55%
<b>Total employment</b>	<b>2,619,624</b>	<b>100.00%</b>	<b>2,201,072</b>	<b>100.00%</b>

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

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

**Oregon State Lottery**  
**Demographic Profile of Oregon Lottery Players**  
 Last Ten Calendar Years

	2010	2011	2012	2013	2014
Number Surveyed	1,000	1,000	1,000	1,000	1,000
Player Percentage	50.7%	53.3%	52.0%	47.8%	46.1%
	Players	Players	Players	Players	Players
<u>Gender</u>					
Male	48%	50%	52%	55%	50%
Female	52%	50%	48%	45%	50%
<u>Age</u>					
18 - 24	10%	9%	12%	10%	9%
25 - 34	19%	19%	18%	17%	19%
35 - 44 (35 - 54 starting in 2018)	17%	16%	15%	16%	16%
45 - 54	26%	23%	23%	23%	21%
55 - 64	15%	14%	13%	19%	16%
65 +	14%	19%	18%	15%	19%
<u>Education</u>					
Some High School	4%	4%	6%	3%	4%
High School Graduate	21%	20%	22%	18%	20%
College/Tech School	37%	33%	30%	32%	33%
College Graduate	20%	23%	21%	23%	21%
Graduate School/Degree	16%	18%	19%	17%	16%
<u>Marital Status</u>					
Single	22%	21%	23%	26%	25%
Married	58%	52%	54%	51%	48%
Co-habiting	6%	7%	5%	5%	6%
Divorced or Separated	7%	11%	9%	7%	9%
Widowed	5%	6%	5%	4%	5%
Civil Union/Domestic Partnership				1%	1%
<u>Income</u>					
Less than \$15,000 (\$25,000 Beginning in 2018)	10%	10%	10%	9%	8%
\$15,000 - \$49,999 (\$25,000 - \$49,999 Beginning in 2018)	30%	31%	27%	27%	31%
\$50,000 - \$74,999	17%	16%	14%	15%	12%
\$75,000 - \$99,999	13%	11%	9%	10%	6%
\$100,000 +	10%	14%	11%	15%	12%
Refused/Don't Know	21%	18%	30%	24%	31%

Sources:

Player information from Oregon State Lottery's Tracking Study. Study for 2018 performed Summer 2019.  
 State information from U.S. Census Bureau, 2018 American Community Survey Tables - <https://data.census.gov>

2015	2016	2017	2018	2019	
2,000	2,000	2,000	2,023	2,023	2019 State Population 18+
54.1%	48.1%	54.3%	55.0%	54.5%	
Players	Players	Players	Players	Players	
51%	49%	49%	50%	50%	49.5%
49%	51%	51%	50%	49%	50.5%
9%	9%	9%	8%	8%	8.6%
20%	20%	16%	19%	19%	14.1%
16%	15%	20%	38%	37%	25.8%
21%	22%	20%	n/a	n/a	n/a
14%	10%	16%	16%	16%	12.8%
21%	24%	19%	19%	19%	18.2%
5%	5%	3%	3%	3%	8.6%
22%	25%	18%	18%	18%	23.0%
27%	25%	45%	46%	45%	33.8%
32%	32%	23%	22%	22%	21.0%
12%	11%	11%	11%	11%	13.5%
24%	24%	16%	27%	27%	32.4%
52%	51%	65%	42%	42%	48.4%
7%	8%	6%	13%	13%	n/a
10%	9%	7%	12%	12%	14.2%
6%	6%	4%	6%	6%	5.1%
1%	1%	2%	n/a	n/a	n/a
9%	8%	6%	14%	14%	13.0%
29%	25%	31%	26%	26%	35.9%
13%	12%	19%	18%	18%	22.5%
10%	10%	13%	15%	15%	12.0%
16%	15%	13%	21%	21%	16.8%
23%	30%	18%	6%	6%	n/a

**Oregon State Lottery**  
**Number of Employees**  
 Last Ten Fiscal Years

	2011	2012 <sup>2</sup>	2013	2014 <sup>3</sup>	2015	2016	2017	2018	2019	2020
Sales, Marketing & Retail Services	248	229	232	236	239	217	226	237	217	207
Support Services	151	143	154	157	152	163	142	135	143	131
Director's Office <sup>4</sup>	31	29	30	33	35	52	63	66	95	66
Security <sup>1</sup>	16	16	13	15	19	16	18	17	20	16
<b>Total</b>	<b>446</b>	<b>417</b>	<b>429</b>	<b>441</b>	<b>445</b>	<b>448</b>	<b>449</b>	<b>455</b>	<b>475</b>	<b>420</b>

Source: Oregon State Payroll System for FY 2010 - FY 2013; Lottery Payroll System for FY 2014-2020.

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.

<sup>1</sup>Security employees excludes employees of the Oregon State Police.

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

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

<sup>4</sup>Includes Corporate Affairs division in fiscal years 2018 and 2019.

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

Fiscal Year	Number of Lottery Retailers <sup>1</sup>	Number of Video Lottery Terminals Deployed <sup>1</sup>	Per Capita Sales <sup>2</sup>
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
2019	3,975	11,586	321.60
2020	3,919	11,567	271.06

<sup>1</sup>Source: Oregon State Lottery Business Analytics & Insights Department. (2020) Based on the week prior to the COVID-19 shutdown

<sup>2</sup>Source: Calculated based on calendar year population data from US Census Bureau.

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# Other Reports

**Office of the Secretary of State**

Bev Clarno  
Secretary of State

Jeff Morgan  
Interim Deputy Secretary of State



**Audits Division**

Kip R. Memmott, MA, CGAP, CRMA  
Director

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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, 2020, 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 11, 2020.

**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 11, 2020

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