



**OREGON  
LOTTERY®**

Together, we do good things.

Comprehensive Annual  
Financial Report

For the Fiscal Year Ended June 30, 2019

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, 2019



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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

Monique Fawver  
Michael Ryan, CPA  
Martha Wildfang



# COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2019

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# **Introductory Section**



December 18, 2019

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, 2019. 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, 2019. 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 3,950 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 11,600 Video Lottery<sup>SM</sup> terminals deployed throughout the state.

The Lottery, which is accounted for as a single enterprise fund, is entirely self-financed through its sales. Its operations are designed to fulfill its duty to develop, produce, and market Lottery games; pay winners and operating expenses; and remit the remaining net profits to the State. These net profits are transferred to the Oregon Economic Development Fund and are then distributed by the State to finance the various uses allowed by law. Through its business units, the Lottery provides

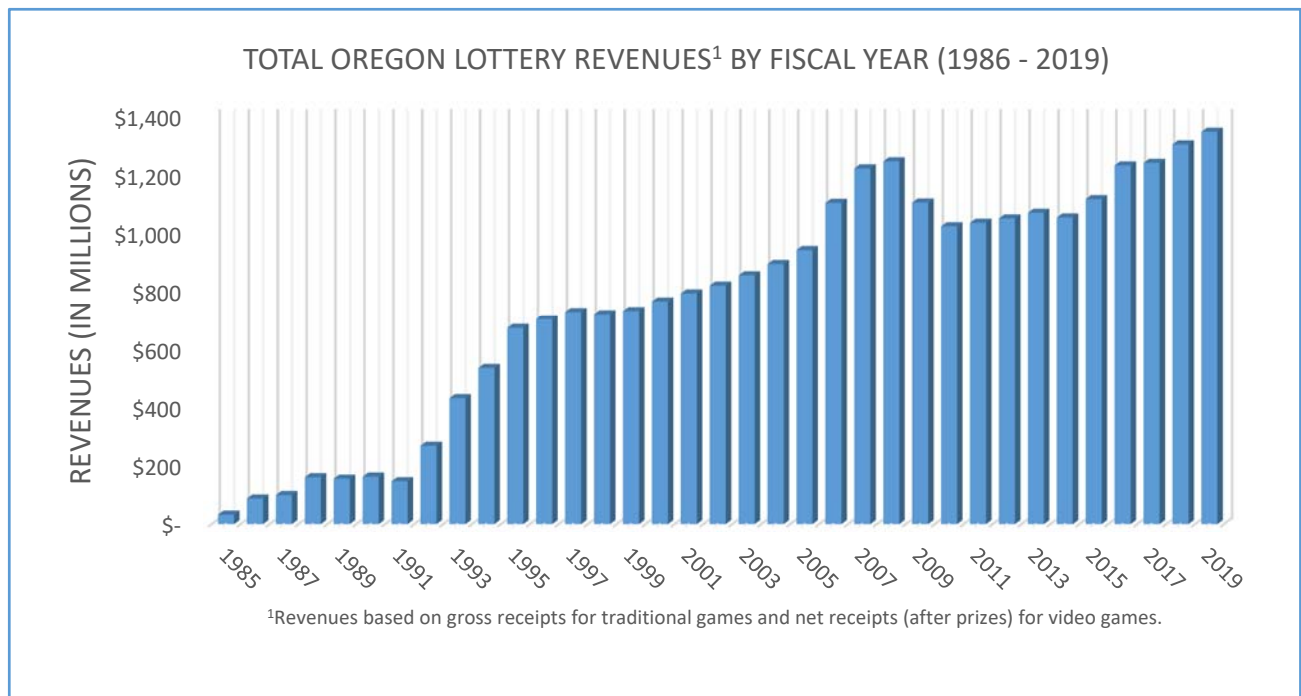


services that are necessary to operate successfully including security, marketing, retailer support, finance, management and information services. Additional information about the Lottery is available on its website at: <http://www.oregonlottery.org>.

The Lottery is operated under the direction of a five-member commission, with the commissioners appointed by the Governor and confirmed by the Senate. The Commission directs the activities of the Lottery, including the adoption of rules for the security and integrity of operations. The Governor also appoints a Director, who serves as the chief administrator of the Lottery. This position is also subject to Senate confirmation. The Director is responsible for operating the Lottery in accordance with state law and administrative rules and under the guidance of the Commission.

For budgeting purposes, the Commission adopts an annual Financial Plan based on activities identified in Lottery’s annual 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 2019 expenses were 3.11 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 2019.



**Economic Condition and Outlook**

According to the Oregon Office of Economic Analysis (OEA), Oregon’s employment growth accelerated in 2013, increasing 2.1 percent, and in 2014 continued to perform above the national average at 2.9 percent. Since 2015, Oregon’s employment has steadily expanded and experienced a strong growth trend through 2019, although the growth rate has slowed somewhat but still outpaces national averages. Wages and household incomes are rising faster than most states. Statewide non-farm job growth is projected to grow at approximately 1.8 percent annually through 2020, leveling off to 1.3 percent by 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 5.4 percent in 2019, 5.5 percent in 2020, and 5.2 percent in 2021. National averages for 2019 to 2021 are 4.1, 4.7, and 4.5 percent. Oregon wage and salary income for 2019 to 2021 are projected to increase 5.3, 5.9, and 5.4 percent over the next 3 years.

Oregon faces several economic factors in the near-term; potential impacts of the U.S. economy and federal fiscal policy, the strength and affordability of the housing market, global 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 2019 Economic and Revenue Forecast, the Office of Economic Analysis (OEA), is reflecting Lottery transfers of \$1.47 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, 2019 the actual cash balance in the reserve was \$97.4 million. The Lottery intends to use the contingency reserve to fund future business initiatives that are key to our ability to compete, remain relevant to our players, and maximize transfers to our beneficiaries. Further details on this can be found in the MD&A section of this report.

### **Major Initiatives**

A key initiative in progress at the end of fiscal year 2019 is the implementation and launch of a new sports betting platform named Scoreboard. Once launched, the Scoreboard mobile phone application will be available for download for Apple and Android devices. Players will also be able to wager using desktop computers. Like Video Lottery, players must be at least 21 years old to play, and bets must be placed within Oregon. Lottery will be working with professional bookmakers to provide odds and wager opportunities, betting styles, and game options that are some of the best in the gaming industry.

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 gaming platform, 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 2019, 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 will launch Scoreboard, an online sports betting product. This provides an entirely new revenue stream and an entirely new 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 completely remodel the oregonlottery.org website are underway. 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, 2018. This was the eleventh 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

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

P 503 540-1000 F 503 540-1001 [www.oregonlottery.org](http://www.oregonlottery.org)



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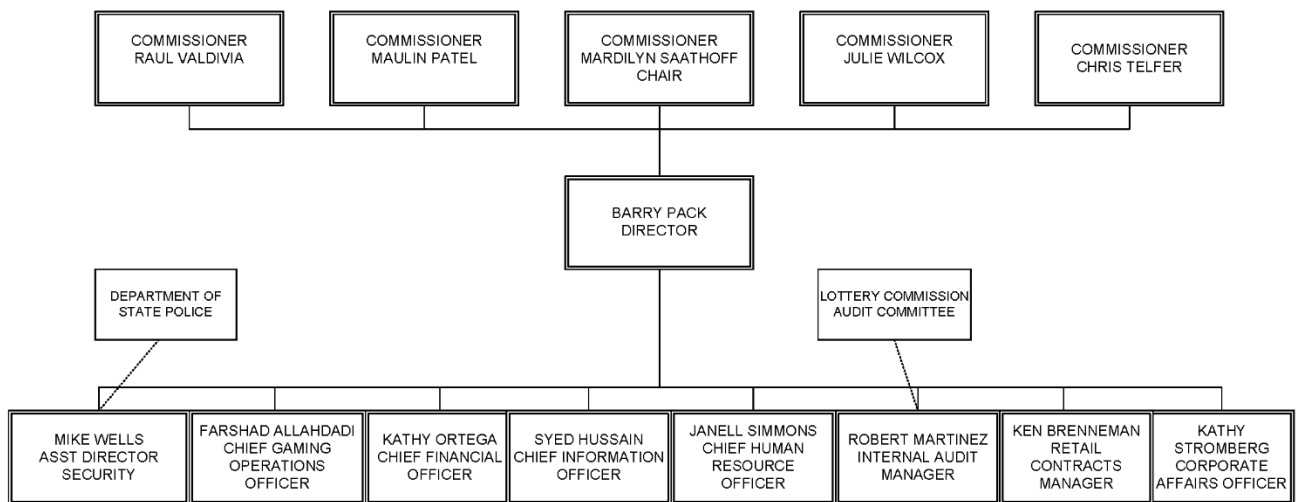
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2018**

*Christopher P. Morill*

Executive Director/CEO

# Oregon State Lottery Commissioners and Executives



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# Financial Section

**Office of the Secretary of State**

Bev Clarno  
Secretary of State

A. Richard Vial  
Deputy Secretary of State



**Audits Division**

Kip R. Memmott, MA, CGAP, CRMA  
Director

255 Capitol St. NE, Suite 500  
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, 2019, 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, 2019, 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, 2019, 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 – 16 and 46 – 50 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 18, 2019, 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 18, 2019

# 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, 2019. 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 \$1.35 billion, an increase of 3.4 percent over fiscal year 2018.
- Traditional (Scratch and Draw) game revenue increased 3.2 percent from the prior fiscal year and Video Lottery<sup>SM</sup> revenue increased 3.5 percent.
- Net position (equity) increased by \$7.2 million after profits were committed for contractual obligations and future capital purchases.
- The Lottery transferred \$714.4 million to Oregon's Economic Development Fund, which is \$8.1 million more than the prior year.

### Overview of the Financial Statements

In addition to this discussion and analysis, the Financial Section of this annual report contains the basic financial statements, which include the fund financial statements and accompanying notes; required supplementary information; and an optional budgetary comparison schedule, which is presented as other supplementary information.

The basic financial statements offer short-term and long-term financial information about the Oregon State Lottery, which is structured as a single enterprise fund. The required supplementary information contains further details regarding pension and other postemployment benefits. The budgetary comparison schedule presents budgeted and actual revenues and expenses for the fiscal year. In addition, a Statistical Section containing information regarding financial trends, revenue capacity, as well as demographic, economic, and operating information is presented following the budgetary comparison schedule.

The Statement of Net Position provides information about the nature and amounts of resources with present service capacity that the Lottery controls (assets), resources that will be consumed in a future fiscal year (deferred outflows of resources), obligations at the end of the fiscal year to use resources that the Lottery has little or no discretion to avoid (liabilities), and acquisitions of resources that are applicable to a future fiscal year (deferred inflows of resources). The residual (net) of these four elements is reported as net position.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Fund Net Position. This statement measures the results of the Lottery's operations over the past year as well as reports the prior period restatement amount.

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

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

## Analysis of Financial Position and Operations

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

Table 1: Oregon State Lottery's Net Position

	2019	2018	Increase/ (Decrease)
Current assets	\$ 390,785,944	\$ 476,527,261	\$ (85,741,317)
Capital assets	65,678,270	92,246,999	(26,568,729)
Other noncurrent assets	244,064,562	206,593,072	37,471,490
Total assets	700,528,776	775,367,332	(74,838,556)
Deferred Outflows of Resources	14,840,499	11,916,514	2,923,985
<b>Total assets and deferred outflows of resources</b>	<b>715,369,275</b>	<b>787,283,846</b>	<b>(71,914,571)</b>
Current liabilities	264,647,929	346,162,804	(81,514,875)
Noncurrent liabilities	169,685,485	169,279,792	405,693
Total Liabilities	434,333,414	515,442,596	(81,109,182)
Deferred Inflows of Resources	2,295,740	331,080	1,964,660
<b>Total liabilities and deferred inflows of resources</b>	<b>436,629,154</b>	<b>515,773,676</b>	<b>(79,144,522)</b>
<b>Net position:</b>			
Net investment in capital assets	52,108,890	75,952,509	(23,843,619)
Restricted for OPEB Asset- RHIA	333,846	104,211	229,635
Unrestricted	226,297,385	195,453,450	30,843,935
<b>Total net position</b>	<b>\$ 278,740,121</b>	<b>\$ 271,510,170</b>	<b>\$ 7,229,951</b>

Total assets decreased \$71.9 million. Current assets decreased due to receiving \$90 million from the Multi-State Lottery Association (MUSL) recorded as an outstanding receivable as of June 30, 2018 for a Powerball jackpot close to fiscal year end. This cash was then paid out to the jackpot winner during fiscal year 2019. Securities lending collateral increased \$13.5 million due to increased securities lending activity. Capital assets decreased as a result of \$27.2 million in depreciation and fewer VLT acquisitions during the year. Other noncurrent assets grew when cash was committed for upcoming projects and investment market values increased.

Current liabilities decreased \$81.5 million due to the \$90 million prize mentioned in the prior paragraph being paid. Payroll amounts due increased \$2.1 million over fiscal year 2018. In 2018 payroll was paid before year end because the standard pay date fell on a weekend. June payroll for 2019 was paid on July 1, the standard pay date. Additionally, securities lending activity increased amounts due for the collateral held at year end.

A portion of the Lottery's net position, 18.7 percent, reflects investment in capital assets, primarily Video Lottery<sup>SM</sup> gaming terminals. Of the \$226 million in unrestricted net position at fiscal year-end, \$125.4 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

	2019	2018	Increase/ (Decrease)
<b>Operating revenue:</b>			
Video Lottery <sup>SM</sup> game sales, net	\$ 966,474,906	\$ 933,980,026	\$ 32,494,880
Scratch-its <sup>SM</sup> instant ticket sales	131,236,973	130,389,967	847,006
Draw game sales	248,814,126	237,964,669	10,849,457
Other Income	1,210,580	523,843	686,737
<b>Total operating revenues</b>	<b>1,347,736,585</b>	<b>1,302,858,505</b>	<b>44,878,080</b>
<b>Operating expenses:</b>			
Prizes	239,044,444	231,670,894	7,373,550
Retailer commissions	254,277,458	245,681,221	8,596,237
Other operating expenses	150,234,369	136,397,001	13,837,368
<b>Total operating expenses</b>	<b>643,556,271</b>	<b>613,749,116</b>	<b>29,807,155</b>
<b>Operating income</b>	<b>704,180,314</b>	<b>689,109,389</b>	<b>15,070,925</b>
Interest and investment income	20,482,336	5,789,388	14,692,948
Insurance recoveries	1,049	16,908	(15,859)
Nonoperating expenses	(822,965)	(974,482)	(151,517)
<b>Total nonoperating revenues (expenses)</b>	<b>19,660,420</b>	<b>4,831,814</b>	<b>14,828,606</b>
<b>Income before transfers</b>	<b>723,840,734</b>	<b>693,941,203</b>	<b>29,899,531</b>
Transfers	(716,610,783)	(708,332,529)	8,278,254
<b>Change in net position:</b>	<b>7,229,951</b>	<b>(14,391,326)</b>	<b>21,621,277</b>
Net position - beginning	271,510,170	286,721,433	(15,211,263)
Prior period adjustment	-	(819,937)	819,937
Net position - beginning restated	271,510,170	285,901,496	(14,391,326)
<b>Net position - ending</b>	<b>\$ 278,740,121</b>	<b>\$ 271,510,170</b>	<b>\$ 7,229,951</b>

Lottery operating revenues increased 3.4 percent as sales grew for nearly all products. Video Lottery<sup>SM</sup> produced 72.4 percent of the increase in revenue. The jackpot game of Megamillions produced the majority of the remaining increase with a \$20 million increase over prior year sales. Powerball sales decreased in spite of several large jackpots.

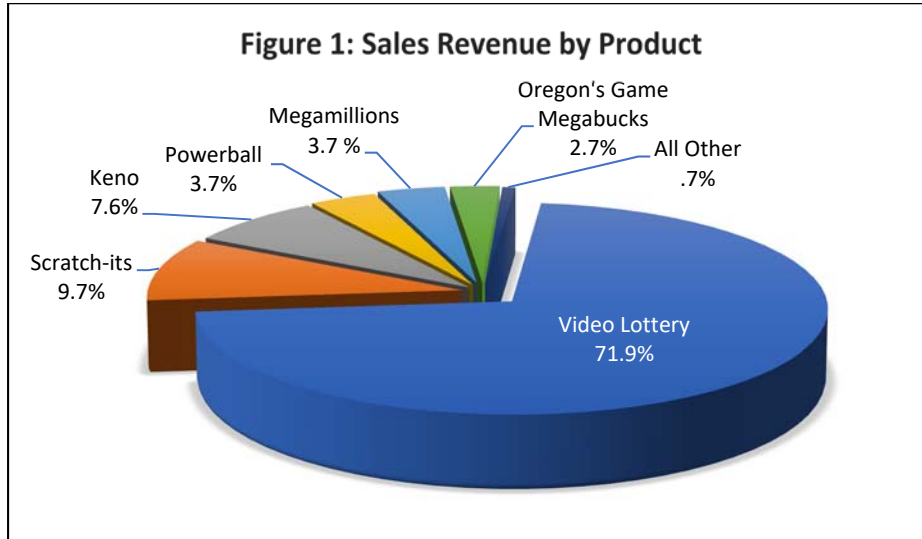
Operating expenses increased 4.9 percent from the prior fiscal year. Of that increase, 53.6 percent is for prizes and retailer commissions which are directly related to increased sales. Other operating expenses increased \$13.8 million. A portion of the increase is due to salaries and wage expenses, which rose \$9.8 million over the prior year. Wages increased 10.6 percent while other employer costs increased 32.5 percent. Employer costs related to pension liability increases were \$5.3 million more than the prior year. The remainder of the increase in other operating expenses are the result of business initiatives to modernize Lottery business systems. Expenses for consultants and industry experts for planning and implementation resulted in an increase of \$3.7 million.

Total nonoperating revenues increased \$14.8 million. Interest income was \$3.3 million higher than fiscal year 2018 as a result of higher interest rates. Investment income increased \$11.4 million over the prior year based on the market value growth of securities purchased to fund long-term prizes. Market value on the investments in the prior two years had been low. Lottery holds securities to maturity; thus, market value fluctuations do not impact business decisions.

Operating income as well as total income before transfers increased over fiscal year 2018. Lottery's income before transfers grew by 4.3 percent. The Lottery transferred \$714.4 million to the Economic Development Fund which was \$8.1 million more than the prior year. The Lottery did retain \$7.2 million of net profit in the contingency reserve; however, the cash available for future investment remained below the limit established by the Lottery commission.

## Sales Revenue

Figure 1 below shows the major sources and percentages of sales revenue for fiscal year 2019:



Video Lottery<sup>SM</sup> remains the largest source of revenue representing 71.9 percent of total sales. While sales of Video Lottery<sup>SM</sup> continue to increase (3.5 percent in fiscal year 2019), Lottery continued to actively promote problem gambling programs. Sales of Scratch-its<sup>SM</sup>, the second largest source of revenue (9.7 percent), saw 0.7 percent growth in fiscal year 2019. Keno sales also had slight growth at .6 percent over the prior year. The jackpot games, including Powerball, Megamillions, and Oregon's Game Megabucks, had a combined sales growth of 7.7 percent. Megamillions sales significantly increased with a record jackpot in October. However, Powerball had a 17% reduction in sales from the prior year despite having average jackpots slightly higher than the prior year. The popularity of Megamillions impacted Powerball sales.

## 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.

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

	2019	2018	Change
Buildings, Equipment, and Vehicles	\$ 49,825,425	\$ 75,893,022	\$ (26,067,597)
Computer Software	13,760,084	15,777,056	(2,016,972)
Other Assets	207,788	419,602	(211,814)
Capital Assets in Progress	1,884,973	157,319	1,727,654
<b>Total Capital Assets, Net</b>	<b>\$ 65,678,270</b>	<b>\$ 92,246,999</b>	<b>\$ (26,568,729)</b>

During fiscal year 2019, capital assets net of depreciation decreased 28.8 percent. The decrease is the result of depreciation, the majority of which is for video lottery terminals. Additional information on Lottery's capital assets can be found in Note 6 of the financial statements.

## **Factors Relevant to Future Operations**

Oregon's growth in household income has been stronger than that of the typical state and the median income now matches that of the U.S. Job growth in Oregon has slowed but is following gains in the underlying population. Consumer sentiment is high and is translating to more discretionary spending. Gambling revenues are strong but other types of discretionary spending are rising faster. In Oregon however, growth in video lottery sales are twice that of the nation overall. This highlights the impact of our video lottery terminal and infrastructure replacement program which began in fiscal year 2014. Overall Lottery revenues are expected to continue increasing but risks still remain from tribal casinos, online gaming (legal and illegal), and preferences among younger generations for gaming in other forms.

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# **Basic Financial Statements**

**OREGON STATE LOTTERY**  
**Statement of Net Position**  
**June 30, 2019**

**Assets**

Current Assets:

Cash and Cash Equivalents	\$ 317,109,349
Securities Lending Cash Collateral	31,907,619
Investments for Prize Payments	10,512,334
Accounts Receivable (Net)	27,706,263
Ticket Inventory	1,485,607
Prepaid Expenses	2,064,772
Total Current Assets	390,785,944

Noncurrent Assets:

Cash and Cash Equivalents	125,390,083
Investments for Prize Payments	113,451,741
Prize Reserves with Multi-State Lottery (MUSL)	4,888,892
Net Other Postemployment Benefits (OPEB) Asset	333,846

Capital Assets:

Buildings, Equipment and Vehicles	201,126,988
Computer Software	27,264,791
Other Assets	1,386,660
Construction In Progress	1,884,973
Less Accumulated Depreciation and Amortization	(165,985,142)

Total Noncurrent Assets	309,742,832
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Total Assets	700,528,776
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**Deferred Outflows of Resources**

Deferred Amounts for Pensions	14,514,098
Deferred Amounts for Other Postemployment Benefits (OPEB)	326,401

Total Deferred Outflows of Resources	14,840,499
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Total Assets and Deferred Outflows of Resources	715,369,275
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**Liabilities**

Current Liabilities:

Due to Economic Development Fund	180,192,193
Obligations Under Securities Lending	31,907,619
Prize Liability	32,924,957
Accounts Payable	12,603,435
Compensated Absences	3,121,759
Unearned Revenue	497,504
Contracts Payable	3,400,462

Total Current Liabilities	264,647,929
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Noncurrent Liabilities:

Prize Liability	114,262,983
Compensated Absences	1,608,179
Net Pension Liability	38,216,983
Other Postemployment Benefits (OPEB) Liabilities	1,703,627
Contracts Payable	13,893,713

Total Noncurrent Liabilities	169,685,485
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Total Liabilities	434,333,414
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**Deferred Inflows of Resources**

Deferred Amounts for Pensions	2,148,012
Deferred Amounts for Other Postemployment Benefits (OPEB)	147,728

Total Deferred Inflows of Resources	2,295,740
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Total Liabilities and Deferred Inflows of Resources	436,629,154
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**Net Position:**

Net Investment in Capital Assets	52,108,890
Restricted for Net Other Postemployment Benefits (OPEB) Asset	333,846
Unrestricted	226,297,385

<b>Total Net Position</b>	<b>\$ 278,740,121</b>
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*The accompanying notes are an integral part of the financial statements.*

**OREGON STATE LOTTERY**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**For the Year Ended June 30, 2019**

**Operating Revenues**

Sales:

Video Lottery <sup>SM</sup> (Net Receipts)	\$ 966,474,906
Scratch-its <sup>SM</sup> Instant Tickets (Net of Returns)	131,236,973
Keno	102,665,467
Powerball <sup>®</sup>	49,829,088
Megabucks <sup>SM</sup>	36,418,393
Mega Millions <sup>®</sup>	50,210,700
Raffle <sup>SM</sup>	2,307,370
Win For Life <sup>SM</sup>	3,766,700
Lucky Lines <sup>SM</sup>	1,850,874
Pick 4 <sup>SM</sup>	1,765,534
Provision for Uncollectibles	(54,947)
Other Income	1,265,527
Total Operating Revenues	<u>1,347,736,585</u>

**Operating Expenses**

Prizes	239,044,444
Retailer Commissions	254,277,458
Salaries and Wages	61,731,587
Depreciation and Amortization	34,763,881
Services and Supplies	17,747,590
Game Vendor Charges	8,557,771
Advertising and Market Research	8,350,536
Public Information	9,026,042
Tickets	2,923,348
Game Equipment Parts and Maintenance	5,912,370
Sales Support	1,221,244
Total Operating Expenses	<u>643,556,271</u>
Operating Income	<u>704,180,314</u>

**Nonoperating Revenues (Expenses)**

Interest	10,263,927
Investment and Securities Lending Income	10,218,409
Insurance Recoveries	1,049
Gain (Loss) on Disposition of Assets	107,516
Investment Expenses - Securities Lending	(272,180)
Investment Expenses	(15,026)
Interest Expense	(643,275)
Total Nonoperating Revenues (Expenses)	<u>19,660,420</u>
Income Before Transfers	723,840,734

**Transfers**

Transfers to the Economic Development Fund	(714,417,052)
Transfers to the General Obligation Bond Fund	(2,193,731)
Total Transfers	<u>(716,610,783)</u>
Change in Net Position	<u>7,229,951</u>
Net Position - Beginning	271,510,170
<b>Net Position - Ending</b>	<b><u>\$ 278,740,121</u></b>

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

**OREGON STATE LOTTERY**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2019**

<b>Cash Flows from Operating Activities:</b>	
Receipts from Customers	\$ 1,344,891,919
Payments to Employees for Services	(34,829,689)
Payments to Suppliers	(324,916,636)
Payments to Prize Winners	(325,713,968)
Other Income	88,892,562
Net Cash Provided (Used) by Operating Activities	<u>748,324,188</u>
<b>Cash Flows from Noncapital Financing Activities:</b>	
Principal and Interest Payments on Long-term Pension Debt	(577,097)
Transfers to the Economic Development Fund	(730,143,179)
Transfers to the General Obligation Bond Fund	(2,193,731)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(732,914,007)</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Acquisition of Capital Assets	(8,303,322)
Proceeds from Disposition of Capital Assets	434,417
Payments on Contracts	(3,320,272)
Insurance Recoveries for Capital Assets	1,049
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(11,188,128)</u>
<b>Cash Flows from Investing Activities:</b>	
Purchases of Investments	(3,381,167)
Proceeds from Sales and Maturities of Investments	10,991,000
Interest on Investments and Cash Balances	10,263,927
Securities Lending Expenses	(118,278)
Investment Expenses	(168,928)
Net Cash Provided (Used) by Investing Activities	<u>17,586,554</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>21,808,607</u>
Cash and Cash Equivalents - Beginning	420,690,825
<b>Cash and Cash Equivalents - Ending</b>	<u>\$ 442,499,432</u>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</b>	
Operating Income	\$ 704,180,314
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation and Amortization	34,763,881
Net Changes in Assets and Liabilities:	
(Increase)/Decrease in Accounts Receivable	87,514,642
(Increase)/Decrease in Ticket Inventory	108,715
(Increase)/Decrease in Prepaid Expenses	(175,964)
(Increase)/Decrease in Prize Reserves with MUSL	(1,014,284)
(Increase)/Decrease in Pension Deferred Outflows	(2,885,660)
(Increase)/Decrease in Net OPEB Asset and OPEB Deferred Outflows	(267,961)
Increase/(Decrease) in Accounts Payable	2,441,165
Increase/(Decrease) in Compensated Absences Liability	494,171
Increase/(Decrease) in Unearned Revenue	74,925
Increase/(Decrease) in Prize Liability	(87,248,171)
Increase/(Decrease) in Net Pension Liability and Deferred Inflows	10,306,441
Increase/(Decrease) in OPEB Liability and OPEB Deferred Inflows	31,974
Total Adjustments	<u>44,143,874</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 748,324,188</u>
<b>Noncash Investing, Capital, and Related Financing Activities:</b>	
Net Change in Fair Value of Investments	\$ 10,218,409
Intangible Assets Acquired Through Contract	218,730
Total Noncash Investing, Capital, and Related Financing Activities	<u>\$ 10,437,139</u>

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

**OREGON STATE LOTTERY**  
**Notes to the Financial Statements**  
June 30, 2019

**1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The Oregon State Lottery Commission (Commission) was created as an agency of the State of Oregon by enactment of Article XV, Section 4 (3), of the Oregon Constitution, an initiative measure approved by Oregon voters at the November 1984 general election. The Commission established the Oregon State Lottery (Lottery), which is an enterprise fund of the State of Oregon. The Lottery commenced operations to market and sell Lottery products to the public in January 1985. The net profits of the Lottery are transferred to the Oregon Economic Development Fund and are then distributed by the State of Oregon to finance the various public purposes allowed by law.

**B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The accompanying financial statements of the Lottery have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

The Lottery uses an enterprise fund, the Oregon State Lottery Fund, with a self-balancing set of accounts to record its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses. Enterprise funds account for activities that are financed and operated in a manner similar to private business enterprises.

Lottery financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Revenues and expenses are categorized as operating or nonoperating in the Statement of Revenues, Expenses and Changes in Fund Net Position. Operating revenues and expenses are those that result from selling Lottery games to the public. Operating revenues include the sale of Lottery products and incidental revenues associated with operating the Lottery. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. Revenues and expenses that do not result from selling Lottery games, such as investment income and investment expenses, are reported as nonoperating revenues and expenses.

Assets and liabilities are classified on the Statement of Net Position as current and noncurrent. Current assets are resources expected to be realized in cash or consumed within a year from the financial statement date. Current liabilities are obligations generally expected to be paid using resources that are classified as current assets and obligations due within one year from the date of the financial statements. Noncurrent assets are capital assets, resources that are restricted 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. 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. When shares are sold in advance of the draw date, sales revenue is not yet earned. Unearned revenue includes revenue associated with shares that have been sold for draw dates 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 designs include certain guaranteed prizes in each pack of tickets and prizes placed randomly by the gaming vendor. When validations for the game have ended, differences between estimated and actual prizes awarded for the randomly placed prizes are adjusted to prize expense and prize liability. Guaranteed prizes not claimed by winners are transferred to the Economic Development Fund.

Prize expense for draw games is recognized as drawings are held, based on the shares sold and the estimated or known cost of the prize payments. Prize expense is adjusted as prizes are claimed and the actual cost of the prize is known. Expense for prizes with long-term payments is recognized when the prize liability is recorded, at the discounted present value of estimated future cash payments. Video 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, 2019 also includes \$4,076,935 of amortization of the long-term prize liability discount (see Note 1(F)).

The cost of Lottery products distributed through various promotional activities is included in ticket expense and any prizes (actual or estimated) are recorded in prize expense. The sales value of these products for the fiscal year ended June 30, 2019 was \$160,172.

**F. Prize Liability**

Prize liability is recorded when the prize expense is recognized (see Note 1(E) above) and is reported at the discounted present value of estimated future cash payments. Discount rates are based on interest rates earned on securities purchased to fund long-term prize payments. Estimated and known prize payments due within one year of the financial statement date are recorded as a current liability and payments due later than the upcoming year are classified as a noncurrent liability. Unclaimed prizes (winning shares known to be sold and not presented for payment within one year from the draw date or official end of a game) are reclassified from Prize Liability to Due to Economic Development Fund.

**G. Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, test cash held by employees, cash in demand deposit accounts and cash and investments held in the Oregon Short-Term Fund (OSTF). For purposes of the Statement of Cash Flows, all Lottery moneys held by the Office of the State Treasurer in the OSTF are considered to be cash equivalents. The OSTF is an investment pool that functions as a demand deposit account.

**H. Investments**

Investments are reported at fair value based on quoted market prices for similar assets at June 30, 2019. 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.

**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:

Assets	Years
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 19.34 hours per month, depending upon length of service. All Lottery employees may accumulate a maximum of 350 hours per employee. Accumulated vacation leave and accumulated compensatory time is recorded as an expense and a liability (compensated absences) as the benefits accrue to employees. The compensated absences liability is calculated based upon salary rates in effect at the fiscal year-end and includes estimated tax and retirement costs. No liability is reported for accumulated sick leave benefits since employees are not paid for unused sick leave benefits when leaving State service.

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

These items are included at amounts equal to Lottery's portion of the State of Oregon's proportionate share of Oregon Public Employee's Retirement System (PERS) plan totals measured as of June 30, 2018. 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, 2018 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, 2019. 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 2019 Financial Plan is presented as supplementary information in this report.

**B. Video Lottery<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	\$ 3,504,426,320	Cash Paid Out	\$ 2,537,946,344
Dollars Won and Played	<u>9,110,729,288</u>	Dollars Won and Played	<u>9,110,729,288</u>
Total Revenue	<u>\$ 12,615,155,608</u>	Total Prizes	<u>\$ 11,648,675,632</u>
Net Revenue before Discounts = \$966,479,976			

**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 2019 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	\$ 12,995,201,637	
Other Distributable Income	<u>10,826,569</u>	
Total Distributable Revenue	<u>\$ 13,006,028,206</u>	
<u>Distribution of Revenues</u>		
Revenues Returned to the Public:		
Prizes to the Public	\$ 11,879,697,629	91.34%
Unclaimed Prizes Paid/Due to Economic Development Fund	7,443,800	0.06%
Transfers Paid/Due to Economic Development Fund	<u>714,417,052</u>	<u>5.49%</u>
Total Revenues Returned to the Public	12,601,558,481	96.89%
Administrative Expenses	<u>404,469,725</u>	<u>3.11%</u>
Total Revenue Distribution	<u>\$ 13,006,028,206</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 2019, prizes in the amount of \$7,443,800 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, 2019:

Cash Available for Future Investment (Uncommitted Contingency Reserve)	\$ 97,356,923
Committed by Contract for Asset Purchases/Licensing (See Note 7 and 10)	26,207,332
Committed by Commission for Capital Purchases/Projects	99,182,751
Inventory and Prepaid Expenses	<u>3,550,379</u>
Total Unrestricted Net Position	<u>\$ 226,297,385</u>

**F. Transfers to Economic Development Fund**

All current year income remaining after transfers to the General Obligation Bond Fund was accrued for transfer to the Economic Development Fund. Actual cash transferred, including unclaimed prizes, during fiscal year 2019 was \$730,143,177. The remaining balance is included on the Statement of Net Position in current liabilities. The following schedule reconciles the amounts:

	Balance Owed at June 30, 2018	Amounts Accrued	Cash Paid to Economic Development	Balance Remaining at June 30, 2019
Income	\$ 187,474,007	\$ 714,417,052	\$ 723,187,126	\$ 178,703,933
Unclaimed Prizes	1,000,511	7,443,800	6,956,051	1,488,260
Total	<u>\$ 188,474,518</u>	<u>\$ 721,860,852</u>	<u>\$ 730,143,177</u>	<u>\$ 180,192,193</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, 2019 of \$443,378,813, 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 2.29 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, 2019:

<u>Investment Type</u>	<u>Less than 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>More Than 10 Years</u>	<u>Total Fair Value</u>
U.S. Agency Strips	\$ 333,661	\$ 2,437,255	\$ 64,794	\$ -	\$ 2,835,710
U.S. Treasury Strips	10,178,673	36,358,064	36,964,827	37,626,801	121,128,365
Total Investments	<u>\$ 10,512,334</u>	<u>\$ 38,795,319</u>	<u>\$ 37,029,621</u>	<u>\$ 37,626,801</u>	<u>\$ 123,964,075</u>

**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 2019, the State's securities lending agent lent short-term and fixed income securities from the OSTF and U.S. Government securities segregated to the Lottery and received as collateral U.S. dollar-denominated cash and U.S. Treasury securities. Borrowers were required to deliver collateral for each loan equal to not less than 102 percent of the market value of the loaned securities. The State has the ability to impose restrictions on the amount of the loans that the securities lending agent made on its behalf. No such restrictions were made during the year ended June 30, 2019. The State may pledge or sell collateral securities in the event of a borrower default; however, the Lottery and the State, through the State Treasurer's Securities Lending Agreements, are fully indemnified against losses due to borrower default. There were no losses during the year from the failure of borrowers to return loaned securities.

During the year, the State and borrowers maintained the right to terminate all securities lending transactions on demand. As a consequence, the maturities of investments made with cash collateral generally did not match the maturities of the securities loans. On June 30, 2019, the State and the Lottery had no credit risk exposure to borrowers related to securities on loan.

As of June 30, 2019, the total fair value of securities on loan from the OSTF was \$732,289,628, the collateral received was \$747,458,966 and the fair value of invested collateral was \$515,673,948. 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, 2019, is presented in the following schedule:

	Securities Lending Balances		
	Fair Value of Securities on Loan	Collateral Received	Fair Value of Invested Cash Collateral
Lottery Share OSTF	\$ 19,846,983	\$ 20,258,112	\$ 13,976,126
Lottery Investments	17,609,757	17,935,838	17,930,261
<b>Total</b>	<b>\$ 37,456,740</b>	<b>\$ 38,193,950</b>	<b>\$ 31,906,387</b>

## 6. Capital Assets

Capital asset activity for the year ended June 30, 2019, is shown in the following schedule:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Depreciable Capital Assets</u>				
Equipment	\$183,378,627	\$ 4,948,534	\$ 6,286,731	\$182,040,430
Building and Improvements	13,550,174	183,114	161,800	13,571,488
Vehicles	5,605,713	746,678	837,321	5,515,070
Computer Software	27,000,830	916,072	652,111	27,264,791
Other Assets	1,386,660	-	-	1,386,660
<b>Total Assets Being Depreciated</b>	<b>230,922,004</b>	<b>6,794,398</b>	<b>7,937,963</b>	<b>229,778,439</b>
<u>Accumulated Depreciation</u>				
Equipment	116,771,622	30,592,246	6,205,075	141,158,793
Building and Improvements	7,639,546	340,214	159,931	7,819,829
Vehicles	2,230,324	686,563	593,946	2,322,941
Computer Software	11,223,774	2,933,044	652,111	13,504,707
Other Assets	967,058	211,814	-	1,178,872
<b>Total Accumulated Depreciation</b>	<b>138,832,324</b>	<b>34,763,881</b>	<b>7,611,063</b>	<b>165,985,142</b>
<u>Capital Assets Not Being Depreciated</u>				
Capital Assets in Progress	157,319	1,727,654	-	1,884,973
<b>Capital Assets, Net</b>	<b>\$ 92,246,999</b>	<b>\$ (26,241,829)</b>	<b>\$ 326,900</b>	<b>\$ 65,678,270</b>

Included in the equipment amounts above is \$6,736,500 of Video Retailer Terminals acquired through a capital lease. Equipment accumulated depreciation includes capital lease amortization of \$2,165,303.

On June 27, 2014 the Lottery vacated its backup center and it remained idle at June 30, 2019. Carrying value included in capital assets is \$444,849.

During fiscal year 2019 a vehicle and video lottery equipment valued at \$94,991 was written off due to accident, fire, or vandalism. Insurance recoveries for those losses were \$82,491. 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:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Prizes	\$241,879,911	\$239,044,444	\$333,736,415	\$147,187,940	\$32,924,957
Compensated Absences	4,235,767	4,995,226	4,501,055	4,729,938	3,121,759
Licensing Contracts	10,782,507	218,730	2,080,363	8,920,875	2,118,135
Capital Lease Obligation	5,511,984	-	863,478	4,648,506	929,127
Pre-SLGRP Pension Debt	4,035,048	-	310,253	3,724,795	353,200
	<u>\$266,445,217</u>	<u>\$244,258,400</u>	<u>\$341,491,564</u>	<u>\$169,212,054</u>	<u>\$39,447,178</u>

As of June 30, 2019, there were 80 Oregon Lottery prizes with remaining long-term annual prize payments. The estimated number of years remaining for payments extends to 48 years. During fiscal year 2019, a \$578,647 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 required period of time. Although estimated and included in prize liability, contingent prize payments are not shown in the table.

Fiscal Year Ending June 30,	Principal	Interest
2020	\$ 8,591,533	\$ 139,633
2021	8,097,084	368,583
2022	7,813,771	599,896
2023	7,525,358	833,309
2024	7,094,360	1,046,307
2025-2029	26,528,087	6,650,247
2030-2034	14,871,572	6,682,762
2035-2039	6,957,766	4,375,568
2040-2044	731,655	657,678
2045-2049	159,718	183,615
	<u>\$ 88,370,904</u>	<u>\$ 21,537,598</u>

The Lottery currently has five software licensing contracts requiring monthly, quarterly, bi-annual 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.

In March 2014 Lottery began leasing back-up computer hosting space for gaming system processing software. The most recent extension began July 1, 2017 and will end June 30, 2020. In the event of Lottery's default all, amounts due and owing for services provided through the effective termination date shall be paid to the licensor.

The Lottery originally contracted for a hosted web portal with second chance drawing functionality in November 2010. The contract was extended until February 2021 through an amendment signed in January 2018.

The Lottery has licenses for recruitment tracking software and project/planning tracking software. Both are three-year contracts ending in January 2022 and December 2021, respectively.

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

Year Ending June 30	Amount
2020	\$ 2,118,136
2021	1,779,907
2022	1,561,587
2023	1,538,331
2024	1,538,331
2025	384,583
	<u>\$ 8,920,875</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 \$3,724,795 represents Lottery’s allocation of the state liability. The payment schedule is shown in the following table:

Year Ending June 30,	Principal	Interest
2020	\$ 353,200	\$ 262,797
2021	378,630	237,367
2022	405,892	210,106
2023	435,116	180,882
2024	466,444	149,553
2025-2028	1,685,513	237,309
Total	<u>\$ 3,724,795</u>	<u>\$ 1,278,014</u>

**8. Discounts and Allowances**

Revenues are reported net of discounts and free plays in the Statement of Revenues, Expenses and Changes in Fund Net Position. Some Lottery games offer free tickets as prizes instead of cash in the game structure. The sales value of these prizes reduces sales rather than being included as prize expense. For fiscal year ended June 30, 2019 Lottery awarded free play prizes of \$885,526. Promotional discounts and free plays also reduced sales by \$201,594.

At June 30, 2019, accounts receivable in the Statement of Net Position is reported net of \$102,524 allowance for uncollectible amounts.

**9. Joint Venture**

The Multi-State Lottery Association (MUSL) was established September 16, 1987, to coordinate lottery games with larger prizes than the individual states could offer by themselves. The Oregon Lottery has been a participating member since the inception of MUSL. Each participating state sells its choice of MUSL products and keeps all profits earned. Participating states contribute amounts necessary to fund the estimated and actual prizes won, reserve prize pools, and fees for services of MUSL and the Product Groups. The Oregon Lottery’s share of MUSL’s fees for the fiscal year ended June 30, 2019, was \$26,160.

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, 2019 and June 30, 2018 (in thousands):

	<u>2019</u>	<u>2018</u>
Assets	\$ 507,711	\$ 486,936
Total Assets	<u>\$ 507,711</u>	<u>\$ 486,936</u>
Liabilities	\$ 486,742	\$ 477,888
Net Assets <sup>1</sup> - Unrestricted	20,969	9,048
Total Liabilities and Net Assets <sup>1</sup>	<u>\$ 507,711</u>	<u>\$ 486,936</u>
Revenue	\$ 18,637	\$ 10,422
Expenses	6,716	6,517
Excess Revenues Over Expenses	<u>\$ 11,921</u>	<u>\$ 3,905</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, 2019, there was one lease agreement in effect that had a non-cancelable lease term in excess of one year. The agreement covers equipment for the traditional (instant and draw game) sales processing system and was signed on October 3, 2007. The original agreement was amended in March 2012 and is effective through November 30, 2020. The Lottery currently leases 480 self-service kiosks with an average cost of \$191.52 per month, per kiosk; 3,100 monitors for \$7.50 per monitor, per month; and 100 retailer terminals for \$56.61 per month, per terminal. Operating lease expense for fiscal year 2019 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, 2019 are shown in the following schedule:

Fiscal Year Ending June 30,	Future Minimum Operating Lease Payments	Future Minimum Capital Lease Payments
2020	\$ 1,450,062	\$ 1,239,909
2021	604,193	1,239,909
2022	-	1,239,909
2023	-	1,239,909
2024	-	474,533
2025	-	22,962
Total Future Minimum Lease Payments	<u>\$ 2,054,255</u>	<u>\$ 5,457,131</u>

## 11. Other Significant Commitments and Contingencies

### A. Commitments

The Lottery contracts through November 30, 2020 for services and the use of software associated with processing transactions for its traditional products. The contractor is paid a commission of 1.6999 percent of net sales for all traditional products. In fiscal year 2019, the Lottery had expenses of \$6,461,762 for traditional product commissions. The amount is included in Game Vendor Charges on the Statement of Revenues, Expenses, and Changes in Fund Net Position.

In May 2019, Lottery contracted for services and access to software for a sports betting solution. The contract is for five years from the later of May 22, 2019, or the first commercial launch date. 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 minimum service fee is \$300,000 per month for the first six months after launch. The minimum fee then increases to \$350,000 through the end of the term. Lottery has also agreed to reimburse the vendor for expenses related to third-party products required to implement the sports betting solution. Should the contract be terminated 30 days prior to launch, fees of \$1,000,000 are payable, plus additional wind-down costs, if applicable. After launch, the termination fee is based on the average fees paid or \$300,000, whichever is greater, multiplied the lesser of 24 months or remaining months of the term. However, Lottery does retain the right to terminate the contract under specified criteria with no termination fee.

### 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, 2019, \$2,806 of reimbursements were paid.

## 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 2019 were effective July 1, 2017 and based on the December 31, 2015 valuation. Lottery contributions in fiscal year 2019 were \$3,537,968.

Set by statute, Lottery employees contribute 6 percent of covered salary to their IAP account. For pay dates on or after March 1, 2019 employees pay their own contributions. Prior to this Lottery elected to pay the employees contribution as allowed by current law. PERS recognized Lottery paid fiscal year 2019 IAP contributions of \$1,353,430.

**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, 2018, is based on the December 31, 2016 actuarial valuation rolled forward to the measurement date. IAP accounts are not included in the measurement of the total pension liability. Assumptions used for the measurement include the following:

Experience Study Report	2016, published July 2017
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
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.)
Mortality	<u>Healthy retirees and beneficiaries:</u> RP-20014 healthy annuitant, sex-distinct, generational with unisex social security data scale, with collar adjustments and set-backs as described in the valuation. <u>Active members:</u> RP-20014 employees, sex-distinct, generational 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 2015 based on the target. Using the OIC description of asset classes, investments were mapped to the asset classes and percentages below. Each asset class assumption is based on a consistent set of underlying assumptions and includes adjustment for the inflation assumption. The following assumptions were used:

Asset Class	Target	Compound Annual Return (Geometric)
Core Fixed Income	8.00%	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 or lump sum payments from employers. Estimated future normal cost rate contributions represent future service contributions while UAL estimated contributions represent contributions for past service. PERS has determined employer transition liabilities to meet the definition of separately financed employer liabilities and are not included in the projected contribution effort. The State of Oregon's proportion was 27.36% as of the prior June 30, 2017 measurement date and decreased to 27.00% as of the June 30, 2018 measurement date.

The State of Oregon's proportionate share of the net pension liability was allocated to funds based on actual fiscal year 2018 contributions. Lottery is .93% of the State's share, an increase of .12% from the June 30, 2017 measurement date. Lottery's proportion of the State's share equates to .25 percent of the collective net pension liability. At June 30, 2019 Lottery reported a net pension liability of \$38,216,983. The following demonstrates Lottery's proportionate share of the net pension liability/(asset) sensitivity to a 1 percentage point change in the discount rate:

- 8.2% (1% higher discount rate) – \$17,044,334
- 6.2% (1% lower discount rate) – \$63,867,799

For the year ended June 30, 2019, Lottery recognized pension expense of \$10,958,749. At June 30, 2019 Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,300,027	\$ -
Changes in assumptions	8,885,376	-
Net difference between projected and actual earnings on investments	-	(1,697,050)
Changes in proportion and differences between fund contributions and proportionate share of contributions	790,727	(450,962)
Lottery contributions subsequent to the measurement date	3,537,968	-
	<u>\$ 14,514,098</u>	<u>\$ (2,148,012)</u>

The deferred amounts, not including contributions subsequent to the measurement date, will be included in pension expense as shown in the following table:

Fiscal Year Ending June 30,	Amount to Pension Expense
2020	\$ 4,945,100
2021	3,541,987
2022	(313,624)
2023	440,502
2024	214,153
	<u>\$ 8,828,118</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/2018-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, 2019 were effective July 1, 2017 and based on the December 31, 2015 valuation. The rates are a percentage of covered payroll and vary by the retirement plan of the participant. The contribution rates and amounts contributed during the year ended June 30, 2019 are shown in the following table:

	RHIA		RHIPA	
	PERS		PERS	
	Tier 1/Tier 2	OPSRP	Tier 1/Tier 2	OPSRP
Normal Cost	0.07%		0.11%	
Unfunded Actuarial Liability	0.43%	0.43%	0.38%	0.38%
Total Required Rate	0.50%	0.43%	0.49%	0.38%
Amounts Contributed	\$ 66,570	\$ 80,082	\$ 65,239	\$ 70,751

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

	RHIA	RHIPA
Plan Type	Cost-Sharing Multiple Employer	Single Employer (State of
Valuation date	December 31, 2016	December 31, 2016
Measurement date	June 30, 2018	June 30, 2018
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	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: 38%, Disabled retirees: 20%	Healthy retirees: 38%, Disabled retirees: 20%
Healthcare cost trend rate	Not Applicable	Applied at beginning of plan year, starting with 6.5% for 2018, decreasing to 5.9% for 2019, increasing to 6.2% for 2029, and decreasing to an
Mortality	<p><b>Healthy retirees and beneficiaries:</b> RP-2000 Sex-distinct, generational per Scale BB, with collar adjustments and set-backs as described in the valuation</p> <p><b>Active members:</b> Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation</p> <p><b>Disabled retirees:</b> Mortality rates are a percentage (70% for males, 95% for females) of the RP-2000 Sex-distinct, generational per Scale BB, disabled mortality table.</p>	<p>RP-2014 Healthy annuitant, sex-distinct, generational with unisex, social security data scale, with collar adjustments and set-backs as described in</p> <p><b>Active members:</b> RP-2014 Employees, sex-distinct, generational with unisex, social security data scale, with collar adjustments</p> <p><b>Disabled retirees:</b> RP-2014 disabled retirees, sex-distinct, generational with unisex, social security data scale.</p>

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.

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 2018 actual contributions from each fund. Lottery’s share of both plans is shown below. The amounts are measured as of June 30, 2018 based on a December 31, 2016 actuarial valuation rolled forward. Effects of a 1 percentage point change in the healthcare cost trend rate and the discount rate are also shown in the following table:

	RHIA	RHIPA
State of Oregon Share of Plan	29.91%	100.00%
Lottery Percent of State of Oregon Share	1.01%	1.02%
Lottery Share of Net OPEB Liability/(Asset)	\$ (333,846)	\$ 358,817
Lottery Share with:		
1% increase in healthcare cost trend rate	N/A	\$ 425,666
1% decrease in healthcare cost trend rate	N/A	\$ 290,574
1% increase in the discount rate	\$ (452,559)	\$ 309,119
1% decrease in the discount rate	\$ (194,382)	\$ 402,360

In the fiscal year ending June 30, 2019, Lottery recognized expense for the RHIA and RHIPA plans in the following amounts respectively; \$(38,480) and \$143,349. The following table shows the balances of Lottery's deferred outflows and inflows for the two plans:

	RHIA		RHIPA	
	Deferred Outflow of Resources	Deferred Inflow of Resources	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ -	\$ (18,920)	\$ -	\$(26,571)
Changes in assumptions	-	(1,059)	3,711	-
Net difference between projected and actual earnings on investments	-	(71,977)		(5,923)
Changes in proportion and differences between fund contributions and proportionate share of contributions	3,656	-	-	-
Contributions Subject to Measurement Date	146,653	-	135,990	-
	<u>\$ 150,309</u>	<u>\$ (91,956)</u>	<u>\$139,701</u>	<u>\$(32,494)</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
2020	\$ (28,434)	\$ (5,677)
2021	(28,745)	(5,677)
2022	(23,966)	(5,678)
2023	(7,155)	(4,389)
2024		(3,875)
Years thereafter		(3,487)
	<u>\$ (88,300)</u>	<u>\$ (28,783)</u>

Detailed information about the PERS other postemployment benefit plan’s fiduciary net position is available in the separately issued Comprehensive Annual Financial Report on the PERS website at:  
<https://www.oregon.gov/pers/Documents/Financials/CAFR/2018-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, 2017 and projected forward to June 30, 2019. There are no assets accumulated for payment of the liability. Certain assumptions were made to value the future benefits. The following table shows significant assumptions used:

Valuation Date	July 1, 2017
Measurement Date	June 30, 2019
Discount Rate	3.50%
Health Care Cost Trend	Generally, 5% or higher per year through year 15, increases to an average of 6% through year 26. Years 27 through 29 are just under 6% and then grades down to 4.2% years 30 through 80
General Inflation	2.5% per year
Annual Salary Increases	3.5% per year
Mortality	December 31, 2016 Oregon PERS Valuation
Election and Lapse Rates	30% of eligible employees, 60% spouse coverage for males, 35% for females. 7% annual lapse rate.

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 2019 actual contributions. Lottery’s share of the liability at June 30, 2019 is \$1,344,810 which is .83 percent of the State of Oregon’s liability. The sensitivity of the liability to changes in the discount rate and healthcare cost trend rate are shown in the table below:

Lottery Share with:	
1% increase in healthcare cost trend rate	\$ 1,552,671
1% decrease in healthcare cost trend rate	\$ 1,171,753
1% increase in the discount rate	\$ 1,235,787
1% decrease in the discount rate	\$ 1,463,288

For the fiscal year ended June 30, 2019 Lottery recognized \$10,007 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, 2019 is \$36,391. Deferred inflows related to changes in assumptions is \$23,278. The amounts will reduce Lottery’s proportion of OPEB expense in future years as follows:



Fiscal Year Ending June 30,	
2020	\$ 1,300
2021	1,300
2022	1,300
2023	1,300
2024	1,300
Years thereafter	6,614
	<u>\$ 13,114</u>

**14. Risk Financing**

The State of Oregon administers property and casualty insurance programs covering State government through its Insurance Fund (included in the Central Services Fund). The Insurance Fund services claims for direct physical loss or damage to state property; tort liability claims brought against the State, its officers, employees, or agents; workers' compensation; employee dishonesty; and faithful performance coverage for certain positions required by law to be covered and other key positions.

As a state agency, the Lottery participates in the Insurance Fund. The cost of servicing insurance claims and payments is covered by charging an assessment to each state agency based on its share of services provided in a prior period. The total statewide assessment for each coverage type is based on independent biennial actuarial forecasts and administrative costs, less any available equity in the Insurance Fund from the prior biennium. Lottery's fiscal year 2019 share of the 2017-2019 biennial assessment was \$577,124. 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 / (Asset)**  
**Oregon Public Employees Retirement System Plan (PERS)**  
**Last Ten Measurement Dates\***  
(Dollars in Millions)

<b>Oregon State Lottery</b>						
As of June 30,	Percent of Collective Net Pension Liability	Share of Collective Net Pension Liability/ (Asset)	Covered Payroll	Share of Collective Net Pension Liability/ (Asset) as a Percentage of Covered Payroll	PERS Fiduciary Net Position as a Percent of Total Pension Liability	
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)

Fiscal Year Ending June 30,	Actuarially Required Contributions	PERS Recognized Contributions	Contribution Deficiency/ (Excess)	Covered Payroll	Contributions as a Percentage of Covered Employee Payroll
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)

<b>Oregon State Lottery</b>						
As of June 30,	Percent of Collective Net OPEB Liability	Share of Collective Net OPEB Liability/ (Asset)	Covered Payroll	Share of Collective Net OPEB Liability/ (Asset) as a Percentage of Covered Payroll	RHIA Fiduciary Net Position as a Percent of Total OPEB Liability	
2018	0.30%	\$ (334)	\$ 32,099	(1.04%)	124.0%	
2017	0.25%	(104)	30,651	(.34%)	108.9%	

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

**Schedule of Lottery OPEB Contributions**  
**Oregon Public Employees Retirement System RHIA**  
**Last Ten Fiscal Years\***  
(Dollars in Thousands)

Fiscal Year Ending June 30,	Actuarially Required Contributions	PERS Recognized Contributions	Contribution Deficiency/ (Excess)	Covered Payroll	Contributions as a Percentage of Covered Employee Payroll
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 / (Asset)**  
**Oregon Public Employees Retirement System Retiree Health Insurance Premium Account (RHIPA)**  
**Last Ten Measurement Dates\***  
(Dollars in Thousands)

<b>Oregon State Lottery</b>						
As of June 30,	Percent of State of Oregon Net OPEB Liability	Share of State of Oregon Net OPEB Liability/ (Asset)	Covered Payroll	Share of State of Oregon Net OPEB Liability/ (Asset) as a Percentage of Covered Payroll	PERS Fiduciary Net Position as a Percent of Total OPEB Liability	
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 Payroll	Contributions as a Percentage of Covered Employee Payroll
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 / (Asset)**

**Public Employees Benefit Board (PEBB)**

**Last Ten Measurement Dates\***

(Dollars in Millions)

As of June 30,	Percentage of OPEB Liability	Share of OPEB Liability	Covered Employee Payroll	Share of Liability as a Percent of Covered Payroll
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.
- 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, 2019

	Actual	Budget <sup>1</sup>	Variance Favorable/ (Unfavorable)
<b>Revenue</b>			
Video Lottery <sup>SM</sup> (Gross Receipts)	\$ 12,615,150,537	\$ 12,597,465,051	\$ 17,685,486
Scratch-its <sup>SM</sup> Instant Tickets	131,236,973	132,708,611	(1,471,638)
Keno	102,665,467	102,569,425	96,042
Powerball <sup>®</sup>	49,829,088	51,206,004	(1,376,916)
Megabucks <sup>SM</sup>	36,418,393	37,420,529	(1,002,136)
Mega Millions <sup>®</sup>	50,210,700	49,406,380	804,320
Raffle <sup>SM</sup>	2,307,370	2,307,370	0
Win For Life <sup>SM</sup>	3,766,700	3,799,913	(33,213)
Lucky Lines <sup>SM</sup>	1,850,874	1,746,778	104,096
Pick 4 <sup>SM</sup>	1,765,534	1,712,369	53,165
Total Revenue	12,995,201,636	12,980,342,430	14,859,206
Prize Expense	11,883,643,141	11,874,852,064	(8,791,077)
Net Revenue	1,111,558,495	1,105,490,366	6,068,129
<b>Direct Expenses</b>			
Retailer Commissions	254,277,458	255,411,472	1,134,014
Game Vendor Charges	8,557,771	8,594,507	36,736
Tickets	2,923,348	3,700,000	776,652
Advertising	7,447,654	8,888,717	1,441,063
Sales Support	1,221,244	1,814,620	593,376
Game Equipment/Parts & Maintenance	5,912,370	16,317,410	10,405,040
Depreciation	32,237,402	32,462,840	225,438
Total Direct Expenses	312,577,247	327,189,566	14,612,319
Gross Profit	798,981,248	778,300,800	20,680,448
<b>Indirect Revenue</b>			
Other Income (Loss)	17,229,380	5,356,000	11,873,380
<b>Indirect Expenses</b>			
Public Information	9,026,042	9,829,962	803,920
Research	902,882	1,396,100	493,218
Personal Services	64,192,162	61,773,256	(2,418,906)
Services and Supplies	17,539,629	34,999,885	17,460,256
Depreciation	2,526,479	2,977,663	451,184
Interest Expense	376,431	376,430	(1)
Total Indirect Expenses	94,563,625	111,353,296	16,789,671
Net Profit	\$ 721,647,003	\$ 672,303,504	\$ 49,343,499

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



# Statistical Section

## Statistical Section

### Index

This part of the Oregon State Lottery's comprehensive annual financial report presents detailed information to provide context for understanding what the information in the financial statements and note disclosures say about the Lottery's overall financial health.

#### Financial Trends

These schedules contain trend information to help the reader understand how the Lottery's financial performance has changed over time. Prior to fiscal year 2013, net position was referred to as net assets and net investment in capital assets was referred to as invested in capital assets. Prior year terminology has been renamed in these schedules for comparability.

- Net Position by Component
- Changes in Net Position

#### Revenue Capacity

These schedules contain information to help the reader assess the Lottery's most significant revenue source, Lottery game sales income. The sales amounts reported for the top ten retailers and sales by county are based on Lottery's business year, which is slightly different than its fiscal year of July 1 through June 30. The business year begins on the Sunday following the last Saturday in June and ends on the last Saturday in the following June.

- Sales by Product
- Product Percent of Total Sales
- Top Ten Retailers
- Number of Lottery Retailers and Sales by County

#### Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Lottery's financial activities take place.

- Demographic and Economic Data – State of Oregon
- Employment by Industry – State of Oregon
- Demographic Profile of Oregon Lottery Players

#### Operating Information

These schedules contain data to help the reader understand how the information in Lottery's financial report relates to the products it provides and the activities it performs. There are many factors that impact the level of demand for Lottery products. Game themes, play-styles, price points, and prize payouts typically impact the sales of instant ticket games. For Video 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

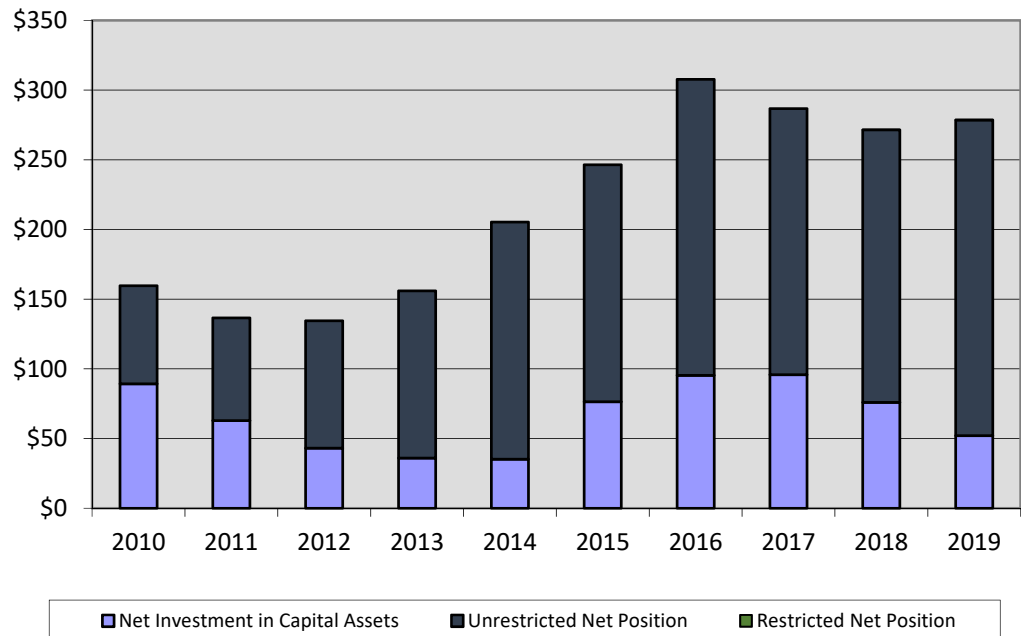
Note: The Lottery does not issue long-term debt; thus, information on debt capacity is not relevant.

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
2010	\$ 89,252,789	\$ 70,427,133		\$159,679,922
2011	62,805,601	73,792,695		136,598,296
2012	43,161,242	91,323,610		134,484,852
2013	36,047,854	119,849,568		155,897,422
2014	35,206,297	170,106,781		205,313,078
2015	76,354,491	169,997,090		246,351,581
2016	95,316,854	212,344,474		307,661,328
2017	95,749,372	190,972,061		286,721,433
2018	75,952,509	195,453,450	\$ 104,211	271,510,170
2019	52,108,890	226,297,385	333,846	278,740,121

**Net Position**  
 (In Millions)



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

	2010	2011	2012	2013
<b>Operating Revenues</b>				
Sales:				
Video Lottery <sup>SM</sup> (Net Receipts)	\$ 706,981,950	\$ 720,510,190	\$ 727,124,878	\$ 737,370,280
Scratch-its <sup>SM</sup> Instant Tickets	113,269,602	115,895,266	117,521,750	117,079,308
Keno	95,343,654	93,270,757	93,456,813	91,636,954
Powerball <sup>®</sup>	51,216,021	33,491,623	38,777,424	58,322,876
Megabucks <sup>SM</sup>	40,137,180	40,780,752	37,539,720	38,084,764
Mega Millions <sup>®</sup>	3,490,116	17,448,177	22,208,222	11,823,070
Raffle <sup>SM</sup>	7,499,290	7,499,000	4,999,650	4,998,300
Win For Life <sup>SM</sup>	6,503,143	5,869,397	5,545,700	4,845,906
Lucky Lines <sup>SM</sup>	1,986,060	1,918,134	1,758,800	2,317,312
Pick 4 <sup>SM</sup>	1,254,783	1,279,523	1,352,749	1,351,260
Recovery of (Provision for) Uncollectibles	(112,559)	(128,164)	(71,327)	(44,280)
Other Income	251,538	1,142,214	209,110	1,410,594
<b>Total Operating Revenues</b>	<b>1,027,820,778</b>	<b>1,038,976,869</b>	<b>1,050,423,489</b>	<b>1,069,196,344</b>
<b>Operating Expenses</b>				
Prizes	215,619,096	208,672,809	238,278,854	206,836,815
Retailer Commissions	198,168,503	200,510,286	201,626,030	204,921,077
Salaries and Wages	34,608,905	35,512,068	36,317,480	36,504,315
Depreciation and Amortization	30,899,860	29,773,197	26,794,091	12,982,414
Services and Supplies	8,837,913	10,644,690	10,159,107	10,787,865
Game Vendor Charges	9,220,784	8,552,689	8,620,924	8,777,088
Advertising and Market Research	8,475,107	8,446,004	6,444,771	5,483,097
Public Information	4,462,400	4,420,673	3,882,869	2,718,648
Tickets	4,245,963	4,230,790	4,640,444	3,363,077
Game Equipment Parts and Maintenance	1,333,034	2,115,134	1,925,220	1,496,442
Sales Support	1,131,956	1,234,314	1,113,400	1,067,653
<b>Total Operating Expenses</b>	<b>517,003,521</b>	<b>514,112,654</b>	<b>539,803,190</b>	<b>494,938,491</b>
<b>Operating Income</b>	<b>510,817,257</b>	<b>524,864,215</b>	<b>510,620,299</b>	<b>574,257,853</b>
<b>Nonoperating Revenues (Expenses)</b>				
Interest and Investment Income (Loss)	11,276,393	3,587,450	17,744,105	(2,982,432)
Insurance Recoveries	106,598	65,081	30,676	11,263
Gain (Loss) on Disposition of Assets	(5,323,677)	(2,919,876)	(147,802)	(969,699)
Investment Expenses - Securities Lending	(192,727)	(237,391)	(138,855)	(143,462)
Investment Expenses	-	-	-	-
Interest Expense	-	-	-	(330,386)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>5,866,587</b>	<b>495,264</b>	<b>17,488,124</b>	<b>(4,414,716)</b>
<b>Income Before Transfers</b>	<b>516,683,844</b>	<b>525,359,479</b>	<b>528,108,423</b>	<b>569,843,137</b>
Transfers to Economic Development Fund	(539,582,457)	(546,996,892)	(523,652,688)	(546,923,919)
Transfers to General Obligation Bond Fund	(1,464,541)	(1,444,213)	(1,459,501)	(1,506,648)
<b>Change in Net Position</b>	<b>\$ (24,363,154)</b>	<b>\$ (23,081,626)</b>	<b>\$ 2,996,234</b>	<b>\$ 21,412,570</b>

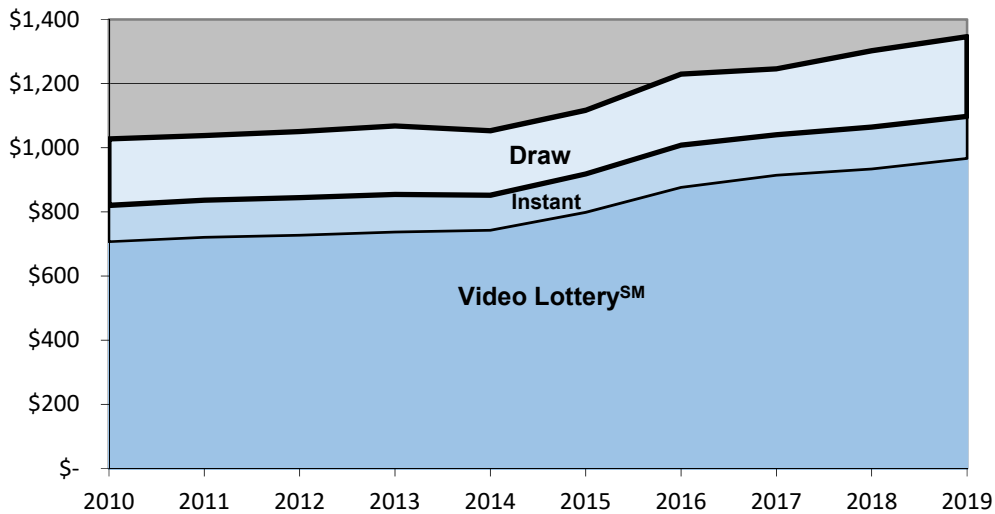
2014	2015	2016	2017	2018	2019
\$ 742,730,503	\$ 798,578,183	\$ 876,475,310	\$ 914,071,290	\$ 933,980,026	\$ 966,474,906
109,034,321	119,578,108	131,599,460	126,498,948	130,389,967	131,236,973
92,443,482	93,035,050	95,826,162	101,501,142	102,023,352	102,665,467
45,049,124	37,091,247	63,821,261	44,856,176	60,088,322	49,829,088
28,372,873	33,329,803	33,031,579	31,768,618	36,525,999	36,418,393
22,333,065	20,468,872	18,823,156	17,913,809	30,089,400	50,210,700
4,997,060	7,488,730	2,499,840	2,499,750	2,499,910	2,307,370
4,532,922	4,082,661	3,854,189	3,569,776	3,608,392	3,766,700
1,918,288	1,771,994	2,001,358	2,147,834	1,523,926	1,850,874
1,397,158	1,435,284	1,566,384	1,475,180	1,605,368	1,765,534
971	(4,594)	18,485	(10,109)	82,152	(54,947)
177,786	382,438	672,544	593,089	441,691	1,265,527
1,052,987,553	1,117,237,776	1,230,189,728	1,246,885,503	1,302,858,505	1,347,736,585
206,571,490	211,444,280	239,317,411	217,150,249	231,670,894	239,044,444
203,727,883	215,514,570	234,963,289	239,551,975	245,681,221	254,277,458
39,443,617	37,055,741	54,427,617	51,608,241	51,906,145	61,731,587
13,542,859	20,134,347	23,863,609	29,733,663	33,888,584	34,763,881
11,278,132	11,829,146	15,876,801	13,818,139	13,738,901	17,747,590
8,638,986	8,931,443	9,891,910	8,170,995	8,439,800	8,557,771
7,610,400	9,549,598	9,705,469	11,071,161	11,106,857	8,350,536
2,633,736	4,246,421	5,759,053	6,572,101	6,541,769	9,026,042
2,956,834	3,213,208	3,138,033	3,328,614	3,042,684	2,923,348
2,265,927	1,885,491	1,734,280	1,572,029	6,766,475	5,912,370
1,674,670	1,263,959	633,721	726,436	965,786	1,221,244
500,344,534	525,068,204	599,311,193	583,303,603	613,749,116	643,556,271
552,643,019	592,169,572	630,878,535	663,581,900	689,109,389	704,180,314
6,330,595	6,783,754	16,217,601	(481,760)	5,789,388	20,482,336
3,482	12,067	2,005	15,221	16,908	1,049
(257,250)	(1,473,869)	(98,971)	(12,653)	85,582	107,516
(45,956)	(74,757)	(212,675)	(369,908)	(334,504)	(118,278)
-	(4,185)	(71,522)	(13,939)	(12,012)	(168,928)
(315,269)	(325,227)	(316,029)	(639,028)	(713,548)	(643,275)
5,715,602	4,917,783	15,520,409	(1,502,067)	4,831,814	19,660,420
558,358,621	597,087,355	646,398,944	662,079,833	693,941,203	723,840,734
(507,250,297)	(545,948,950)	(583,179,120)	(695,750,970)	(706,350,736)	(714,417,052)
(1,692,668)	(1,883,433)	(1,910,077)	(1,835,887)	(1,981,793)	(2,193,731)
\$ 49,415,656	49,254,972	61,309,747	\$ (35,507,024)	\$ (14,391,326)	\$ 7,229,951

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

**Draw Games**

Fiscal Year	Video Lottery <sup>SM</sup>	Instant Products	Keno	Powerball <sup>®</sup>	Mega Millions <sup>®</sup>	Oregon's Game Megabucks <sup>SM</sup>	All Other Games	Total
2010	\$ 706,981,950	\$113,269,602	\$95,343,654	\$ 51,216,021	\$ 3,490,116	\$ 40,137,180	\$17,243,276	\$1,027,681,799
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

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

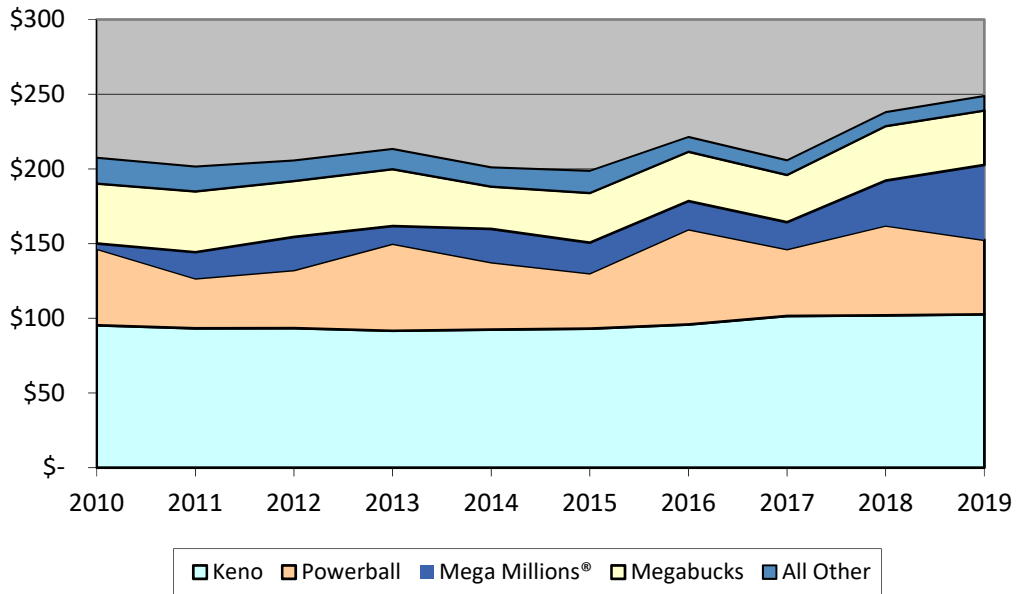




**Oregon State Lottery**  
**Product Percent of Total Sales**  
 Last Ten Fiscal Years

Fiscal Year	Draw Games						
	Video Lottery <sup>SM</sup>	Instant Products	Keno	Powerball <sup>®</sup>	Mega Millions <sup>®</sup>	Oregon's Game Megabucks <sup>SM</sup>	All Other Draw Games
2010	68.8%	11.0%	9.3%	5.0%	0.3%	3.9%	1.7%
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%

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



## Oregon State Lottery

### Top Ten Retailers

Current Year and Nine Business Years Prior

		2019		
<u>Rank</u>	<u>Retailer</u>	<u>Sales</u>	<u>Percent of Total Sales</u>	<u>County</u>
1	Independent Sports Bar & Grill	\$ 5,578,944	0.41%	Multnomah
2	The Station Pub	4,607,308	0.34%	Multnomah
3	Satellite Tavern	4,552,413	0.34%	Multnomah
4	Dotty's #9	2,108,611	0.16%	Washington
5	Dotty's #27	1,840,376	0.14%	Multnomah
6	Dotty's #29	1,778,940	0.13%	Multnomah
7	Richard's-BG Village	1,758,912	0.13%	Washington
8	Richards Deli and Pub	1,744,589	0.13%	Washington
9	Richards Deli and Pub	1,699,972	0.13%	Washington
10	Deli Store	1,693,661	0.13%	Columbia
	Totals	\$ 27,363,726	2.04%	
	Total Lottery Sales	\$ 1,347,736,585		

		2010		
<u>Rank</u>	<u>Retailer</u>	<u>Sales</u>	<u>Percent of Total Sales</u>	<u>County</u>
1	Dotty's #9	\$ 1,713,874	0.17%	Washington
2	Deli Store	1,605,319	0.16%	Columbia
3	Dotty's #24	1,538,512	0.15%	Multnomah
4	Original Joe's	1,508,269	0.15%	Multnomah
5	Smokehouse Cafe #4	1,504,130	0.15%	Linn
6	Shari's-Airport Way #218	1,469,272	0.14%	Multnomah
7	Dotty's #8	1,370,124	0.13%	Washington
8	Glass House Tavern	1,345,479	0.13%	Multnomah
9	Elmer's	1,336,358	0.13%	Multnomah
10	Dotty's #11	1,266,874	0.12%	Multnomah
	Totals	\$ 14,658,211	1.43%	
	Total Lottery Sales	\$ 1,027,681,799		

Source: Oregon State Lottery Business Analytics and Insights Department

**Oregon State Lottery**  
**Number of Lottery Retailers and Sales by County**  
For Business Year 2019

County	Sales		Retailers	
	Business Year Sales	Percent of Total Sales	Number of Lottery Retailers	Percent of Total Retailers
Multnomah	\$353,991,883	26.33%	942	22.54%
Washington	148,751,615	11.06%	331	7.92%
Clackamas	133,919,161	9.96%	370	8.85%
Marion	119,430,374	8.88%	379	9.07%
Lane	109,578,766	8.15%	370	8.85%
Jackson	67,957,197	5.05%	222	5.31%
Deschutes	52,000,850	3.87%	151	3.61%
Linn	37,441,616	2.78%	126	3.02%
Douglas	31,181,186	2.32%	139	3.33%
Josephine	29,265,947	2.18%	105	2.51%
Columbia	26,364,414	1.96%	73	1.75%
Yamhill	23,211,895	1.73%	94	2.25%
Umatilla	21,749,624	1.62%	86	2.06%
Klamath	20,335,978	1.51%	81	1.94%
Clatsop	20,281,933	1.51%	77	1.84%
Malheur	18,652,822	1.39%	48	1.15%
Lincoln	18,057,990	1.34%	81	1.94%
Polk	15,489,293	1.15%	63	1.51%
Coos	13,811,053	1.03%	66	1.58%
Benton	13,362,918	0.99%	58	1.39%
Tillamook	12,018,395	0.89%	55	1.32%
Wasco	10,866,137	0.81%	36	0.86%
Hood River	7,740,175	0.58%	25	0.60%
Crook	7,737,183	0.58%	31	0.74%
Union	6,270,740	0.47%	29	0.69%
Baker	5,341,743	0.40%	26	0.62%
Curry	4,673,945	0.35%	26	0.62%
Jefferson	4,606,755	0.34%	18	0.43%
Morrow	2,045,023	0.15%	13	0.31%
Grant	2,011,041	0.15%	13	0.31%
Lake	1,639,383	0.12%	10	0.24%
Sherman	1,620,085	0.12%	6	0.14%
Harney	1,595,740	0.12%	12	0.29%
Wallowa	1,134,554	0.08%	10	0.24%
Gilliam	398,711	0.03%	6	0.14%
Wheeler	89,777	0.01%	1	0.02%
	<b>\$ 1,344,625,902</b>	<b>100.00%</b>	<b>4,179</b>	<b>100.00%</b>

Source: Oregon State Lottery Business Analytics and Insights Department

**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>
2009	3,808,600	\$ 135,667,041	\$ 35,621	11.1%
2010	3,838,332	137,671,666	35,869	10.8%
2011	3,868,229	146,001,498	37,744	9.7%
2012	3,899,353	152,721,624	39,166	8.8%
2013	3,930,065	158,116,922	40,233	7.7%
2014	3,970,239	163,652,836	41,220	6.9%
2015	4,028,977	176,401,260	43,783	5.7%
2016	4,093,465	185,839,645	45,399	4.9%
2017	4,142,776	199,422,200	48,137	4.1%
2018	4,190,713	213,070,100	50,843	4.2%

<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 2018 and Nine Years Prior

	2018		2009	
	Number of Employees	Percent of Total	Number of Employees	Percent of Total
Health care and social assistance	298,520	11.56%	249,158	11.27%
Retail trade	261,088	10.11%	228,772	10.34%
Manufacturing	213,599	8.27%	178,692	8.08%
Local government	206,557	8.00%	185,348	8.38%
Accommodation and food services	202,374	7.84%	154,030	6.96%
Professional, scientific, and technical services	169,951	6.58%	132,222	5.98%
Construction	141,900	5.49%	114,798	5.19%
Administrative and waste services	134,442	5.21%	109,802	4.96%
Other services	130,261	5.04%	118,269	5.35%
Real estate, rental, and leasing	121,277	4.70%	103,197	4.67%
Transportation and warehousing	101,927	3.95%	62,658	2.83%
Finance and insurance	96,972	3.76%	95,578	4.32%
Wholesale trade	82,827	3.21%	83,288	3.77%
Farm employment	68,035	2.63%	70,124	3.17%
Arts, entertainment, and recreation	66,732	2.58%	52,961	2.39%
Educational services	59,451	2.30%	49,942	2.26%
Management of companies	50,566	1.96%	31,560	1.43%
State government	47,843	1.85%	69,335	3.14%
Information	43,637	1.69%	40,554	1.83%
Forestry, fishing, and related activities	33,856	1.31%	28,641	1.30%
Federal government, civilian	28,155	1.09%	29,974	1.36%
Military	11,327	0.44%	12,465	0.56%
Mining	5,960	0.23%	5,055	0.23%
Utilities	5,113	0.20%	5,117	0.23%
Total employment	<u>2,582,370</u>	<u>100.00%</u>	<u>2,211,540</u>	<u>100.00%</u>

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

Note: Due to confidentiality issues, the names of the ten principal employers are not available.

The categories presented are intended to provide alternative information regarding the concentration of employment in various business sectors.

# Oregon State Lottery

## Demographic Profile of Oregon Lottery Players

Last Ten Calendar Years

	2009	2010	2011	2012	2013
Number Surveyed	1,002	1,000	1,000	1,000	1,000
Player Percentage	48.1%	50.7%	53.3%	52.0%	47.8%
	Players	Players	Players	Players	Players
<u>Gender</u>					
Male	51%	48%	50%	52%	55%
Female	49%	52%	50%	48%	45%
<u>Age</u>					
18 - 24	6%	10%	9%	12%	10%
25 - 34	20%	19%	19%	18%	17%
35 - 44 ( <i>35 - 54 in 2018</i> )	17%	17%	16%	15%	16%
45 - 54	27%	26%	23%	23%	23%
55 - 64	15%	15%	14%	13%	19%
65 +	15%	14%	19%	18%	15%
<u>Education</u>					
Some High School	7%	4%	4%	6%	3%
High School Graduate	25%	21%	20%	22%	18%
College/Tech School	37%	37%	33%	30%	32%
College Graduate	18%	20%	23%	21%	23%
Graduate School/Degree	11%	16%	18%	19%	17%
<u>Marital Status</u>					
Single	20%	22%	21%	23%	26%
Married	56%	58%	52%	54%	51%
Co-habiting	7%	6%	7%	5%	5%
Divorced or Separated	10%	7%	11%	9%	7%
Widowed	5%	5%	6%	5%	4%
Civil Union/Domestic Partnership					1%
<u>Income</u>					
Less than \$15,000 ( <i>\$25,000 in 2018</i> )	11%	10%	10%	10%	9%
\$15,000 - \$49,999 ( <i>\$25,000 - \$49,999 in 2018</i> )	44%	30%	31%	27%	27%
\$50,000 - \$74,999	18%	17%	16%	14%	15%
\$75,000 - \$99,999	11%	13%	11%	9%	10%
\$100,000 +	9%	10%	14%	11%	15%
Refused/Don't Know	8%	21%	18%	30%	24%

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>

2014	2015	2016	2017	2018	2018 State Population 18+
1,000 46.1%	2,000 54.1%	2,000 48.1%	2,000 54.3%	2,023 55.0%	
Players	Players	Players	Players	Players	
50%	51%	49%	49%	50%	49.6%
50%	49%	51%	51%	50%	50.4%
9%	9%	9%	9%	8%	11.1%
19%	20%	20%	16%	19%	17.8%
16%	16%	15%	20%	38%	32.5%
21%	21%	22%	20%	n/a	n/a
16%	14%	10%	16%	16%	16.4%
19%	21%	24%	19%	19%	22.2%
4%	5%	5%	3%	3%	9.6%
20%	22%	25%	18%	18%	22.2%
33%	27%	25%	45%	46%	34.3%
21%	32%	32%	23%	22%	21.0%
16%	12%	11%	11%	11%	12.9%
25%	24%	24%	16%	27%	31.0%
48%	52%	51%	65%	42%	49.6%
6%	7%	8%	6%	13%	n/a
9%	10%	9%	7%	12%	14.2%
5%	6%	6%	4%	6%	5.2%
1%	1%	1%	2%	n/a	n/a
8%	9%	8%	6%	14%	15.6%
31%	29%	25%	31%	26%	35.8%
12%	13%	12%	19%	18%	22.4%
6%	10%	10%	13%	15%	11.1%
12%	16%	15%	13%	21%	15.1%
31%	23%	30%	18%	6%	n/a

# Oregon State Lottery

## Number of Employees

Last Ten Fiscal Years

	2010	2011	2012 <sup>2</sup>	2013	2014 <sup>3</sup>	2015	2016	2017	2018	2019
Sales, Marketing & Retail Services	255	248	229	232	236	239	217	226	237	217
Support Services	151	151	143	154	157	152	163	142	135	143
Director's Office <sup>4</sup>	30	31	29	30	33	35	52	63	66	95
Security <sup>1</sup>	17	16	16	13	15	19	16	18	17	20
Total	453	446	417	429	441	445	448	449	455	475

Source: Oregon State Payroll System for FY 2010 - FY 2013; Lottery Payroll System for FY 2014-2019.

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>
2010	3,916	12,393	\$ 269.83
2011	3,901	12,202	270.42
2012	3,907	12,175	271.26
2013	3,848	12,037	273.85
2014	3,843	11,951	268.12
2015	3,939	11,925	281.31
2016	3,920	11,909	304.50
2017	3,932	11,817	304.41
2018	3,923	11,742	314.36
2019	3,975	11,586	321.60

<sup>1</sup>Source: Oregon State Lottery Business Analytics & Insights Department

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

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# Other Reports



**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, 2019, 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 18, 2019.

**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 18, 2019



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